## INDEX TO FINANCIAL STATEMENTS

# Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries

**(Subsidiary of Buffalo Investments, S.A.R.L.)**

Consolidated Financial Statements for the Year Ended December 31, 2022, and for the period July 23, 2021 (incorporation date) to December 31, 2021 (unaudited) and Independent Auditors' Report Dated August 28, 2023

## Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries
**(Subsidiary of Buffalo Investments, S.A.R.L.)**

# Independent Auditors' Report and Consolidated Financial Statements for 2022 and 2021 (unaudited)

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# Independent Auditors' Report to the Board of Directors and Stockholders of Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries

***Opinion***

We have audited the accompanying consolidated financial statements of Buffalo Energy México Holdings , S. A. de C. V. and Subsidiaries (Subsidiary of Buffalo Investments, S.A.R.L.) (the "Entity"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021 (unaudited), and the consolidated statements of loss and other comprehensive loss, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the Year Ended December 31, 2022, and for the period July 23, 2021 (incorporation date) to December 31, 2021 (unaudited), and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as of December 31, 2022 and 2021 (unaudited), and its consolidated financial performance and its consolidated cash flows, for the Year Ended December 31, 2022, and for the period July 23, 2021 (incorporation date) to December 31, 2021 (unaudited) in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

***Basis for Opinion***

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of Consolidated Financial Statements* section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with IFRS, as issued by the IASB, 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 consolidated financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity´s financial reporting process.

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***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISA 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
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C. P. C. Erik Padilla Curiel
Mexico City
August 28, 2023

## Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries
**(Subsidiary of Buffalo Investments, S.A.R.L.)**

# Consolidated Statements of Financial Position

**As of December 31, 2022 and 2021(unaudited)**
**(In thousands of U.S. dollars)**

## Assets

| | Note | 2022 | 2021 (unaudited) |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | 5 | $ 55,390 | $ - |
| Accounts receivable | 6 | 86,632 | - |
| Prepaid expenses | | 30,377 | - |
| Total current assets | | 172,399 | - |
| Non-current assets: | | | |
| Power plants, natural gas pipeline, property and equipment – Net | 7 | 541,456 | - |
| Diesel fuel and spare parts inventories and other consumables | 8 | 71,519 | - |
| Derivative financial instruments | 11 | 9,690 | - |
| Goodwill | 9 | 4,638 | - |
| Intangible asset – Net | 10 | 7,539 | - |
| Deferred income tax | 18 | 16,819 | - |
| Total non-current assets | | 651,661 | - |
| Total assets | | $ 824,060 | $ - |

## Liabilities and stockholders' equity

| | Note | 2022 | 2021 (unaudited) |
|---|---|---|---|
| Current liabilities: | | | |
| Interest payable - Credit Agricole Corporate and Investment Bank | 12 | $ 2,448 | $ - |
| Due to related parties - Buffalo Holdings S.A.R.L | 17 | 261 | - |
| Credit line from Credit Agricole Corporate and Investment Bank | 12 | 30,000 | |
| Accounts payable to gas suppliers | | 18,264 | - |
| Accrued expenses and direct employee benefits | 13 | 47,762 | - |
| Tax payable | | 17,823 | - |
| Total current liabilities | | 116,558 | - |
| Non-current liabilities: | | | |
| Long-term debt – Buffalo Holdings S.A.R.L | 17 | 20,000 | - |
| Long-term debt - Credit Agricole Corporate and Investment Bank | 12 | 159,830 | - |
| Deferred revenue under contract with Mexican Federal Electricity Commission | 19(h) | 339,712 | - |
| Employee benefits | 13 | 7,832 | - |
| Derivative financial instruments | 11 | 1,426 | - |
| Total non-current liabilities | | 528,800 | - |
| Total liabilities | | 645,358 | - |

(Continued)

| | Note | 2022 | 2021 (unaudited) |
|---|---|---|---|
| Commitments and contingencies | 19, 20 | | |
| Stockholders' equity: | 15 | | |
| Class I, par value $1 Mexican peso, 10,000 shares authorized, issued and outstanding payment | | - | - |
| Class II, par value $1 Mexican peso, 3,750,185,461 shares authorized, issued and paid | | 189,979 | - |
| Accumulated deficit | | (9,715) | - |
| Other comprehensive loss | | (1,562) | - |
| Total stockholders' equity | | 178,702 | - |
| Total stockholders' equity and liabilities | | $ 824,060 | $ - |

See accompanying notes to consolidated financial statements.

(Concluded)

**Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries**
**(Subsidiary of Buffalo Investments, S.A.R.L.)**

# Consolidated Statements of Loss and Other Comprehensive Loss

**For the year ended December 31, 2022 and for the period July 23, 2021 (incorporation date) to December 31, 2021 (unaudited)**
**(In thousands of U.S. dollars)**

| | Notes | 2022 | 2021 (unaudited) |
|---|---|---|---|
| Revenue: | | | |
| Capacity charges | 3(t) | $ 40,206 | $ - |
| Energy charges | 3(t) | 87,809 | - |
| | | 128,015 | - |
| Cost and expenses: | | | |
| Fuel expense | | (99,551) | - |
| Major maintenance costs | | (9,843) | - |
| Loss on disposal of fixed assets | | (594) | - |
| Depreciation and amortization | | (8,027) | - |
| Administrative expenses | | (9,739) | - |
| | | (127,754) | - |
| Operating income | | 261 | - |
| Other financing cost: | | | |
| Interest expense – Net | | (3,336) | - |
| Finance income - Interest income | 11 | 10,258 | |
| Other financing cost | | (10,610) | |
| Foreign exchange income – Net | | 751 | - |
| | | (2,937) | - |
| Loss before income tax | | (2,676) | - |
| Income tax | 18 | (7,039) | - |
| Loss for the year | | (9,715) | - |
| Other comprehensive loss: | | | |
| Item that will not be reclassified subsequently to profit or loss: | | | |
| Pension and post-retirement obligations: | | | |
| Remeasurement of the net defined liability - Net of tax expense of $185 | 13 | 432 | - |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Cash flow hedges: | | | |
| Changes in the fair value of hedging instruments - Net of income of $855 | 11 | (1,994) | - |
| | | (1,562) | - |
| Comprehensive loss | | $ (11,277) | $ - |

See accompanying notes to consolidated financial statements.

**Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries**
**(Subsidiary of Buffalo Investments, S.A.R.L.)**

# Consolidated Statements of Changes in Stockholders' Equity

**For the year ended December 31, 2022 and for the period July 23, 2021 (incorporation date) to December 31, 2021 (unaudited)**
**(In thousands of U. S. dollars, except share data)**

| | Stockholders' equity | | | Retained earnings | | Other items of comprehensive loss | | |
|---|---|---|---|---|---|---|---|---|
| | Shares issued | Fixed Capital | Variable capital | Reserve fund | Accumulated deficit | Hedging instruments | Employee benefits | Total stockholders' equity |
| Balance as of July 23, 2021 (unaudited) | - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Issue of share capital | 10,000 | 1 | - | - | - | - | - | 1 |
| Share capital with payment outstanding as of December 31, 2021 | - | (1) | - | - | - | - | - | (1) |
| Total comprehensive loss (income) | 10,000 | - | - | - | - | - | - | - |
| Balance as of December 31, 2021 (unaudited) | 10,000 | - | - | - | - | - | - | - |
| Issue of share capital paid | 3,750,185,461 | - | 189,979 | - | - | - | - | 189,979 |
| Employee benefits assumed from business acquisition | - | - | - | - | - | - | 432 | 432 |
| Total loss for the year | - | - | - | - | (9,715) | - | - | (9,715) |
| Other comprehensive loss for the year | - | - | - | - | - | (1,994) | - | (1,994) |
| Total comprehensive loss (income) | 3,750,185,461 | - | 189,979 | - | (9,715) | (1,994) | 432 | 178,702 |
| Balance as of December 31, 2022 | 3,750,195,461 | $ - | $ 189,979 | $ - | $ (9,715) | $ (1,994) | $ 432 | $ 178,702 |

See accompanying notes to consolidated financial statements.

## Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries
**(Subsidiary of Buffalo Investments, S.A.R.L.)**

# Consolidated Statements of Cash Flows

**For the year ended December 31, 2022 and for the period July 23, 2021 (incorporation date) to December 31, 2021 (unaudited)**
**(In thousands of U. S. dollars)**

| | 2022 | 2021 (unaudited) |
|---|---|---|
| Cash flows from operating activities: | | |
| Loss for the year | $ (9,715) | - |
| Adjustments for: | | |
| Income tax expense recognized in loss for the year | 7,039 | |
| Depreciation and amortization | 8,027 | - |
| Loss on disposal of fixed assets | 594 | - |
| Deferred revenue under contract with Mexican Federal Electricity Comission - Long term | (6,514) | - |
| Adjustments to reconcile net loss to net cash financing activities: | | |
| Finance income - Interest income | (10,258) | - |
| Other financing cost | 10,610 | |
| Interest expense | 3,336 | - |
| Foreign exchange income | (751) | - |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Accounts receivable | 14,641 | - |
| Diesel fuel and spare parts inventories and other consumables | 327 | - |
| Prepaid expenses | (2,161) | - |
| (Decrease) increase in: | | |
| Accounts payable to gas suppliers | (75,040) | - |
| Accrued expenses and direct employee benefits | 57,710 | - |
| Income tax payable | (2,942) | - |
| Due to related parties - Buffalo Holdings S.A.R.L | 261 | - |
| Net cash from operating activities | (4,836) | - |
| Cash flows from investing activities: | | |
| Acquisition of subsidiary net of cash received of $26,017 | (172,508) | - |
| Acquisition of equipment | (2,991) | - |
| Net cash from investing activities | (175,499) | - |
| Cash flows from financing activities: | | |
| Proceeds from loan - Credit line from Credit Agricole Corporate & Investment Bank | 189,830 | - |
| Payments of long-term debt with Japanese Banks on behalf of subsidiary MT Falcon Holdings Company (See note 1.2) | (152,953) | - |
| Transaction costs related to loans, borrowings and acquisition | (10,509) | |
| Proceeds from long-term debt with related parties | 20,000 | - |
| Capital contributions | 189,979 | - |
| Interest paid | (622) | - |
| Net cash from financing activities | 235,725 | - |
| Net increase in cash and cash equivalents | 55,390 | - |
| Cash and cash equivalents at the beginning of year | - | - |
| Cash and cash equivalents at the end of year | $ 55,390 | $ - |

See accompanying notes to consolidated financial statements.

# Notes to the Consolidated Financial Statements

**As of December 31, 2022, and for the period July 23, 2021 (incorporation date) to December 31, 2021 (unaudited)**
**(In thousands of U. S. dollars)**

## 1. General Information and significant events

### 1.1 *General information*

Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries (the Entity) is a subsidiary of Buffalo Investments, S.A.R.L. The Entity owns five gas-fired combined cycle power plants with an aggregate generating capacity of 2,233 megawatts (MW) (the Power plants) and a natural gas-pipeline measuring 57.9 kilometers (KM) located in Northeastern Mexico with a delivery capacity of 410,000 Million of British Thermal Units (MMBTU) per day. The generation capacity and energy output produced by the power plants are sold exclusively to the Mexican Federal Electricity Commission (CFE, for its acronym in Spanish) under a Power Purchase Agreement (PPA) with a term of 25 years, starting on the Commercial Operating Date (COD).

The Entity has obtained permits granted by the Energy Regulatory Commission (Comision Reguladora de Energia or CRE, for its acronym in Spanish), for each of its power plants to generate and sell electricity to the CFE as an independent producer. This agreement has a mandatory term of 25 years.

The Entity obtained permits from the CRE for each power plant to produce and sell electricity as a generator to the National Center of Energy Control (Centro Nacional de Control de Energia or CENACE, for its acronym in Spanish), into the wholesale electricity market. This agreement has a mandatory term of 30 years.

### 1.2 *Significant events*

i. **Acquisition of MT Falcon Holdings (see Note 15)**

On November 9, 2022, Actis, a leading global investor in sustainable infrastructure, acquired 100 per cent of the issued share capital of MT Falcon, obtaining control of MT Falcon from a consortium including Mitsui & Co. (“Mitsui”), Tokyo Gas, JERA and Tohoku Electric Power.

MT Falcon owns and operates five combined-cycle gas turbine power plans in Mexico with a total capacity of 2.2GW and an adjacent natural gas-pipeline and qualifies as a business as defined in IFRS 3 Business Combinations. The business is being re-branded with immediate effect as “Valia Energia” (Valia) and will focus on delivering an equitable Energy Transition in Mexico with sustainability at the core of its investment strategy. Valia acquired MT Falcon through a new holding entity “Buffalo Energy Mexico Holdings, S. A. de C. V.”. Acquisition accounting is described in Note 16.

ii. **Debt restructuring**

a. **Project financing:**

On November 9, 2022, the Entity settled the outstanding long-term debt and interest contracted by MT Falcon Holding (subsidiary) with Japanese banks for the Project Financing as part of the transaction described in the Note 16:

| | Amount |
|---|---|
| Facility A y B: | |
| Japan Bank for International Cooperation | $ 54,071 |
| Facility C: | |
| MUFG Bank, Ltd. (Formerly The Bank of Tokyo-Mitsubishi UFJ, Ltd.) | 11,955 |

| | Amount |
|---|---|
| Facility C: | |
| Mizuho Corporate Bank, Ltd. | 11,955 |
| Facility C: | |
| Sumitomo Mitsui Banking Corporation | 11,955 |
| Total | $ 89,936 |

b. **Working Capital Facility Loan:**

On November 9, 2022, the Entity settled the outstanding long-term debt and interest contracted by MT Falcon Holding (subsidiary) with Japanese banks for the Working Capital Facility Loan as part of the transaction described in the Note 16:

| | Amount |
|---|---|
| MUFG Bank, Ltd. (Formerly The Bank of Tokyo-Mitsubishi UFJ, Ltd.) | $ 63,881 |
| Total | $ 63,881 |

i. **Labor Reform**

On April 23, 2021, the Federal Official Gazette published the decree to reform, add and repeal different provisions of the Federal Labor Law; Social Security Law; Law of the National Institute of the Workers' Housing Fund; the Federal Tax Code; Income Tax Law; Value Added Tax Law; Federal Law on State Workers, the Regulations of Section B) of Article 123 of the Constitution of Mexico; the Regulatory Law of Numeral XIII Bis of Section B of Article 123 of the Constitution of Mexico, pursuant to Labor Outsourcing. The main objective of these amendments was to prohibit personnel outsourcing other than the provision of specialized services or the execution of specialized work that do not form part of companies' corporate purpose or main activity, as long as the services provider is registered with the Department of Labor and Social Welfare and the services or work are formalized by means of a written contract.

Based on the terms of the preceding paragraph, the subsidiaries of MT Falcon Holdings Company, S. A. P. I. de C. V. implemented a series of measures to ensure compliance with the new labor obligations, such as the amendment of their corporate purpose, employer substitution and the transfer of assets, which affected the financial information of these entities.

ii. In 2018, Central Valle Hermoso anticipated the termination of the Fuel Service Agreement with BNP Paribas Energy Trading GP due to a dispute on contractual gas price. On January 15, 2019, the Entity entered into a new agreement with Trafigura Trading L. L. C., a new gas provision agreement; this contract will expire on May 31, 2022, there was no notice of extension due to the contract has the condition of automatic renewal without needing for any notice by both parties. The extension period covers a term from June 1, 2022 to April 1, 2030.

## 2. Adoption of new and revised Standards

### a. *Concentration of credit risk*

Until December 31, 2016, MT Falcon (subsidiary) sold 100% of energy output to CFE. Since April 2017, the subsidiary sells the energy output to CFE in accordance with PPA and the surplus energy over contracted energy, is offered and provided to CENACE, which exposes the Entity to a concentration of credit risk.

MT Falcon (subsidiary) believes any potential risk is low, due to the fact that amounts due from CFE are guaranteed by the Mexican Federal Government.

### b. *New and amended IFRS Accounting Standards that are effective for the current year*

In the current year, the Entity has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

| | |
|---|---|
| *Amendments to IFRS 3 Reference to the Conceptual Framework* | The Entity has adopted the amendments to IFRS 3 Business Combinations for the first time in the current year. The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. |
| *Amendments to IAS 16 Property, Plant and Equipment—Proceeds before Intended Use* | The Entity has adopted the amendments to IAS 16 Property, Plant and Equipment for the first time in the current year. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.<br><br>The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.<br>If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost. |

*Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle*

The Entity has adopted the amendments included in the Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle for the first time in the current year. The Annual Improvements include amendments to four standards.

**IFRS 1 First-time Adoption of International Financial Reporting Standards**

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

**IFRS 9 Financial Instruments**

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

**IFRS 16 Leases**

The amendment removes the illustration of the reimbursement of leasehold improvements.

**IAS 41 Agriculture**

The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

***New and revised IFRS Accounting Standards in issue but not yet effective***

At the date of authorization of these financial statements, the Entity has not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective.

| | |
|---|---|
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* |

| | |
|---|---|
| Amendments to IAS 1 | *Classification of Liabilities as Current or Non-current* |
| Amendments to IAS 1 and IFRS Practice Statement 2 | *Disclosure of Accounting Policies* |
| Amendments to IAS 8 | *Definition of Accounting Estimates* |
| Amendments to IAS 12 | *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* |

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Entity in future periods, except if indicated below:

***Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures***

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

***Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Noncurrent***

The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

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

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted. The IASB is currently considering further amendments to the requirements in IAS 1 on classification of liabilities as current or non-current, including deferring the application of the January 2020 amendments.

The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods.

***Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies***

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

***Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates***

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error.
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The IASB added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the Standard. The IASB has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier.

***Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction***

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The IASB also adds an illustrative example to IAS 12 that explains how the amendments are applied. The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with:
    - Right-of-use assets and lease liabilities.
    - Decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the cost of the related asset.
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

The directors of the Entity anticipate that the application of these amendments may have an impact on the Entity's consolidated financial statements in future periods should such transactions arise.

## 3. Significant accounting policies

### a. *Basis of accounting*

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards released by IASB.

The financial statements have been prepared on the fair value at the end of each reporting period, as explained in the accounting policy below.

i. *Historical cost*

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

ii. *Fair value*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group considers the characteristics of the asset or liability as if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

b. ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Entity and its subsidiaries controlled by it. Control is achieved when the Entity:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Entity has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Entity considers all relevant facts and circumstances in assessing whether or not the Entity's voting rights in an investee are sufficient to give it power, including:

- The size of the Entity's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Entity, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Entity obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Entity and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group’s interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal recognized in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

The consolidated financial statements include the financial statements of Buffalo Energy México Holdings, S. A. de C.V. and those of its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Buffalo Energy México Holdings, S. A. de C. V.’s subsidiary and related shareholding percentage is shown below:

| Company | COD | Ownership Percentage | Capacity | Activity |
|---|---|---|---|---|
| Generación Buffalo, S. A. de C. V. | July 2021 | 99.9% | N/A | Holding |
| Buffalo Generation Infrastructure, S.A. de C.V. | December 2022 | 99.9% | N/A | Holding |

Generacion Buffalo, S. A de C. V.’s subsidiary and related shareholding percentage is shown below:

| Company | COD | Ownership Percentage | Capacity | Activity |
|---|---|---|---|---|
| Buffalo Energy, S. A. de C. V. | July 2021 | 99.9% | N/A | Holding |

Buffalo Energy, S. A de C. V.’s subsidiary and related shareholding percentage is shown below:

| Company | COD | Ownership Percentage | Capacity | Activity |
|---|---|---|---|---|
| MT Falcon Holdings Company, S. A. P. I. de C. V. | November 2022 | 99.9% | N/A | Holding |

MT Falcon Holdings Company, S. A. P. I. de C. V.'s subsidiaries and related shareholding percentages are shown below:

| Company | COD | Ownership Percentage | Capacity | Activity |
|---|---|---|---|---|
| Central Saltillo, S. A. de C. V. (CSO) | November 2022 | 99.9% | 247.5 MW | Energy Power generation |
| Central Lomas de Real, S. A. de C. V. (CLR) | November 2022 | 99.9% | 495 MW | Energy Power generation |
| Central Valle Hermoso, S. A. de C. V. (CVH) | November 2022 | 99.9% | 500 MW | Energy Power generation |
| Electricidad Águila de Altamira, S. de R. L. de C. V. (EAA) | November 2022 | 99.9% | 495 MW | Energy Power generation |
| Gasoducto del Río, S. A. de C. V. (GDR) | November 2022 | 99.9% | 410,000 MMBTU | Natural gas transportation services |
| Compañía Mexicana de Gerencia y Operación, S. A. de C. V. (COMEGO) | November 2022 | 99.9% | - | Provides administrative services exclusively to its related parties |

Buffalo Generation Infrastructure, S.A. de C.V's subsidiary and related shareholding percentage is shown below:

| Company | COD | Ownership Percentage | Capacity | Activity |
|---|---|---|---|---|
| Buffalo Energy Infrastructure, S.A. de C.V. | December 2022 | 99.9% | N/A | Holding |

c. ***Foreign currency financial statements***

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (US Dollars) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Currency Units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the dates of the transactions are used. Exchange differences arising, if any, are recognized in profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in profit or loss.

Relevant exchange rates used in the preparation of the consolidated financial statements were as follows (Mexican pesos per one U.S. dollar):

| | **2022** | | **2021 (unaudited)** | |
|---|---|---|---|---|
| Current exchange rate as of December 31, | Ps. | 19.3615 | Ps. | 20.5835 |
| Weighted average exchange rate for the year ended December 31, | Ps. | 20.1249 | Ps. | 20.2818 |

d. ***Business combinations***

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see below)
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held interests (including joint operations) in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete.

Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

e.

f. ***Cash and cash equivalents***

This line item consists mainly of bank deposits in checking accounts and readily available daily investments of cash surpluses. Cash equivalents are composed of highly liquid investments, which are subject to low risk of material change in value. Cash is stated at nominal value and cash equivalents are valued at fair value; any fluctuations in value are recognized in the consolidated statement of profit or loss and other comprehensive loss.

g. ***Inventories of diesel fuel, spare parts and other consumables***

Cost of inventories of diesel are determined on a weighted average cost basis and the cost of spare parts and other consumables are determined on a historical cost.

h. ***Power plants, natural gas pipeline, property and equipment***

The Entity's power plants, natural gas pipeline, property and equipment were recorded at fair values based upon the appraised values of such assets in accordance with IFRS 3. Assets acquired after the business combination adoption are recorded at acquisition cost.

Depreciation is calculated using the straight-line method over the average estimated useful lives as shown below:

| | Average Years | Years of average remaining useful life as of December 31, 2022 |
|---|---|---|
| Power plants | 35 | 18 |
| Combined cycle spare parts | 2 to 3 | 2 to 3 |
| Natural gas pipeline | 30 | 19 |
| Computers | 3 | 3 |
| Vehicles | 4 | - |
| Office furniture and equipment | 10 | 8 |

The cost of spare parts acquired through maintenance agreements is capitalized at the time such costs are incurred, and such costs are depreciated throughout their useful lives. Routine maintenance and repair costs are recorded as expense as they occur.

Costs incurred in the development phase that meet certain requirements and will have future economic benefits are capitalized and its depreciation is based on the straight-line method over 35 years, which is the estimated useful life of the power plant as of the date it was placed into operation. The useful life of the Power Plant was originally 25 years at the acquisition date (June 2, 2010) and was reviewed and adjusted by the Entity to 35 years. Only development costs that are, among other things, separately identifiable and necessary for the operation of the power plant are capitalized. Any expenditure that does not meet the aforementioned criteria is expensed in the period in which it is incurred.

Combined cycle spare parts had a variable useful life. Derived from each scheduled maintenance the Entity determined the remaining useful life according to the spare part performance. Therefore, at the end of each period an adjustment in depreciation expense is recorded.

The Entity reviews the estimated remaining useful lives and the method of depreciation of power plant, property and equipment every year. As of December 31, 2022, and for the period July 23 to December 31, 2021, the Entity determined that it was not necessary to modify the estimated remaining useful lives, since no significant physical and technological changes have occurred in the power plant, property and equipment.

i.

j. ***Goodwill***

Goodwill represents the excess of the purchase price over the fair value of the net assets and liabilities of acquired businesses. Goodwill is not amortized but is instead tested for impairment at least annually. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

k. ***Intangible asset***

The acquired intangible assets recorded in connection with the application of IFRS 3, represents the fair value of the PPA, and permission to transport natural gas which grants favorable pricing terms relative to prevailing market conditions as of the Acquisition Date. The estimated fair value was calculated using the income approach and incorporates projected cash flows over the remaining term of the PPA and the permission to transport natural gas. The determination of the estimated fair value therefore does not take into account the extension of the PPA beyond the original contract maturity date. The number of years utilized in the estimation of fair value of PPA and permission to transport natural gas depended on the date on which the Entity has already operated commercially and therefore, the remaining years that can be considered for revenues.

l. ***Impairment of long-lived assets***

The carrying amount of the power plants, natural gas pipeline, amortizable intangible assets and other long-lived assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the expected undiscounted future cash flows are less than the carrying value of the long-lived assets, an impairment charge is recorded based on such asset's estimated fair value. Changes in estimates of future cash flows could result in a write-down of the asset in a future period.

m. ***Derivative financial instruments***

The Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate (interest rate swaps). Further details of derivative financial instruments are disclosed in Note 10.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. Derivatives are not offset in the financial statements unless the Entity has both legal right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

n. ***Hedge accounting***

The Entity designates certain hedging instruments, including interest rate derivatives, as fair value hedges.

At the inception of the hedge relationship, the Entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Entity documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 10 sets out details of the fair values of the derivative instruments used for hedging purposes.

– *Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss and is included in the 'other income - Net' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item.

However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Entity ends the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss. This transfer does not affect other comprehensive income.

o. ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate.

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.

p. ***Employee benefits***

*Retirement benefits costs from termination benefits*

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment.

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement.

The Entity presents the first two components of defined benefit cost in profit or loss in the line item "Employee Benefits". Gains and losses for reduction of service are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Entity's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

*Short-term and other long-term employee benefits and statutory employee profit sharing ("PTU")*

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Entity in respect of services provided by employees up to the reporting date.

*Statutory employee profit sharing*

PTU is recorded in the results of the year in which it is incurred and is presented in operating expenses line item in the consolidated statements of profit and other comprehensive income.

As result of the 2014 Income Tax Law, as of December 31, 2022 and for the period July 23 to December 31, 2021, PTU is determined based on taxable income, according to Section I of Article 9 of the that Law.

*Contributions from employees or third parties to defined benefit plans.*

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability (asset).

- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the Entity reduces service cost in the period in which the related service is rendered.

The defined plan does not allow contributions from employees or third parties.

q. ***Income taxes***

Income tax expense represents the sum of the tax currently payable and deferred tax.

*Current tax*

Current income tax (ISR, for its acronym in Spanish) is recognized in the results of the year in which is incurred.

*Long term current tax*

The Entity incurs consolidated ISR on the portion it holds of voting stock with its subsidiaries at the balance sheet date, which is calculated based on the average daily equity percentage of equity that the Entity held of its subsidiaries during the year. Estimated income tax payments of both the Entity and its subsidiaries are made as if the Entity did not file a consolidated tax return.

*Deferred income tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, notwithstanding the Entity is able to control the reversal of the temporary difference and it is not probable that the temporary difference will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

*Current and deferred tax for the year*

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

r. ***Provisions***

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, it carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

s. ***Concentration of credit risk***

Until December 31, 2016, MT Falcon (subsidiary) sold 100% of energy output to CFE. Since April 2017, the subsidiary sells the energy output to CFE in accordance with PPA and the surplus energy over contracted energy, is offered and provided to CENACE, which exposes the Entity to a concentration of credit risk. MT Falcon (subsidiary) believes any potential risk is low, due to the fact that amounts due from CFE are guaranteed by the Mexican Federal Government.

t. ***Revenue recognition***

In accordance with the requirements under the International Financial Reporting Interpretation (IFRIC) 4, *Determining Whether an Agreement Does Contain a Lease*, issued by the International Accounting Standard Board (IASB), the Entity has determined that the PPAs contain a lease. Based on the criteria mentioned on IAS 17, *Leases*, the Entity has classified the PPAs as Non- Capitalizable Operating Lease." Revenue under the PPA is accounted for as follows:

(i) ***Capacity charges -*** Revenue from capacity charges are associated with power plant's capacity and are divided into fixed capacity charges (CFC), fixed operating, maintenance charges (CFOM) and Fixed Charge for Fuel Supply Capacity Reserve (CFRC), as follows:

The CFC represents the return on the investment (capital, debt and debt interest) and is billed semi-annually in accordance with the economic proposal. This revenue is determined in US dollars based on operating availability of the facility and its capacity. CFC revenues are recognized over the term of the PPA on a straight-line basis, which results in a level income effect in each accounting period.

The CFOM has been designed to cover all fixed labor costs (personnel), and domestic and overseas replacement parts. This charge is determined monthly in pesos and adjusted to consider inflation in the Mexican and US economies and are recognized over the term of the PPA on a straight-line basis, which results in a level income effect in each accounting period.

The CFRC is designed to recover the cost of the fixed charge paid to domestic and international fuel carriers. This charge is determined and recorded monthly in pesos based on the actual cost, which the Entity has to pay for this item.

The Entity reset the level of accrued income for the capacity charge, as required by IFRS 3.

(ii) ***Energy Charges -*** Revenue from energy charges is divided into Variable Operation and Maintenance Charge (CVOM), Fuel Charge (CC) and Start-up Charge (CA) as follows:

The CVOM is intended to reimburse the Entity for the variable direct expenses incurred in the generation of power such as water consumption, lubricants, chemicals and other supplies necessary to generate power, except fuel. This revenue is determined and recorded monthly and is directly related to the net energy generated.

The CC represents the guaranteed consumption of fuel (alternate or base) related to the energy output. This charge is determined and recorded monthly in pesos and it is calculated based on the consumption values guaranteed by the Entity in its technical proposal and the current fuel prices.

The CA covers the fuel surcharges associated with startups initiated at the request from CFE. This charge is determined and recorded in pesos in the months in which such startups take place.

(iii) ***Natural Gas transport services*** - Revenue is recognized in the period in which the services of natural gas transportation are rendered.

## 4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the Entity's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

a. ***Critical judgments in applying accounting policies***

The following are the critical judgments, apart from those involving estimations (see Note 4.b below), that the Entity's management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

- *Determining control over subsidiaries*

  As part of the acquisition in 2010, the Entity made an analysis to determine whether it achieved control over its subsidiaries considering its power over the investee; has exposure and rights to variable returns from its involvement in the investee; and it has the ability to use its power to affect its returns.

-
- *Determining arrangements with leases*

  As part of the acquisition in 2010, the Entity made an analysis of its PPAs to determine if it had to recognize them as leases or as a service concession arrangement, it concluded that the PPAs are in the scope of IFRS 16 and should be recognized as a lease arrangement.

- *Contingencies*

  As detailed in Note 20, the Entity is subject to contingencies that, it they materialize, could impact the financial position, performance or future cash flows.

- *Discount rate used to employee benefits*

  To determine the discount rate, the Entity needs to use high quality corporate bonds as reference, if there is no deep market of these bonds, it should use government bonds. The Entity considers the currency and maturity of its obligation to select the reference bonds.

b. ***Key sources of estimation uncertainty***

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- *Impairment of long-lived assets, goodwill and intangible assets*

  The Entity reviews goodwill and other intangible assets at least annually and long-lived assets when there is any indication that the asset might be impaired. Determining whether long-lived assets, goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which long-lived assets have been allocated. The value in use calculation requires the Entity’s management to estimate the expected future cash flows over the revenue contract with CFE that will arise from the cash-generating unit and an appropriate discount rate to calculate present value. If the actual future cash flows are lower than expected, a material impairment loss may arise.

- *Deferred income tax assets*

  The Entity reviews at the end of each reporting period the carrying amount of deferred tax assets and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

- *Employee benefits*

  The Entity obtains the work of a actuarial specialist who determines the provision that should be recognized for each period based on the actuarial study.

- *Fair value measurements and valuation processes*

  Some of the Entity’s assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the Entity has set up a valuation committee, which is headed up by the Chief Financial Officer of the Entity, to determine the appropriate valuation techniques and inputs for fair value measurements.

  In estimating the fair value of an asset or a liability, the Entity uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Entity engages third party qualified appraiser to perform the valuation. The valuation committee works closely with the qualified external appraiser to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation’s findings to the board of Directors of Entity, every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

## 5. Cash and cash equivalents

As of December 31, 2022 and 2021 cash and cash equivalents consist of:

| | 2022 | 2021 (unaudited) |
|---|---|---|
| Cash | $ 3 | $ - |
| Cash equivalents [1] | 55,387 | - |
| | $ 55,390 | $ - |

[1] The Entity´s cash equivalents are composed of highly liquid overnight investments.

## 6. Accounts receivable

| | 2022 | 2021 (unaudited) |
|---|---|---|
| Mexican Federal Electricity Commission | $ 86,629 | $ - |
| National Center of Energy Control | 3 | - |
| Total | $ 86,632 | $ - |

## 7. Power plants, natural gas pipeline, property and equipment

| | 2022 | 2021 (unaudited) |
|---|---|---|
| Power plants | $ 495,314 | - |
| Natural gas pipeline | 20,847 | - |
| Office furniture, equipment and vehicles | 1,566 | - |
| | 517,727 | |
| Less - accumulated depreciation | (7,901) | - |
| | 509,826 | |
| Construction-in-progress | 17,658 | - |
| Land | 13,972 | - |
| | $ 541,456 | $ - |

| Cost | Power plants | Natural gas pipeline | Office furniture, equipment and vehicles | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2021 | $ - | $ - | $ - | $ - | $ - | $ - |
| Acquisition of subsidiary | 492,945 | 20,847 | 1,558 | 13,972 | 18,298 | 547,620 |
| Additions | 2,969 | - | 22 | - | - | 2,991 |
| Disposals | (600) | - | (14) | - | (640) | (1,254) |
| Balance as of December 31, 2022 | $ 495,314 | $ 20,847 | $ 1,566 | $ 13,972 | $ 17,658 | $ 549,357 |

| Accumulated Depreciation and Impairment | Power plants | Natural gas pipeline | Office furniture, equipment and vehicles | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2021 | $ - | $ - | $ - | $ - | $ - | $ - |
| Depreciation expense | (7,611) | (229) | (61) | - | - | (7,901) |
| Balance as of December 31, 2022 | $ (7,611) | $ (229) | $ (61) | $ - | $ - | $ (7,901) |
| **Carrying amount** | | | | | | |
| Balance as of December 31, 2022 | $ 487,703 | $ 20,618 | $ 1,505 | $ 13,972 | $ 17,658 | $ 541,456 |

Depreciation expense was $7,901, for the year ended December 31, 2022.

## 8. Diesel fuel and spare parts inventories and other consumables

As of December 31, 2022 and 2021 inventories of diesel fuel, spare parts and other consumables were as follows:

| | 2022 | 2021 (unaudited) |
|---|---|---|
| Spare parts and consumables | $ 26,968 | $ - |
| Diesel fuel | 44,551 | - |
| | $ 71,519 | $ - |

## 9. Goodwill

The goodwill was generated by the acquisition of power plants, carrying amount of goodwill for the years ended December 31, 2022 and 2021, as follows:

| | 2022 | 2021 |
|---|---|---|
| Goodwill | $ 4,638 | $ - |
| | $ 4,638 | $ - |

| | Total |
|---|---|
| ***Cost*** | |
| Balance as of December 31, 2021 | $ - |
| Recognized on acquisition of a subsidiary (note 16) | 4,638 |
| Balance as of December 31, 2022 | $ 4,638 |

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit might be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and, subsequently, other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

## 10. Intangible assets

Intangible assets with finite useful lives as of December 31, 2022, are as follows:

| | Weighted average remaining amortization period (years) | 2022 Gross carrying amount | Recognised on acquisition of subsidiary | Accumulated amortization | Net amount |
|---|---|---|---|---|---|
| Power Purchase | | | | | |
| Natural Gas Transportation Agreement [(1)]: | | | | | |
| GDR | | $ - | $ 7,160 | $ (120) | $ 7,040 |
| Assets identified as part of the acquisition | | - | 505 | (6) | 499 |
| | | $ - | $ 7,665 | $ (126) | $ 7,539 |

(1) Intangible asset generated by the permission to transport natural gas granted to the Entity by the CRE.

Amortization expense of intangible asset for the year ended December 31, 2022 was $126. The estimated aggregate amortization expense for intangible assets with finite useful lives for each of the five subsequent years and thereafter is as follows:

| | |
|---|---|
| 2023 | $ 754 |
| 2024 | 754 |
| 2025 | 754 |
| 2026 | 754 |
| Thereafter | 4,523 |
| | $ 7,539 |

## 11. Derivative financial instruments

### a. *Financial risk management objectives*

These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Entity seeks to minimize the effects of these risks by using derivative financial instruments to interest risk exposures. The use of financial derivatives is governed by the Entity's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

### b. *Interest rate risk management*

The Entity is exposed to interest rate risk because it borrows funds are at floating interest rates. The risk is managed by the Entity by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

- ***Interest rate swap contracts***

  Under interest rate swap contracts, the Entity agrees to exchange the difference between floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Entity to mitigate the risk of changing interest rates on the fair value of the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract.

  All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Entity's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

As of December 31, 2022, the interest rate swaps were as follows:

| Financial institution | Notional amount | Inception date Year 2022 | Termination date Year 2030 | Rate received | Rate paid | Estimated fair value |
|---|---|---|---|---|---|---|
| BNP Paribas (1) | 28,110 | November | June | SOFR | (4.7)% | $ 9,690 |
| | | | | | | 9,690 |
| Credit Agricole (2) | 19,886 | November | June | SOFR | 4.18% | $ (310) |
| ING (3) | 19,886 | November | June | SOFR | 4.18% | (310) |
| JP Morgan (4) | 28,110 | November | June | SOFR | 4.18% | (432) |
| Societe Generale (5) | 23,878 | November | June | SOFR | 4.18% | (374) |
| | | | | | | (1,426) |
| | | | | | | $ 8,264 |

(1) BNP Paribas Corporate & Institutional Banking (BNP Paribas).
(2) Credit Agricole Corporate and Investment Bank (Credit Agricole).
(3) ING Bank N.V. (ING)
(4) JP Morgan Chase Bank, National Association (JP Morgan)
(5) Societe Generale Corporate & Investment Banking (Societe Generale).

The estimated fair value amounts presented above have been determined by the Entity using available market information, which are all considered Level 2 inputs within the fair value hierarchy under IAS 39. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

c. ***Liquidity risk management***

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Entity's short-, medium- and long-term funding and liquidity management requirements. The Entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. This note sets out details of additional undrawn facilities that the Entity has of its disposal to further reduce liquidity risk.

– *Liquidity and interest risk tables*

The following table details the Entity's remaining contractual maturity for its derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Entity may required to pay. The table include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Entity may be required to pay.

| **Outstanding Contracts** | **Fixed effective interest Rate %** | **Less than 6 months** | **6 months - less than 1 year** | **1 - 3 years** | **3-5 years** | **>5 years to maturity** | **Total** |
|---|---|---|---|---|---|---|---|
| **December 31, 2022** | | | | | | | |
| BNP Paribas | (4.70)% | $ 1,345 | $ 1,374 | $ 4,153 | $ 2,602 | $ 1,493 | $ 10,967 |
| Credit Agricole | 4.182% | 59 | 74 | (172) | (260) | (123) | (422) |
| ING | 4.182% | 59 | 74 | (172) | (260) | (123) | (422) |
| JP Morgan | 4.182% | 83 | 105 | (244) | (366) | (173) | (595) |
| Societe Generale | 4.182% | 70 | 89 | (207) | (311) | (147) | (506) |
| | | $ 1,616 | $ 1,716 | $ 3,358 | $ 1,405 | $ 927 | $ 9,022 |

As of December 31, 2022, due to the interest rate swaps contracted, if the SOFR interest rate were to increase by 0.5%, the effect on the valuation would be $1,998, impacting favorably while, if the interest rate were to decrease by 0.5%, the effect on the valuation would be $2,032, impacting unfavorably.

## 12. Long-term debt

a. The carrying amounts (amortized cost) and fair values of the long-term debt were as follows:

| | 2022 | 2021 (unaudited) |
|---|---|---|
| Loan payable to Crédit Agricole Corporate and Investment Bank, bearing interest at a rate of 7.2508% as of December 31, 2022, maturing in 2030 | $ 159,830 | $ - |
| Long-term debt | $ 159,830 | $ - |

| | 2022 | |
|---|---|---|
| | Carrying amount | Fair value |
| Long-term debt | $ 159,830 | $ 159,830 |

The estimated fair value amounts presented above have been determined using available market information, which are all considered Level 2 inputs within the fair value hierarchy under IAS 39. The use of different market assumption and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The loans referred to contain restrictive covenants, which require the Entity to maintain certain financial ratios and restricts the payment of dividends, granting of loans and obtaining additional financings. The Entity has complied with these covenants as of December 31, 2022.

Required principal repayments of long-term debt over the next five years and thereafter as of December 31, 2022, are as follows:

| | |
|---|---|
| 2024 | $ 17,612 |
| 2025 | 17,349 |
| 2026 | 19,045 |
| 2027 | 39,397 |
| 2028 | 16,629 |
| Others | 49,798 |
| | $ 159,830 |

*b.* ***Credit line from Crédit Agricole Corporate and Investment Bank***

On February 1, 2022, the Entity settled a credit agreement and on June 30, 2022 settled an amended and restated credit agreement with Crédit Agricole Corporate and Investment Bank, in which it was granted a revolving facility for a maximum amount of $235,000, which may be used for working capital purposes for a total amount that does not exceed $30,000, with a maturity date of four years with a SOFR interest rate of 4.3% plus a margin of 2.5% and an adjustment of 0.42826% as of December 31, 2022.

On July 19, 2023, the Entity paid $16,000 of principal of the revolving facility used.

– *Liquidity and interest risk tables*

The following tables detail the Entity's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Entity can be required to pay.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Entity may be required to pay.

| Outstanding Contracts | Less than 6 months | 6 months - less than 1 year | 1 - 3 years | 3-5 years | >5 years to maturity | Total |
|---|---|---|---|---|---|---|
| **December 31, 2022** | | | | | | |
| Crédit Agricole Corporate and Investment Bank | $ - | $ - | $ 37,891 | $ 18,427 | $ 9,963 | $ 66,281 |
| | $ - | $ - | $ 37,891 | $ 18,427 | $ 9,963 | $ 66,281 |

## 13. Employee benefits

Information related to the Entity's seniority premium benefits and statutorily mandated severance benefits is as follows:

a. The Entity uses December 31st 2022 and for the period July 23 to December 31, 2021 as, measurement date for its seniority premium and severance benefits.

| | 2022 | 2021 (unaudited) |
|---|---|---|
| As of December 31, 2022 and for the period July 23 to December 31, 2021: | | |
| Service cost | $ 328 | $ - |
| Interest cost | 105 | - |
| Unrecognized net actuarial loss | (1) | - |
| Net period cost | $ 432 | - |
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | $ - | $ - |
| NDBL employee benefits assumed in acquisition (note 16) | 7,201 | - |
| Service cost | 1,610 | - |
| Interest cost | 627 | - |
| Actuarial gain | (1,606) | - |
| Benefit obligation at the end of year | $ 7,832 | $ - |

b. Nominal rates used in the actuarial calculations:

| | 2022 % | 2021 (unaudited) |
|---|---|---|
| Discount of the projected benefit obligation at present value | 9.25% | - |
| Expected yield on plan assets | 5.00% | - |
| Salary increase | 16.00% | - |

The seniority premium and severance benefits were recognized at their fair value, which is the present value computed by an actuarial study.

In the other comprehensive loss related to recognition of net periodic cost for the year, there is an amount net of tax expense of $185 in 2022.

## 14. Financial instruments

### a. *Classes and categories of financial instruments and their fair values*

The following table combines information about:

- The carrying amounts of financial instruments
- Fair values of financial instruments (except financial instruments when carrying amount approximates their fair value)
- Fair value hierarchy levels of financial assets and financial liabilities for which fair value was disclosed

Fair value hierarchy levels 1 to 3 are based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

| | | 2022 | |
|---|---|---|---|
| | Level | Carrying amount | Fair value |
| **Financial assets:** | | | |
| Cash and cash equivalents | 1 | $ 55,390 | $ 55,390 |
| Accounts receivable | 2 | 86,632 | 86,632 |
| Derivative financial instruments | 3 | 9,690 | 9,690 |
| **Financial liabilities:** | | | |
| Long-term debt with Credit Agricole Corporate and Investment Bank | 2 | $ 189,830 | $ 189,830 |
| Long-term debt – Buffalo Holdings S.A.R.L | 2 | 20,000 | 20,000 |
| Accounts payable to gas suppliers | 2 | 18,264 | 18,264 |
| Accrued expenses and direct employee benefits | 2 | 47,762 | 47,762 |
| Derivative financial instruments | 3 | 1,426 | 1,426 |

### b. *Capital management*

The Entity manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Entity's overall strategy remains unchanged from 2017.

The capital structure of the Entity consists of net debt (borrowings as detailed in note 12) and equity of the Entity (comprising issued capital, reserves and accumulated deficit).

The Entity is not subject to any externally imposed capital requirements.

c. ***Interest rate risk management***

The Entity is exposed to interest rate risk because entities in the Entity borrow funds at both fixed and floating interest rates. The risk is managed by the Entity by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The Entity's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

– *Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50-basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Entity's:

- Net profit loss for the year ended December 31, 2022 would have decreased/increased by $169. This is mainly attributable to the Entity's exposure to interest rates on its variable rate borrowings; and

The Entity's sensitivity to interest rates has decreased during the current year mainly due to the reduction in variable rate debt instruments and the increase in interest rate swaps to swap floating rate debt to fixed rate debt.

d. ***Liquidity risk management*** - The Entity manages liquidity risk by investing its surplus cash in risk-free investment instruments to be used at the time required by the Entity. The Entity has continuous monitoring of projected and actual cash flows.

As of December 31, 2022, the contractual maturities of financial liabilities based on payment periods are as follows:

| **2022** | **Less than a year** | **More than 1 year** | **Total** |
|---|---|---|---|
| Credit line from Agricole Corporate and Investment Bank | $ 30,000 | $ - | $ 30,000 |
| Credit Agricole Corporate and Investment Bank | - | 159,830 | 159,830 |
| Accounts payable to gas suppliers | 18,264 | - | 18,264 |
| Total | $ 48,264 | $ 159,830 | $ 208,094 |

## 15. Stockholders' equity

a. Common stock at par value as of December 31, 2022, is as follows:

| | 2022 | | |
|---|---|---|---|
| | Number of shares | | |
| | Fixed "Class I" | Variable "Class II" | Nominal value |
| Buffalo Investments, S.A.R.L. | 9,999 | 3,749,810,400 | $ 189,960 |
| Buffalo Holdings S.A.R.L. | 1 | 375,061 | 19 |
| Total | 10,000 | 3,750,185,461 | $ 189,979 |

| | 2021 (unaudited) | | |
|---|---|---|---|
| | Number of shares | | |
| | Fixed "Class I" | Variable "Class II" | Nominal value |
| Buffalo Investments, S.A.R.L. | 9,999 | - | $ - |
| Buffalo Holdings S.A.R.L. | 1 | - | - |
| Total | 10,000 | - | $ - |

Common stock consists of nominative shares at nominal value of $1 Mexican peso. Variable capital may be increased without limitation. As of December 31, 2022 and 2021 the Fixed "Class I" shares have been authorized and issued but payment is outstanding.

b. At the Extraordinary General Stockholders' Meeting held on November 2, 2022, the variable part of the capital stock was increased by issuing 3,750,185,460 Class II shares through cash contributions of $189,979 ($3,750,185 historical pesos).

c. Stockholders' equity, except restated tax contributed capital and tax-retained earnings, will be subject to income tax at the rate in effect upon distribution of such equity. Any tax paid on this distribution may be credited against annual and estimated income taxes of the year in which the tax on dividends is paid and the following two fiscal years.

d. The balances of the stockholders' equity tax accounts as of December 31, 2022 and 2021, are as follows

| | 2022 | 2021 |
|---|---|---|
| Contributed capital account | $ 195,534 | $ - |
| Net tax income account | 229,462 | - |
| Net tax income account from 2014 | 290,670 | - |
| Total | $ 715,666 | $ - |

## 16. Acquisition of subsidiaries

On November 9, 2022, Actis, a leading global investor in sustainable infrastructure, acquired 100 per cent of the issued share capital of MT Falcon, obtaining control of MT Falcon from a consortium including Mitsui & Co. (“Mitsui”), Tokyo Gas, JERA and Tohoku Electric Power.

MT Falcon owns and operates five combined-cycle gas turbine power plans in Mexico with a total capacity of 2.2GW and an adjacent natural gas-pipeline and qualifies as a business as defined in IFRS 3 Business Combinations. The business is being re-branded with immediate effect as “Valia Energía” (Valia) and will focus on delivering an equitable Energy Transition in Mexico with sustainability at the core of its investment strategy. Valia acquired MT Falcon through a new holding entity “Buffalo Energy Mexico Holdings, S. A. de C. V.”.

As of the acquisition date, a goodwill derived from was recorded $4,638. None of the goodwill is expected to be deductible for income tax purposes.

The amounts recognized in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

| | Fair Value |
|---|---|
| Acquired assets | |
| Cash | $ 26,017 |
| Current Assets | 200,665 |
| Property, plant & equipment | 547,620 |
| Intangibles | 7,665 |
| Deferred taxation related to transaction | 41,474 |
| Total acquired assets | 823,441 |
| Assumed liabilities | |
| Current Liabilities | 228,642 |
| Deferred taxes | 8,810 |
| Deferred revenues | 346,226 |
| Other non-current Liabilities | 2,949 |
| Long term debt | 42,927 |
| Total Assumed liabilities | 629,554 |
| Net assets | 193,887 |
| Goodwill | 4,638 |
| Net cash outflows on on the acquisition of subsidiaries | $ 198,525 |

***Net cash outflows on the acquisition of subsidiaries***

| | |
|---|---|
| Consideration paid in cash | 198,525 |
| Less: acquired balances of cash and cash equivalents | 26,017 |
| | 172,508 |

The fair value of the contingent consideration arrangement of $198,525 was estimated by applying the criteria established in the IFRS 3 "Bussiness Combinations". The principal procedures in formulating the estimates of fair value of the identified intangible assets included:

- Analysis of the historical figures contained in the audited financial statements of MT Falcon Holdings for the fiscal years ended as of December 31, 2021, through December 31, 2022, and internal financial statements as of October 31, 2022

- Evaluated and analyzed various financial and operating future estimates of the Entity, including revenue, operating margins, working capital investments, and capital expenditures.
- Calculation of appropriate discount rates to apply to MT Falcon Holding's estimated future cash flows and the estimated cash flows attributable to the Power Purchase Agreements.
- Estimated fair value of property, plant, and equipment, and identified intangible assets.

Acquisition-related costs (included in administrative expenses) amount to $13,131.

MT Falcon contributed $128,015 revenue and $6,407 to the Entity's consolidated loss for the period between the date of acquisition and the reporting date.

If the acquisition of MT Falcon had been completed on the first day of the financial year, Entity revenues for the year would have been $939,457 and Entity loss would have been $105,991 which included impairment expense of long-lived assets of $144,751.

## 17. Transaction and balances with related parties

a. Transactions with related parties for the year ended December 31, 2022 and for the period July 23 to December 31, 2021:

| | 2022 | 2021 (unaudited) |
|---|---|---|
| Services received (1) | $ 16 | $ - |
| Interest expense (1) | 245 | - |

(1) Buffalo Holdings S.A.R.L.

b. Accounts payable balances with related parties are as follows:

| | 2022 | 2021 (unaudited) |
|---|---|---|
| Due to related parties: | | |
| Buffalo Holdings S.A.R.L | $ 261 | $ - |
| | $ 261 | $ - |

c. Accounts Payables with Buffalo Holdings S.A.R.L. long-term as follow:

| | 2022 | 2021 (unaudited) |
|---|---|---|
| Due to related parties: | | |
| Loan payable to Buffalo Holdings S.A.R.L, bearing interest at a rate of 6.79% as of December 31, 2022, maturing in October 28, 2052 | $ 20,000 | $ - |
| Long-term debt | $ 20,000 | $ - |

## 18. Income taxes

The Entity is subject to ISR. The rate of current income is 30%.

a. Income tax expense for the year ended December 31, 2022 and for the period July 23 to December 31, 2021 was comprised of the following:

| | 2022 | 2021 (unaudited) |
|---|---|---|
| ISR: | | |
| Current | $ (2,942) | $ - |
| Deferred | (8,421) | - |
| Exchange gain deferred tax | 4,324 | - |
| | $ (7,039) | $ - |

b. As of December 31, 2022 and for the period July 23 to December 31, 2021, the components of deferred income tax assets (liabilities) were as follows:

| | 2022 | 2021 (unaudited) |
|---|---|---|
| **Assets:** | | |
| Accrued expenses and provisions | $ 5,049 | $ - |
| Tax, loss carryforwards | 50,555 | - |
| Employee benefits | 183 | - |
| Deferred revenue under contract with CFE | 101,962 | - |
| | 157,749 | - |
| **Liabilities:** | | |
| Long term debt, deferred financing cost | (72) | - |
| Power plants, natural gas pipeline and equipment - Net | (91,235) | - |
| Intangible asset – Net | (12,075) | - |
| Derivative financial instruments | (2,496) | - |
| | (105,878) | - |
| Valuation allowance (1) | (35,052) | - |
| Deferred income tax asset - Net | $ 16,819 | $ - |

(1) The components of the Entity's valuation allowance are the tax-loss carryforwards and net tax values of power plant equipment of EAA, which the Entity estimates would not be recoverable.

c. Income tax recognized in other comprehensive loss for the year ended December 31, 2022 and for the period July 23 to December 31, 2021 is as follow:

| | 2022 | 2021 (unaudited) |
|---|---|---|
| Hedging instruments | $ (1,161) | $ - |
| Loss on labor obligations | (230) | - |
| | $ (1,391) | $ - |

d. Income taxes and the reconciliation of the statutory and effective ISR rates expressed as a percentage of income before income taxes are:

| | 2022 % | 2021 (unaudited) |
|---|---|---|
| Statutory income tax rate | 30 | - |
| Plus (less): | | |
| Exchange gain (loss) | 453 | - |
| Effects of tax inflation | 976 | - |
| Prepaid expenses | (1,114) | - |
| Other accumulative temporary items | (13) | - |
| Effective income tax rate | 263 | - |

e. As of December 31, 2022, the Entity has operating loss carryforwards, which are available to offset future taxable income, as follows:

| Expiration Date | Amount |
|---|---|
| 2025 | $ 20,578 |
| 2026 | 23,496 |
| 2027 | 10,397 |
| 2028 | 3,787 |
| 2029 | 23,130 |
| 2030 | 23,488 |
| 2031 | 27,036 |
| 2032 | 33,968 |
| | $ 165,880 |

## 19. Commitments

a. ***Power Purchase Agreement Guarantee*** - During the effective period of all PPAs, the Entity must deliver to CFE, irrevocable and unconditional letters of credit of $95,000 to guarantee the fulfillment of its obligations through the date of commercial operation. Such letters of credit are renewed on an annual basis.

b. ***Net energy power output*** - According to the terms and conditions of the PPAs, the Entity shall make available to CFE at the interconnection point that CFE will purchase from the Entity: (a) prior to the commercial operation date, all the net power output generated during the tests, and (b) commencing on the commercial operation date and continuing for the remaining term of the PPA, the net energy power output associated with the net capacity corresponding to the guaranteed amount.

c. ***Fuel supply contracts*** - On May 29, 2018, Central Lomas de Real, S. A. de C. V. and Central Valle Hermoso. S. A. de C. V entered into a fuel supply agreement with Trafigura Trading L. L. C. in order to transport gas to be delivered to the Entity in the quantity of 50,000 MMBTU a day as firm fixed quantity, and 45,000 MMBTU per day as firm variable quantity, for each one.

In accordance with the Contract for sale and purchase of natural gas with Trafigura LLC, Central Lomas de Real, S. A. de C. V. and Central Valle Hermoso. S. A. de C. V. must deliver an irrevocable credit letter, which will be recalculated annually. At December 31, 2022, the guarantee amount is $35,000 thousand U. S. dollars, for each one.

d. ***Other fuel supply contracts*** - The other fuel supply contracts Tenaska Marketing Ventures, establish that they will provide a fuel sale to Central Valle Hermoso, S. A. de C. V. In return, the Entity must provide an irrevocable letter of credit which will be recalculated every year. On December 31, 2022, the guarantees amount by $3,000 thousand. In accordance with the Contract for sale and purchase of natural gas with Mitsui & Co. Energy Marketing and Services (USA), Inc the Entity must deliver an irrevocable credit letter, which will be recalculated annually. At December 31, 2022, the guarantee amount is $2,400 thousand U.S. dollars.

e. ***Natural gas transportation service agreement*** - On September 26, 2002, the Entity executed a natural gas transportation service agreement with Pemex Gas y Petroquímica Básica (“PGPB”) which, among other items, establishes a maximum natural gas delivery capacity of 130,000 MMBTU. Similarly, the agreement was executed for 15 years, after which it will be automatically renewable on annual basis. On March 11, 2015, PGPB transfer its rights and obligations of the natural gas transportation service agreement to CFE.

On October 25, 2018, Gasoducto del Río, S. A. de C. V. entered into an interruptible gas transportation agreement with CFE ENERGÍA, S. A. de C. V., effective from its execution date until May 31, 2022. The contract stipulates, among others, that the Entity is obliged to transport up to 70,000 MMBTU per day of natural gas delivered, subject to its available capacity. The tariff is subject to the revision and approval by the Energy Regulation Commission, based on the Transportation Terms and Conditions.

The Contract stablishes the renewal under the Transportation Terms and Conditions where it is mentioned that the CFE ENERGIA must notify to Gasoducto del Río the intention to renew the contract with 6 months in advance. Nevertheless, CFE ENERGIA did not make the corresponding renewal notification.

f. ***Other fuel supply contracts*** - The other fuel supply contracts Tenaska Marketing Ventures, establish that they will provide a fuel sale to Central Lomas de Real and Central Valle Hermoso, S. A. de C. V. In return, the Entity must provide an irrevocable letter of credit which will be recalculated every year. On December 31, 2022, the guarantees amount $3,000 thousand. In accordance with the Contract for sale and purchase of natural gas with Mitsui & Co. Energy Marketing and Services (USA), Inc the Entity must deliver an irrevocable credit letter, which will be recalculated annually. At December 31, 2022, the guarantee amount is $2,400 thousand U. S. dollars.

g. ***Natural gas transportation service agreement*** - On September 26, 2002, the Entity entered into a natural gas transportation service agreement with Pemex Gas y Petroquímica Básica ("PGPB") which, among other items, establishes a maximum natural gas delivery capacity of 130,000 MMBTU. Similarly, the agreement was entered into for 15 years, after which it will be automatically renewed on annual basis. On March 11, 2015, PGPB transferred its rights and obligations of the natural gas transportation service agreement to CFE.

On October 25, 2018, Gasoducto del Río, S. A. de C. V. entered into an interruptible gas transportation agreement with CFE ENERGÍA, S. A. de C. V., effective from its execution date until May 31, 2022. The contract sets forth, among others, that the Entity is obliged to transport up to 70,000 MMBTU per day of natural gas delivered per day, subject to its available capacity. The tariff is subject to the Transportation General Conditions issued by the Energy Regulation Commission.

h. ***Fuel Supply Agreement*** - The Entity entered into a Fuel Supply Gas Agreement ("FSA"), whereby the Entity purchases natural gas from Pemex Transformación Industrial ("PTI") to be used in the energy production. The energy is then supplied to CFE at a price determined based on the cost of the gas. The contract has a term of 25-years commencing May 1, 2002.

i. ***Fuel Supply Agreement Guarantee*** - In accordance with the FSA with PTI, the Entity must deliver an irrevocable letter of credit, which will be recalculated annually. The first calculation will be made 15 days before the first fuel supply date. The actual covered amount is 988 million of Mexican pesos expiring January 28, 2023.

j. ***Exclusivity of the commitment for power and capacity*** - The Entity shall not have the right to commit or supply any portion of the demonstrated net capacity or the associated net energy power output to any person other than the CFE or its legal and authorized assignees or successors.

The capacity charge revenues and the schedule of payments to be received, excluding contingent rentals, according to the contract with CFE in the next five years, are:

| **Years** | **Capacity charge Revenues** | **Schedule of Payments** |
|---|---|---|
| 2023 | $ 166,916 | $ 115,993 |
| 2024 | 166,916 | 114,050 |
| 2025 | 166,916 | 115,772 |
| 2026 | 166,916 | 106,059 |
| 2027 | 166,916 | 47,150 |
| | $ 834,580 | $ 499,024 |

k. The Entity executed a long-term spare parts and service agreements ("LTSA") for periods of between eleven and twelve years with Siemens Power Inc., and eleven years with Mitsubishi Power Americas, Inc. ("Mitsubishi") (formerly Mitsubishi Power Systems Americas, Inc.), which includes the parts and repair program contracts, thereby fulfilling parts and major spare parts requirements. The minimum payment commitments undertaken through the LTSA for the next five years and subsequent years are as follows:

| Years | Amount |
|---|---|
| 2023 | $ 22,442 |
| 2024 | 23,262 |
| 2025 | 26,289 |
| 2026 | 24,099 |
| 2027 | 14,066 |
| Thereafter | 22,164 |
| | $ 132,322 |

The power plants (excluded Central Saltillo, S. A. de C. V.), entered into a new Long-Term Service Agreement ("LTSA") on April 1, 2018 with Mitsubishi Power Systems Americas, Inc. and Mitsubishi Hitachi Power Systems de México, S. A. de C. V. or (The "Suppliers").

On November 25, 2019, Central Saltillo, S. A. de C. V., entered into a new Long-Term Service Agreement ("LTSA") with Power Systems MFG, L. L. C.

Under the LTSA, the Entity receives spare parts, materials, equipment, tools, supplies, craft labor, personnel facilities, supervision, subcontractors, gases, welding and burning equipment, consumables, technical field engineers, and undertakes all activities necessary to plan and perform scheduled maintenance.

For the commitments related with the debt, see Note 12 Long-term debt.

## 20. Contingencies

a. Additional taxes payable could arise in transactions with non-resident related parties if the tax authority, during a review, believes that prices and amounts used by the Entity are not similar to those used with or between independent parties in comparable transactions

b. Electricity Industry Law - as part of the bills submitted by Mexico's President since May 15, 2020, to strengthen the role of the CFE through the Policy on the Reliability, Continuity and Security of the National Electricity System (which was repealed on March 4, 2022 following the verdict issued by a District Court Judge. Therefore, the Reliability Policy established by the Ministry of Energy, published in the Official Gazette of the Federation on February 28, 2017, was reinstated)), on March 9, 2022, the President submitted an amendment to certain provisions of the Electric Industry Law ("LIE", for its acronym in Spanish), which was published in the Mexican Federal Official Gazette ("DOF", for its acronym in Spanish).

   On September 27, 2022, and on March 19, 2022, the Judge of the Second District Court for Competition and Telecommunications issued a definitive favorable ruling to electricity market participants, which suspends the effects of the LIE reform. In April 2022, the Supreme Court of Justice ("SCJN", for its acronym in Spanish) ruled of the constitution of the LIE; however, on January 25, 2023, by decision of the Second Chamber of the SCJN, through an agreement of resumption of competence to re- analyze the amparo files and the proceedings. At the date of financial statements, the LIE is suspended.

c. On July 29, 2021 and December 17, 2021, the Government of the State of Tamaulipas issued the Decree LXIV-121 and Decree LXIV-281, respectively; whereby such government added several provisions to the Tax Code of Tamaulipas and the Fiscal Law Coordination for the State of Tamaulipas, establishing a new “Green Tax” applicable for fiscal year 2022 addressed to the companies with emissions into the atmosphere of substances generated in their production processes from 25 tons per month. These amendments imposing the payment of the “Green Tax” represented a financial impact on Central Anáhuac, S. A. de C. V. (CAC), and Electricidad Águila de Altamira, S. de R. L. de C. V. (EAA), and consequently both Entities filed an amparo lawsuit to challenge the “Green Tax” application to both Entities and such claim was admitted on February 11, 2022 by the Federal Courts. As part of the amparo proceedings, on March 17, 2022, the Entities requested the temporary injunction to suspend the collection of the “Green Tax” until the relevant Court issues the final judgement.

    On July 2021 EAA, was granted the definitive suspension by the Court. On June 2021, CAC was also granted a definitive suspension.

    CAC–In June 2022, the District Judge dismissed the amparo lawsuit and CAC filed an appeal, admitted by the First Collegiate Tribunal of the Nineteenth Circuit, which is pending of resolution.

    EAA – In October 2021, the District Judge dismissed the amparo lawsuit and EAA filed an appeal, admitted by the Second Collegiate Tribunal of the Nineteenth Circuit, which is pending of resolution.

    If the amparo lawsuit against the Green Tax is lost, CAC and EAA will be required to pay the corresponding taxes which amount to $90 and $261, respectively.

d. On May 4, 2022, SENER published a law amendment to the Hydrocarbon Law derived from March 28 presidential initiative. Amparos against this reform were filed on June 15, 2022, only for the permits related to natural gas activities: 1) own use and 2) transport. One amparo per each permit.

    CAC, CSO, EAA own use permits. on August 19, 2021, the Judge of the First District Court for Competition and Telecommunications, granted the definitive suspension, on the same date, the Authorities filed an appeal against the judgment, which is pending of resolution.

    On October 27, 2022, the Judge issued a judgment deciding to grant the amparo and protection of justice against the Decree reforming transitory article 13 of the Hydrocarbons Law, as well as Agreement A/015/2021 of the Energy Regulatory Commission and its implementation, on the same date, the Authorities filed an appeal against the judgment, which is pending of resolution. GDR transportation permit - On September 2, 2021, the Judge of the Second District Court for Competition and Telecommunications, granted the definitive suspension. On June 14, 2022, the Judge issued a judgment deciding to grant the amparo and protection of justice against the Decree reforming transitory article 13 of the Hydrocarbons Law, as well as Agreement A/015/2021 of the Energy Regulatory Commission and its implementation, on the same date, the Authorities filed an appeal against the judgment, which is pending of resolution.

e. On December 31, 2022, CRE published the resolution RES/550/2022 containing the new grid code. No Amparo was filed because the risk and impact would be limited, and the probability to is not high.

f. CAC, CSO, EAA, GDR. On December 27, 2022, was published in the Official Gazette of the Federation several amendments to the Miscellaneous Tax Resolution, applicable as of January 1, 2023, establishing the obligation to carry out volumetric controls of hydrocarbons. The respective amparos were filed, all pending of resolution, as well as the definitive suspension.

g. Except for the issues detailed in the preceding paragraphs, the Entity and its assets are not subject to any legal action other than the routine legal proceedings related to its activity.

## 21. Subsequent event

a. On July 13, 2023, the Entity have entered into a Purchase and Sale Agreement (the PSA) and acquired 100 per cent of the issued share capital of EVM Energía del Valle de México, S.A de C.V. and EVM Tenedora, S.A.P.I. de C.V. In order to close the PSA, the Entity obtained cash flows from financing activities, as follow:

21.a.1. Shareholders contributions by $203,379.
21.a.2. Shareholders loans by $174,720.
21.a.3. Loan financing by $161,686 with interest rate 9.977% (SOFR plus margin of 4% with annually increase 50 points bases to achieve 6%).

EVM Energía owns two natural gas power plants in Mexico with a total capacity of 950MW and an adjacent natural gas-pipeline and qualifies as a business as defined in IFRS 3 Business Combinations. The business is being re-branded with immediate effect as “Valia Energía” (Valia) and will focus on delivering an equitable Energy Transition in Mexico with sustainability at the core of its investment strategy. Valia acquired EVM Energía through a new holding entity “Buffalo Generation Infrastructure, S.A. de C.V.” subsidiary of the Entity.

## 22. Authorization to issue the consolidated financial statements

On August 28, 2023, the issuance of the accompanying consolidated financial statements was authorized by Arturo Infanzón Favela, Chief Financial Officer and Alejandro Milián López, Director of Controlling, Administration, and Procurement; consequently, they do not reflect events occurred after the date. These consolidated financial statements are subject to the approval of the Board of Directors and the general ordinary stockholders’ meeting, where they may be modified, based on provisions set forth in the Mexican General Corporate Law.

* * * * * *

**Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries**
**(Subsidiary of Buffalo Investments, S. A R. L.)**

Condensed Interim Consolidated Financial Statements as of September 30, 2023 (unaudited) and December 31, 2022 and for the nine-month periods ended September 30, 2023 and 2022 (unaudited), and Independent Auditors’ Report Dated January 3, 2024

## Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries
## (Subsidiary of Buffalo Investments, S. A R. L.)

# Independent Auditors' Report and Condensed Interim Consolidated Financial Statements as of September 30, 2023 (unaudited) and December 31, 2022 and for the nine-month periods ended September 30, 2023 and 2022 (unaudited)

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# Independent Auditors' Report to the Board of Directors and Stockholders of Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries

***Introduction***

We have reviewed the accompanying Condensed Interim Consolidated Statements of Financial Position of Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries (Subsidiary of Buffalo Investments, S.A.R.L.) (the "Entity") as of September 30, 2023 (unaudited) and December 31, 2022 and the related Condensed Interim Consolidated Statements of Profit or Loss and Other Comprehensive Income, Condensed Interim Consolidated Statements of Changes in Stockholders' Equity and Condensed Interim Consolidated Statements of Cash Flows for the nine-month periods ended September 30, 2023 and 2022 (unaudited), and a summary of significant accounting policies and other explanatory information. Management is responsible for the preparation and fair presentation of this interim consolidated financial information unaudited in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" (IAS 34). Our responsibility is to express a conclusion on this interim consolidated financial information unaudited based on our review.

***Scope of Review***

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity (ISRE 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Interim Consolidated Financial Information does not give a true and fair view of (or "does not present fairly, in all material respects,") the Condensed Interim Consolidated Financial Position of the Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries as of September 30, 2023 (unaudited) and December 31, 2022, and of its Condensed Interim Consolidated Financial Performance and its Condensed Interim Consolidated Cash Flows for the nine-month periods ended September 30, 2023 and 2022 (unaudited) in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34).

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C. P. C. Erik Padilla Curiel
Mexico City
January 3, 2024

**Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries**
**(Subsidiary of Buffalo Investments, S. A. R. L.)**

# Condensed Interim Consolidated Statements of Financial Position

**As of September 30, 2023 (unaudited), and December 31, 2022**
**(In thousands of U.S. dollars)**

## Assets

| | Note | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | 5 | $ 128,802 | $ 55,390 |
| Accounts receivable | 6 | 124,563 | 86,632 |
| Prepaid expenses | | 29,590 | 30,377 |
| Recoverable taxes and others | | 32,052 | - |
| Total current assets | | 315,007 | 172,399 |
| Non-current assets: | | | |
| Due from related parties – long-term | 15 | 3,480 | - |
| Finance instruments | 11 | 10,067 | 9,690 |
| Power plants, natural gas pipeline, property and equipment - Net | 7 | 1,372,965 | 541,456 |
| Diesel fuel and spare parts inventories and other consumables | 8 | 104,649 | 71,519 |
| Goodwill | 9 | 44,937 | 4,638 |
| Intangible asset – Net | 10 | 100,615 | 7,539 |
| Security deposits | | 3,390 | - |
| Deferred income tax | 16 | 23,383 | 16,819 |
| Total non-current assets | | 1,663,486 | 651,661 |
| Total assets | | $ 1,978,493 | $ 824,060 |

## Liabilities and stockholders' equity

| | Note | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|---|
| Current liabilities: | | | |
| Credit Agricole Interest payable | | $ 14,602 | $ 2,447 |
| Due to Related Parties - Buffalo Holdings, S. A. R. L. | 15 | 3,664 | 261 |
| Short-term debt | 12 | 29,882 | - |
| Credit line from Credit Agricole Corporate and Investment Bank | | - | 30,000 |
| Accounts payable | | 70,525 | 18,264 |
| Accrued expenses and short-term direct employee benefits | | 52,705 | 47,763 |
| Tax payable | | 31,946 | 17,823 |
| Total current liabilities | | 203,324 | 116,558 |

(Continued)

| | Note | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|---|
| Non-current liabilities: | | | |
| Long-term debt - Buffalo Holdings, S. A. R. L., related party | 15 | 138,138 | 20,000 |
| Long-term debt | 12 | 896,637 | 159,830 |
| Deferred revenue under contract with Mexican Federal Electricity Commission | 17(h) | 302,344 | 339,712 |
| Employee benefits | | 9,977 | 7,832 |
| Derivative financial instruments | 11 | - | 1,426 |
| Total non-current liabilities | | 1,347,096 | 528,800 |
| Total liabilities | | 1,550,420 | 645,358 |
| Commitments and contingencies | 17, 18 | | |
| Stockholders' equity: | | | |
| Common stock | 13 | 384,659 | 189,979 |
| Retained earnings | | 44,275 | (9,715) |
| Other items of comprehensive loss | | (861) | (1,562) |
| Total stockholders' equity | | 428,073 | 178,702 |
| Total stockholders' equity and liabilities | | $ 1,978,493 | $ 824,060 |

See accompanying notes to Condensed Interim Consolidated Financial Statements.

(Concluded)

## Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries
**(Subsidiary of Buffalo Investments, S. A. R. L.)**

# Condensed Interim Consolidated Statements of Profit or Loss and Other Comprehensive Income

**For the nine-month periods ended September 30, 2023 and 2022 (unaudited)**
**(In thousands of U.S. dollars)**

| | Notes | Nine-month period ended September 30, 2023 (unaudited) | Nine-month period ended September 30, 2022 (unaudited) |
|---|---|---|---|
| Revenue and other income: | | | |
| Capacity charges | | $ 235,784 | $ - |
| Energy charges | | 302,709 | - |
| Gas transport services | | 2,116 | - |
| Other Revenues | | 4,570 | - |
| | | 545,179 | - |
| Cost and expenses: | | | |
| Fuel expense | | (342,391) | - |
| Major maintenance costs | | (50,162) | - |
| Other operating costs | | (8,620) | - |
| Depreciation and amortization | | (46,255) | - |
| Administrative expenses | | (44,460) | - |
| | | (491,888) | - |
| Operating income | | 53,291 | - |
| Other financing cost: | | | |
| Interest income | | 114 | - |
| Interest expense | | (34,905) | - |
| Other financing cost | | (2,440) | - |
| Other financing income | | 2,373 | - |
| Foreign exchange gain - Net | | 5,821 | - |
| | | (29,037) | - |
| Income before income tax | | 24,254 | - |
| Income tax benefit | 16 | 29,736 | - |
| Net income | | 53,990 | - |
| Other comprehensive income: | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Cash flow hedges: | | | |
| Changes in the fair value of hedging instruments | | 701 | - |
| | | 701 | - |
| Comprehensive income | | $ 54,691 | $ - |

See accompanying notes to Condensed Interim Consolidated Financial Statements.

**Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries**
**(Subsidiary of Buffalo Investments, S. A. R. L.)**

# Condensed Interim Consolidated Statements of Changes in Stockholders' Equity

**For the nine-month periods ended September 30, 2023 and 2022 (unaudited)**
**(In thousands of U. S. dollars, except share data)**

| | Stockholders' equity | | | Retained earnings | | Other items of comprehensive income (loss) | | |
|---|---|---|---|---|---|---|---|---|
| | Shares issued | Fixed Capital | Variable capital | Reserve fund | Retained earnings | Hedging instruments | Employee benefits | Total stockholders' equity |
| Balance as of January 1, 2022 | $ 10,000 | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Net income for the period | - | - | - | - | - | - | - | - |
| Balance as of September 30, 2022 (unaudited) | 10,000 | - | - | - | - | - | - | - |
| Issue of share equity paid | 3,750,185,461 | 1 | 189,978 | - | - | - | - | 189,979 |
| Employee benefits assumed from business acquisition | - | - | - | - | - | - | 432 | 432 |
| Net loss for the period | - | - | - | - | (9,715) | - | - | (9,715) |
| Other comprehensive loss for the period | - | - | - | - | - | (1,994) | - | (1,994) |
| Total comprehensive loss for the period | - | - | - | - | (9,715) | (1,994) | 432 | (11,277) |
| Balance as of December 31, 2022 | 3,750,195,461 | 1 | 189,978 | - | (9,715) | (1,994) | 432 | 178,702 |
| Equity reduction | (171,720,827) | - | (8,698) | - | - | - | - | (8,698) |
| Issue of share equity paid | 3,467,957,945 | - | 203,378 | - | - | - | - | 203,378 |
| Net income for the period | - | - | - | - | 53,990 | - | - | 53,990 |
| Other comprehensive income for the period | - | - | - | - | - | 701 | - | 701 |
| Total comprehensive income for the period | - | - | - | - | 53,990 | 701 | - | 54,691 |
| Balance as of September 30, 2023 (unaudited) | 7,046,432,579 | $ 1 | $ 384,658 | $ - | $ 44,275 | $ (1,293) | $ 432 | $ 428,073 |

See accompanying notes to Condensed Interim Consolidated Financial Statements.

## Buffalo Energy México Holdings, S. A. de C. V. and Subsidiaries
## (Subsidiary of Buffalo Investments, S. A. R. L.)

# Condensed Interim Consolidated Statements of Cash Flows

**For the nine-month periods ended September 30, 2023 and 2022 (unaudited)**
**(In thousands of U. S. dollars)**

| | September 2023 (unaudited) | September 2022 (unaudited) |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income for the period | $ 53,990 | $ - |
| Adjustments for: | | |
| Income tax benefit recognized in profit for the year | (29,736) | - |
| Depreciation and amortization | 46,255 | - |
| Deferred revenue under contract with Mexican Federal Electricity Commission – Long term | (37,368) | - |
| Interest Income | (114) | - |
| Adjustments to reconcile net loss to net cash financing activities: | | |
| Interest expense | 34,905 | - |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Accounts receivable, mainly Mexican Federal Electricity Commission | 15,418 | - |
| Inventories of diesel fuel, spare parts and other consumables | (9,208) | - |
| Recoverable taxes | (31,916) | - |
| Prepaid expenses, mainly maintenance | 9,304 | - |
| Other accounts receivable | 2,295 | - |
| Security deposits | 108 | - |
| (Decrease) increase in: | | |
| Accounts payable to gas suppliers | 16,999 | - |
| Accrued expenses and short-term direct employee benefits | (30,917) | - |
| Tax payable | 9,137 | - |
| Due to related parties | 9,361 | - |
| Net cash generated by operating activities | 58,513 | - |
| Cash flows from investing activities: | | |
| Interest received | 114 | - |
| Acquisition of subsidiary net of cash received of $52,721 | (409,173) | - |
| Disposal | 935 | - |
| Net cash used in investing activities | (408,124) | - |
| Cash flows from financing activities: | | |
| Long-term loans received | 281,093 | - |
| Payment to Credit Agricole Corporate and Investment Bank | (30,000) | - |
| Interest paid | (22,750) | - |
| Equity reduction | (8,698) | - |
| Equity increase | 203,378 | - |
| Net cash used in financing activities | 423,023 | - |
| Net increase in cash and cash equivalents | 73,412 | - |
| Cash and cash equivalents at the beginning of period | 55,390 | - |
| Cash and cash equivalents at the end of period | $ 128,802 | $ - |

See accompanying notes to Condensed Interim Consolidated Financial Statements.

# Notes to the Condensed Interim Consolidated Financial Statements

**As of September 30, 2023 (unaudited) and December 31, 2022 and for the nine-month periods ended September 30, 2023 and 2022 (unaudited)**
**(In thousands of U. S. dollars)**

## 1. General Information and significant events

### 1.1 *General information*

Buffalo Energy México Holdings (the "Entity", and together with its Subsidiaries, the "Group") owns seven gas-fired combined cycle power plants, five plants with an aggregate generating capacity of 2,233 megawatts (MW) (the "Power plants") and a natural gas-pipeline measuring 57.9 kilometers (KM) located in Northeastern Mexico with a delivery capacity of 410,000 Million of British Thermal Units (MMBTU) per day. The generation capacity and energy output produced by the power plants are sold exclusively to the Mexican Federal Electricity Commission ("CFE", for its acronym in Spanish) under a Power Purchase Agreement (PPA) with a term of 25 years, starting on the Commercial Operating Date (COD). Two plants (EVM I and EVM II) with operation of 100-megawatt open cycle gas turbine power plant.

The Entity has obtained permits granted by the Mexican Energy Regulatory Commission (*Comisión Reguladora de Energía* or "CRE", for its acronym in Spanish), for each of its power plants to generate and sell electricity to the CFE as an independent producer. This agreement has a mandatory term of 25 years.

The Entity obtained permits from the CRE for each power plant to produce and sell electricity as a generator to the National Center of Energy Control (*Centro Nacional de Control de Energía* or "CENACE", for its acronym in Spanish), into the wholesale electricity market. This agreement has a mandatory term of 30 years.

For EVM´s plants the Entity signed three Power Purchase Agreement (PPA) with CFE Calificados, S. A. de C. V. to generate 100MW, 750 MW and 90MW. The first two PPA´s have a duration period of 20 years starting in 2027 and the third PPA has duration of 18 years starting in 2022. For these PPA´s, receives fixed capacity revenues and energy revenues at a guaranteed heat rate and market gas price. The PPA´s stablish that up to 98% of the energy generated is compromised with CFE Calificados, S. A. de C. V.

### 1.2 *Significant events*

#### i. *Acquisition of EVM (see Note 14a)*

On July 13, 2023, the Entity have entered into a Purchase and Sale Agreement (the PSA) and acquired 100 per cent of the issued share capital of EVM Energía del Valle de México, S.A de C.V. and EVM Tenedora, S.A.P.I. de C.V. In order to close the PSA, the Entity obtained cash flows from financing activities, as follow:

- Shareholders contributions by $203,379.
- Shareholders loans by $174,720.
- Loan financing by $161,686 with interest rate 9.977% (SOFR plus margin of 4% with annually increase 50 points bases to achieve 6%).

Buffalo acquired all the issued share capital of EVM Energía del Valle de México, S.A de C.V. and EVM Tenedora, S.A.P.I. de C.V. and subsidiary. As a result of this transaction, the EVM Group had a change in control in such date

EVM Energía owns two natural gas power plants in Mexico with a total capacity of 950MW and an adjacent natural gas-pipeline and qualifies as a business as defined in IFRS 3 Business Combinations. The business is being re-branded with immediate effect as "Valia Energía" (Valia) and will focus on delivering an equitable Energy Transition in Mexico with sustainability at the core of its investment strategy. Valia acquired EVM Energía through a new holding entity "Buffalo Generation Infrastructure, S. A. de C. V." subsidiary of the Entity. Acquisition accounting is described in Note 14.

ii. ***Equity reduction***

*On September 23, 2023, the Entity reduced the variable capital of Buffalo investment S.a.r.l. for $8,698.*

iii. ***Acquisition of MT Falcon Holdings (see Note 14b)***

On November 9, 2022, Actis, a leading global investor in sustainable infrastructure, acquired 100 per cent of the issued share capital of MT Falcon, obtaining control of MT Falcon from a consortium including Mitsui & Co. ("Mitsui"), Tokyo Gas, JERA and Tohoku Electric Power.

MT Falcon owns and operates five combined-cycle gas turbine power plans in Mexico with a total capacity of 2.2GW and an adjacent natural gas-pipeline and qualifies as a business as defined in IFRS 3 Business Combinations. The business is being re-branded with immediate effect as "Valia Energia" (Valia) and will focus on delivering an equitable Energy Transition in Mexico with sustainability at the core of its investment strategy. Valia acquired MT Falcon through a new holding entity "Buffalo Energy Mexico Holdings, S. A. de C. V.". Acquisition accounting is described in Note 14.

iv. ***Debt restructuring***

a. ***Project financing:***

On November 9, 2022, the Entity settled the outstanding long-term debt and interest contracted by MT Falcon Holding (subsidiary) with Japanese banks for the Project

Financing as part of the transaction described in the Note 14:

| | | Amount |
|---|---|---|
| Facility A y B: | | |
| Japan Bank for International Cooperation | $ | 54,071 |
| Facility C: | | |
| MUFG Bank, Ltd. (Formerly The Bank of Tokyo-Mitsubishi UFJ, Ltd.) | | 11,955 |
| Facility C: | | |
| Mizuho Corporate Bank, Ltd. | | 11,955 |
| Facility C: | | |
| Sumitomo Mitsui Banking Corporation | | 11,955 |
| Total | $ | 89,936 |

b. ***Working Capital Facility Loan:***

On November 9, 2022, the Entity settled the outstanding long-term debt and interest contracted by MT Falcon Holding (subsidiary) with Japanese banks for the Working Capital Facility Loan as part of the transaction described in the Note 14:

| | | Amount |
|---|---|---|
| MUFG Bank, Ltd. (Formerly The Bank of Tokyo-Mitsubishi UFJ, Ltd.) | $ | 63,881 |
| Total | $ | 63,881 |

## 2. Basis of presentation

These Condensed Interim Consolidated Financial Statements have been prepared for purposes of including them in a filing with the U.S. Securities and Exchange Commission, exempt from registration under Rule 144A.

Transactions among the condensed consolidated companies and the balances and unrealized gains or losses arising from intra-group transactions have been eliminated in the preparation of the condensed consolidated financial statements.

a. ***Statement of compliance***

These unaudited Condensed Interim Consolidated Financial Statements for the nine months ended September 30, 2023 have been prepared in accordance with the International Accounting Standard 34 "*Interim Financial Reporting*" (IAS 34), and should be read in conjunction with the Entity's Consolidated Financial Statements as at and for the year ended December 31, 2022. They do not include all of the information required for a complete set of consolidated financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS"). However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Entity's consolidated financial position and consolidated financial performance since the last annual consolidated financial statements.

b. ***Concentration of credit risk***

Until December 31, 2016, the Entity sold 100% of energy output to CFE. Since April 2017, the Entity sells the energy output to CFE in accordance with the PPA and the surplus energy over contracted energy, is offered and provided to CENACE, which exposes the Entity to a concentration of credit risk.

The Entity believes any potential risk is low, due to the fact that amounts due from CFE are guaranteed by the Mexican Federal Government.

c. ***New and amended IFRS Accounting Standards that are effective for the current period***

In the current period, the Entity has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

| | |
|---|---|
| *Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies* | The group has adopted the amendments to IAS 1 for the first time in the current year. The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. |

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

*Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The group has adopted the amendments to IAS 12 for the first time in the current year. The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit.

Following the amendments to IAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

*Amendments to IAS 12 Income Taxes—International Tax Reform—Pillar Two Model Rules*

The group has adopted the amendments to IAS 12 for the first time in the current year. The IASB amends the scope of IAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules.

The amendments introduce a temporary exception to the accounting requirements for deferred taxes in IAS 12, so that an entity would neither recognize nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

Following the amendments, the group is required to disclose that it has applied the exception and to disclose separately its current tax expense (income) related to Pillar Two income taxes.

*Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates*

The group has adopted the amendments to IAS 8 for the first time in the current year. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The definition of a change in accounting estimates was deleted.

*New and revised IFRS Accounting Standards in issued but not yet effective*

At the date of authorization of these financial statements, the Entity has not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective.

| | |
|---|---|
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* |
| Amendments to IAS 1 | *Classification of Liabilities as Current or Non-current* |
| Amendments to IAS 1 | *Non-current Liabilities with Covenants* |
| Amendments to IAS 7 and IFRS 7 | *Supplier Finance Arrangements* |
| Amendments to IFRS 16 | *Lease Liability in a Sale and Leaseback* |

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Entity in future periods, except if indicated below:

***Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.***

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the parent company anticipate that the application of these amendments may have an impact on the group's consolidated financial statements in future periods should such transactions arise.

***Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Non-current***

The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

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

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2024, with early application permitted. The IASB has aligned the effective date with the 2022 amendments to IAS 1. If an entity applies the 2020 amendments for an earlier period, it is also required to apply the 2022 amendments early.

The directors of the parent company anticipate that the application of these amendments may have an impact on the group's consolidated financial statements in future periods.

***Amendments to IAS 1 Presentation of Financial Statements—Non-current Liabilities with Covenants***

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or noncurrent). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

The amendments are applied retrospectively for annual reporting periods beginning on or after 1 January 2024. Earlier application of the amendments is permitted. If an entity applies the amendments for an earlier period, it is also required to apply the 2020 amendments early.

The directors of the parent company anticipate that the application of these amendments may have an impact on the group's consolidated financial statements in future periods.

***Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures—Supplier Finance Arrangements***

The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

The term 'supplier finance arrangements' is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information. To meet the disclosure objective, an entity will be required to disclose in aggregate for its supplier finance arrangements:

- The terms and conditions of the arrangements
- The carrying amount, and associated line items presented in the entity's statement of financial position, of the liabilities that are part of the arrangements
- The carrying amount, and associated line items for which the suppliers have already received payment from the finance providers
- Ranges of payment due dates for both those financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of a supplier finance arrangement
- Liquidity risk information

The amendments, which contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments, are applicable for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted.

*Amendment to IFRS 16 Leases—Lease Liability in a Sale and Leaseback*

The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognize a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date.

The amendments do not affect the gain or loss recognized by the seller-lessee relating to the partial or full termination of a lease. Without these new requirements, a seller-lessee may have recognized a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in IFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.

As part of the amendments, the IASB amended an Illustrative Example in IFRS 16 and added a new example to illustrate the subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The illustrative examples also clarify that the liability, that arises from a sale and leaseback transaction that qualifies as a sale applying IFRS 15, is a lease liability.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If a seller-lessee applies the amendments for an earlier period, it is required to disclose that fact.

A seller-lessee applies the amendments retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied IFRS 16.

**3. Material accounting policies**

The accounting policies adopted in the preparation of the unaudited condensed combined interim financial statements are consistent with those applied in the Entity's annual consolidated financial statements as at and for the year ended December 31, 2022.

The Entity has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Certain amendments apply for the first time in 2022, but do not have an impact on the Entity's unaudited interim condensed combined financial statements.

**4. Critical accounting judgments and key sources of estimation uncertainty**

In the application of the Group's accounting policies, which are described in Note 3, the Entity's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

a. ***Critical judgments in applying accounting policies***

The following are the critical judgments, apart from those involving estimations (see Note 4(b) below), that the Entity's management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the Condensed Interim Consolidated Financial Statements.

– *Determining control over subsidiaries*

As part of the acquisition in 2010, the Entity made an analysis to determine whether it achieved control over its subsidiaries considering its power over the investee; has exposure and rights to variable returns from its involvement in the investee; and it has the ability to use its power to affect its returns.

– *Determining arrangements with leases*

As part of the acquisition in 2010, the Entity made an analysis of its PPAs to determine if it had to recognize them as leases or as a service concession arrangement, it concluded that the PPAs are in the scope of IFRS 16 and should be recognized as a lease arrangement.

– *Contingencies*

As detailed in Note 18, the Entity is subject to contingencies that, it they materialize, could impact the financial position, performance or future cash flows.

– *Discount rate used to employee benefits*

To determine the discount rate, the Entity needs to use high quality corporate bonds as reference, if there is no deep market of these bonds, it should use government bonds. The Entity considers the currency and maturity of its obligation to select the reference bonds.

b. ***Key sources of estimation uncertainty***

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

– *Impairment of long-lived assets, goodwill and intangible assets*

The Entity reviews goodwill and other intangible assets at least annually and long-lived assets when there is any indication that the asset might be impaired. Determining whether long-lived assets, goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which long-lived assets have been allocated. The value in use calculation requires the Entity's management to estimate the expected future cash flows over the revenue contract with CFE that will arise from the cash-generating unit and an appropriate discount rate to calculate present value. If the actual future cash flows are lower than expected, a material impairment loss may arise.

– *Deferred income tax assets*

The Entity reviews at the end of each reporting period the carrying amount of deferred tax assets and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

– *Employee benefits*

The Entity obtains the work of a actuarial specialist who determines the provision that should be recognized for each period based on the actuarial study.

– *Fair value measurements and valuation processes*

Some of the Entity's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the Entity has set up a valuation committee, which is headed up by the Chief Financial Officer of the Entity, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Entity uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Entity engages third party qualified appraiser to perform the valuation. The valuation committee works closely with the qualified external appraiser to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation's findings to the board of Directors of Entity, every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

## 5. Cash and cash equivalents

As of September 30, 2023 (unaudited), and December 31, 2022, cash and cash equivalents consist of:

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Cash | $ 71,245 | $ 3 |
| Cash equivalents [1] | 57,557 | 55,387 |
| | $ 128,802 | $ 55,390 |

(1) The Entity´s cash equivalents are composed of highly liquid overnight investments.

## 6. Accounts receivable

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Mexican Federal Electricity Commission | $ 93,409 | $ 86,629 |
| National Center of Energy Control | 31,154 | 3 |
| Total | $ 124,563 | $ 86,632 |

## 7. Power plants, natural gas pipeline, property and equipment

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Power plants | $ 1,381,807 | $ 495,314 |
| Natural gas pipeline | 20,847 | 20,847 |
| Office furniture, equipment and vehicles | 4,137 | 1,566 |
| | 1,406,791 | 517,727 |
| Less - accumulated depreciation | (82,239) | (7,901) |
| | 1,324,552 | 509,826 |
| Construction-in-progress | 18,773 | 17,658 |
| Land | 29,640 | 13,972 |
| | $ 1,372,965 | $ 541,456 |

| Cost | Power plants | Natural gas pipeline | Office furniture, equipment and vehicles | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2022 | $ 495,314 | $ 20,847 | $ 1,566 | $ 13,972 | $ 17,658 | $ 549,357 |
| Acquisition of subsidiary | 883,440 | - | 1,589 | 15,668 | - | 900,697 |
| Additions | 3,053 | - | 982 | - | 1,115 | 5,150 |
| Disposals | - | - | | - | - | - |
| Balance as of September 30, 2023 (unaudited) | $ 1,381,807 | $ 20,847 | $ 4,137 | $ 29,640 | $ 18,773 | $ 1,455,204 |

| Accumulated Depreciation and Impairment | Power plants | Natural gas pipeline | Office furniture, equipment and vehicles | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2022 | $ (7,611) | $ (229) | $ (61) | $ - | $ - | $ (7,901) |
| Depreciation expense | (72,769) | (1,031) | (538) | - | - | (74,338) |
| Balance as of September 30, 2023 (unaudited) | $ (80,380) | $ (1,260) | $ (599) | $ - | $ - | $ (82,239) |
| **Carrying amount** | | | | | | |
| Balance as of September 30, 2023 (unaudited) | $ 1,301,427 | $ 19,587 | $ 3,538 | $ 29,640 | $ 18,773 | $ 1,372,965 |

| Cost | Power plants | Natural gas pipeline | Office furniture, equipment and vehicles | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2021 | $ - | $ - | $ - | $ - | $ - | $ - |
| Acquisition of subsidiary | 492,945 | 20,847 | 1,558 | 13,972 | 18,298 | 547,620 |
| Additions | 2,969 | - | 22 | - | - | 2,991 |
| Disposals | (600) | - | (14) | - | (640) | (1,254) |
| Balance as of December 31, 2022 | $ 495,314 | $ 20,847 | $ 1,566 | $ 13,972 | $ 17,658 | $ 549,357 |
| **Accumulated Depreciation and Impairment** | | | | | | |
| Balance as of December 31, 2021 | $ - | $ - | $ - | $ - | $ - | $ - |
| Depreciation expense | (7,611) | (229) | (61) | - | - | (7,901) |
| Balance as of December 31, 2022 | $ (7,611) | $ (229) | $ (61) | $ - | $ - | $ (7,901) |
| **Carrying amount** | | | | | | |
| Balance as of December 31, 2022 | $ 487,703 | $ 20,618 | $ 1,505 | $ 13,972 | $ 17,658 | $ 541,456 |

Depreciation expense was $44,457 for the nine-month period ended September 30, 2023 (unaudited), and $7,901 for the year ended December 31, 2022.

## 8. Diesel fuel and spare parts inventories and other consumables

As of September 30 (unaudited), 2023, and December 31, 2022, inventories of diesel fuel, spare parts and other consumables were as follows:

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Spare parts and consumables | $ 52,368 | $ 26,968 |
| Diesel fuel | 52,281 | 44,551 |
| | $ 104,649 | $ 71,519 |

## 9. Goodwill

The goodwill was generated by the acquisition of power plants, carrying amount of goodwill for the nine-month period ended September 30, 2023 (unaudited) and December 31, 2022, as follows:

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Goodwill – MT Falcon Acquisition (Note 14b) | $ 4,638 | $ 4,638 |
| Goodwill – EVM Acquisition (Note 14a) | 40,299 | - |
| | $ 44,937 | $ 4,638 |

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit might be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and, subsequently, other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

## 10. Intangible assets

Intangible assets with finite useful lives as of September 30, 2023 (unaudited) and December 31, 2022, are as follows:

| | September 30, 2023 (unaudited) | | | |
|---|---|---|---|---|
| | Gross carrying amount | Recognized on acquisition of subsidiary | Accumulated amortization | Net amount |
| Power Purchase | | | | |
| Natural Gas Transportation Agreement [(1)]: | | | | |
| GDR | $ 7,040 | $ - | $ (542) | $ 6,498 |
| Assets identified as part of the acquisition – MT Falcon (Note 14b) | 499 | - | (25) | 474 |
| Assets identified as part of the acquisition – EVM (Note 14a) | - | 95,000 | (1,357) | 93,643 |
| | $ 7,539 | $ 95,000 | $ (1,924) | $ 100,615 |

| | December 31, 2022 | | | |
|---|---|---|---|---|
| | Gross carrying amount | Recognized on acquisition of subsidiary | Accumulated amortization | Net amount |
| Power Purchase | | | | |
| Natural Gas Transportation Agreement [(1)]: | | | | |
| GDR | $ - | $ 7,160 | $ (120) | $ 7,040 |
| Assets identified as part of the acquisition | - | 505 | (6) | 499 |
| | $ 7,539 | $ 7,665 | $ (126) | $ 7,539 |

(1) Intangible asset generated by the permission to transport natural gas granted to CRE.

Amortization expense of intangible asset for the nine-month period ended September 30, 2023 (unaudited) was $1,798 and for the period ended December 31, 2022 was $126. The estimated aggregate amortization expense for intangible assets with finite useful lives for each of the five subsequent years and thereafter is as follows:

| | |
|---|---|
| 2024 | $ 1,637 |
| 2025 | 6,551 |
| 2026 | 6,551 |
| 2027 | 6,551 |
| Thereafter | 79,325 |
| | $ 100,615 |

## 11. Derivative financial instruments

a. Derivative financial instruments were paid due to change in lender and the owner for this financial instrument to Buffalo Energy.

b. ***Financial risk management objectives***

These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Entity seeks to minimize the effects of these risks by using derivative financial instruments to interest risk exposures. The use of financial derivatives is governed by the Entity's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

c. ***Interest rate risk management***

The Entity is exposed to interest rate risk because it borrows funds are at floating interest rates. The risk is managed by the Entity by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

- ***Interest rate swap contracts***

  Under interest rate swap contracts, the Entity agrees to exchange the difference between floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Entity to mitigate the risk of changing interest rates on the fair value of the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Entity's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

As of September 30, 2023 (unaudited), the interest rate swaps were as follows:

| Financial institution | Notional amount | Inception date | Termination date | Rate received | Rate paid | Estimated fair value |
|---|---|---|---|---|---|---|
| BNP Paribas (1) | 28,110 | November 2022 | June 2030 | SOFR | (4.7)% | $ 6,312 |
| BNP Paribas (1) | 20,624 | October 2018 | December 2027 | LIBOR | 3.35% | 860 |
| IRS Citibanamex (2) | 20,624 | October 2018 | December 2027 | LIBOR | 3.35% | 893 |
| IRS Sumimoto Mitsui (3) | 20,624 | October 2018 | December 2027 | LIBOR | 3.35% | 880 |
| Credit Agricole (4) | 19,886 | November 2022 | June 2030 | SOFR | 4.18% | 240 |
| ING (5) | 19,886 | November 2022 | June 2030 | SOFR | 4.18% | 240 |
| JP Morgan (6) | 28,110 | November 2022 | June 2030 | SOFR | 4.18% | 352 |
| Societe Generale (7) | 23,878 | November 2022 | June 2030 | SOFR | 4.18% | 290 |
| | | | | | Net | $ 10,067 |

(1) BNP Paribas Corporate & Institutional Banking (BNP Paribas).
(2) IRS CITIBANAMEX
(3) IRS SUMIMOTO MITSUI
(4) Credit Agricole Corporate and Investment Bank (Credit Agricole).
(5) ING Bank N.V. (ING)
(6) JP Morgan Chase Bank, National Association (JP Morgan)
(7) Societe Generale Corporate & Investment Banking (Societe Generale).

As of December 31, 2022, the interest rate swaps were as follows:

| Financial institution | Notional amount | Inception date Year 2022 | Termination date Year 2030 | Rate received | Rate paid | Estimated fair value |
|---|---|---|---|---|---|---|
| BNP Paribas (1) | 28,110 | November | June | SOFR | (4.7)% | $ 9,690 |
| | | | | | | 9,690 |
| Credit Agricole (2) | 19,886 | November | June | SOFR | 4.18% | $ (310) |
| ING (3) | 19,886 | November | June | SOFR | 4.18% | (310) |
| JP Morgan (4) | 28,110 | November | June | SOFR | 4.18% | (432) |
| Societe Generale (5) | 23,878 | November | June | SOFR | 4.18% | (374) |
| | | | | | | (1,426) |
| | | | | | Net | $ 8,264 |

(8) BNP Paribas Corporate & Institutional Banking (BNP Paribas).
(9) Credit Agricole Corporate and Investment Bank (Credit Agricole).
(10) ING Bank N.V. (ING)
(11) JP Morgan Chase Bank, National Association (JP Morgan)
(12) Societe Generale Corporate & Investment Banking (Societe Generale).

The estimated fair value amounts presented above have been determined by the Entity using available market information, which are all considered Level 2 inputs within the fair value hierarchy under IAS 39. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

d. ***Liquidity risk management***

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Entity's short-, medium- and long-term funding and liquidity management requirements. The Entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. This note sets out details of additional undrawn facilities that the Entity has of its disposal to further reduce liquidity risk.

As of September 30, 2023 (unaudited and December 31, 2022, due to the interest rate swaps contracted, if the SOFR interest rate were to increase by 0.5%, the effect on the valuation would be $1,998, impacting favorably while, if the interest rate were to decrease by 0.5%, the effect on the valuation would be $2,032, impacting unfavorably.

## 12. Long-term debt

a. The carrying amounts (amortized cost) and fair values of the long-term debt were as follows:

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Loan for an amount of up to $469,000,000 in 2018 with Citi as Intercreditor Agent, approved on September 21, 2018, at an interest rate of 6.02%. Maturity date on December, 2040. Payable in December 2027. (Includes amortized cost for $11,083,220 and $11,561,826 as of September 30, 2023 and 2022, respectively) | $ 457,917 | $ - |
| Loan for an amount of up to $125,000,000 in 2018 with Citibanamex as Administrative Agent, approved on September 21, 2018, of which 2 provisions for $55,000,000 and $70,000,000 in 2020, at an interest rate of LIBOR plus 2%. Maturity date on June and December, 2027. (Includes amortized cost for $1,449,106 and $1,764,489 as of September 30, 2023 and 2022, respectively) | 81,063 | - |
| Loan for an amount of $80,000,000 USD in 2018 with BNP Paribas Securities Corp. as Intercreditor Agent received on July 31, 2018, at 6.19%. Maturity date in June, 2037 (i) | 66,023 | - |

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Loan payable to Crédit Agricole Corporate and Investment Bank, bearing interest at a rate of 7.2508% as of September 30, 2023 (unaudited) and December 31, 2022, maturing in 2030 | 159,830 | 159,830 |
| Loan payable to Citibank, N. A., bearing interest at a rate of 9.077% as of December 31, 2022, maturing in February 2028 | 161,686 | - |
| Long-term debt | $ 926,519 | $ 159,830 |
| Less current installments | 29,882 | - |
| Long-term debt, excluding current installments | $ 896,637 | $ 159,830 |

The loans referred to contain restrictive covenants, which require the Entity to maintain certain financial ratios and restricts the payment of dividends, granting of loans and obtaining additional financings. The Entity has complied with these covenants as of September 30, 2023 (unaudited) and December 31, 2022.

Required principal repayments of long-term debt over the next five years and thereafter as of September 30, 2023 (unaudited), are as follows:

| | |
|---|---|
| 2025 | $ 47,317 |
| 2026 | 67,737 |
| 2027 | 121,849 |
| 2028 | 140,088 |
| 2029 | 58,195 |
| Others | 461,451 |
| | $ 896,637 |

b. ***Credit line from Crédit Agricole Corporate and Investment Bank***

On February 1, 2022, the Entity settled a credit agreement and on September 30, 2022 settled an amended and restated credit agreement with Crédit Agricole Corporate and Investment Bank, in which it was granted a revolving facility for a maximum amount of $235,000, which may be used for working capital purposes for a total amount that does not exceed $30,000, with a maturity date of four years bearing interest at SOFR interest rate of 4.3% plus a margin of 2.5% and an adjustment of 0.42826% as of September 30, 2023 (unaudited) and December 31, 2022.

On July 19, 2023, the Entity paid $16,000 of principal of the revolving facility used.

## 13. Stockholders' equity

a. Common stock at par value as of September 30, 2023 (unaudited) and December 31, 2022, is as follows (see note 1.2):

| | September 30, 2023 (unaudited) | | | |
|---|---|---|---|---|
| Trust and Stockholders | Series and Class | Capital - Number of shares | | Nominal Value |
| | | Fixed | Variable | |
| Buffalo Investments, S.A.R.L. | Series "A" Class I | $ 9,999 | 7,045,717,897 | $ 384,621 |

| Trust and Stockholders | Series and Class | September 30, 2023 (unaudited) Capital - Number of shares Fixed | Variable | Nominal Value |
|---|---|---|---|---|
| Buffalo Holdings, S. A. R. L. | Series "A" Class I | 1 | 714,682 | 38 |
| Total | | $ 10,000 | 7,046,432,579 | $ 384,659 |

| | December 31, 2022 Capital - Number of shares Fixed "Class I" | Variable "Class II" | Nominal value |
|---|---|---|---|
| Buffalo Investments, S.A.R.L. | 9,999 | 3,749,810,400 | $ 189,960 |
| Buffalo Holdings, S. A. R. L. | 1 | 375,061 | 19 |
| Total | 10,000 | 3,750,185,461 | $ 189,979 |

Common stock consists of nominative shares at nominal value of $1 Mexican peso. Variable capital may be increased without limitation.

b. At the Extraordinary General Stockholders' Meeting held on July 5, 2023, the variable part of the capital stock was increased by issuing 3,467,957,945 Class II shares through cash contributions of $203,378 ($3,467,958 historical pesos).

c. On September 23, 2023, the Entity reduced the variable capital. for $8,698.

d. At the Extraordinary General Stockholders' Meeting held on November 2, 2022, the variable part of the capital stock was increased by issuing 3,750,185,460 Class II shares through cash contributions of $189,978 ($3,750,185 historical pesos).

e. Stockholders' equity, except restated tax contributed capital and tax-retained earnings, will be subject to income tax at the rate in effect upon distribution of such equity. Any tax paid on this distribution may be credited against annual and estimated income taxes of the year in which the tax on dividends is paid and the following two fiscal years.

## 14. Acquisition of subsidiaries

a) Acquisition of EVM

On July 13, 2023, the Entity entered into a Purchase and Sale Agreement (the PSA) and acquired 100 per cent of the issued share capital of EVM Energía del Valle de México, S.A de C.V. and EVM Tenedora, S.A.P.I. de C.V.

EVM Energía del Valle de Mexico Generador, S. A. P. I. de C. V., subsidiary of EVM Tenedora, started commercial operation from January 1st, 2021. Its main activity is the ownership, design, development, construction, commission and operation of a 850-megawatt combined cycle gas turbine power plant and associated facilities in the Axapusco municipality, Estado de Mexico, Mexico.

EVM Energia del Valle de Mexico activity is the ownership, design, development, construction, commission and operation of a 100-megawatt open cycle gas turbine power plant and associated facilities in the Axapusco municipality, Estado de Mexico, Mexico.

EVM Energía owns two natural gas power plants in Mexico with a total capacity of 950MW and an adjacent natural gas-pipeline and qualifies as a business as defined in IFRS 3 Business Combinations. The business is being re-branded with immediate effect as “Valia Energía” (Valia) and will focus on delivering an equitable Energy Transition in Mexico with sustainability at the core of its investment strategy. Valia acquired EVM Energía through a new holding entity “Buffalo Generation Infrastructure, S. A. de C. V.” subsidiary of the Entity.

At the acquisition date, a goodwill derived from was recorded for $83,882. None of the goodwill is expected to be deductible for income tax purposes.

The amounts recognized in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

| | Fair Value |
|---|---|
| **Acquired assets:** | |
| Cash and cash equivalents | $ 52,721 |
| Accounts receivable | 53,348 |
| Other receivables | 9,438 |
| Income tax | 138 |
| Prepayments | 8,516 |
| Financial instruments | 2,104 |
| Property, plant and equipment | 900,697 |
| Deferred income taxes | 31,546 |
| Security deposits | 3,498 |
| **Intangible assets:** | |
| Power Purchase Agreement EVM II | 95,000 |
| **Total acquired assets** | 1,157,006 |
| **Assumed liabilities:** | |
| Current installments of long-term debt | 20,241 |
| Accounts payable | 35,262 |
| Other liabilities | 15,895 |
| Employee profit sharing | 24 |
| Provisions | 20,780 |
| Employee benefits | 12 |
| Long-term debt, excluding current installments | 583,493 |
| Deferred taxation related to the transaction | 59,704 |
| **Total Assumed liabilities** | 735,411 |
| **Net assets** | 421,595 |
| **Goodwill** | 40,299 |
| **Consideration paid** | $ 461,894 |

The fair value of the contingent consideration arrangement of $461,894 was estimated by applying the criteria established in the IFRS 3 "Business Combinations". The principal procedures in formulating the estimates of fair value of the identified intangible assets included:

- Analysis of the historical figures contained in the audited financial statements of EVM Energía del Valle de México, S.A de C.V. and EVM Tenedora, S.A.P.I. de C.V. for the fiscal years ended as of December 31, 2021, through December 31, 2022, and internal financial statements as of June 30, 2023
- Evaluated and analyzed various financial and operating future estimates of the Entity, including revenue, operating margins, working capital investments, and capital expenditures.
- Calculation of appropriate discount rates to apply to EVM Energía del Valle de México, S.A de C.V. and EVM Tenedora, S.A.P.I. de C.V.’s estimated future cash flows and the estimated cash flows attributable to the Power Purchase Agreements.
- Estimated fair value of property, plant, and equipment, and identified intangible assets.

Acquisition-related costs (included in administrative expenses) amount to $19,720

EVM Energía del Valle de México, S.A de C.V. and EVM Tenedora, S.A.P.I. de C.V. contributed $101,382 revenue and $10,036 to the Entity's consolidated profit for the period between the date of acquisition and the reporting date.

If the acquisition of EVM Energía del Valle de México, S.A de C.V. and EVM Tenedora, S.A.P.I. de C.V. had been completed on the first day of the financial year, Entity revenues for the year would have been $470,606 and Entity profit would have been $5,392

b) Acquisition of MT Falcon Holdings

On November 9, 2022, Actis, a leading global investor in sustainable infrastructure, acquired 100 per cent of the issued share capital of MT Falcon, obtaining control of MT Falcon from a consortium including Mitsui & Co. ("Mitsui"), Tokyo Gas, JERA and Tohoku Electric Power.

MT Falcon owns and operates five combined-cycle gas turbine power plans in Mexico with a total capacity of 2.2GW and an adjacent natural gas-pipeline and qualifies as a business as defined in IFRS 3 Business Combinations. The business is being re-branded with immediate effect as "Valia Energía" (Valia) and will focus on delivering an equitable Energy Transition in Mexico with sustainability at the core of its investment strategy. Valia acquired MT Falcon through a new holding entity "Buffalo Energy Mexico Holdings, S. A. de C. V.".

At the acquisition date, a goodwill derived from was recorded for $4,638. None of the goodwill is expected to be deductible for income tax purposes.

The amounts recognized in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

| | **Fair Value** |
|---|---|
| Acquired assets: | |
| Cash | $ 26,017 |
| Current Assets | 200,665 |
| Property, plant & equipment | 547,620 |
| Intangibles | 7,665 |
| Deferred taxation related to transaction | 41,474 |
| Total acquired assets | 823,441 |
| Assumed liabilities: | |
| Current Liabilities | 228,642 |
| Deferred taxes | 8,810 |
| Deferred revenues | 346,226 |
| Other non-current Liabilities | 2,949 |
| Long term debt | 42,927 |
| Total Assumed liabilities | 629,554 |
| Net assets | 193,887 |
| Goodwill | 4,638 |
| Net cash outflows on the acquisition of subsidiaries | $ 198,525 |

***Net cash outflows on the acquisition of subsidiaries***

| | |
|---|---|
| Consideration paid in cash | 198,525 |
| Less: acquired balances of cash and cash equivalents | 26,017 |
| | 172,508 |

The fair value of the contingent consideration arrangement of $198,525 was estimated by applying the criteria established in the IFRS 3 "Business Combinations". The principal procedures in formulating the estimates of fair value of the identified intangible assets included:

- Analysis of the historical figures contained in the audited financial statements of MT Falcon Holdings for the fiscal years ended as of December 31, 2021, through December 31, 2022, and internal financial statements as of October 31, 2022
- Evaluated and analyzed various financial and operating future estimates of the Entity, including revenue, operating margins, working capital investments, and capital expenditures.
- Calculation of appropriate discount rates to apply to MT Falcon Holding's estimated future cash flows and the estimated cash flows attributable to the Power Purchase Agreements.
- Estimated fair value of property, plant, and equipment, and identified intangible assets.

Acquisition-related costs (included in administrative expenses) amount to $13,131.

MT Falcon contributed $128,015 revenue and $6,407 to the Entity's consolidated loss for the period between the date of acquisition and the reporting date.

If the acquisition of MT Falcon had been completed on the first day of the financial year, Entity revenues for the year would have been $939,457 and Entity loss would have been $105,991 which included impairment expense of long-lived assets of $144,751.

## 15. Transaction and balances with related parties

a. Transactions with related parties for the nine-month periods ended September 30, 2023 and 2022 (unaudited):

| | Nine-month period ended September 30, 2023 (unaudited) | Nine-month period ended September 30, 2022 (unaudited) |
|---|---|---|
| Buffalo Holdings, S.A.R.L. | $ 3,419 | $ - |

b. Accounts receivable and payable balances with related parties are as follows:

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Due to related parties: | | |
| Actis Energy | $ 1,133 | $ - |
| Buffalo Holdings, S. A. R. L. | 2,347 | - |
| | $ 3,480 | $ - |

Due to related parties are as follows:

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Due to related parties: | | |
| Buffalo Holdings, S. A. R. L. | $ 3,664 | $ 261 |
| | $ 3,664 | $ 261 |

c. Due to Buffalo Holdings, S. A. R. L. long-term as follow:

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Due to related parties: | | |
| Loan payable to Buffalo Holdings S.A.R.L, bearing interest at a rate of 10% as of September 30, 2023 | $ 100,000 | $ - |
| Loan payable to Buffalo Holdings, S. A. R. L., bearing interest at a rate of 6.79% as of September 30, 2023 (unaudited) and December 31, 2022, respectively maturing in October 28, 2052 | 20,000 | 20,000 |
| Loan payable to Actis | 18,138 | - |
| Long-term debt | $ 138,138 | $ 20,000 |

## 16. Income taxes

The Entity is subject to income tax. The rate of current income is 30%.

a. Income tax expense (benefit) for the nine-month periods ended September 30, 2023 and 2022 (unaudited) was comprised of the following:

| | Nine-month period ended September 30, 2023 (unaudited) | Nine-month period ended September 30, 2022 (unaudited) |
|---|---|---|
| Income tax: | | |
| Current | $ (4,415) | $ - |
| Deferred | 34,151 | - |
| Income tax (benefit) expense | $ 29,736 | $ - |

b. As of September 30, 2023 (unaudited), and December 31, 2022, the components of deferred income tax assets (liabilities) were as follows:

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| **Assets:** | | |
| Accrued expenses and provisions | $ 17,889 | $ 5,049 |
| Tax, loss carryforwards | 70,891 | 50,555 |
| Employee benefits | 58 | 183 |
| Deferred revenue under contract with CFE | 90,487 | 101,962 |
| | 179,325 | 157,749 |
| **Liabilities:** | | |
| Long term debt, deferred financing cost | (1,857) | (72) |
| Power plants, natural gas pipeline and equipment - Net | (37,181) | (91,235) |
| Intangible asset - Net | (63,097) | (12,075) |
| Derivative financial instruments | (1,260) | (2,496) |
| Others | (1,270) | - |
| | (104,665) | (105,878) |
| Valuation allowance (1) | (51,277) | (35,052) |
| Deferred income tax - Net | $ 23,383 | $ 16,819 |

(1) The components of the Entity's valuation allowance are the tax-loss carryforwards and net tax values of power plant equipment of EAA, which the Entity estimates would not be recoverable.

c. Income taxes and the reconciliation of the statutory and effective ISR rates expressed as a percentage of income before income taxes are:

| | **Nine-month period ended September 30, 2023 (unaudited) %** | **Nine-month period ended September 30, 2022 (unaudited) %** |
|---|---|---|
| Statutory income tax rate | 30 | - |
| Plus (less): | | |
| Non-deductible expenses | 3 | - |
| Exchange gain (loss) | - | - |
| Effects of tax inflation | (34) | - |
| Changes in valuation allowance | (14) | - |
| Other accumulative items | (108) | - |
| Effective income tax rate | (123) | - |

d. As of September 30, 2023, the Entity has operating loss carryforwards, which are available to offset future taxable income, as follows:

| **Expiration Date** | **Amount** |
|---|---|
| 2025 | $ 25,078 |
| 2026 | 32,139 |
| 2027 | 13,319 |
| 2028 | 15,461 |
| 2029 | 24,741 |
| 2030 | 30,054 |
| 2031 | 25,583 |
| 2032 | 33,597 |
| 2033 | 36,331 |
| | $ 236,303 |

## 17. Commitments

a. ***Power Purchase Agreement Guarantee*** - During the effective period of all PPAs, the Entity must deliver to CFE, irrevocable and unconditional letters of credit of $95,000 to guarantee the fulfillment of its obligations through the date of commercial operation. Such letters of credit are renewed on an annual basis.

b. ***Net energy power output*** - According to the terms and conditions of the PPAs, the Entity shall make available to CFE at the interconnection point that CFE will purchase from the Entity: (a) prior to the commercial operation date, all the net power output generated during the tests, and (b) commencing on the commercial operation date and continuing for the remaining term of the PPA, the net energy power output associated with the net capacity corresponding to the guaranteed amount.

c. ***Fuel supply contracts*** - On May 29, 2018, Central Lomas de Real, S. A. de C. V. and Central Valle Hermoso. S. A. de C. V entered into a fuel supply agreement with Trafigura Trading L. L. C. in order to supply gas to be delivered to the Entity in the quantity of 50,000 MMBTU a day as firm fixed quantity, and 45,000 MMBTU per day as firm variable quantity, for each one.

In accordance with the Contract for sale and purchase of natural gas with Trafigura LLC, Central Lomas de Real, S. A. de C. V. and Central Valle Hermoso. S. A. de C. V. must deliver an irrevocable credit letter, which will be recalculated annually. On May 17, 2023, the guarantee amount is $20,000 thousand U. S. dollars, for each one.

d. ***Other fuel supply contracts*** - The other fuel supply contracts Tenaska Marketing Ventures, establish that they will provide a fuel sale to Central Valle Hermoso, S. A. de C. V. In return, the Entity must provide an irrevocable letter of credit which will be recalculated every year. On December 31, 2022, the guarantees amount by $3,000 thousand.

e. ***Natural gas transportation service agreement*** - On September 26, 2002, the Entity executed a natural gas transportation service agreement with Pemex Gas y Petroquímica Basica ("PGPB") which, among other items, establishes a maximum natural gas delivery capacity of 130,000 MMBTU. Similarly, the agreement was executed for 15 years, after which it will be automatically renewable on annual basis. On March 11, 2015, PGPB transfer its rights and obligations of the natural gas transportation service agreement to CFE.

On October 25, 2018, Gasoducto del Río, S. A. de C. V. entered into an interruptible gas transportation agreement with CFE ENERGÍA, S. A. de C. V., effective from its execution date until May 31, 2022. The contract stipulates, among others, that the Entity is obliged to transport up to 70,000 MMBTU per day of natural gas delivered, subject to its available capacity. The tariff is subject to the revision and approval by the Energy Regulation Commission, based on the Transportation Terms and Conditions.

The Contract stablishes the renewal under the Transportation Terms and Conditions where it is mentioned that the CFE ENERGIA must notify to Gasoducto del Río the intention to renew the contract with 6 months in advance. Nevertheless, CFE ENERGIA did not make the corresponding renewal notification.

f. ***Fuel Supply Agreement*** - The Entity entered into a Fuel Supply Gas Agreement ("FSA"), whereby the Entity purchases natural gas from Pemex Transformación Industrial ("PTI") to be used in the energy production. The energy is then supplied to CFE at a price determined based on the cost of the gas. The contract has a term of 25-years commencing May 1, 2002.

g. ***Fuel Supply Agreement Guarantee*** - In accordance with the FSA with PTI, the Entity must deliver an irrevocable letter of credit, which will be recalculated annually. The first calculation will be made 15 days before the first fuel supply date. The actual covered amount is 872 million of Mexican pesos expiring January 3, 2024.

h. ***Exclusivity of the commitment for power and capacity*** - The Entity shall not have the right to commit or supply any portion of the demonstrated net capacity or the associated net energy power output to any person other than the CFE or its legal and authorized assignees or successors.

The capacity charge revenues and the schedule of payments to be received, excluding contingent rentals, according to the contract with CFE in the next five years, are:

| **Years** | **Capacity charge Revenues** | **Schedule of Payments** |
|---|---|---|
| 2023 | $ 166,916 | $ 115,993 |
| 2024 | 166,916 | 114,050 |
| 2025 | 166,916 | 115,772 |
| 2026 | 166,916 | 106,059 |
| 2027 | 166,916 | 47,150 |
| | $ 834,580 | $ 499,024 |

i. The Entity executed a long-term spare parts and service agreements ("LTSA") for periods of between eleven and twelve years with Siemens Power Inc., and eleven years with Mitsubishi Power Americas, Inc. ("Mitsubishi") (formerly Mitsubishi Power Systems Americas, Inc.), which includes the parts and repair program contracts, thereby fulfilling parts and major spare parts requirements. The minimum payment commitments undertaken through the LTSA for the next five years and subsequent years are as follows:

| Years | | Amount |
|---|---|---|
| 2023 | $ | 22,442 |
| 2024 | | 23,262 |
| 2025 | | 26,289 |
| 2026 | | 24,099 |
| 2027 | | 14,066 |
| Thereafter | | 22,164 |
| | $ | 132,322 |

The power plants (excluded Central Saltillo, S. A. de C. V.), entered into a new Long-Term Service Agreement ("LTSA") on April 1, 2018 with Mitsubishi Power Systems Americas, Inc. and Mitsubishi Hitachi Power Systems de México, S. A. de C. V. or (The "Suppliers").

On November 25, 2019, Central Saltillo, S. A. de C. V., entered into a new Long-Term Service Agreement ("LTSA") with Power Systems MFG, L. L. C.

Under the LTSA, the Entity receives spare parts, materials, equipment, tools, supplies, craft labor, personnel facilities, supervision, subcontractors, gases, welding and burning equipment, consumables, technical field engineers, and undertakes all activities necessary to plan and perform scheduled maintenance.

For the commitments related with the debt, see Note 12 Long-term debt.

j. EVM signed three Power Purchase Agreement (PPA) with CFE Calificados, S. A. de C. V. to generate 100MW, 750MW and 90MW. The first two PPAs have a duration period of 20 years starting in 2017 and the third PPA has a duration of 18 years starting in 2022. For these PPAs, the EVM receives fixed capacity revenues and energy revenues at a guaranteed heat rate and market gas price. The PPAs stablish that up to 98% of the energy generated by the EVM is compromised with CFE Calificados, S. A. de C.V.

k. In accordance with Mexican tax law, the tax authorities are empowered to examine transactions carried out during the five years prior to the most recent income tax return filed.

l. In accordance with the IT Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's-length transactions. Should the tax authorities examine the transactions and reject the related-party prices, they could assess additional taxes plus the related inflation adjustment and interest, in addition to penalties of up to 100% of the omitted tax payments.

## 18. Contingencies

a. Additional taxes payable could arise in transactions with non-resident related parties if the tax authority, during a review, believes that prices and amounts used by the Entity are not similar to those used with or between independent parties in comparable transactions

b. Electric Industry Law - as part of the bills submitted by Mexico's President since May 15, 2020, to strengthen the role of the CFE through the Policy on the Reliability, Continuity and Security of the National Electricity System (which was repealed on March 4, 2022, following the verdict issued by a District Court Judge. Therefore, the Reliability Policy established by the Ministry of Energy, published in the Official Gazette of the Federation on February 28, 2017, was reinstated)), on March 9, 2022, the President submitted an amendment to certain provisions of the Electric Industry Law ("LIE", for its acronym in Spanish), which was published in the Mexican Federal Official Gazette ("DOF", for its acronym in Spanish).

- Amparos were filed for the 7 power plants.
- EVM I and EVM II got a favorable resolution, and the authority filed an-appeal against this resolution which is pending. The definitive suspension has been denied but there is a suspension granted with general effects that protects all companies until such procedures were concluded
- CAC, CLR, and EAA, got a favorable resolution in October 28, 2022, the authority filed an appeal against this resolution which is pending. The definitive suspension has been denied but there is a suspension granted with general effects that protects all companies until such procedures were concluded.
- CSO and CVH had their constitutional hearing on September 17, 2022, and the court dismissed part of the claim while granting a partial favorable resolution (granting the amparo). The authority filed an appeal against this resolution which is pending. The definitive suspension has been denied for this specific cases but there is a suspension granted with general effects that protects all companies until such procedures were concluded.

c. In April 2022, the Supreme Court of Justice ("SCJN", for its acronym in Spanish) ruled of the constitutionality of the LIE; however, on January 25, 2023, by decision of the Second Chamber of the SCJN, through an agreement of resumption of competence to re- analyze the amparo files and the proceedings. At the date of financial statements, the LIE is suspended.

d. On July 29, 2021 and December 17, 2021, the Government of the State of Tamaulipas issued the Decree LXIV-121 and Decree LXIV-281, respectively; whereby such government added several provisions to the Tax Code of Tamaulipas and the Fiscal Law Coordination for the State of Tamaulipas, establishing a new "Green Tax" applicable for fiscal year 2022 addressed to the companies with emissions into the atmosphere of substances generated in their production processes from 25 tons per month. These amendments imposing the payment of the "Green Tax" represented a financial impact on Central Anahuac, S. A. de C. V. (CAC), and Electricidad Águila de Altamira, S. de R. L. de C. V. (EAA), and consequently both Entities filed an amparo lawsuit to challenge the "Green Tax" application to both Entities and such claim was admitted on February 11, 2022, by the Federal Courts. As part of the amparo proceedings, on March 17, 2022, the Entities requested the temporary injunction to suspend the collection of the "Green Tax" until the relevant Court issues the final judgement.

In February 2021 CAC & EAA's amparos were accepted by the local courts. Only CAC & EAA filed amparos because they are the only plants capable of generating electricity with diesel fuel.

In October 2021, the court dismissed EAA's amparo. That ruling was appealed in November '21 and it is still pending. In the meantime, the payment of the tax is suspended and EAA only must file a bond as a payment guaranty for such taxes whenever the plant operates with diesel.

In September 2022, the court dismissed CAC's amparo. That ruling was appealed in July '22 and it is still pending. In the meantime, the payment of the tax is suspended, and CAC only must file a bond as a payment guaranty for such taxes whenever the plant operates with diesel.

On December 20,2022, the provisions for the ecological contributions disappears for 2023 and thereafter. However, the repeal is not retroactive, so for the years 2021 and 2022 the amparo lawsuits must be continued and the bonds issued must remain in effect until the amparos are resolved.

If the amparo lawsuit against the Green Tax is lost, CAC and EAA will be required to pay the corresponding taxes which amount to $180K and $605K, respectively.

e. On May 4, 2022, SENER published a law amendment to the Hydrocarbon Law derived from March 28 presidential initiative. Amparos against this reform were filed on September 15, 2022, only for the permits related to natural gas activities: 1) own use and 2) transport. One amparo per each permit.

CAC, CSO, EAA own use permits. In the constitutional hearing of October 27, 2022, the court granted our companies the amparo (elimination of asymmetric regulation of PEMEX). The definitive suspension has been granted, the Authorities filed an appeal against the judgment and on September 27, 2023, the second collegiate court specialized, confirmed the definitive suspensions previously granted.

GDR: In the constitutional hearing of September 16, 2022, the court granted the amparo (elimination of asymmetric regulation of PEMEX). The authority filed an appeal against this resolution which is pending. The definitive suspension has been granted. On September 27, 2023, the second collegiate court specialized ordered that the study of the constitutionality of the Hydrocarbon Law was original competence of the Supreme Court of Justice, so the court sent this matter to the SCJN. On August 29,2023, the SCJN resolved that the collegiate court must determinate the final judgment, the resolution is still pending.

f. Federal Fiscal Code. 2021. Bill to amend various provisions including those related to Volumetric Controls "Those who manufacture, produce, process, transport, store, including storage for self-uses, distribute or dispose of any hydrocarbon or petroleum product will be obliged to carry out volumetric controls".

g. CAC, CSO & EAA: On October 10, 2022, the court dismissed our lawsuit and denied the amparo. We have filed an appeal against this resolution which is still pending. The definitive suspensions were denied in March 2022.

h. GDR: On September 30, 2022, the court dismissed our lawsuit and denied the amparo. We have filed an appeal against this resolution which is still pending. The definitive suspension was denied in March 2022.

i. EVM has entered into loan agreements with related parties, under which these companies loan necessary for the Company's operations.

j. In accordance with Mexican tax law, the tax authorities are empowered to examine transactions carried out during the five years prior to the most recent income tax return filed.

k. In accordance with the IT Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's-length transactions. Should the tax authorities examine the transactions and reject the related-party prices, they could assess additional taxes plus the related inflation adjustment and interest, in addition to penalties of up to 100% of the omitted taxes.

l. Except for the issues detailed in the preceding paragraphs, the Entity and its assets are not subject to any legal action other than the routine legal proceedings related to its activity.

m. On August 22, 2023, the Attorney General's Office of the State of Mexico (the "Attorney General's Office") initiated an investigation (the "Investigation") in connection with an environmental criminal complaint (the "Complaint") filed against EVM Energía del Valle de México Generador, S.A.P.I. de C.V. ("EVM II"), the Company, EVM Tenedora, S.A.P.I. de C.V. ("EVM Tenedora"), Buffalo Energy Infrastructure, S. A. de C. V. ("Buffalo Energy") and Buffalo Generation Infrastructure, S. A. de C. V. ("Buffalo Generation" and, together with EVM II, the Company, EVM Tenedora y Buffalo Energy, the "Companies"), by Francisco Robles Badillo, and naming the community of Axapusco, State of Mexico, as the affected party. The Complaint alleges that the Companies have collectively been generating substances hazardous to the communities in which they are located. The Company is in compliance with all Environmental and Social Standards as corroborated by independent third-party reports prepared by experts appointed by the Attorney General's Office. It is based on these reports that the Company believes the Attorney General's Office has no basis for the Investigation. Moreover, due to the numerous procedural inconsistencies and deficiencies with which the Investigation has been carried out, including an inspection of the Project that was conducted without court authorization, the Companies do not anticipate the Investigation to continue and expect the Complaint to be dismissed with no impact to the Project or its operations, nor do they expect the Investigation to result in a Material Adverse Effect on the Company or the Project. Pending such dismissal, the Companies have taken steps to terminate or quash the Investigation, including by means of filing an amparo claim on November 7, 2023 before the Fifth District Court in the State of Mexico (file number 1398/2023).

n. Indirect amparo lawsuit filed against: (i) decree number 21, published on January 31, 2022; (ii) Decree No. 120, published on December 21, 2022; and (iii) the "General Rules of the Ministry of Finance for Fiscal Year 2023", published on February 9, 2023, all in the Official Gazette of the Government of the Free and Sovereign State of Mexico, by which it is added to Title Three, Chapter One, Section Seven called "On the Tax on the Emission of Pollutant Gases into the Atmosphere" with articles 69 S, 69 S Bis, 69 S Ter, 69 S Quáter, 69 S Quinquies and 69 S Sexies, all of the Financial Code of the State of Mexico and Municipalities.

By means of that decree, the complainant was imposed on a number of obligations:

An obligation to pay, i.e., the complainant must determine and make provisional and annual payments due to the emissions of gases it generates into the atmosphere.

It imposes formal tax burdens, as it must file provisional and annual returns on the taxes generated due to the emissions of gases generated into the atmosphere; It is also required to keep a record book of polluting emissions that will contain: records of emissions generated into the atmosphere, types of fuels and gases emitted, among other things.

On February 13, 2023, the complainant company filed an amparo lawsuit through the Online Services portal of the Judicial Branch of the Federation, which was filed before the Seventeenth District Court in the State of Mexico, with residence in Netzahualcoyotl, under file number 149/2023. In this way, by agreement dated February 22, 2023, the District Judge admitted the amparo lawsuit for processing, requiring those responsible to submit their respective justified report.

In addition, on the same date, by means of an agreement issued in the incidental record of the aforementioned amparo proceeding, the District Judge decided to grant the provisional suspension of the acts complained of.

By interlocutory judgment of March 8, 2023, the District Judge decided to grant the definitive suspension against the acts complained of to the effect that it would not be applied until the amparo trial is resolved.

By judgment of May 23, 2023, the District Judge decided to dismiss the amparo proceeding on the grounds that the rules complained of are hetero-applicative, so an act of application is required in order to be challenged.

An appeal for review was lodged against that judgment, which was granted by order of 9 June 2023. Currently, this appeal is pending to be referred to the corresponding Collegiate Court for resolution.

We consider that there are strong arguments for the reversal of the judgment handed down by the District Judge, since, on the one hand, given the nature of the rule establishing periodic obligations of self-determination, no specific act of application is required to challenge it. And second, because precisely because of the definitive suspension granted in the amparo trial, the obligation on EVM to pay the contribution has not been generated.

o. Except for the issues detailed in the preceding paragraphs, the Entity and its assets are not subject to any legal action other than the routine legal proceedings related to its activity.

## 19. Authorization to issue the Condensed Interim Consolidated Financial Statements

On January 3, 2024, the issuance of the accompanying Condensed Interim Consolidated Financial Statements was authorized by Arturo Infanzón Favela, Chief Financial Officer and Alejandro Milián López, Director of Controlling, Administration, and Procurement; consequently, they do not reflect events occurred after the date. These Condensed Interim Consolidated Financial Statements are subject to the approval of the Board of Directors.

* * * * * *

# MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries

**(Subsidiary of Buffalo Energy, S. A. de C. V.)**

Consolidated Financial Statements for the Years Ended December 31, 2022 and 2021 and Independent Auditors' Report Dated June 23, 2023

## MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries
### (Subsidiary of Buffalo Energy, S. A. de C. V.)

# Independent Auditors' Report and Consolidated Financial Statements for 2022 and 2021

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# Independent Auditors' Report to the Board of Directors and Stockholders of MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries

***Opinion***

We have audited the accompanying consolidated financial statements of MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries (Subsidiary of Buffalo Energy, S. A. de C. V.) (the "Entity"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as of December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows, for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

***Basis for Opinion***

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of Consolidated Financial Statements* section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with IFRS, as issued by the IASB, 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 consolidated financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity´s financial reporting process.

Deloitte.

***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISA 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C. P. C. Erik Padilla Curiel
Mexico City
June 23, 2023

# MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries
**(Subsidiary of Buffalo Energy, S. A. de C. V.)**

# Consolidated Statements of Financial Position
**As of December 31, 2022, and 2021**
**(In thousands of U.S. dollars)**

## Assets

| | Note | 2022 | 2021 |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | 5 | $ 36,347 | $ 86,000 |
| Accounts receivable | 6 | 86,632 | 59,418 |
| Prepaid expenses | | 30,377 | 15,214 |
| Total current assets | | 153,356 | 160,632 |
| Non-current assets: | | | |
| Power plants, natural gas pipeline, property and equipment – Net | 7 | 536,421 | 692,613 |
| Diesel fuel and spare parts inventories and other consumables | 8 | 71,519 | 71,463 |
| Goodwill | 9 | 4,638 | 8,815 |
| Intangible asset – Net | 10 | 7,040 | 35,535 |
| Deferred income tax | | 19,120 | - |
| Total non-current assets | | 638,738 | 808,426 |
| Total assets | | $ 792,094 | $ 969,058 |

## Liabilities and stockholders’ equity

| | Note | 2022 | 2021 |
|---|---|---|---|
| Current liabilities: | | | |
| Accrued interest | | $ - | $ 1,199 |
| Credit from Buffalo Energy | | 18,289 | - |
| Credit from Generación Buffalo | | 2,000 | - |
| Short-term debt | 12 | - | 48,927 |
| Credit line from MUFG Bank México, S. A. and MUFG Bank, Ltd | | - | 69,090 |
| Accounts payable to gas suppliers | | 18,264 | 9,113 |
| Accrued expenses and direct employee benefits | | 48,035 | 64,059 |
| Tax payable | | 17,823 | 7,091 |
| Due to related parties | 16 | - | 4,131 |
| Total current liabilities | | 104,411 | 203,610 |
| Non-current liabilities: | | | |
| Long-term debt – Buffalo Energy | | 153,186 | - |
| Long-term debt | 12 | - | 87,651 |
| Deferred revenue under contract with Mexican Federal Electricity Commission | 18(h) | 339,712 | 364,366 |
| Employee benefits | 13 | 7,832 | 7,201 |
| Derivative financial instruments | 11 | - | 3,869 |
| Deferred income tax | 17 | - | 13,868 |
| Total non-current liabilities | | 500,730 | 476,955 |
| Total liabilities | | 605,141 | 680,565 |

(Continued)

| | Note | 2022 | 2021 |
|---|---|---|---|
| Commitments and contingencies | 18, 19 | | |
| Stockholders' equity: | | | |
| Class I, par value $1 Mexican peso, 50,000 shares authorized, issued and outstanding | 15 | - | - |
| Class II, par value $1 Mexican peso, 4,196,076,044 shares authorized, issued and outstanding | 15 | - | - |
| Paid-in capital | 15 | 323,880 | 323,880 |
| Additional paid-in capital | | 1,674 | 1,674 |
| Accumulated deficit | | (159,825) | (53,305) |
| Reserve fund | 15 | 18,629 | 18,100 |
| Other items of comprehensive loss | | 2,595 | (1,856) |
| Total stockholders' equity | | 186,953 | 288,493 |
| Total stockholders' equity and liabilities | | $ 792,094 | $ 969,058 |

See accompanying notes to consolidated financial statements.

(Concluded)

## MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries
**(Subsidiary of Buffalo Energy, S. A. de C. V.)**

# Consolidated Statements of Profit or Loss and Other Comprehensive Income

**For the years ended December 31, 2022 and 2021**
**(In thousands of U.S. dollars)**

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Revenue and other income: | | | |
| Capacity charges | 3(r) | $ 241,236 | $ 217,755 |
| Energy charges | 3(r) | 695,434 | 514,789 |
| Gas transport services | 3(r) | 2,787 | 3,912 |
| | | 939,457 | 736,456 |
| Cost and expenses: | | | |
| Fuel expense | | (761,052) | (564,427) |
| Major maintenance costs | | (65,013) | (77,572) |
| Loss on disposal of fixed assets | | (654) | (3,772) |
| Depreciation and amortization | | (51,308) | (52,027) |
| Impairment of power plants, natural gas pipeline, property and equipment, intangible asset and goodwill | | (144,751) | - |
| Administrative expenses | | (35,610) | (32,875) |
| | | (1,058,388) | (730,673) |
| Operating (loss) income | | (118,931) | 5,783 |
| Other financing cost: | | | |
| Interest income | | 663 | 234 |
| Interest expense | | (10,430) | (7,276) |
| Other financial cost | | (891) | (410) |
| Foreign exchange loss – Net | | (100) | (1,114) |
| | | (10,758) | (8,566) |
| Loss before income tax | | (129,689) | (2,783) |
| Income tax benefit | 18 | (23,698) | (954) |
| Loss for the year | | (105,991) | (3,737) |
| Other comprehensive income: | | | |
| Item that will not be reclassified subsequently to profit or loss: | | | |
| Pension and post-retirement obligations: | | | |
| Net unrealized loss on labor obligations - Net of tax effect of $(747) and $(1,522), respectively | | 1,742 | 3,552 |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Cash flow hedges: | | | |
| Net unrealized loss on hedging instruments - Net of tax effect of $(1,161) and $(1,089), respectively | | 2,709 | 2,540 |
| | | 4,451 | 6,092 |
| Comprehensive (loss) income | | $ (101,540) | $ 2,355 |

See accompanying notes to consolidated financial statements.

## MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries
## (Subsidiary of Buffalo Energy, S. A. de C. V.)

# Consolidated Statements of Changes in Stockholders' Equity

**For the years ended December 31, 2022 and 2021**
**(In thousands of U. S. dollars, except share data)**

| | Stockholders' equity | | | Retained earnings | | Other items of comprehensive loss | | |
|---|---|---|---|---|---|---|---|---|
| | Shares issued | Paid-in capital | Additional paid-in capital | Reserve fund | Accumulated deficit | Hedging instruments | Employee benefits | Total stockholders' equity |
| Balance as of January 1, 2021 | 4,196,126,044 | $ 323,880 | $ 1,674 | $ 17,434 | $ (48,902) | $ (5,249) | $ (2,699) | $ 286,138 |
| Total loss for the year | - | - | - | - | (3,737) | - | - | (3,737) |
| Other comprehensive loss for the year - Net of income tax | - | - | - | - | - | 2,540 | 3,552 | 6,092 |
| Total comprehensive loss (income) | - | - | - | - | (3,737) | 2,540 | 3,552 | 2,355 |
| Reserve fund | - | - | - | 666 | (666) | - | - | - |
| Balance as of December 31, 2021 | 4,196,126,044 | 323,880 | 1,674 | 18,100 | (53,305) | (2,709) | 853 | 288,493 |
| Total loss for the year | - | - | - | - | (105,991) | - | - | (105,991) |
| Other comprehensive loss for the year - Net of income tax | - | - | - | - | - | 2,709 | 1,742 | 4,451 |
| Total comprehensive loss (income) | - | - | - | - | (105,991) | 2,709 | 1,742 | (101,540) |
| Reserve fund | - | - | - | 529 | (529) | - | - | - |
| Balance as of December 31, 2022 | 4,196,126,044 | $ 323,880 | $ 1,674 | $ 18,629 | $ (159,825) | $ - | $ 2,595 | $ 186,953 |

See accompanying notes to consolidated financial statements.

## MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries
**(Subsidiary of Buffalo Energy, S. A. de C. V.)**

# Consolidated Statements of Cash Flows

**For the years ended December 31, 2022 and 2021**
**(In thousands of U. S. dollars)**

| | 2022 | 2021 |
|---|---|---|
| Cash flows from operating activities: | | |
| Loss for the year | $ (105,991) | $ (3,737) |
| Adjustments for: | | |
| Income tax benefit recognized in profit for the year | (23,698) | (954) |
| Depreciation and amortization | 51,308 | 52,027 |
| Impairment of power plants, natural gas pipeline, property and equipment, intangible asset and goodwill | 144,751 | - |
| Profit on disposal of fixed assets | 654 | 3,772 |
| Deferred revenue under contract with Mexican Federal Electricity Commission - Long term | (24,654) | (27,037) |
| Interest income | (663) | (234) |
| Adjustments to reconcile net loss to net cash financing activities: | | |
| Interest expense | 10,430 | 7,276 |
| Foreign exchange loss | 100 | 1,114 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Accounts receivable, mainly Mexican Federal Electricity Commission | (27,214) | 9,831 |
| Inventories of diesel fuel, spare parts and other consumables | (56) | (1,640) |
| Prepaid expenses, mainly maintenance | (15,163) | 15,214 |
| (Decrease) increase in: | | |
| Accounts payable to gas suppliers | 9,151 | 3,864 |
| Accrued expenses and direct employee benefits | (16,024) | (2,294) |
| Employee benefits | 5,082 | 379 |
| Income tax | 1,442 | - |
| Due to related parties | 12,981 | 317 |
| Net cash generated by operating activities | 22,436 | 57,898 |
| Cash flows from financing activities: | | |
| Interest received | 663 | 234 |
| Income from sale of equipment | - | 7,181 |
| Acquisition of equipment | (7,489) | (23,601) |
| Net cash used in investing activities | (6,826) | (16,186) |
| Cash flows from financing activities: | | |
| Payment to long-term debt | (48,927) | (15,388) |
| Payment to Credit line from Bank of Tokyo Mitsubishi, UFJ, S. A. | (5,906) | (16,809) |
| Interest paid | (10,430) | (7,276) |
| Net cash used in financing activities | (65,263) | (39,473) |
| Net (decrease) increase in cash and cash equivalents | (49,653) | 2,239 |
| Cash and cash equivalents at the beginning of year | 86,000 | 83,761 |
| Cash and cash equivalents at the end of year | $ 36,347 | $ 86,000 |

See accompanying notes to consolidated financial statements.

# Notes to the Consolidated Financial Statements

**As of December 31, 2022, and 2021**
**(In thousands of U. S. dollars)**

## 1. General Information and significant events

### 1.1 *General information*

MT Falcon (the "Entity", and together with its Subsidiaries, the "Group") owns five gas-fired combined cycle power plants with an aggregate generating capacity of 2,233 megawatts (MW) (the "Power plants") and a natural gas-pipeline measuring 57.9 kilometers (KM) located in Northeastern Mexico with a delivery capacity of 410,000 Million of British Thermal Units (MMBTU) per day. The generation capacity and energy output produced by the power plants are sold exclusively to the Mexican Federal Electricity Commission ("CFE", for its acronym in Spanish) under a Power Purchase Agreement (PPA) with a term of 25 years, starting on the Commercial Operating Date (COD).

The Entity has obtained permits granted by the Mexican Energy Regulatory Commission (*Comisión Reguladora de Energía* or "CRE", for its acronym in Spanish), for each of its power plants to generate and sell electricity to the CFE as an independent producer. This agreement has a mandatory term of 25 years.

The Entity obtained permits from the CRE for each power plant to produce and sell electricity as a generator to the National Center of Energy Control (*Centro Nacional de Control de Energía* or "CENACE", for its acronym in Spanish), into the wholesale electricity market. This agreement has a mandatory term of 30 years.

### 1.2 *Significant events*

i. **Acquisition of Mt Falcon Holdings (see Note 16)**

On November 9, 2022, Actis, a leading global investor in sustainable infrastructure, acquired 100 per cent of the issued share capital of MT Falcon, obtaining control of MT Falcon from a consortium including Mitsui & Co. ("Mitsui"), Tokyo Gas, JERA and Tohoku Electric Power.

MT Falcon owns and operates five combined-cycle gas turbine power plans in Mexico with a total capacity of c.2.2GW and an adjacent natural gas-pipeline and qualifies as a business as defined in IFRS 3 Business Combinations. The business is being re-branded with immediate effect as "Valia Energía" ("Valia") and will focus on delivering an equitable Energy Transition in Mexico with sustainability at the core of its investment strategy. Valia acquired MT Falcon through a new holding entity "Buffalo Energy, S. A. de C. V.".

ii. **Debt restructuring**

a. **Project financing:**

On November 9, 2022, Buffalo Energy settled the outstanding long-term debt and interest contracted by the Entity with Japanese banks for the Project Financing (see Note 12):

| | | **Amount** |
|---|---|---|
| Facility A y B: | | |
| Japan Bank for International Cooperation | $ | 54,071 |
| Facility C: | | |
| MUFG Bank, Ltd. (Formerly The Bank of Tokyo-Mitsubishi UFJ, Ltd.) | | 11,955 |

| | Amount |
|---|---|
| Facility C: Mizuho Corporate Bank, Ltd. | 11,955 |
| Facility C: Sumitomo Mitsui Banking Corporation | 11,955 |
| Total | $ 89,936 |

b. **Working Capital Facility Loan:**

On November 9, 2022, Buffalo Energy settled the outstanding long-term debt and interest contracted by the Entity with Japanese banks for the Working Capital Facility Loan:

| | Amount |
|---|---|
| MUFG Bank, Ltd. (Formerly The Bank of Tokyo-Mitsubishi UFJ, Ltd.) | $ 63,881 |
| Total | $ 63,881 |

c. **Loan contract with Buffalo Energy**

On November 9, 2022, the Entity executed a loan contract for the amount of $153,416 with Buffalo Energy for a period of seven years, which accrues interest at a 7% fixed interest rate for $119,873 and a 8.06% variable interest rate and as a result for this transaction had a loan due the financial fees for $16,520 with a 7% fixed interest rate.

iii. **Labor Reform**

On April 23, 2021, the Federal Government published in the Federal Official Gazette a decree to reform, add and repeal different provisions of the Federal Labor Law; Social Security Law; Law of the National Institute of the Workers' Housing Fund; the Federal Tax Code; Income Tax Law; Value Added Tax Law; Federal Law on State Workers, the Regulations of Section B) of Article 123 of the Constitution of Mexico; the Regulatory Law of Numeral XIII Bis of Section B of Article 123 of the Constitution of Mexico, pursuant to Labor Outsourcing. The main objective of these amendments was to prohibit personnel outsourcing other than the provision of specialized services or the execution of specialized work that do not form part of companies' corporate purpose or main activity, as long as the services provider is registered with the Department of Labor and Social Welfare and the services or work are formalized by means of a written contract.

Based on the terms of the preceding paragraph, the subsidiaries of MT Falcon Holdings Company, S.A.P.I. de C.V. implemented a series of measures to ensure compliance with the new labor obligations, such as the amendment of their corporate purpose, employer substitution and the transfer of assets, which affected the financial information of these entities.

iv. In 2018, Central Valle Hermoso anticipated the termination of the Fuel Service Agreement with BNP Paribas Energy Trading GP due to a dispute on contractual gas price. On January 15, 2019, the Entity entered into a new agreement with Trafigura Trading L. L. C., a new gas provision agreement; this contract will expire on May 31, 2022, there was no notice of extension due to the contract has the condition of automatic renewal without needing for any notice by both parties. The extension period covers a term from June 1, 2022 to April 1, 2030.

## 2. Basis of presentation

### a. *Concentration of credit risk*

Until December 31, 2016, the Entity sold 100% of energy output to CFE. Since April 2017, the Entity sells the energy output to CFE in accordance with the PPA and the surplus energy over contracted energy, is offered and provided to CENACE, which exposes the Entity to a concentration of credit risk.

The Entity believes any potential risk is low, due to the fact that amounts due from CFE are guaranteed by the Mexican Federal Government.

### b. *New and amended IFRS Accounting Standards that are effective for the current year*

In the current year, the Entity has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

| | |
|---|---|
| *Amendments to IFRS 3 Reference to the Conceptual Framework* | The Entity has adopted the amendments to IFRS 3 Business Combinations for the first time in the current year. The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. |
| *Amendments to IAS 16 Property, Plant and Equipment—Proceeds before Intended Use* | The Entity has adopted the amendments to IAS 16 Property, Plant and Equipment for the first time in the current year. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.<br><br>The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.<br><br>If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost. |

| | |
|---|---|
| *Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle* | The Entity has adopted the amendments included in the Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle for the first time in the current year. The Annual Improvements include amendments to four standards.<br><br>**IFRS 1 First-time Adoption of International Financial Reporting Standards**<br><br>The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).<br><br>**IFRS 9 Financial Instruments**<br><br>The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.<br><br>**IFRS 16 Leases**<br><br>The amendment removes the illustration of the reimbursement of leasehold improvements. |

***New and revised IFRS Accounting Standards in issue but not yet effective***

At the date of authorisation of these financial statements, the Entity has not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective.

| | |
|---|---|
| IFRS 17 (including the June 2020 and December 2021 amendments to IFRS 17) | *Insurance Contracts* |
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* |
| Amendments to IAS 1 | *Classification of Liabilities as Current or Non-current* |
| Amendments to IAS 1 and IFRS Practice Statement 2 | *Disclosure of Accounting Policies* |
| Amendments to IAS 8 | *Definition of Accounting Estimates* |
| Amendments to IAS 12 | *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* |

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Entity in future periods, except if indicated below:

***IFRS 17 Insurance Contracts***

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

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

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

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

In December 2021, the IASB issued Initial Application of IFRS 17 and IFRS 9—Comparative Information (Amendment to IFRS 17) to address implementation challenges that were identified after IFRS 17 was published. The amendment addresses challenges in the presentation of comparative information.

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

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

***Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures***

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

***Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Noncurrent***

The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

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

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted. The IASB is currently considering further amendments to the requirements in IAS 1 on classification of liabilities as current or non-current, including deferring the application of the January 2020 amendments.

The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods.

***Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies***

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

***Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates***

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error.
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The IASB added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the Standard. The IASB has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier.

***Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction***

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The IASB also adds an illustrative example to IAS 12 that explains how the amendments are applied. The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognises:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with:

    - Right-of-use assets and lease liabilities.
    - Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset.

- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

The directors of the Entity anticipate that the application of these amendments may have an impact on the Entity's consolidated financial statements in future periods should such transactions arise.

## 3. Significant accounting policies

a. ***Statement of compliance***

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards released by IASB.

b. ***Basis of preparation***

The consolidated financial statements have been prepared on the fair value at the end of each reporting period, as explained in the accounting policy below.

i. *Historical cost*

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

ii. *Fair value*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group considers the characteristics of the asset or liability as if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

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

c. ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Entity and its subsidiaries controlled by it. Control is achieved when the Entity:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Entity has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Entity considers all relevant facts and circumstances in assessing whether or not the Entity's voting rights in an investee are sufficient to give it power, including:

- The size of the Entity's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Entity, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Entity obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Entity and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's  interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal recognized in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

The consolidated financial statements include the financial statements of MT Falcon and those of its subsidiaries. All significant intercompany transactions and balances have been eliminated in the consolidation.

MT Falcon Holdings Company, S. A. P. I. de C. V.'s subsidiaries and related shareholding percentages are shown below:

| Company | COD | Ownership Percentage | Capacity | Activity |
|---|---|---|---|---|
| Central Anáhuac, S. A. de C. V. (CAC) | January 2002 | 99.9% | 495 MW | Energy Power generation |
| Central Saltillo, S. A. de C. V. (CSO) | Novembe r 2001 | 99.9% | 247.5 MW | Energy Power generation |
| Central Lomas de Real, S. A. de C. V. (CLR) | April 2004 | 99.9% | 495 MW | Energy Power generation |
| Central Valle Hermoso, S. A. de C. V. (CVH) | April 2005 | 99.9% | 500 MW | Energy Power generation |
| Electricidad Águila de Altamira, S. de R. L. de C. V. (EAA) | April 2020 | 99.9% | 495 MW | Energy Power generation |
| Gasoducto del Río, S. A. de C. V. (GDR) | August 2003 | 99.9% | 410,000 MMBTU | Natural gas transportation services |
| Compañía Mexicana de Gerencia y Operación, S. A. de C. V. (COMEGO) | - | 99.9% | - | Provides administrative services exclusively to its related parties |

d. ***Foreign currency financial statements***

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Currency Units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the dates of the transactions are used. Exchange differences arising, if any, are recognized in profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in profit or loss.

Relevant exchange rates used in the preparation of the consolidated financial statements were as follows (Mexican pesos per one U.S. dollar):

| | 2022 | 2021 |
|---|---|---|
| Current exchange rate as of December 31, | Ps. 19.3615 | Ps. 20.5835 |
| Weighted average exchange rate for the year ended December 31, | Ps. 20.1250 | Ps. 20.2818 |

e. ***Cash and cash equivalents***

This line item consists mainly of bank deposits in checking accounts and readily available daily investments of cash surpluses. Cash equivalents are composed of highly liquid investments, which are subject to low risk of material change in value. Cash is stated at nominal value and cash equivalents are valued at fair value; any fluctuations in value are recognized in the consolidated statement of profit or loss and other comprehensive (loss) income.

f. ***Inventories of diesel fuel, spare parts and other consumables***

Cost of inventories of diesel are determined on a weighted average cost basis and the cost of spare parts and other consumables are determined on a historical cost.

g. ***Power plants, natural gas pipeline, property and equipment***

The Entity's power plants, natural gas pipeline, property and equipment were recorded at fair values based upon the appraised values of such assets in accordance with IFRS 3. Assets acquired after the business combination adoption are recorded at acquisition cost.

Depreciation is calculated using the straight-line method over the average estimated useful lives as shown below:

| | **Average Years** | **Years of remaining useful life as of December 31, 2022** |
|---|---|---|
| Power plants | 35 | 18 |
| Combined cycle spare parts | 2 to 3 | 2 to 3 |
| Natural gas pipeline | 30 | 19 |
| Computers | 3 | 3 |
| Vehicles | 4 | - |
| Office furniture and equipment | 10 | 8 |

The cost of spare parts acquired through maintenance agreements is capitalized at the time such costs are incurred, and such costs are depreciated throughout their useful lives. Routine maintenance and repair costs are recorded as expense as they occur.

Costs incurred in the development phase that meet certain requirements and will have future economic benefits are capitalized and its depreciation is based on the straight-line method over 35 years, which is the estimated useful life of the power plant as of the date it was placed into operation. The useful life of the Power Plant was originally 25 years at the acquisition date (June 2, 2010) and was reviewed and adjusted by the Entity to 35 years. Only development costs that are, among other things, separately identifiable and necessary for the operation of the power plant are capitalized. Any expenditure that does not meet the aforementioned criteria is expensed in the period in which it is incurred.

Combined cycle spare parts had a variable useful life. Derived from each scheduled maintenance the Entity determined the remaining useful life according to the spare part performance. Therefore, at the end of each period an adjustment in depreciation expense is recorded.

The Entity reviews the estimated remaining useful lives and the method of depreciation of power plant, property and equipment every year. As of December 31, 2022, and 2021, the Entity determined that it was not necessary to modify the estimated remaining useful lives, since no significant physical and technological changes have occurred in the power plant, property and equipment.

h. ***Goodwill***

Goodwill represents the excess of the purchase price over the fair value of the net assets and liabilities of acquired businesses. Goodwill is not amortized but is instead tested for impairment at least annually. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

i. ***Intangible asset***

The acquired intangible assets recorded in connection with the application of IFRS 3, represents the fair value of the PPA, and permission to transport natural gas which grants favorable pricing terms relative to prevailing market conditions as of the Acquisition Date. The estimated fair value was calculated using the income approach and incorporates projected cash flows over the remaining term of the PPA and the permission to transport natural gas. The determination of the estimated fair value therefore does not take into account the extension of the PPA beyond the original contract maturity date. The number of years utilized in the estimation of fair value of PPA and permission to transport natural gas depended on the date on which the Entity has already operated commercially and therefore, the remaining years that can be considered for revenues.

j. ***Impairment of long-lived assets***

The carrying amount of the power plants, natural gas pipeline, amortizable intangible assets and other long-lived assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the expected undiscounted future cash flows are less than the carrying value of the long-lived assets, an impairment loss is recorded based on such asset's estimated fair value. Changes in estimates of future cash flows could result in a write-down of the asset in a future period.

As a result of the assignment of values of the long-lived assets mentioned in Note 1.2, the Entity's Management identified a possible indication of impairment, for this reason the Entity performed impairment tests. Impairment tests required the use of a significant level of judgment by the Entity's management to determine significant assumptions, cash flows, revenue and cost budgets, together with all other premises related to the estimated recovery value of the cash generating unit.

As a result of the impairment test, impairment was recorded as follows:

| Entity | PPE | Intangibles assets | Goodwill | Total |
|---|---|---|---|---|
| CAC | $ (7,557) | $ - | $ (893) | $ (8,450) |
| CLR | (37,588) | (13,416) | (1,315) | (52,319) |
| CSO | (15,127) | (3,601) | (517) | (19,245) |
| CVH | (55,211) | (7,429) | (1,326) | (63,966) |
| GDR | (645) | - | (126) | (771) |
| Total | $ (116,128) | $ (24,446) | $ (4,177) | $ (144,751) |

k. ***Leases***

- The Entity as a Lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of income payments that are not paid on the start date, discounted by the fee implied in the contract. If this rate cannot be easily determined, the Entity uses incremental rates.

The rental payments included in the measurement of the lease liability consist of:

- Fixed income payments (including fixed payments in substance), minus any lease incentive received;
- Equity payments that depend on an index or rate, initially measured using the index or rate on the start date;
- The expected amount to be paid by the lessee under residual value guarantees;
- The exercise price of purchase options if the lessee is reasonably accurate to exercise the options; and
- Payments for penalties resulting from the termination of the lease, if the lease period reflects the exercise of a lease termination option.

The lease liability is presented as a separate concept in the consolidated statement of financial position.

The lease liability is subsequently measured with the increase in carrying amount to reflect the interest accrued by the lease liability (using the effective interest method) and reducing the carrying amount to reflect income payments made.

The Entity reevaluates the lease liability (and makes the adjustment corresponding to the asset for related use rights) provided that:

- The term of the lease is modified or there is a significant event or change in the circumstances of the lease resulting in a change in the evaluation of the purchase option exercise, in which case the lease liability is measured by discounting payments from updated income using an updated discount rate.
- Income payments are modified as a result of changes in indices or rates or a change in expected payment under a guaranteed residual value, in which case the lease liability is revalued by discounting the updated income payments using the same rate of discount (unless the change in rent payments is due to a change in a variable interest rate, in which case an updated discount rate is used).
- A lease is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is revalued based on the lease term of the modified lease by discounting the updated lease rental payments using a discount rate updated to the effective date of the modification.

The Entity did not make any of the aforementioned adjustments in the periods presented.

Right-of-use assets consist of the initial measurement of the applicable lease liability, rent payments made on or before the start date, minus any lease incentives received and any direct initial costs. Subsequent valuation is cost minus accumulated depreciation and impairment losses.

If the Entity incurs an obligation arising from costs of dismantling and removing a leased asset, restores the site in which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision measured under IAS 37 must be recognized. To the extent that costs relate to a right-of-use asset, costs are included in the related right-of-use asset, unless those costs are incurred to generate inventories.

Right-of-use assets depreciate over the shortest period between the lease period and the life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use reflects that the Entity plans to exercise a purchase option, the right-of-use asset will depreciate over the useful life. Depreciation begins on the lease start date.

Right-of-use assets are presented as a separate item in the consolidated statement of financial position.

The Entity applies IAS 36 to determine whether a right-of-use asset for rights of use is impaired and accounts for any impairment losses identified as described in the 'Properties, Plant and Equipment' policy.

Lease payments with variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. Such payments are recognized as an expense in the period in which the event or condition that triggers payments occur and are included in the concept of "Other expenses" in the consolidated statement of income.

As a practical expedient, IFRS 16 allows non-lease components not to be separated and, instead, account for any lease and its associated non-lease components as a single agreement. The Entity has not used this practical expedient. For contracts containing lease components and one or more additional lease or non-lease components, the Entity allocates the contract consideration to each lease component using the separate relative selling price method for the lease component and the aggregate separate relative selling price for all non-lease components.

l. ***Derivative financial instruments***

The Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate (interest rate swaps). Further details of derivative financial instruments are disclosed in Note 11.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. Derivatives are not offset in the financial statements unless the Entity has both legal right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

m. ***Hedge accounting***

The Entity designates certain hedging instruments, including interest rate derivatives, as fair value hedges.

At the inception of the hedge relationship, the Entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Entity documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 11 sets out details of the fair values of the derivative instruments used for hedging purposes.

– *Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss and is included in the ‘other income - Net’ line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item.

However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Entity ends the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss. This transfer does not affect other comprehensive income.

n. ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate.

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. ***Employee benefits***

*Retirement benefits costs from termination benefits*

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment.

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement.

The Entity presents the first two components of defined benefit cost in profit or loss in the line item "Employee Benefits". Gains and losses for reduction of service are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Entity's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

*Short-term and other long-term employee benefits and statutory employee profit sharing ("PTU", for its acronym in Spanish)*

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Entity in respect of services provided by employees up to the reporting date.

*Statutory employee profit sharing*

PTU is recorded in the results of the year in which it is incurred and is presented in operating expenses line item in the consolidated statements of profit and other comprehensive income.

As result of the 2014 Income Tax Law, as of December 31, 2022 and 2021, PTU is determined based on taxable income, according to Section I of Article 9 of the that Law.

*Contributions from employees or third parties to defined benefit plans.*

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability (asset).
- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the Entity reduces service cost in the period in which the related service is rendered.

The defined plan does not allow contributions from employees or third parties.

p. ***Income taxes***

Income tax expense represents the sum of the tax currently payable and deferred tax.

*Current tax*

Current income tax ("ISR", for its acronym in Spanish) is recognized in the results of the year in which is incurred.

*Long term current tax*

The Entity incurs consolidated ISR on the portion it holds of voting stock with its subsidiaries at the balance sheet date, which is calculated based on the average daily equity percentage of equity that the Entity held of its subsidiaries during the year. Estimated income tax payments of both the Entity and its subsidiaries are made as if the Entity did not file a consolidated tax return.

*Deferred income tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, notwithstanding the Entity is able to control the reversal of the temporary difference and it is not probable that the temporary difference will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

*Current and deferred tax for the year*

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

q. ***Provisions***

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, it carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

r. ***Revenue recognition***

In accordance with the requirements under the International Financial Reporting Standard 16 "Leases" (IFRS 16), issued by the International Accounting Standard Board (IASB), the Entity has determined that the PPAs contain a lease. Based on the criteria mentioned on IFRS 16, the Entity has classified the PPAs as a Non- Capitalizable Operating Lease." Revenue under the PPA is accounted for as follows:

(i) ***Capacity charges -*** Revenue from capacity charges are associated with power plant's capacity and are divided into fixed capacity charges (CFC), fixed operating, maintenance charges (CFOM) and Fixed Charge for Fuel Supply Capacity Reserve (CFRC), as follows:

The CFC represents the return on the investment (capital, debt and debt interest) and is billed semi-annually in accordance with the economic proposal. This revenue is determined in US dollars based on operating availability of the facility and its capacity. CFC revenues are recognized over the term of the PPA on a straight-line basis, which results in a level income effect in each accounting period.

The CFOM has been designed to cover all fixed labor costs (personnel), and domestic and overseas replacement parts. This charge is determined monthly in pesos and adjusted to consider inflation in the Mexican and US economies and are recognized over the term of the PPA on a straight-line basis, which results in a level income effect in each accounting period.

The CFRC is designed to recover the cost of the fixed charge paid to domestic and international fuel carriers. This charge is determined and recorded monthly in pesos based on the actual cost, which the Entity has to pay for this item.

The Entity reset the level of accrued income for the capacity charge, as required by IFRS 3.

(ii) ***Energy Charges -*** Revenue from energy charges is divided into Variable Operation and Maintenance Charge (CVOM), Fuel Charge (CC) and Start-up Charge (CA) as follows:

The CVOM is intended to reimburse the Entity for the variable direct expenses incurred in the generation of power such as water consumption, lubricants, chemicals and other supplies necessary to generate power, except fuel. This revenue is determined and recorded monthly and is directly related to the net energy generated.

The CC represents the guaranteed consumption of fuel (alternate or base) related to the energy output. This charge is determined and recorded monthly in pesos and it is calculated based on the consumption values guaranteed by the Entity in its technical proposal and the current fuel prices.

The CA covers the fuel surcharges associated with startups initiated at the request from CFE. This charge is determined and recorded in pesos in the months in which such startups take place.

(iii) ***Natural Gas transport services*** - Revenue is recognized in the period in which the services of natural gas transportation are rendered.

## 4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the Entity's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

a. ***Critical judgments in applying accounting policies***

The following are the critical judgments, apart from those involving estimations (see Note 4.b below), that the Entity's management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

- *Determining control over subsidiaries*

  As part of the acquisition in 2010, the Entity made an analysis to determine whether it achieved control over its subsidiaries considering its power over the investee; has exposure and rights to variable returns from its involvement in the investee; and it has the ability to use its power to affect its returns.

- *Determining arrangements with leases*

  The Entity made an analysis of its PPAs to determine if it had to recognize them as leases or as a service concession arrangement, it concluded that the PPAs are in the scope of IFRS 16 and should be recognized as a lease arrangement.

- *Contingencies*

  As detailed in Note 20, the Entity is subject to contingencies that, it they materialize, could impact the financial position, performance or future cash flows.

- *Discount rate used to employee benefits*

  To determine the discount rate, the Entity needs to use high quality corporate bonds as reference, if there is no deep market of these bonds, it should use government bonds. The Entity considers the currency and maturity of its obligation to select the reference bonds.

b. ***Key sources of estimation uncertainty***

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- *Impairment of long-lived assets, goodwill and intangible assets*

  The Entity reviews goodwill and other intangible assets at least annually and long-lived assets when there is any indication that the asset might be impaired. Determining whether long-lived assets, goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which long-lived assets have been allocated. The value in use calculation requires the Entity's management to estimate the expected future cash flows over the revenue contract with CFE that will arise from the cash-generating unit and an appropriate discount rate to calculate present value. If the actual future cash flows are lower than expected, a material impairment loss may arise.

- *Deferred income tax assets*

  The Entity reviews at the end of each reporting period the carrying amount of deferred tax assets and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

- *Employee benefits*

  The Entity obtains the work of a actuarial specialist who determines the provision that should be recognized for each period based on the actuarial study.

– *Fair value measurements and valuation processes*

Some of the Entity's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the Entity has set up a valuation committee, which is headed up by the Chief Financial Officer of the Entity, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Entity uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Entity engages third party qualified appraiser to perform the valuation. The valuation committee works closely with the qualified external appraiser to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation's findings to the board of Directors of Entity, every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

## 5. Cash and cash equivalents

As of December 31, 2022, and 2021, cash and cash equivalents consist of:

| | 2022 | 2021 |
|---|---|---|
| Cash | $ 3 | $ 425 |
| Cash equivalents [1] | 36,344 | 85,575 |
| | $ 36,347 | $ 86,000 |

[1] The Entity´s cash equivalents are composed of highly liquid overnight investments.

## 6. Accounts receivable

| | 2022 | 2021 |
|---|---|---|
| Mexican Federal Electricity Commission | $ 86,629 | $ 59,403 |
| National Center of Energy Control | 3 | 15 |
| Total | $ 86,632 | $ 59,418 |

## 7. Power plants, natural gas pipeline, property and equipment

| | 2022 | 2021 | Balances at the beginning of 2021 |
|---|---|---|---|
| Power plants | $ 1,111,844 | $ 1,119,421 | $ 1,114,090 |
| Natural gas pipeline | 37,789 | 37,789 | 37,789 |
| Office furniture, equipment and vehicles | 5,107 | 4,700 | 4,704 |
| | 1,154,740 | 1,161,910 | 1,156,583 |
| Less - accumulated depreciation | (533,821) | (486,645) | (450,350) |
| Impairment (see Note 3j) | (116,128) | - | - |
| | 504,791 | 675,265 | 706,233 |
| Construction-in-progress | 17,658 | 3,376 | 5,861 |
| Land | 13,972 | 13,972 | 13,972 |
| | $ 536,421 | $ 692,613 | $ 726,066 |

| Cost | Power plants | Natural gas pipeline | Office furniture, equipment and vehicles | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2021 | $ 1,109,024 | $ 37,789 | $ 4,701 | $ 13,972 | $ 13,548 | $ 1,179,034 |
| Additions | 3,538 | - | 420 | - | 4,110 | 8,068 |
| Disposals | (718) | - | (14) | - | - | (732) |
| Balance as of December 31, 2022 | $ 1,111,844 | $ 37,789 | $ 5,107 | $ 13,972 | $ 17,658 | $ 1,186,370 |

| Cost | Power plants | Natural gas pipeline | Office furniture, equipment and vehicles | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2021 | $ (486,592) | $ (15,153) | $ (3,295) | $ - | $ - | $ (486,646) |
| Eliminated on disposals of assets | 947 | - | - | - | - | 947 |
| Depreciation expense | (45,548) | (1,374) | (307) | - | - | (47,229) |
| Impairment | (115,483) | (645) | - | - | - | (116,128) |
| Balance as of December 31, 2022 | $ (646,676) | $ (17,172) | $ (3,602) | $ - | $ - | $ (667,450) |

| Cost | Power plants | Natural gas pipeline | Office furniture, equipment and vehicles | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2020 | $ 1,114,090 | $ 37,789 | $ 4,704 | $ 13,972 | $ 5,861 | $ 1,176,416 |
| Additions | 23,346 | - | 179 | - | - | 23,526 |
| Disposals | (18,015) | - | (183) | - | (2,486) | (20,683) |
| Balance as of December 31, 2021 | $ 1,119,421 | $ 37,789 | $ 4,700 | $ 13,972 | $ 3,375 | $ 1,179,259 |
| Balance as of December 31, 2020 | $ (433,343) | $ (13,779) | $ (3,228) | $ - | $ - | $ (450,350) |

| Cost | Power plants | Natural gas pipeline | Office furniture, equipment and vehicles | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Eliminated on disposals of assets | 10,834 | - | 183 | - | - | 11,017 |
| Depreciation expense | (45,689) | (1,374) | (250) | - | - | (47,312) |
| Balance as of December 31, 2021 | $ (468,198) | $ (15,153) | $ (3,295) | $ - | $ - | $ (486,645) |

Depreciation expense was $47,980 and $47,312, for the years ended December 31, 2022 and 2021, respectively.

Impairment expense was $116,128, for the year ended December 31, 2022.

## 8. Diesel fuel and spare parts inventories and other consumables

As of December 31, 2022, and 2021, inventories of diesel fuel, spare parts and other consumables were as follows:

| | 2022 | 2021 |
|---|---|---|
| Spare parts and consumables | $ 26,968 | $ 26,058 |
| Diesel fuel | 44,551 | 45,405 |
| | $ 71,519 | $ 71,463 |

## 9. Goodwill

The goodwill was generated by the acquisition of power plants, carrying amount of goodwill for the years ended December 31, 2022 and 2021, as follows:

| | 2022 | 2021 |
|---|---|---|
| Goodwill | $ 8,815 | $ 8,815 |
| Impairment | (4,130) | - |
| | $ 4,638 | $ 8,815 |

For the purposes of impairment testing, goodwill is allocated to each of the Group’s cash-generating units that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit might be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and, subsequently, other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

## 10. Intangible assets

Intangible assets with finite useful lives as of December 31, 2022 and 2021, are as follows:

| | Weighted average remaining amortization period (years) | 2022<br>Gross carrying amount |
|---|---|---|
| Power Purchase Agreement (PPA) [1]: | | |
| CLR | 7 | $ 39,376 |
| CVH | 8 | 19,867 |
| CSO | 4 | 14,781 |
| | | 74,024 |
| Accumulated Amortization | | (46,250) |
| Amortization | | (3,328) |
| Impairment (see Note 3j) | | (24,446) |
| Net amount | | $ - |

| | Weighted average remaining amortization period (years) | 2022<br>Gross carrying amount | 2022<br>Accumulated amortization | 2022<br>Net amount |
|---|---|---|---|---|
| Natural Gas Transportation Agreement [2]: | | | | |
| GDR | | 16,126 | (9,086) | 7,040 |
| | | $ 16,126 | $ (9,086) | $ 7,040 |

| | Weighted average remaining amortization period (years) | 2021<br>Gross carrying amount | 2021<br>Accumulated amortization | 2021<br>Net amount |
|---|---|---|---|---|
| Power Purchase Agreement (PPA) [1]: | | | | |
| CLR | 8 | $ 39,376 | $ (24,218) | $ 15,158 |
| CVH | 9 | 19,867 | (11,603) | 8,264 |
| CSO | 5 | 14,781 | (10,429) | 4,352 |
| | | 74,024 | (46,250) | 27,774 |
| Natural Gas Transportation Agreement [2]: | | | | |
| GDR | | 16,125 | (8,364) | 7,761 |
| | | $ 90,149 | $ (54,614) | $ 35,535 |

(1) Intangible asset generated by the "Power Purchase Agreement" (PPA), entered into with CFE.
(2) Intangible asset generated by the permission to transport natural gas granted to CRE.

Amortization expense of intangible asset for the years ended December 31, 2022 and 2021 was $3,328 and $4,715, respectively. The estimated aggregate amortization expense for intangible assets with finite useful lives for each of the five subsequent years and thereafter is as follows:

| | |
|---|---|
| 2023 | $ 722 |
| 2024 | 722 |
| 2025 | 722 |
| 2026 | 722 |
| Thereafter | 4,152 |
| | $ 7,040 |

## 11. Derivative financial instruments

a. Derivative financial instruments were paid due to change in lender and the owner for this financial instrument to Buffalo Energy.

b. ***Financial risk management objectives***

These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Entity seeks to minimize the effects of these risks by using derivative financial instruments to interest risk exposures. The use of financial derivatives is governed by the Entity's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

c. ***Interest rate risk management***

The Entity is exposed to interest rate risk because it borrows funds are at floating interest rates. The risk is managed by the Entity by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

- ***Interest rate swap contracts***

Under interest rate swap contracts, the Entity agrees to exchange the difference between floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Entity to mitigate the risk of changing interest rates on the fair value of the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Entity's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

At December 31, 2021, the interest rate swaps were as follows:

| Financial institution | Notional amount | Inception date Year 2011 | Termination date Year 2025 | Rate received | Rate paid | Estimated fair value |
|---|---|---|---|---|---|---|
| SMBC (1) | 17,139 | January | January | Six-month LIBOR | 2.80% | $ (645) |
| SMBC (1) | 17,139 | January | January | Six-month LIBOR | 3.10% | (741) |
| Mizuho (2) | 17,139 | January | January | Six-month LIBOR | 2.80% | (614) |

| Financial institution | Notional amount | Inception date Year 2011 | Termination date Year 2025 | Rate received | Rate paid | Estimated fair value |
|---|---|---|---|---|---|---|
| Mizuho [(2)] | 17,139 | January | January | Six-month LIBOR | 2.70% | (583) |
| MUFG (Prior BTMU) [(3)] | 17,139 | January | January | Six-month LIBOR | 2.80% | (643) |
| MUFG (Prior BTMU) [(3)] | 17,139 | January | January | Six-month LIBOR | 2.80% | (643) |
| | | | | | | $ (3,869) |

(1) Sumitomo Mitsui Banking Corporation (SMBC).
(2) Mizuho Corporate Bank, Ltd. (Mizuho).
(3) The Bank of Tokyo-Mitsubishi UFJ, Ltd (BTMU).

The estimated fair value amounts presented above have been determined by the Entity using available market information, which are all considered Level 2 inputs within the fair value hierarchy under IAS 39. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

d. ***Liquidity risk management***

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Entity’s short-, medium- and long-term funding and liquidity management requirements. The Entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. This note sets out details of additional undrawn facilities that the Entity has of its disposal to further reduce liquidity risk.

– *Liquidity and interest risk tables*

The following table details the Entity’s remaining contractual maturity for its derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Entity may required to pay. The table include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Entity may be required to pay.

| Outstanding Contracts | Fixed effective interest Rate % | Less than 6 months | 6 months - less than 1 year | 1 - 3 years | 3-5 years | >5 years to maturity | Total |
|---|---|---|---|---|---|---|---|
| **December 31, 2021** | | | | | | | |
| SMBC | 2.80% | $ 232 | $ 178 | $ 254 | $ - | $ - | $ 664 |
| SMBC | 3.10% | 258 | 201 | 302 | - | - | 761 |
| Mizuho | 2.80% | 232 | 178 | 254 | - | - | 664 |
| Mizuho | 2.70% | 223 | 171 | 238 | - | - | 632 |
| MUFG | 2.80% | 232 | 178 | 253 | - | - | 663 |
| MUFG | 2.80% | 232 | 178 | 254 | - | - | 664 |
| | | $ 1,409 | $ 1,084 | $ 1,555 | $ - | $ - | $ 4,048 |

## 12. Long-term debt

On November 9, 2022, Buffalo Energy settled the outstanding long-term debt and interest of $89,936 contracted by the Entity with Japanese Banks.

The carrying amounts at amortized cost or at fair value of the long-term debt were as follows:

| | 2022 | 2021 |
|---|---|---|
| | Amount | |
| Facility A: Japan Bank for International Cooperation, bearing variable interest at 1.5550% plus a semi-annual LIBOR, (1.70825% as of December 31, 2021) with semi-annual installments from January 2011 to January 2025 | $ - | $ 75,410 |
| Facility B: Japan Bank for International Cooperation, bearing variable interest at 2.0% plus a semi-annual LIBOR, (2.15325% as of December 31, 2021) with semi-annual installments from January 2011 to January 2025 | - | 6,855 |
| Facility C: MUFG Bank, Ltd. (Formerly The Bank of Tokyo-Mitsubishi UFJ, Ltd.), Mizuho Corporate Bank, Ltd., Sumitomo Mitsui Banking Corporation, bearing variable interest at 2.0% plus a semi-annual LIBOR, (2.15325% as of December 31, 2021) with semi-annual installments from January 2011 to January 2025 | - | 54,844 |
| Total debt | - | 137,109 |
| Less: | | |
| Deferred financing costs | - | (531) |
| Current portion of long-term debt | - | (48,927) |
| Long-term debt | $ - | $ 87,651 |

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Long term debt | $ - | $ - | $ 137,109 | $ 139,757 |

The estimated fair value amounts presented above have been determined using available market information, which are all considered Level 2 inputs within the fair value hierarchy under IAS 39. The use of different market assumption and/or estimation methodologies may have a material effect on the estimated fair value amounts for 2021

The loans referred to contain restrictive covenants, which require the Entity to maintain certain financial ratios and restricts the payment of dividends, granting of loans and obtaining additional financings. The Entitycomplied with these covenants until the payment in December 2021.

a *Liquidity and interest risk tables*

The following tables detail the Entity's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Entity can be required to pay.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Entity may be required to pay.

| Outstanding Contracts | Less than 6 months | 6 months - less than 1 year | 1 - 3 years | 3-5 years | >5 years to maturity | Total |
|---|---|---|---|---|---|---|
| **December 31, 2021** | | | | | | |
| Interest facility A (1) | $ 658 | $ 618 | $ 1,191 | $ 143 | $ - | $ 2,610 |
| Interest facility B (2) | 60 | 56 | 109 | 13 | - | 238 |
| Interest facility C (3) | 478 | 449 | 866 | 104 | - | 1,898 |
| | $ 1,196 | $ 1,123 | $ 2,166 | $ 260 | $ - | $ 4,746 |

(1) Facility A: Japan Bank for International Cooperation
(2) Facility B: Japan Bank for International Cooperation
(3) Facility C: MUFG Bank, Ltd. (Formerly The Bank of Tokyo-Mitsubishi UFJ, Ltd.), Mizuho Corporate Bank, Ltd., Sumitomo Mitsui Banking Corporation

## 13. Employee benefits

Information related to the Entity's seniority premium benefits and statutorily mandated severance benefits is as follows:

a. The Entity measures its seniority premium and severance benefits annually at December 31.

| | Seniority premium and severance benefits 2022 | 2021 |
|---|---|---|
| As of December 31: | | |
| Service cost | $ 1,610 | $ 542 |
| Interest cost | 628 | 542 |
| Unrecognized net actuarial loss | (5) | - |
| Net period cost | $ 2,233 | $ 1,084 |

| | Seniority premium and severance benefits 2022 | 2021 |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | $ 7,201 | $ 7,580 |
| Service cost | 1,610 | 542 |
| Interest cost | 628 | 542 |
| Actuarial gain | (1,606) | (1,463) |
| Benefit obligation at the end of year | $ 7,832 | $ 7,201 |

b. Nominal rates used in the actuarial calculations:

| | 2022 % | 2021 % |
|---|---|---|
| Discount of the projected benefit obligation at present value | 9.25% | 8.25% |
| Expected yield on plan assets | 5.00% | 5.00% |
| Salary increase | 16.00% | 16.00% |

The seniority premium and severance benefits were recognized at their fair value, which is the present value computed by an actuarial study.

In the other comprehensive loss related to recognition of net periodic cost for the year, there is an amount net of tax effect of $1,742 and $3,552 in 2022 and 2021, respectively.

## 14. Financial instruments

a. ***Capital management***

The Entity manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Entity's overall strategy remains unchanged from 2017.

The capital structure of the Entity consists of net debt (borrowings as detailed in note 12) and equity of the Entity (comprising issued capital, reserves and accumulated deficit).

The Entity is not subject to any externally imposed capital requirements.

b. ***Interest rate risk management***

The Entity is exposed to interest rate risk because entities in the Entity borrow funds at both fixed and floating interest rates. The risk is managed by the Entity by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The Entity's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

– *Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50-basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Entity's:

- Net profit (loss) for the years ended December 31, 2022 and 2021 would have decreased/increased by $ and $286, respectively. This is mainly attributable to the Entity's exposure to interest rates on its variable rate borrowings; and

The Entity's sensitivity to interest rates has decreased during the current year mainly due to the reduction in variable rate debt instruments and the increase in interest rate swaps to swap floating rate debt to fixed rate debt.

c. ***Liquidity risk management*** - The Entity manages liquidity risk by investing its surplus cash in risk-free investment instruments to be used at the time required by the Entity. The Entity has continuous monitoring of projected and actual cash flows.

As of December 31, 2022 and 2021, the contractual maturities of financial liabilities based on payment periods are as follows:

| 2022 | Less than a year | More than 1 year | Total |
|---|---|---|---|
| Credit from Buffalo Energy | $ 18,289 | $ 153,186 | $ 171,475 |
| Credit from Generación Buffalo | 2,000 | - | 2,000 |
| Accounts payable to gas suppliers | 18,264 | - | 18,264 |
| Total | $ 38,553 | $ 153,186 | $ 191,739 |

| 2021 | Less than a year | More than 1 year | Total |
|---|---|---|---|
| Accrued interest | $ 1,199 | $ - | $ 1,199 |
| Short term debt | 48,927 | 87,651 | 136,578 |
| Credit line from MUFG Bank México, S. A. and MUFG Bank, Ltd | 69,090 | - | 69,090 |
| Accounts payable to gas suppliers | 9,113 | - | 9,113 |
| Due to related parties | 4,131 | - | 4,131 |
| Derivative financial instruments | - | 3,869 | 3,869 |
| Total | $ 132,460 | $ 91,520 | $ 223,980 |

## 15. Stockholders' equity

a. Common stock at par value as of December 31, 2022 and 2021, is as follows (see note 1.2):

| Trust and Stockholders | Series and Class | 2022 Capital - Number of shares Fixed | Variable | Nominal Value |
|---|---|---|---|---|
| Buffalo Energy, S. A. de C. V. | Series "A" Class I | 49,999 | $ - | $ 4 |
| Buffalo Energy México Holdings, S. A. de C. V. | Series "A" Class I | 1 | - | - |
| Buffalo Energy, S. A. de C. V. | Series "A" Class II | - | 4,196,076,044 | 312,876 |
| Total | | $ 50,000 | $4,196,076,044 | $ 323,880 |

| Trust and Stockholders | Series and Class | 2021 Capital - Number of shares Fixed | Variable | Nominal Value |
|---|---|---|---|---|
| The Bank of New York Mellon, S. A., as Trustee of the Irrevocable Management and Security Majority Equity Trust Agreement No. F/0070 Mitsui & Co., Ltd. (34,999 shares) Tokyo Gas Co., Ltd. (15,000 shares) | Series "A" Class I | 49,999 | $ - | $ 4 |
| The Bank of New York Mellon, S. A., as Trustee of the Irrevocable Management and Security Minority Equity Trust Agreement No. F/0071 Mitsui & Co., Ltd. | Series "A" Class I | 1 | - | - |

| Trust and Stockholders | Series and Class | 2021 Capital - Number of shares Fixed | Variable | Nominal Value |
|---|---|---|---|---|
| The Bank of New York Mellon, S. A., as Trustee of the Irrevocable Management and Security Minority Equity Trust Agreement No. F/0070 Mitsui & Co., Ltd. (1,678,415,418 shares) Tokyo Gas Co., Ltd. (1,258,822,813 shares) Chubu Electric Power Falcon, B. V. (839,225,209 shares) Tohoku Power Investment Company, B. V. (419,612,604 shares) | Series "A" Class II | - | 4,196,076,044 | 312,876 |
| Total | | $ 50,000 | $4,196,076,044 | $ 323,880 |

Common stock consists of nominative shares at nominal value of $1 Mexican peso. Variable capital may be increased without limitation. Pursuant to the Irrevocable Management and Security Equity Trust Agreements numbers: F/00770 and F/0071, the Entity's shares were transferred to The Bank of New York Mellon, S. A. Institución de Banca Múltiple to secure payments and performance of all of its obligations under the financial documents.

b. Stockholders' equity, except restated tax contributed capital and tax-retained earnings, will be subject to income tax at the rate in effect upon distribution of such equity. Any tax paid on this distribution may be credited against annual and estimated income taxes of the year in which the tax on dividends is paid and the following two fiscal years.

c. In 2016, the Entity created the legal reserve from the retained earnings, in accordance with the General Corporate Law that requires that at least 5% of net income of the year be transferred to the reserve fund until the reserve equals 20% of common stock at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. At December 31, 2022 and 2021, the amount of the reserve fund is $18,100 and $17,434, respectively.

d. The balances of the stockholders' equity tax accounts as of December 31, 2022 and 2021, are as follows:

| | 2022 | 2021 |
|---|---|---|
| Contributed capital account | $ 388,533 | $ 338,991 |
| Net tax income account | 229,462 | 200,203 |
| Net tax income account from 2014 | 294,590 | 250,207 |
| Total | $ 912,585 | $ 789,401 |

## 16. Transaction and balances with related parties

a. Transactions with related parties for the years ended December 31:

| | 2022 | 2021 |
|---|---|---|
| Administrative services expense (1) | $ - | $ 9,711 |
| Technical advice service (1) | - | 1,530 |
| Guarantee fees (2) | - | 732 |
| Loan and interest (3) | 1,770 | - |

(1) Until November 9, 2022, Mitsui & Co., Power Development and Management Americas, S. de R. L. de C. V.
(2) Until November 9, 2022, The Sponsors (Mitsui & Co., Ltd., Tokyo Gas Co., Ltd., Chubu Electric Power Falcon, B. V., and Tohoku Power Investment Company, B. V.)
(3) Buffalo Energy, S. A. de C. V. & Generación Buffalo S. A. de C. V.

b. Accounts payable balances with related parties are as follows:

| | 2022 | 2021 |
|---|---|---|
| Due to related parties: | | |
| Buffalo Energy, S. A. de C. V. | $ 18,289 | $ - |
| Generacion Buffalo, S.A. de C. V. | 2,000 | - |
| Mitsui & Co., Power Development and Management Americas, S. de R. L. de C. V. | - | 3,952 |
| Chubu Electric Power Falcon B.V. | - | 51 |
| Mitsui & Co, Ltd | - | 57 |
| Tokyo Gas & Co. Ltd | - | 45 |
| Tohoku Power Investment | - | 26 |
| | $ 20,289 | $ 4,131 |

c. Accounts Payables with Buffalo Energy long-term as follow:

| | 2022 | 2021 |
|---|---|---|
| Due to related parties: | | |
| Buffalo Energy loan fixed interest rate (1) | $ 119,582 | $ - |
| Buffalo Energy Loan variable interest rate (2) | 33,604 | - |
| | $ 153,186 | $ - |

(1) Will accrue interest at the 7% fixed interest rate (see Note 1.2).

(2) Will accrue interest at the 8.06% variable interest rate (see Note 1.2).

Required principal repayments of long-term debt over the next nine years and thereafter as of December 31, 2022, are as follows:

| | |
|---|---|
| 2024 | $ 16,880 |
| 2025 | 16,628 |
| 2026 | 18,253 |
| 2027 | 37,759 |
| 2028 | 15,938 |
| 2029 | 13,407 |
| 2030 | 34,321 |
| | $ 153,186 |

## 17. Income taxes

The Entity is subject to ISR. The rate of current income is 30%.

The Entity and its subsidiaries applied to join this new integration regime, in order to determine income tax for the year 2015 as a sole entity for tax purposes. In March 2018, the tax authority has given its approval to the companies to apply the new scheme. Therefore, for 2022 and 2021, the companies have calculated their tax on Integrated Regime Scheme.

a. Income tax expense (benefit) for the years ended December 31, 2022 and 2021 was comprised of the following:

| | 2022 | 2021 |
|---|---|---|
| ISR: | | |
| Current | $ 9,493 | $ (2,927) |
| Deferred | (28,866) | 4,244 |
| Exchange gain deferred tax | (4,324) | (2,251) |
| | $ (23,697) | $ (954) |

b. As of December 31, 2022, and 2021, the components of deferred income tax assets (liabilities) were as follows:

| | 2022 | 2021 |
|---|---|---|
| **Assets:** | | |
| Accrued expenses and provisions | $ 2,894 | $ 4,094 |
| Tax, loss carryforwards | 49,413 | 41,599 |
| Employee benefits | 183 | 1,242 |
| Derivative financial instruments | - | 1,161 |
| Deferred revenue under contract with CFE | 101,962 | 109,353 |
| | 154,452 | 157,450 |
| **Liabilities:** | | |
| Long term debt, deferred financing cost | (72) | (144) |
| Power plants, natural gas pipeline and equipment - Net | (89,598) | (130,379) |
| Intangible asset – Net | (2,112) | (12,075) |
| | (91,782) | (142,598) |
| Valuation allowance (1) | (43,550) | (28,720) |
| Deferred income tax liability - Net | $ 19,120 | $ (13,868) |

(1) The components of the Entity's valuation allowance are the tax-loss carryforwards and net tax values of power plant equipment of EAA, which the Entity estimates would not be recoverable.

Income tax recognized in other comprehensive loss as of December 31, 2022 and 2021 was:

| | 2022 | 2021 |
|---|---|---|
| Hedging instruments | $ - | $ (1,135) |
| Loss on labor obligations | (230) | 299 |
| | $ (230) | $ (836) |

c. Income taxes and the reconciliation of the statutory and effective ISR rates expressed as a percentage of income before income taxes are:

| | 2022 % | 2021 % |
|---|---|---|
| Statutory income tax rate | 30 | 30 |
| Plus (less): | | |
| Non-deductible expenses | (1) | (5) |
| Exchange gain (loss) | (5) | (42) |
| Effects of tax inflation | 3 | 199 |
| Changes in valuation allowance | (4) | (195) |
| Other accumulative temporary items | (5) | (21) |
| Effective income tax rate | 18 | (34) |

d. As of December 31, 2021, the Entity has operating loss carryforwards, which are available to offset future taxable income, as follows:

| Expiration Date | Amount |
|---|---|
| 2025 | $ 20,578 |
| 2026 | 23,496 |
| 2027 | 10,397 |
| 2028 | 3,787 |
| 2029 | 23,130 |
| 2030 | 23,488 |
| 2031 | 27,036 |
| 2032 | 30,161 |
| | $ 162,073 |

## 18. Commitments

a. ***Power Purchase Agreement Guarantee*** - During the effective period of all PPAs, the Entity must deliver to CFE, irrevocable and unconditional letters of credit of $95,000 to guarantee the fulfillment of its obligations through the date of commercial operation. Such letters of credit are renewed on an annual basis.

b. ***Net energy power output*** - According to the terms and conditions of the PPAs, the Entity shall make available to CFE at the interconnection point that CFE will purchase from the Entity: (a) prior to the commercial operation date, all the net power output generated during the tests, and (b) commencing on the commercial operation date and continuing for the remaining term of the PPA, the net energy power output associated with the net capacity corresponding to the guaranteed amount.

c. ***Fuel supply contracts*** - On May 29, 2018, Central Lomas de Real, S. A. de C. V. and Central Valle Hermoso. S. A. de C. V entered into a fuel supply agreement with Trafigura Trading L. L. C. in order to transport gas to be delivered to the Entity in the quantity of 50,000 MMBTU a day as firm fixed quantity, and 45,000 MMBTU per day as firm variable quantity, for each one.

In accordance with the Contract for sale and purchase of natural gas with Trafigura LLC, Central Lomas de Real, S. A. de C. V. and Central Valle Hermoso. S. A. de C. V. must deliver an irrevocable credit letter, which will be recalculated annually. At December 31, 2022, the guarantee amount is $30,000 thousand U. S. dollars, for each one.

d. ***Other fuel supply contracts*** - The other fuel supply contracts Tenaska Marketing Ventures, establish that they will provide a fuel sale to Central Valle Hermoso, S. A. de C. V. In return, the Entity must provide an irrevocable letter of credit which will be recalculated every year. On December 31, 2022, the guarantees amount by $3,000 thousand. In accordance with the Contract for sale and purchase of natural gas with Mitsui & Co. Energy Marketing and Services (USA), Inc the Entity must deliver an irrevocable credit letter, which will be recalculated annually. At December 31, 2022, the guarantee amount is $2,400 thousand U.S. dollars.

e. ***Natural gas transportation service agreement*** - On September 26, 2002, the Entity executed a natural gas transportation service agreement with Pemex Gas y Petroquímica Básica (“PGPB”) which, among other items, establishes a maximum natural gas delivery capacity of 130,000 MMBTU. Similarly, the agreement was executed for 15 years, after which it will be automatically renewable on annual basis. On March 11, 2015, PGPB transfer its rights and obligations of the natural gas transportation service agreement to CFE.

On October 25, 2018, Gasoducto del Río, S. A. de C. V. entered into an interruptible gas transportation agreement with CFE ENERGÍA, S. A. de C. V., effective from its execution date until May 31, 2022. The contract stipulates, among others, that the Entity is obliged to transport up to 70,000 MMBTU per day of natural gas delivered, subject to its available capacity. The tariff is subject to the revision and approval by the Energy Regulation Commission, based on the Transportation Terms and Conditions.

The Contract stablishes the renewal under the Transportation Terms and Conditions where it is mentioned that the CFE ENERGIA must notify to Gasoducto del Río the intention to renew the contract with 6 months in advance. Nevertheless, CFE ENERGIA did not make the corresponding renewal notification.

f. ***Other fuel supply contracts*** - The other fuel supply contracts Tenaska Marketing Ventures, establish that they will provide a fuel sale to Central Lomas de Real and Central Valle Hermoso, S. A. de C. V. In return, the Entity must provide an irrevocable letter of credit which will be recalculated every year. On December 31, 2022, the guarantees amount $3,000 thousand. In accordance with the Contract for sale and purchase of natural gas with Mitsui & Co. Energy Marketing and Services (USA), Inc the Entity must deliver an irrevocable credit letter, which will be recalculated annually. At December 31, 2022, the guarantee amount is $2,400 thousand U. S. dollars.

g. ***Natural gas transportation service agreement*** - On September 26, 2002, the Entity entered into a natural gas transportation service agreement with Pemex Gas y Petroquímica Básica ("PGPB") which, among other items, establishes a maximum natural gas delivery capacity of 130,000 MMBTU. Similarly, the agreement was entered into for 15 years, after which it will be automatically renewed on annual basis. On March 11, 2015, PGPB transferred its rights and obligations of the natural gas transportation service agreement to CFE.

On October 25, 2018, Gasoducto del Río, S. A. de C. V. entered into an interruptible gas transportation agreement with CFE ENERGÍA, S. A. de C. V., effective from its execution date until May 31, 2022. The contract sets forth, among others, that the Entity is obliged to transport up to 70,000 MMBTU per day of natural gas delivered per day, subject to its available capacity. The tariff is subject to the Transportation General Conditions issued by the Energy Regulation Commission.

h. ***Fuel Supply Agreement*** - The Entity entered into a Fuel Supply Gas Agreement ("FSA"), whereby the Entity purchases natural gas from Pemex Transformación Industrial ("PTI") to be used in the energy production. The energy is then supplied to CFE at a price determined based on the cost of the gas. The contract has a term of 25-years commencing May 1, 2002.

i. ***Fuel Supply Agreement Guarantee*** - In accordance with the FSA with PTI, the Entity must deliver an irrevocable letter of credit, which will be recalculated annually. The first calculation will be made 15 days before the first fuel supply date. The actual covered amount is 988 million of Mexican pesos expiring January 28, 2023.

j. ***Exclusivity of the commitment for power and capacity*** - The Entity shall not have the right to commit or supply any portion of the demonstrated net capacity or the associated net energy power output to any person other than the CFE or its legal and authorized assignees or successors.

The capacity charge revenues and the schedule of payments to be received, excluding contingent rentals, according to the contract with CFE in the next five years, are:

| Years | Capacity charge Revenues | Schedule of Payments |
|---|---|---|
| 2023 | $ 166,916 | $ 115,993 |
| 2024 | 166,916 | 114,050 |
| 2025 | 166,916 | 115,722 |
| 2026 | 166,916 | 106,059 |
| 2027 | 166,916 | 47,150 |
| | $ 834,580 | $ 498,974 |

k. The Entity executed a long-term spare parts and service agreements ("LTSA") for periods of between eleven and twelve years with Siemens Power Inc., and eleven years with Mitsubishi Power Americas, Inc. ("Mitsubishi") (formerly Mitsubishi Power Systems Americas, Inc.), which includes the parts and repair program contracts, thereby fulfilling parts and major spare parts requirements. The minimum payment commitments undertaken through the LTSA for the next five years and subsequent years are as follows:

| Years | Amount |
|---|---|
| 2023 | $ 22,442 |
| 2024 | 23,262 |
| 2025 | 26,289 |
| 2026 | 24,099 |
| 2027 | 14,066 |
| Thereafter | 22,164 |
| | $ 132,322 |

The power plants (excluded Central Saltillo, S. A. de C. V.), entered into a new Long-Term Service Agreement ("LTSA") on April 1, 2018 with Mitsubishi Power Systems Americas, Inc. and Mitsubishi Hitachi Power Systems de México, S. A. de C. V. or (The "Suppliers").

On November 25, 2019, Central Saltillo, S. A. de C. V., entered into a new Long-Term Service Agreement ("LTSA") with Power Systems MFG, L. L. C.

Under the LTSA, the Entity receives spare parts, materials, equipment, tools, supplies, craft labor, personnel facilities, supervision, subcontractors, gases, welding and burning equipment, consumables, technical field engineers, and undertakes all activities necessary to plan and perform scheduled maintenance.

l. For the commitments related with the debt, see Note 12 Long-term debt.

## 19. Contingencies

a. Additional taxes payable could arise in transactions with non-resident related parties if the tax authority, during a review, believes that prices and amounts used by the Entity are not similar to those used with or between independent parties in comparable transactions.

b. Electric Industry Law - as part of the bills submitted by Mexico's President since May 15, 2020, to strengthen the role of the CFE through the Policy on the Reliability, Continuity and Security of the National Electricity System (which was repealed on March 4, 2022 following the verdict issued by a District Court Judge. Therefore, the Reliability Policy established by the Ministry of Energy, published in the Official Gazette of the Federation on February 28, 2017, was reinstated)), on March 9, 2022, the President submitted an amendment to certain provisions of the Electric Industry Law ("LIE", for its acronym in Spanish), which was published in the Mexican Federal Official Gazette ("DOF", for its acronym in Spanish).

- On September 27, 2022, and on March 19, 2022, the Judge of the Second District Court for Competition and Telecommunications issued a definitive favorable ruling to electricity market participants, which suspends the effects of the LIE reform. In April 2022, the Supreme Court of Justice ("SCJN", for its acronym in Spanish) ruled of the constitutionality of the LIE; however, on January 25, 2023, by decision of the Second Chamber of the SCJN, through an agreement of resumption of competence to re- analyze the amparo files and the proceedings. At the date of financial statements, the LIE is suspended.

c. On July 29, 2021 and December 17, 2021, the Government of the State of Tamaulipas issued the Decree LXIV-121 and Decree LXIV-281, respectively; whereby such government added several provisions to the Tax Code of Tamaulipas and the Fiscal Law Coordination for the State of Tamaulipas, establishing a new "Green Tax" applicable for fiscal year 2022 addressed to the companies with emissions into the atmosphere of substances generated in their production processes from 25 tons per month. These amendments imposing the payment of the "Green Tax" represented a financial impact on Central Anáhuac, S. A. de C. V. (CAC), and Electricidad Águila de Altamira, S. de R. L. de C. V. (EAA), and consequently both Entities filed an amparo lawsuit to challenge the "Green Tax" application to both Entities and such claim was admitted on February 11, 2022 by the Federal Courts. As part of the amparo proceedings, on March 17, 2022, the Entities requested the temporary injunction to suspend the collection of the "Green Tax" until the relevant Court issues the final judgement.

   On July 2021 EAA, was granted the definitive suspension by the Court. On June 2021, CAC was also granted a definitive suspension.

   CAC–In June 2022, the District Judge dismissed the amparo lawsuit and CAC filed an appeal, admitted by the First Collegiate Tribunal of the Nineteenth Circuit, which is pending of resolution.

   EAA – In October 2021, the District Judge dismissed the amparo lawsuit and EAA filed an appeal, admitted by the Second Collegiate Tribunal of the Nineteenth Circuit, which is pending of resolution.

   If the amparo lawsuit against the Green Tax is lost, CAC and EAA will be required to pay the corresponding taxes which amount to $90 and $261, respectively.

d. On May 4, 2022, SENER published a law amendment to the Hydrocarbon Law derived from March 28 presidential initiative. Amparos against this reform were filed on June 15, 2022, only for the permits related to natural gas activities: 1) own use and 2) transport. One amparo per each permit.

   CAC, CSO, EAA own use permits. on August 19, 2021, the Judge of the First District Court for Competition and Telecommunications, granted the definitive suspension, on the same date, the Authorities filed an appeal against the judgment, which is pending of resolution.

   On October 27, 2022, the Judge issued a judgment deciding to grant the amparo and protection of justice against the Decree reforming transitory article 13 of the Hydrocarbons Law, as well as Agreement A/015/2021 of the Energy Regulatory Commission and its implementation, on the same date, the Authorities filed an appeal against the judgment, which is pending of resolution. GDR transportation permit - On September 2, 2021, the Judge of the Second District Court for Competition and Telecommunications, granted the definitive suspension. On June 14, 2022, the Judge issued a judgment deciding to grant the amparo and protection of justice against the Decree reforming transitory article 13 of the Hydrocarbons Law, as well as Agreement A/015/2021 of the Energy Regulatory Commission and its implementation, on the same date, the Authorities filed an appeal against the judgment, which is pending of resolution.

e. On December 31, 2022, CRE published the resolution RES/550/2022 containing the new grid code. No Amparo was filed because the risk and impact would be limited, and the probability to is not high.

f. CAC, CSO, EAA, GDR. On December 27, 2022, was published in the Official Gazette of the Federation several amendments to the Miscellaneous Tax Resolution, applicable as of January 1, 2023, establishing the obligation to carry out volumetric controls of hydrocarbons. The respective amparos were filed, all pending of resolution, as well as the definitive suspension.

g. Except for the issues detailed in the preceding paragraphs, the Entity and its assets are not subject to any legal action other than the routine legal proceedings related to its activity.

## 20. Non-cash transactions

As described in note 1.2, on November 9th Buffalo Energy, S. A. de C. V. paid on behalf of the Entity the debt that the Entity had with the Japanese Banks. This operation paid the “Project Finance” and “Working Capital Facility Loan” outstanding long-term debt for a total amount of $153,817 and the Entity executed a new loan contract with Buffalo Energy, S. A. de C. V. No cash flow was originated by this transaction in the Entity.

## 21. Authorization to issue the consolidated financial statements

On June 23, 2023, the issuance of the accompanying consolidated financial statements was authorized by Arturo Infanzón Favela, Chief Financial Officer; consequently, they do not reflect events occurred after the date. These consolidated financial statements are subject to the approval of the Board of Directors and the general ordinary stockholders’ meeting, where they may be modified, based on provisions set forth in the Mexican General Corporate Law.

* * * * * *

# MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries

**(Subsidiary of Buffalo Energy, S. A. de C. V.)**

Condensed Interim Consolidated Financial Statements as of September 30, 2023 (unaudited) and December 31, 2022 and for the nine-month periods ended September 30, 2023 and 2022 (unaudited), and Independent Auditors’ Report Dated December 26, 2023

## MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries
**(Subsidiary of Buffalo Energy, S. A. de C. V.)**

# Independent Auditors’ Report and Condensed Interim Consolidated Financial Statements as of September 30, 2023 (unaudited) and December 31, 2022 and for the nine-month periods ended September 30, 2023 and 2022 (unaudited)

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# Independent Auditors' Report to the Board of Directors and Stockholders of MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries

### *Introduction*

We have reviewed the accompanying Condensed Interim Consolidated Statements of Financial Position of MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries (Subsidiary of Buffalo Energy, S.A. de C. V.) (the "Entity") as of September 30, 2023 (unaudited) and December 31, 2022 and the related Condensed Interim Consolidated Statements of Financial Position of Profit or Loss and Other Comprehensive Income, Condensed Interim Consolidated Statements of Changes in Stockholders' Equity and Condensed Interim Consolidated Statements of Cash Flows for the nine-month periods ended September 30, 2023 and 2022 (unaudited), and a summary of significant accounting policies and other explanatory information. Management is responsible for the preparation and fair presentation of this interim consolidated financial information unaudited in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" (IAS 34). Our responsibility is to express a conclusion on this interim consolidated financial information unaudited based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity (ISRE 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Interim Consolidated Financial Information does not give a true and fair view of (or "does not present fairly, in all material respects,") the Condensed Interim Consolidated Financial Position of the MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries and Subsidiaries as of September 30, 2023 (unaudited) and December 31, 2022, and of its Condensed Interim Consolidated Financial Performance and its Condensed Interim Consolidated Cash Flows for the nine-month periods ended September 30, 2023 and 2022 (unaudited) in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34).

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C. P. C. Erik Padilla Curiel
Mexico City
December 26, 2023

## MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries
**(Subsidiary of Buffalo Energy, S. A. de C. V.)**

# Condensed Interim Consolidated Statements of Financial Position

**As of September 30, 2023 (unaudited), and December 31, 2022**
**(In thousands of U.S. dollars)**

## Assets

| | Note | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | 5 | $ 43,324 | $ 36,347 |
| Accounts receivable | 6 | 65,632 | 86,632 |
| Prepaid expenses | | 22,399 | 30,377 |
| Recoverable taxes | | 12,981 | - |
| Due from related parties | 13(b) | 386 | - |
| Total current assets | | 144,722 | 153,356 |
| Non-current assets: | | | |
| Power plants, natural gas pipeline, property and equipment - Net | 7 | 505,970 | 536,421 |
| Diesel fuel and spare parts inventories and other consumables | 8 | 80,580 | 71,519 |
| Goodwill | 9 | 4,638 | 4,638 |
| Intangible asset - Net | 10 | 6,498 | 7,040 |
| Deferred income tax | 14 (b) | 58,262 | 19,120 |
| Total non-current assets | | 655,948 | 638,738 |
| Total assets | | $ 800,670 | $ 792,094 |

## Liabilities and stockholders' equity

| | Note | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|---|
| Current liabilities: | | | |
| Credit from Buffalo Energy, related party | 13(b) | $ 2,713 | $ 18,291 |
| Credit from Generación Buffalo, related party | 13(b) | 2,146 | 2,000 |
| Accounts payable to gas suppliers | | 12,812 | 18,264 |
| Accrued expenses and short-term direct employee benefits | | 48,024 | 48,034 |
| Tax payable | | 21,907 | 17,823 |
| Total current liabilities | | 87,602 | 104,412 |
| Non-current liabilities: | | | |
| Long-term debt - Buffalo Energy, related party | 13(c) | 138,852 | 153,186 |
| Deferred revenue under contract with Mexican Federal Electricity Commission | 15(j) | 302,344 | 339,712 |
| Employee benefits | | 9,908 | 7,832 |
| Total non-current liabilities | | 451,104 | 500,730 |
| Total liabilities | | 538,706 | 605,142 |

(Continued)

| | Note | 2023 (unaudited) | 2022 |
|---|---|---|---|
| Commitments and contingencies | 15, 16 | | |
| Stockholders' equity: | | | |
| Class I, par value $1 Mexican peso, 50,000 shares authorized, issued and outstanding | 12 | - | - |
| Class II, par value $1 Mexican peso, 4,196,076,044 shares authorized, issued and outstanding | 12 | - | - |
| Paid-in capital | 12 | 323,880 | 323,880 |
| Additional paid-in capital | | 1,674 | 1,674 |
| Accumulated deficit | | (84,813) | (159,825) |
| Reserve fund | 12 | 18,629 | 18,629 |
| Other comprehensive income | | 2,594 | 2,594 |
| Total stockholders' equity | | 261,964 | 186,952 |
| Total stockholders' equity and liabilities | | $ 800,670 | $ 792,094 |

See accompanying notes to Condensed Interim Consolidated Financial Statements.

(Concluded)

## MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries
**(Subsidiary of Buffalo Energy, S. A. de C. V.)**

# Condensed Interim Consolidated Statements of Profit or Loss and Other Comprehensive Income

**For the nine-month periods ended September 30, 2023 and 2022 (unaudited)**
**(In thousands of U.S. dollars)**

| | Notes | Nine-month period ended September 30, 2023 (unaudited) | Nine-month period ended September 30, 2022 (unaudited) |
|---|---|---|---|
| Revenue and other income: | | | |
| Capacity charges | 3(m) | $ 189,512 | $ 175,983 |
| Energy charges | 3(m) | 247,599 | 563,781 |
| Gas transport services | 3(m) | 2,116 | 2,070 |
| Other revenues | | 4,570 | - |
| | | 443,797 | 741,834 |
| Cost and expenses: | | | |
| Fuel expense | | (290,050) | (610,585) |
| Major maintenance costs | | (42,101) | (50,528) |
| Depreciation and amortization | | (35,455) | (38,990) |
| Administrative expenses | | (23,988) | (24,036) |
| | | (391,594) | (724,139) |
| Operating income | | 52,203 | 17,695 |
| Other financing cost: | | | |
| Interest income | | 21 | 447 |
| Interest expense | | (12,120) | (7,099) |
| Foreign exchange gain - Net | | (425) | (1,116) |
| | | (12,524) | (7,768) |
| Income before income tax | | 39,679 | 9,927 |
| Income (expense) tax | 14 | 35,333 | (3,199) |
| Net income | | $ 75,012 | $ 6,728 |

See accompanying notes to Condensed Interim Consolidated Financial Statements.

**MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries**
**(Subsidiary of Buffalo Energy, S. A. de C. V.)**

# Condensed Interim Consolidated Statements of Changes in Stockholders' Equity

**For the nine-month periods ended September 30, 2023 (unaudited) and 2022 (unaudited)**
**(In thousands of U. S. dollars, except share data)**

| | Stockholders' equity | | | Retained earnings | | Other items of comprehensive loss | | |
|---|---|---|---|---|---|---|---|---|
| | Shares issued | Paid-in capital | Additional paid-in capital | Reserve fund | Accumulated deficit | Hedging instruments | Employee benefits | Total stockholders' equity |
| Balance as of January 1, 2022 | 4,196,126,044 | $ 323,880 | $ 1,674 | $ 18,100 | $ (53,305) | $ (2,709) | $ 853 | $ 288,493 |
| Net loss for the period | | | | | | | | |
| Other comprehensive loss for the period - Net of income tax | - | - | - | - | 6,728 | 1,873 | - | 8,601 |
| Reserve Fund | - | - | - | 529 | (529) | - | - | - |
| Balance as of September 30, 2022 (unaudited) | 4,196,126,044 | 323,880 | 1,674 | 18,629 | (47,106) | (836) | 853 | 297,094 |
| Net loss for the period | - | - | - | - | (112,719) | - | - | (112,719) |
| Other comprehensive loss for the period - Net of income tax | - | - | - | - | - | (420) | 2,997 | 2,577 |
| Total comprehensive loss (income) | - | - | - | - | (112,719) | (420) | 2,997 | (110,142) |
| Balance as of December 31, 2022 | 4,196,126,044 | 323,880 | 1,674 | 18,629 | (159,825) | (1,256) | 3,850 | 186,952 |
| Net income for the period | - | - | - | - | 75,012 | - | - | 75,012 |
| Balance as of September 30, 2023 (unaudited) | 4,196,126,044 | $ 323,880 | $ 1,674 | $ 18,629 | $ (84,813) | $ (1,256) | $ 3,850 | $ 261,964 |

See accompanying notes to Condensed Interim Consolidated Financial Statements.

**MT Falcon Holdings Company, S. A. P. I. de C. V. and Subsidiaries**
**(Subsidiary of Buffalo Energy, S. A. de C. V.)**

# Condensed Interim Consolidated Statements of Cash Flows

**For the nine-month periods ended September 30, 2023 and 2022 (unaudited)**
**(In thousands of U. S. dollars)**

| | September 2023 (unaudited) | September 2022 (unaudited) |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income for the period | $ 75,012 | $ 6,728 |
| Adjustments for: | | |
| Income tax recognized in profit for the period | (35,333) | 3,199 |
| Depreciation and amortization | 35,455 | 38,990 |
| Deferred revenue under contract with Mexican Federal Electricity Commission - Long term | (37,368) | (18,087) |
| Interest income | (21) | (447) |
| Adjustments to reconcile net loss to net cash financing activities: | | |
| Interest expense | 12,120 | 7,099 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Accounts receivable, mainly Mexican Federal Electricity Commission | 21,000 | (53,741) |
| Inventories of diesel fuel, spare parts and other consumables | (9,061) | 5,282 |
| Prepaid expenses, mainly maintenance | 7,978 | (20,522) |
| Recoverable taxes | (12,981) | - |
| Accounts receivable related parties | (386) | - |
| (Decrease) increase in: | | |
| Accounts payable to gas suppliers | (5,452) | (9,113) |
| Accrued expenses and direct employee benefits | 2,066 | 61,598 |
| Income tax | 275 | 3,975 |
| Accounts payable related parties | 2,859 | (1,687) |
| Net cash generated by operating activities | 56,163 | 23,274 |
| Cash flows from investing activities: | | |
| Acquisition of fixed assets | (4,462) | (7,536) |
| Interest income | 21 | - |
| Net cash generated in investing activities | (4,441) | (7,536) |
| Cash flows from financing activities: | | |
| Payment to Buffalo Energy | (32,625) | - |
| Payment to Credit line from Bank of Tokyo Mitsubishi, UFJ, S. A. | - | (54,241) |
| Interest paid | (12,120) | (7,392) |
| Net cash used in financing activities | (44,745) | (61,633) |
| Net increase in cash and cash equivalents | 6,977 | (45,895) |
| Cash and cash equivalents at the beginning of period | 36,347 | 86,000 |
| Cash and cash equivalents at the end of period | $ 43,324 | $ 40,105 |

See accompanying notes to Condensed Interim Consolidated Financial Statements.

# Notes to the Condensed Interim Consolidated Financial Statements

**As of September 30, 2023 (unaudited) and December 31, 2022 and for the nine-month periods ended September 30, 2023 and 2022 (unaudited)**
**(In thousands of U. S. dollars)**

## 1. General Information and significant events

### 1.1 *General information*

MT Falcon (the "Entity", and together with its Subsidiaries, the "Group") owns five gas-fired combined cycle power plants with an aggregate generating capacity of 2,233 megawatts (MW) (the "Power plants") and a natural gas-pipeline measuring 57.9 kilometers (KM) located in Northeastern Mexico with a delivery capacity of 410,000 Million of British Thermal Units (MMBTU) per day. The generation capacity and energy output produced by the power plants are sold exclusively to the Mexican Federal Electricity Commission ("CFE", for its acronym in Spanish) under a Power Purchase Agreement (PPA) with a term of 25 years, starting on the Commercial Operating Date (COD).

The Entity has obtained permits granted by the Mexican Energy Regulatory Commission (Comisión Reguladora de Energía or "CRE", for its acronym in Spanish), for each of its power plants to generate and sell electricity to the CFE as an independent producer. This agreement has a mandatory term of 25 years.

The Entity obtained permits from the CRE for each power plant to produce and sell electricity as a generator to the National Center of Energy Control (Centro Nacional de Control de Energía or "CENACE", for its acronym in Spanish), into the wholesale electricity market. This agreement has a mandatory term of 30 years.

### 1.2 *Significant events*

#### i. *Acquisition of Mt Falcon Holdings (see Note 13)*

On November 9, 2022, Actis, a leading global investor in sustainable infrastructure, acquired 100 per cent of the issued share capital of MT Falcon, obtaining control of MT Falcon from a consortium including Mitsui & Co. ("Mitsui"), Tokyo Gas, JERA and Tohoku Electric Power.

MT Falcon owns and operates five combined-cycle gas turbine power plans in Mexico with a total capacity of c.2.2GW and an adjacent natural gas-pipeline and qualifies as a business as defined in IFRS 3 Business Combinations. The business is being re-branded with immediate effect as "Valia Energía" ("Valia") and will focus on delivering an equitable Energy Transition in Mexico with sustainability at the core of its investment strategy. Valia acquired MT Falcon through a new holding entity "Buffalo Energy, S. A. de C. V.".

ii. ***Debt restructuring***

a. ***Project financing:***

On November 9, 2022, Buffalo Energy settled the outstanding long-term debt and interest contracted by the Entity with Japanese banks for the Project Financing:

| | | Amount |
|---|---|---|
| Facility A y B: Japan Bank for International Cooperation | $ | 54,071 |
| Facility C: MUFG Bank, Ltd. (Formerly The Bank of Tokyo-Mitsubishi UFJ, Ltd.) | | 11,955 |
| Facility C: Mizuho Corporate Bank, Ltd. | | 11,955 |
| Facility C: Sumitomo Mitsui Banking Corporation | | 11,955 |
| Total | $ | 89,936 |

b. ***Working Capital Facility Loan:***

On November 9, 2022, Buffalo Energy settled the outstanding long-term debt and interest contracted by the Entity with Japanese banks for the Working Capital Facility Loan:

| | | Amount |
|---|---|---|
| MUFG Bank, Ltd. (Formerly The Bank of Tokyo-Mitsubishi UFJ, Ltd.) | $ | 63,881 |
| Total | $ | 63,881 |

c. ***Loan contract with Buffalo Energy***

On November 9, 2022, the Entity executed a loan contract for the amount of $153,416 with Buffalo Energy for a period of seven years, which accrues interest at a 7% fixed interest rate for $119,873 and a 8.06% variable interest rate and as a result for this transaction had a loan due the financial fees for $16,520 with a 7% fixed interest rate.

## 2. Basis of presentation

These Condensed Interim Consolidated Financial Statements have been prepared for purposes of including them in a filing with the U.S. Securities and Exchange Commission, exempt from registration under Rule 144A, where it is contemplated that once the transaction in question takes place Buffalo Energy México Holdings, S. A. de C. V. will become the holding entity of the companies included in these Condensed Interim Consolidated Financial Statements.

Transactions among the consolidated companies and the balances and unrealized gains or losses arising from intra-group transactions have been eliminated in the preparation of the condensed consolidated financial statements.

a. ***Statement of compliance***

These unaudited Condensed Interim Consolidated Financial Statements for the nine months ended September 30, 2023 have been prepared in accordance with the International Accounting Standard 34 "*Interim Financial Reporting*" (IAS 34), and should be read in conjunction with the Entity's Consolidated Financial Statements as at and for the year ended December 31, 2022. They do not include all of the information required for a complete set of consolidated financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS"). However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Entity's consolidated financial position and consolidated financial performance since the last annual consolidated financial statements.

b. ***Concentration of credit risk***

Until December 31, 2016, the Entity sold 100% of energy output to CFE. Since April 2017, the Entity sells the energy output to CFE in accordance with the PPA and the surplus energy over contracted energy, is offered and provided to CENACE, which exposes the Entity to a concentration of credit risk.

The Entity believes any potential risk is low, due to the fact that amounts due from CFE are guaranteed by the Mexican Federal Government.

c. ***New and amended IFRS Accounting Standards that are effective for the current period***

In the current period, the Entity has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

| | |
|---|---|
| *Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies* | The group has adopted the amendments to IAS 1 for the first time in the current year. The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. |
| | The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. |
| | The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. |

| | |
|---|---|
| *Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction* | The group has adopted the amendments to IAS 12 for the first time in the current year. The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit.<br><br>Following the amendments to IAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12. |
| *Amendments to IAS 12 Income Taxes—International Tax Reform—Pillar Two Model Rules* | The group has adopted the amendments to IAS 12 for the first time in the current year. The IASB amends the scope of IAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum topup taxes described in those rules.<br><br>The amendments introduce a temporary exception to the accounting requirements for deferred taxes in IAS 12, so that an entity would neither recognize nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.<br><br>Following the amendments, the group is required to disclose that it has applied the exception and to disclose separately its current tax expense (income) related to Pillar Two income taxes. |
| *Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates* | The group has adopted the amendments to IAS 8 for the first time in the current year. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The definition of a change in accounting estimates was deleted. |

***New and revised IFRS Accounting Standards in issue but not yet effective***

At the date of authorization of these financial statements, the Entity has not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective.

| | |
|---|---|
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* |
| Amendments to IAS 1 | *Classification of Liabilities as Current or Non-current* |
| Amendments to IAS 1 | *Non-current Liabilities with Covenants* |
| Amendments to IAS 7 and IFRS 7 | *Supplier Finance Arrangements* |
| Amendments to IFRS 16 | *Lease Liability in a Sale and Leaseback* |

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Entity in future periods, except if indicated below:

***Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.***

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the parent company anticipate that the application of these amendments may have an impact on the group's consolidated financial statements in future periods should such transactions arise.

***Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Non-current***

The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

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

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2024, with early application permitted. The IASB has aligned the effective date with the 2022 amendments to IAS 1. If an entity applies the 2020 amendments for an earlier period, it is also required to apply the 2022 amendments early.

The directors of the parent company anticipate that the application of these amendments may have an impact on the group's consolidated financial statements in future periods.

***Amendments to IAS 1 Presentation of Financial Statements—Non-current Liabilities with Covenants***

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or noncurrent). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is  not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

The amendments are applied retrospectively for annual reporting periods beginning on or after 1 January 2024. Earlier application of the amendments is permitted. If an entity applies the amendments for an earlier period, it is also required to apply the 2020 amendments early.

The directors of the parent company anticipate that the application of these amendments may have an impact on the grou's consolidated financial statements in future periods.

***Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures—Supplier Finance Arrangements***

The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

The term 'supplier finance arrangements' is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information. To meet the disclosure objective, an entity will be required to disclose in aggregate for its supplier finance arrangements:

- The terms and conditions of the arrangements
- The carrying amount, and associated line items presented in the entity's statement of financial position, of the liabilities that are part of the arrangements
- The carrying amount, and associated line items for which the suppliers have already received payment from the finance providers
- Ranges of payment due dates for both those financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of a supplier finance arrangement
- Liquidity risk information

The amendments, which contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments, are applicable for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted.

***Amendment to IFRS 16 Leases—Lease Liability in a Sale and Leaseback***

The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognize a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date.

The amendments do not affect the gain or loss recognized by the seller-lessee relating to the partial or full termination of a lease. Without these new requirements, a seller-lessee may have recognized a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in IFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.

As part of the amendments, the IASB amended an Illustrative Example in IFRS 16 and added a new example to illustrate the subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The illustrative examples also clarify that the liability, that arises from a sale and leaseback transaction that qualifies as a sale applying IFRS 15, is a lease liability.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If a seller-lessee applies the amendments for an earlier period, it is required to disclose that fact.

A seller-lessee applies the amendments retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied IFRS 16.

## 3. Material accounting policies

The accounting policies adopted in the preparation of the unaudited condensed combined interim financial statements are consistent with those applied in the Entity’s annual consolidated financial statements as at September 30, 2023 and for the year ended December 31, 2022.

The Entity has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Certain amendments apply for the first time in 2022, but do not have an impact on the Entity’s unaudited interim condensed combined financial statements.

## 4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group’s accounting policies, which are described in Note 3, the Entity’s management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### a. *Critical judgments in applying accounting policies*

The following are the critical judgments, apart from those involving estimations (see Note 4(b) below), that the Entity’s management has made in the process of applying the Group’s accounting policies and that have the most significant effect on the amounts recognized in the Condensed Interim Consolidated Financial Statements.

- *Determining control over subsidiaries*

  As part of the acquisition in 2010, the Entity made an analysis to determine whether it achieved control over its subsidiaries considering its power over the investee; has exposure and rights to variable returns from its involvement in the investee; and it has the ability to use its power to affect its returns.

- *Determining arrangements with leases*

  The Entity made an analysis of its PPAs to determine if it had to recognize them as leases or as a service concession arrangement, it concluded that the PPAs are in the scope of IFRS 16 and should be recognized as a lease arrangement.

- *Contingencies*

  As detailed in Note 16, the Entity is subject to contingencies that, it they materialize, could impact the financial position, performance or future cash flows.

- *Discount rate used to employee benefits*

  To determine the discount rate, the Entity needs to use high quality corporate bonds as reference, if there is no deep market of these bonds, it should use government bonds. The Entity considers the currency and maturity of its obligation to select the reference bonds.

b. ***Key sources of estimation uncertainty***

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- *Impairment of long-lived assets, goodwill and intangible assets*

  The Entity reviews goodwill and other intangible assets at least annually and long-lived assets when there is any indication that the asset might be impaired. Determining whether long-lived assets, goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which long-lived assets have been allocated. The value in use calculation requires the Entity's management to estimate the expected future cash flows over the revenue contract with CFE that will arise from the cash-generating unit and an appropriate discount rate to calculate present value. If the actual future cash flows are lower than expected, a material impairment loss may arise.

- *Deferred income tax assets*

  The Entity reviews at the end of each reporting period the carrying amount of deferred tax assets and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

- *Employee benefits*

  The Entity obtains the work of a actuarial specialist who determines the provision that should be recognized for each period based on the actuarial study.

- *Fair value measurements and valuation processes*

  Some of the Entity's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the Entity has set up a valuation committee, which is headed up by the Chief Financial Officer of the Entity, to determine the appropriate valuation techniques and inputs for fair value measurements.

  In estimating the fair value of an asset or a liability, the Entity uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Entity engages third party qualified appraiser to perform the valuation. The valuation committee works closely with the qualified external appraiser to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation's findings to the board of Directors of Entity, every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

## 5. Cash and cash equivalents

As of September 30, 2023 (unaudited), and December 31, 2022, cash and cash equivalents consist of:

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Cash | $ 3 | $ 3 |
| Cash equivalents [1] | 43,321 | 36,344 |
| | $ 43,324 | $ 36,347 |

[1] The Entity´s cash equivalents are composed of highly liquid overnight investments.

## 6. Accounts receivable

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Mexican Federal Electricity Commission | $ 65,508 | $ 86,629 |
| National Center of Energy Control | 124 | 3 |
| Total | $ 65,632 | $ 86,632 |

## 7. Power plants, natural gas pipeline, property and equipment

| | September 30, 2023 (unaudited) | December 31, 2022 | Balances at the beginning of 2022 |
|---|---|---|---|
| Power plants | $ 1,114,756 | $ 1,111,844 | $ 1,119,421 |
| Natural gas pipeline | 37,789 | 37,789 | 37,789 |
| Office furniture, equipment and vehicles | 5,543 | 5,107 | 4,700 |
| | 1,158,088 | 1,154,740 | 1,161,910 |
| Less - accumulated depreciation | (568,735) | (533,821) | (486,645) |
| Impairment | (116,128) | (116,128) | - |
| | 473,225 | 504,791 | 675,265 |
| Construction-in-progress | 18,773 | 17,658 | 3,376 |
| Land | 13,972 | 13,972 | 13,972 |
| | $ 505,970 | $ 536,421 | $ 692,613 |

| Cost | Power plants | Natural gas pipeline | Office furniture, equipment and vehicles | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2022 | $ 1,111,844 | $ 37,789 | $ 5,108 | $ 13,972 | $ 17,658 | $ 1,186,371 |
| Additions | 2,912 | - | 435 | - | 1,115 | 4,462 |
| Disposals | - | - | - | - | - | - |
| Balance as of September 30, 2023 | $ 1,114,756 | $ 37,789 | $ 5,543 | $ 13,972 | $ 18,773 | $ 1,190,833 |

| Accumulated Depreciation and Impairment | Power plants | Natural gas pipeline | Office furniture, equipment and vehicles | Land | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2022 | $ (629,176) | $ (17,171) | $ (3,602) | $ - | $ - | $ (649,949) |
| Depreciation expense | (33,609) | (1,031) | (274) | - | - | (34,914) |
| Impairment | - | - | - | - | - | - |
| Balance as of September 30, 2023 | $ (662,785) | $ (18,202) | $ (3,876) | $ - | $ - | $ (684,863) |
| **Carrying amount** | | | | | | |
| Balance as of September 30, 2023 (unaudited) | $ 451,971 | $ 19,587 | $ 1,667 | $ 13,972 | $ 18,773 | $ 505,970 |
| Balance as of December 31, 2021 | $ 1,109,024 | $ 37,789 | $ 4,701 | $ 13,972 | $ 13,548 | $ 1,179,034 |
| Additions | 3,538 | - | 420 | - | 4,110 | 8,068 |
| Disposals | (718) | - | (14) | - | - | (732) |
| Balance as of December 31, 2022 | $ 1,111,844 | $ 37,789 | $ 5,107 | $ 13,972 | $ 17,658 | $ 1,186,370 |
| Balance as of December 31, 2021 | $ (468,197) | $ (15,153) | $ (3,295) | $ - | $ - | $ (486,645) |
| Eliminated on disposals of assets | 947 | - | - | - | - | 947 |
| Depreciation expense | (46,442) | (1,374) | (307) | - | - | (48,123) |
| Impairment | (115,483) | (645) | - | - | - | (116,128) |
| Balance as of December 31, 2022 | $ (629,175) | $ (17,172) | $ (3,602) | $ - | $ - | $ (649,949) |
| **Carrying amount** | | | | | | |
| Balance as of December 31, 2022 | $ 482,669 | $ 20,617 | $ 1,505 | $ 13,972 | $ 17,658 | $ 536,421 |

Depreciation expense was $23,296 and $23,309 for the nine-month period ended September 30, 2023 (unaudited) and 2022 (unaudited), respectively.

## 8. Diesel fuel and spare parts inventories and other consumables

As of September 30, 2023 (unaudited), and December 31, 2022, inventories of diesel fuel, spare parts and other consumables were as follows:

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Spare parts and consumables | $ 28,299 | $ 26,968 |
| Diesel fuel | 52,281 | 44,551 |
| | $ 80,580 | $ 71,519 |

## 9. Goodwill

The goodwill was generated by the acquisition of power plants, carrying amount of goodwill for the nine-month period ended September 30, 2023 (unaudited) and December 31, 2022, as follows:

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Goodwill | $ 4,638 | $ 4,638 |
| | $ 4,638 | $ 4,638 |

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit might be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and, subsequently, other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

## 10. Intangible assets

Intangible assets with finite useful lives as of September 30, 2023 (unaudited) and December 31, 2022, are as follows:

| | September 30, 2023 (unaudited) | | |
|---|---|---|---|
| | Gross carrying amount | Accumulated amortization | Net amount |
| Natural Gas Transportation Agreement [(1)]: | | | |
| GDR | $ 7,040 | $ (542) | $ 6,498 |
| | $ 7,040 | $ (542) | $ 6,498 |

| | December 31, 2022 | | |
|---|---|---|---|
| | Gross carrying amount | Accumulated amortization | Net amount |
| Natural Gas Transportation Agreement [1]: | | | |
| GDR | $ 7,160 | $ (120) | $ 7,040 |
| | $ 7,160 | $ (120) | $ 7,040 |

[1] Intangible asset generated by the permission to transport natural gas granted to CRE.

Amortization expense of intangible asset for the nine-month period ended September 30, 2023 (unaudited) and 2022 (unaudited) was $422 and $120 respectively. The estimated aggregate amortization expense for intangible assets with finite useful lives for each of the five subsequent years and thereafter is as follows:

| | |
|---|---|
| 2023 | $ 180 |
| 2024 | 722 |
| 2025 | 722 |
| 2026 | 722 |
| Thereafter | 4,152 |
| | $ 6,498 |

## 11. Financial instruments

a. ***Capital management***

The Entity manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Entity's overall strategy remains unchanged from 2017.

The capital structure of the Entity consists of net debt and equity of the Entity (comprising issued capital, reserves and accumulated deficit).

The Entity is not subject to any externally imposed capital requirements.

b. ***Interest rate risk management***

The Entity is exposed to interest rate risk because entities in the Entity borrow funds at both fixed and floating interest rates. The risk is managed by the Entity by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The Entity's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

– *Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50-basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Entity's:

- Net profit (loss) for the years ended September 30, 2023 (unaudited) and December 31, 2022 would have decreased/increased by $286. This is mainly attributable to the Entity's exposure to interest rates on its variable rate borrowings; and

The Entity's sensitivity to interest rates has decreased during the current year mainly due to the reduction in variable rate debt instruments and the increase in interest rate swaps to swap floating rate debt to fixed rate debt.

c. ***Liquidity risk management*** - The Entity manages liquidity risk by investing its surplus cash in risk-free investment instruments to be used at the time required by the Entity. The Entity has continuous monitoring of projected and actual cash flows.

## 12. Stockholders' equity

a. Common stock at par value as of September 30, 2023 (unaudited) and December 31, 2022, is as follows (see note 1.2):

| Trust and Stockholders | Series and Class | September 30, 2023 (unaudited) Capital - Number of shares | | Nominal Value |
|---|---|---|---|---|
| | | Fixed | Variable | |
| Buffalo Energy, S. A. de C. V. | Series "A" Class I | $ 49,999 | $ - | $ 4 |
| Buffalo Energy México Holdings, S. A. de C. V. | Series "A" Class I | 1 | - | - |
| Buffalo Energy, S. A. de C. V. | Series "A" Class II | - | 4,196,076,044 | 323,876 |
| Total | | $ 50,000 | $4,196,076,044 | $ 323,880 |

| Trust and Stockholders | Series and Class | December 31, 2022 Capital - Number of shares | | Nominal Value |
|---|---|---|---|---|
| | | Fixed | Variable | |
| Buffalo Energy, S. A. de C. V. | Series "A" Class I | $ 49,999 | $ - | $ 4 |
| Buffalo Energy México Holdings, S. A. de C. V. | Series "A" Class I | 1 | - | - |
| Buffalo Energy, S. A. de C. V. | Series "A" Class II | - | 4,196,076,044 | 323,876 |
| Total | | $ 50,000 | $4,196,076,044 | $ 323,880 |

Common stock consists of nominative shares at nominal value of $1 Mexican peso. Variable capital may be increased without limitation. Pursuant to the Irrevocable Management and Security Equity Trust Agreements numbers: F/00770 and F/0071, the Entity's shares were transferred to The Bank of New York Mellon, S. A. Institución de Banca Múltiple to secure payments and performance of all of its obligations under the financial documents.

b. Stockholders' equity, except restated tax contributed capital and tax-retained earnings, will be subject to income tax at the rate in effect upon distribution of such equity. Any tax paid on this distribution may be credited against annual and estimated income taxes of the year in which the tax on dividends is paid and the following two fiscal years.

c. In 2016, the Entity created the legal reserve from the retained earnings, in accordance with the General Corporate Law that requires that at least 5% of net income of the year be transferred to the reserve fund until the reserve equals 20% of common stock at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. At September 30, 2023 and December 31, 2022, the amount of the reserve fund is $18,630 and $18,630, respectively.

## 13. Transaction and balances with related parties

a. Transactions with related parties for the nine-month periods ended September 30, 2023 (unaudited) and 2022 (unaudited):

| | Nine-month period ended September 30, 2023 (unaudited) | Nine-month period ended September 30, 2022 (unaudited) |
|---|---|---|
| Loan and interest [1] | $ 9,268 | $ 1,770 |

[1] Buffalo Energy, S. A. de C. V. & Generación Buffalo S. A. de C. V.

b. Accounts receivables and payable balances with related parties are as follows:

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Due from related parties: | | |
| Buffalo Energy, S. A. de C. V. | $ 386 | $ - |

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Due to related parties: | | |
| Buffalo Energy, S. A. de C. V. | $ 2,713 | $ 18,291 |
| Generacion Buffalo, S. A. de C. V. | 2,146 | 2,000 |
| | $ 4,859 | $ 20,291 |

c. Accounts Payables with Buffalo Energy long-term as follow:

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Due to related parties: | | |
| Buffalo Energy loan fixed interest rate (1) | $ 119,873 | $ 119,582 |
| Buffalo Energy Loan variable interest rate (2) | 18,979 | 33,604 |
| | $ 138,852 | $ 153,186 |

(1) Will accrue interest at the 7% fixed interest rate (see Note 1.2).
(2) Will accrue interest at the 8.06% variable interest rate (see Note 1.2).

Required principal repayments of long-term debt over the next nine years and thereafter as of September 30, 2023, are as follows:

| | |
|---|---|
| 2024 | $ 2,255 |
| 2025 | 16,628 |
| 2026 | 18,253 |
| 2027 | 37,759 |
| 2028 | 15,938 |
| 2029 | 13,407 |
| 2030 | 34,612 |
| | $ 138,852 |

## 14. Income taxes

The Entity is subject to ISR. The rate of current income is 30%.

The Entity and its subsidiaries applied to join this new integration regime, in order to determine income tax for the year 2015 as a sole entity for tax purposes. In March 2018, the tax authority has given its approval to the companies to apply the new scheme. Therefore, for 2023 and 2022, the companies have calculated their tax on Integrated Regime Scheme.

a. Income tax expense (benefit) for the nine-month periods ended September 30, 2023 (unaudited) and 2022 (unaudited) was comprised of the following:

| | Nine-month period ended September 30, 2023 (unaudited) | Nine-month period ended September 30, 2022 (unaudited) |
|---|---|---|
| ISR: | | |
| Current | $ 3,606 | $ 6,062 |
| Deferred | (38,939) | (2,863) |
| (Income) expense tax | $ (35,333) | $ 3,199 |

b. As of September 30, 2023 (unaudited), and December 31, 2022, the components of deferred income tax assets (liabilities) were as follows:

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| **Assets:** | | |
| Accrued expenses and provisions | $ 6,789 | $ 3,077 |
| Tax, loss carryforwards | 58,001 | 49,413 |
| Deferred revenue under contract with CFE | 90,487 | 101,962 |
| | 155,277 | 154,452 |
| **Liabilities:** | | |
| Long term debt, deferred financing cost | - | (72) |
| Power plants, natural gas pipeline and equipment - Net | (43,862) | (89,598) |
| Intangible asset - Net | (1,950) | (2,112) |
| | (45,812) | (91,782) |
| Valuation allowance (1) | (51,203) | (43,550) |
| Deferred income tax asset - Net | $ 58,262 | $ 19,120 |

(1) The components of the Entity's valuation allowance are the tax-loss carryforwards and net tax values of power plant equipment of EAA, which the Entity estimates would not be recoverable.

c. Income taxes and the reconciliation of the statutory and effective ISR rates expressed as a percentage of income before income taxes are:

| | Nine-month period ended September 30, 2023 (unaudited) % | Nine-month period ended September 30, 2022 (unaudited) % |
|---|---|---|
| Statutory income tax rate | 30 | 30 |
| Plus (less): | | |
| Non-deductible expenses | - | - |
| Exchange gain (loss) | - | - |
| Changes in valuation allowance | - | - |
| Effects of tax inflation and other accumulative items | (119) | 2 |
| Effective income tax rate | (89) | 32 |

d. As of September 30, 2023 (unaudited), the Entity has operating loss carryforwards, which are available to offset future taxable income, as follows:

| Expiration Date | Amount |
|---|---|
| 2024 | $ 25,078 |
| 2025 | 32,139 |
| 2026 | 13,319 |
| 2027 | 4,628 |
| 2028 | 24,741 |
| 2029 | 27,060 |
| 2030 | 25,583 |
| 2031 | 33,597 |
| 2032 | 7,193 |
| | $ 193,338 |

## 15. Commitments

a. ***Power Purchase Agreement Guarantee*** - During the effective period of all PPAs, the Entity must deliver to CFE, irrevocable and unconditional letters of credit of $95,000 to guarantee the fulfillment of its obligations through the date of commercial operation. Such letters of credit are renewed on an annual basis.

b. ***Net energy power output*** - According to the terms and conditions of the PPAs, the Entity shall make available to CFE at the interconnection point that CFE will purchase from the Entity: (a) prior to the commercial operation date, all the net power output generated during the tests, and (b) commencing on the commercial operation date and continuing for the remaining term of the PPA, the net energy power output associated with the net capacity corresponding to the guaranteed amount.

c. ***Fuel supply contracts*** - On May 29, 2018, Central Lomas de Real, S. A. de C. V. and Central Valle Hermoso. S. A. de C. V entered into a fuel supply agreement with Trafigura Trading L. L. C. in order to supply gas to be delivered to the Entity in the quantity of 50,000 MMBTU a day as firm fixed quantity, and 45,000 MMBTU per day as firm variable quantity, for each one.

In accordance with the Contract for sale and purchase of natural gas with Trafigura LLC, Central Lomas de Real, S. A. de C. V. and Central Valle Hermoso. S. A. de C. V. must deliver an irrevocable credit letter, which will be recalculated annually. As of December 31, 2022, the guarantee amount is $20,000 thousand U. S. dollars, for each one.

d. ***Other fuel supply contracts*** - The other fuel supply contracts Tenaska Marketing Ventures, establish that they will provide a fuel sale to Central Valle Hermoso, S. A. de C. V. In return, the Entity must provide an irrevocable letter of credit which will be recalculated every year. On December 31, 2022, the guarantees amount by $3,000 thousand.

e. ***Natural gas transportation service agreement*** - On September 26, 2002, the Entity executed a natural gas transportation service agreement with Pemex Gas y Petroquímica Basica (“PGPB”) which, among other items, establishes a maximum natural gas delivery capacity of 130,000 MMBTU. Similarly, the agreement was executed for 15 years, after which it will be automatically renewable on annual basis. On March 11, 2015, PGPB transfer its rights and obligations of the natural gas transportation service agreement to CFE.

On October 25, 2018, Gasoducto del Río, S. A. de C. V. entered into an interruptible gas transportation agreement with CFE ENERGÍA, S. A. de C. V., effective from its execution date until May 31, 2022. The contract stipulates, among others, that the Entity is obliged to transport up to 70,000 MMBTU per day of natural gas delivered, subject to its available capacity. The tariff is subject to the revision and approval by the Energy Regulation Commission, based on the Transportation Terms and Conditions.

The Contract stablishes the renewal under the Transportation Terms and Conditions where it is mentioned that the CFE ENERGIA must notify to Gasoducto del Río the intention to renew the contract with 6 months in advance. Nevertheless, CFE ENERGIA did not make the corresponding renewal notification.

f. ***Fuel Supply Agreement*** - The Entity entered into a Fuel Supply Gas Agreement ("FSA"), whereby the Entity purchases natural gas from Pemex Transformación Industrial ("PTI") to be used in the energy production. The energy is then supplied to CFE at a price determined based on the cost of the gas. The contract has a term of 25-years commencing May 1, 2002.

g. ***Fuel Supply Agreement Guarantee*** - In accordance with the FSA with PTI, the Entity must deliver an irrevocable letter of credit, which will be recalculated annually. The first calculation will be made 15 days before the first fuel supply date. The actual covered amount is 872 million of Mexican pesos expiring January 3, 2024.

h. ***Exclusivity of the commitment for power and capacity*** - The Entity shall not have the right to commit or supply any portion of the demonstrated net capacity or the associated net energy power output to any person other than the CFE or its legal and authorized assignees or successors.

The capacity charge revenues and the schedule of payments to be received, excluding contingent rentals, according to the contract with CFE in the next five years, are:

| Years | Capacity charge Revenues | Schedule of Payments |
|---|---|---|
| 2023 | $ 41,729 | $ 28,998 |
| 2024 | 166,916 | 114,050 |
| 2025 | 166,916 | 115,722 |
| 2026 | 166,916 | 106,059 |
| 2027 | 166,916 | 47,150 |
| 2028 | 125,187 | 86,995 |
| | $ 834,580 | $ 498,974 |

i. The Entity executed a long-term spare parts and service agreements ("LTSA") for periods of between eleven and twelve years with Siemens Power Inc., and eleven years with Mitsubishi Power Americas, Inc. ("Mitsubishi") (formerly Mitsubishi Power Systems Americas, Inc.), which includes the parts and repair program contracts, thereby fulfilling parts and major spare parts requirements. The minimum payment commitments undertaken through the LTSA for the next five years and subsequent years are as follows:

| Years | Amount |
|---|---|
| 2023 | $ 5,610 |
| 2024 | 23,262 |
| 2025 | 26,289 |
| 2026 | 24,099 |
| 2027 | 14,066 |
| Thereafter | 38,997 |
| | $ 132,323 |

The power plants (excluded Central Saltillo, S. A. de C. V.), entered into a new Long-Term Service Agreement ("LTSA") on April 1, 2018 with Mitsubishi Power Systems Americas, Inc. and Mitsubishi Hitachi Power Systems de México, S. A. de C. V. or (The "Suppliers").

On November 25, 2019, Central Saltillo, S. A. de C. V., entered into a new Long-Term Service Agreement ("LTSA") with Power Systems MFG, L. L. C.

Under the LTSA, the Entity receives spare parts, materials, equipment, tools, supplies, craft labor, personnel facilities, supervision, subcontractors, gases, welding and burning equipment, consumables, technical field engineers, and undertakes all activities necessary to plan and perform scheduled maintenance.

## 16. Contingencies

a. Additional taxes payable could arise in transactions with non-resident related parties if the tax authority, during a review, believes that prices and amounts used by the Entity are not similar to those used with or between independent parties in comparable transactions.

b. Electric Industry Law - as part of the bills submitted by Mexico's President since May 15, 2020, to strengthen the role of the CFE through the Policy on the Reliability, Continuity and Security of the National Electricity System (which was repealed on March 4, 2022, following the verdict issued by a District Court Judge. Therefore, the Reliability Policy established by the Ministry of Energy, published in the Official Gazette of the Federation on February 28, 2017, was reinstated)), on March 9, 2022, the President submitted an amendment to certain provisions of the Electric Industry Law ("LIE", for its acronym in Spanish), which was published in the Mexican Federal Official Gazette ("DOF", for its acronym in Spanish).

- Amparos were filed for the 5 power plants.
- CAC, CLR, and EAA, got a favorable resolution in 28/Oct/22, the authority filed an appeal against this resolution which is pending. The definitive suspension has been denied but there is a suspension granted with general effects that protects all companies until such procedures were concluded.
- CSO and CVH had their constitutional hearing on 27/Sep/22, and the court dismissed part of the claim while granting a partial favorable resolution (granting the amparo). The definitive suspension has been denied for this specific cases but there is a suspension granted with general effects that protects all companies until such procedures were concluded.

c. In April 2022, the Supreme Court of Justice ("SCJN", for its acronym in Spanish) ruled of the constitutionality of the LIE; however, on January 25, 2023, by decision of the Second Chamber of the SCJN, through an agreement of resumption of competence to re- analyze the amparo files and the proceedings. At the date of financial statements, the LIE is suspended.

d. On July 29, 2021 and December 17, 2021, the Government of the State of Tamaulipas issued the Decree LXIV-121 and Decree LXIV-281, respectively; whereby such government added several provisions to the Tax Code of Tamaulipas and the Fiscal Law Coordination for the State of Tamaulipas, establishing a new "Green Tax" applicable for fiscal year 2022 addressed to the companies with emissions into the atmosphere of substances generated in their production processes from 25 tons per month. These amendments imposing the payment of the "Green Tax" represented a financial impact on Central Anahuac, S. A. de C. V. (CAC), and Electricidad Águila de Altamira, S. de R. L. de C. V. (EAA), and consequently both Entities filed an amparo lawsuit to challenge the "Green Tax" application to both Entities and such claim was admitted on February 11, 2022, by the Federal Courts. As part of the amparo proceedings, on March 17, 2022, the Entities requested the temporary injunction to suspend the collection of the "Green Tax" until the relevant Court issues the final judgement.

In February 2021 CAC & EAA's amparos were accepted by the local courts. Only CAC & EAA filed amparos because they are the only plants capable of generating electricity with diesel fuel.

In October 2021, the court dismissed EAA's amparo. That ruling was appealed in November '21 and it is still pending. In the meantime, the payment of the tax is suspended and EAA only must file a bond as a payment guaranty for such taxes whenever the plant operates with diesel.

In September 2022, the court dismissed CAC's amparo. That ruling was appealed in July '22 and it is still pending. In the meantime, the payment of the tax is suspended, and CAC only must file a bond as a payment guaranty for such taxes whenever the plant operates with diesel.

On December 20,2022, the provisions for the ecological contributions disappears for 2023 and thereafter. However, the repeal is not retroactive, so for the years 2021 and 2022 the amparo lawsuits must be continued and the bonds issued must remain in effect until the amparos are resolved.

If the amparo lawsuit against the Green Tax is lost, CAC and EAA will be required to pay the corresponding taxes which amount to $180K and $605K, respectively.

e. On May 4, 2022, SENER published a law amendment to the Hydrocarbon Law derived from March 28 presidential initiative. Amparos against this reform were filed on September 15, 2022, only for the permits related to natural gas activities: 1) own use and 2) transport. One amparo per each permit.

CAC, CSO, EAA own use permits. In the constitutional hearing of October 27, 2022, the court granted our companies the amparo (elimination of asymmetric regulation of PEMEX). The definitive suspension has been granted, the Authorities filed an appeal against the judgment and on September 27, 2023, the second collegiate court specialized, confirmed the definitive suspensions previously granted.

GDR: In the constitutional hearing of September 16, 2022, the court granted the amparo (elimination of asymmetric regulation of PEMEX). The authority filed an appeal against this resolution which is pending. The definitive suspension has been granted. On September 27, 2023, the second collegiate court specialized ordered that the study of the constitutionality of the Hydrocarbon Law was original competence of the Supreme Court of Justice, so the court sent this matter to the SCJN. On August 29,2023, the SCJN resolved that the collegiate court must determinate the final judgment, the resolution is still pending.

f. Federal Fiscal Code. 2021. Bill to amend various provisions including those related to Volumetric Controls "Those who manufacture, produce, process, transport, store, including storage for self-uses, distribute or dispose of any hydrocarbon or petroleum product will be obliged to carry out volumetric controls".

g. CAC, CSO & EAA: On October 10, 2022, the court dismissed our lawsuit and denied the amparo. We have filed an appeal against this resolution which is still pending. The definitive suspensions were denied in March 2022.

h. GDR: On September 30, 2022, the court dismissed our lawsuit and denied the amparo. We have filed an appeal against this resolution which is still pending. The definitive suspension was denied in March 2022.

i. Except for the issues detailed in the preceding paragraphs, the Entity and its assets are not subject to any legal action other than the routine legal proceedings related to its activity.

## 17. Authorization to issue the Condensed Interim Consolidated Financial Statements

On December 26, 2023, the issuance of the accompanying Condensed Interim Consolidated Financial Statements was authorized by Arturo Infanzón Favela, Chief Financial Officer and Alejandro Milián López, Director of Controlling, Administration, and Procurement; consequently, they do not reflect events occurred after the date. These Condensed Interim Consolidated Financial Statements are subject to the approval of the Board of Directors.

* * * * * *

**EVM Tenedora, S. A. P. I. de C. V. and subsidiary and, EVM Energía del Valle de México, S.A.P.I de C.V. Combined Financial Statements**

Combined Financial Statements as of and for the years ended December 31, 2022 and 2021 and as of January 1, 2021 and Independent Auditor's Report October 12, 2023

**Content:**

# Independent Auditor's Report

The Board of Directors and Stockholders
EVM Tenedora, S. A. P. I. de C. V. and subsidiary and, EVM Energía del Valle de México, S.A.P.I de C.V.:

*Opinion*

We have audited the combined financial statements of EVM Tenedora, S. A. P. I. de C. V. and subsidiary and EVM Energía del Valle de México, S. A. P. I. de C. V. (collectively, EVM Group or the Company), which comprise the combined statements of financial position as of December 31, 2022 and 2021 and January 1, 2021, the combined statements of profit or loss and other comprehensive income, net parent investment and cash flows for the years ended December 31, 2022 and 2021, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the combined accompanying financial statements present fairly, in all material respects, the combined financial position of EVM Tenedora, S. A. P. I. de C. V. and subsidiary and EVM Energía del Valle de México, S. A. P. I. de C.V. as of December 31, 2022 and 2021 and January 1, 2021, and the combined financial performance and its combined cash flows for each of the years in the years ended December 31, 2022 and 2021, in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

*Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the combined financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Emphasis of Matters*

a) As described in note 19 to the accompanying combined financial statements, on July 13, 2023, the EVM Group's shareholders entered into a purchase and sale agreement with Buffalo Energy Infrastructure S. A. de C. V. ("Buffalo"), an unrelated third party. Buffalo acquired all of the issued share capital of EVM Energía del Valle de México, S.A de C.V. and EVM Tenedora, S.A.P.I. de C.V. and subsidiary. As a result of this transaction, the EVM Group had a change in control in such date. No other related party entities were part of this transaction. Our opinion is not modified in respect of this matter.

b) As described in note 13 to the accompanying combined financial statements, the net sales of the Company were made to two main clients representing 100% of total net sales in both 2022 and 2021 and gas purchases by the Company were made from one main supplier representing 100% of total gas purchases in both 2022 and 2021. Our opinion is not modified in respect of this matter.

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

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

In preparing the combined 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.

*Auditors' Responsibilities for the Audit of the Combined Financial Statements*

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 combined 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 combined 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 auditors' report to the related disclosures in the combined 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 auditors' 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 combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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.

KPMG CARDENAS DOSAL, S. C.

Bruno Cesar Farfan Samperio

October 12, 2023

## EVM Tenedora, S. A. P. I. de C. V. and subsidiary and, EVM Energía del Valle de Mexico S. A. P. I. de C. V. Combined Financial Statements

# Combined Statements of Financial Position

**As of December 31, 2022, 2021 and January 1, 2021**
**(US dollars)**

| | Notes | December 31, 2022 | December 31, 2021 | January 1, 2021 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current Assets:** | | | | |
| Cash and cash equivalents | 5 | $ 45,552,284 | $ 24,991,216 | $ 68,328,207 |
| Trade accounts receivable | 6 | 52,105,225 | 43,366,057 | 1,469,207 |
| Due from related parties | 15 | 8,780 | 8,260 | 8,522 |
| Other receivables | 6 | 7,922,154 | 6,821,416 | 24,767,907 |
| Recoverable income tax | | 192,086 | 165,104 | - |
| Prepayments | 16 | 3,471,826 | 211,051 | 329,397 |
| **Total current assets** | | 109,252,355 | 75,563,104 | 94,903,240 |
| Prepayments, long-term | 16 | 11,250 | 15,734 | 7,895 |
| Derivative financial instruments | 13 | 1,727,216 | - | - |
| Property, plant and equipment, net | 7 | 806,404,489 | 835,278,286 | 865,329,057 |
| Intangible assets, net | | 5,619,215 | 6,017,996 | 6,416,776 |
| Deferred income tax | 11 | 10,896,427 | 18,358,148 | 8,836,236 |
| Security deposits | | 1,096,391 | 1,031,301 | 2,064,115 |
| **Total non-current assets** | | 825,754,988 | 860,701,465 | 882,654,079 |
| **Total assets** | | $ 935,007,343 | $ 936,264,569 | $ 977,557,319 |
| **Liabilities and Net Parent Investment** | | | | |
| **Current Liabilities:** | | | | |
| Current installments of long-term debt | 9 | $ 22,838,397 | $ 23,301,579 | $ 24,244,203 |
| Trade accounts payable | | 37,677,268 | 35,974,092 | 37,360,346 |
| Due to related parties, short term | 15 | 10,913,099 | 6,114,989 | - |
| Other liabilities | 8 | 3,757,347 | 1,367,613 | 3,190,988 |
| Statutory employee profit sharing payable | | 34,400 | 32,358 | - |
| Provisions | 17 | 18,219,354 | 3,704,910 | 11,724,708 |
| Deferred revenues | | - | - | 17,900,000 |
| **Total current liabilities** | | 93,439,865 | 70,495,541 | 94,420,245 |
| **Non-current Liabilities:** | | | | |
| Due to related parties, long-term portion | 15 | 116,100,315 | 109,559,074 | 102,772,855 |
| Employee benefits | 10 | 9,651 | 6,604 | - |
| Derivative financial instruments | 13 | - | 5,353,920 | 10,199,927 |
| Other liabilities | 8 | 3,631,921 | 3,416,301 | 3,525,014 |
| Deferred income tax | 11 | 10,227,828 | - | - |
| Contributions for future parent investment | 3e) | - | 191,718 | 197,818 |
| Long-term debt, excluding current installments | 9 | 663,653,464 | 678,602,394 | 695,514,665 |
| **Total non-current liabilities** | | 793,623,179 | 797,130,011 | 812,210,279 |
| **Total liabilities** | | $ 887,063,044 | $ 867,625,551 | $ 906,630,524 |

| | Notes | December 31, 2022 | December 31, 2021 | January 1, 2021 |
|---|---|---|---|---|
| **Net Parent Investment** | | | | |
| Controlling interest: | | | | |
| Net parent investment | 12 | 106,286,717 | 106,083,286 | 106,083,286 |
| Accumulated deficit | | (64,051,364) | (46,307,205) | (43,411,782) |
| Other comprehensive income | | 5,315,864 | 1,742,360 | 47,200 |
| **Net parent investment attributable to controlling interest** | | 47,551,217 | 61,518,441 | 62,718,704 |
| Non-controlling interest | | 393,081 | 7,120,576 | 8,208,091 |
| Total net parent investment | | 47,944,299 | 68,639,017 | 70,926,795 |
| **Total liabilities and net parent investment** | | $ 935,007,343 | $ 936,264,569 | $ 977,557,319 |

The accompanying notes are an integral part of these combined financial statements, which were authorized for their issuance on October 12, 2023.

## EVM Tenedora, S. A. P. I. de C. V. and subsidiary and, EVM Energía del Valle de Mexico S. A. P. I. de C. V. Combined Financial Statements

# Combined statements of Profit or Loss and Other Comprehensive Income

**Years ended December 31, 2022 and 2021**
**(US dollars)**

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Net sales | 14 | $ 499,652,540 | $ 374,842,366 |
| Cost of sales | 14 | 433,795,783 | 312,481,347 |
| Gross profit | | 65,856,757 | 62,361,019 |
| Operating expenses | 14 | 22,532,659 | 20,913,518 |
| Finance income (expense cost): | | | |
| Interest income | | 3,464,973 | 2,818,471 |
| Interest expense | | (58,812,417) | (58,471,298) |
| Amortized debt issuance costs | | (930,504) | (1,049,048) |
| Changes in the fair value of derivative financial instruments | 13 | 2,499,722 | 2,692,065 |
| Foreign exchange gain (loss), net | | 3,744,152 | (1,402,557) |
| Finance cost, net | | (50,034,074) | (55,412,367) |
| Loss before income taxes | | (6,709,976) | (13,964,866) |
| Current income taxes | | 1,080,037 | - |
| Deferred income taxes | 11 | 19,063,976 | (8,852,041) |
| **Net loss for the period** | | $ (26,853,989) | $ (5,112,825) |
| Other comprehensive income: | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Changes in fair value of derivative financial instruments, net of tax | 11 | 5,955,839 | 2,823,723 |
| *Items that will not be reclassified to profit or loss:* | | | |
| Remeasurement of net defined benefit liability, net of tax | 11 | - | 1,324 |
| Other comprehensive income for the period | | 5,955,839 | 2,825,047 |
| Total comprehensive loss | | $ (20,898,150) | $ (2,287,778) |
| Loss attributable to: | | | |
| Controlling interest | | (17,744,159) | (2,895,423 ) |
| Non-controlling interest | | (9,109,830) | (2,217,402) |
| | | (26,853,989) | (5,112,825) |
| Total comprehensive loss attributable to: | | | |
| Controlling interest | | (14,170,656) | (1,200,263) |
| Non-controlling interest | | (6,727,494) | (1,087,515) |
| | | (20,898,839) | (2,287,778) |

The accompanying notes are an integral part of these combined financial statements, which were authorized for their issuance on October 12, 2023.

**EVM Tenedora, S. A. P. I. de C. V. and subsidiary and, EVM Energía del Valle de Mexico S. A. P. I. de C. V. Combined Financial Statements**

# Combined Statements of Net Parent Investment

**Years ended December 31, 2022 and 2021**
**(US dollars)**

| | Notes | Net parent investment | Accumulated deficit | Other comprehensive loss | Net parent investment attributable to controlling interest | Non-controlling interest | Total net parent investment |
|---|---|---|---|---|---|---|---|
| Balances as of January 1, 2021 | | $ 106,083,286 | $ (43,411,782) | $ 47,200 | $ 62,718,704 | $ 8,208,091 | $ 70,926,795 |
| Net loss for the period | | - | (2,895,423) | - | (2,895,423) | (2,217,402) | (5,112,825) |
| Other comprehensive income for the period | | - | - | 1,695,160 | 1,695,160 | 1,129,887 | 2,825,047 |
| Balances as of December 31, 2021 | | 106,083,286 | (46,307,205) | 1,742,360 | 61,518,441 | 7,120,576 | 68,639,017 |
| Increase in net parent investment | 12 | 203,431 | - | - | 203,431 | - | 203,431 |
| Net loss for the period | | - | (17,744,159) | - | (17,744,159) | (9,109,830) | (26,853,988) |
| Other comprehensive income for the period | | - | - | 3,573,503 | 3,573,503 | 2,382,336 | 5,955,839 |
| Balances as of December 31, 2022 | | $ 106,286,717 | $ (64,051,364 | $ 5,315,864 | $ 47,551,217 | $ 393,081 | $ 47,944,299 |

The accompanying notes are an integral part of these combined financial statements, which were authorized for their issuance on October 12, 2023.

## EVM Tenedora, S. A. P. I. de C. V. and subsidiary and, EVM Energía del Valle de Mexico S. A. P. I. de C. V. Combined Financial Statements

# Combined Statements of Cash Flows

**Years ended December 31, 2022 and 2021**
**(US dollars)**

| | Notes | For the Years Ended December 31, 2022 | 2021 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Loss of the period before income taxes | | $ (6,709,976) | $ (13,964,866) |
| Adjustments for: | | | |
| Changes in the fair value of derivative financial instruments | 13 | (2,499,722) | (2,692,065) |
| Interest income | | (3,464,973) | (2,818,471) |
| Amortized debt issuance costs | | 930,504 | 1,049,048 |
| Depreciation and amortization | 14 | 32,560,651 | 32,646,651 |
| Interest expense | | 58,812,417 | 58,471,298 |
| Changes in: | | | |
| Trade accounts receivable | | (8,739,168) | (41,896,850) |
| Due from related parties | | 1,768,849 | 262 |
| Others receivable | | (1,100,738) | 17,946,491 |
| Prepayments | | (3,256,291) | 110,507 |
| Security Deposits | | (65,090) | 1,032,814 |
| Recoverable taxes | | (26,982) | (165,104) |
| Accounts payable | | 1,703,176 | (1,386,254) |
| Other liabilities | | 2,605,355 | (1,932,088) |
| Provisions | | 14,514,444 | (8,019,798) |
| Due to related parties | | 2,947,579 | 298,157 |
| Employee Benefits | | 3,047 | 6,604 |
| Income tax payable | | (2,454,464) | 3,764,934 |
| Employee profit sharing | | 2,042 | 32,358 |
| Contributions for future capital stock increases | | - | (6,100) |
| Deferred revenues | | - | (17,900,000) |
| Net cash from operating activities | | 87,530,660 | 24,577,528 |
| **Cash flows from investing activities** | | | |
| Acquisition of Property, plant and equipment | 7 | (3,480,459) | (2,197,100) |
| Disposal of Property, plant and equipment | 7 | 192,386 | - |
| Interest received | | 728,815 | 2,818,471 |
| Net cash used in investing activities | | (2,559,258) | 621,371 |
| **Cash flows from financing activities** | | | |
| Capital stock increase (decrease) | | 11,713 | - |
| Interest paid | | (44,076,177) | (48,269,547) |
| Proceeds from bank loan facilities | | - | 5,280,156 |
| Proceeds on interest swap | | 1,374,425 | - |
| Payments of loans | | (21,720,295) | (25,546,500) |
| Net cash provided by financing activities | | (64,410,334) | (68,535,891) |
| Net increase (decrease) in cash and cash equivalents | | 20,561,068 | (43,336,991) |
| Cash and cash equivalents: | 5 | | |
| At beginning of | | 24,991,216 | 68,328,207 |
| At end of year | | $ 45,552,284 | $ 24,991,216 |

The accompanying notes are an integral part of these combined financial statements, which were authorized for their issuance on October 12, 2023.

# Notes to Combined Financial Statements

**As of December 31, 2022 and 2021 and January 1, 2021**
**And for the Years Ended December 31, 2022 and 2021**
**(US Dollar)**

## 1. Reporting Entity and description of business

### (a) Corporate information

On October 12, 2023, Narciso de Carreras Roques (CEO) and Arturo Infanzón Favela (CFO) authorized the issuance of these combined financial statements.

The entities listed below (collectively, the "Group", "the Company" or the "Companies") are headquartered at Juan de Lafontaine 23, Polanco III Sección, Miguel Hidalgo, C.P. 11540, Mexico City. The Group will prepare its financial statements on a combined basis since it does not have an immediate controlling parent, and there are no evident parent-subsidiary relationships between the entities of the Group. The Companies are under common control and are presented herein on a combined basis as a single reporting entity:

i. EVM Tenedora, S.A.P.I. de C.V. and subsidiary ("EVM Tenedora");

ii. EVM Energía del Valle de México, S. A. P. I. de C. V. ("EVM Energía");

EVM Energía del Valle de Mexico Generador, S. A. P. I. de C. V., subsidiary of EVM Tenedora, has started commercial operation from January 1st, 2021. Its main activity is the ownership, design, development, construction, commission and operation of a 850-megawatt combined cycle gas turbine power plant and associated facilities in the Axapusco municipality, Estado de México, México.

EVM Energía is the ownership, design, development, construction, commission and operation of a 100-megawatt open cycle gas turbine power plant and associated facilities in the Axapusco municipality, Estado de México, México.

Administrative services are provided by EVM Administración, S.A de C.V., which is a related party.

On August 18, 2016, a service agreement was signed with the Centro Nacional de Control de Energía (CENACE), in order to carry out and maintain electric services in the Mexico City Valley during the 20 years of operation established in such agreement.

## 2. Basis of preparation-

These combined financial statements have been prepared for purposes of including them in an exempt offering under Rule 144A that is being undertaken by Buffalo Energy Mexico Holdings, S. A. de C. V. ("Buffalo"), which became the Group's holding entity on July 13, 2023, as discussed in Note 19.

**(a) Statement of compliance**

The Group has not previously prepared or reported any combined financial statements in accordance with any other generally accepted accounting principles ("GAAP"). The Group has prepared these combined financial statements in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), in effect as of December 31, 2022. As these are the Group's first combined financial statements prepared in accordance with IFRS, IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The requirement in IFRS 1 to provide reconciliations of financial information prepared under legacy GAAP to IFRS is not relevant to these combined financial statements as the Group has not previously prepared or reported any financial statements in accordance with any other GAAP.

The accounting policies set out in Note 2 have been consistently applied in preparing the combined financial statements for the year ended December 31, 2022, the comparative information presented in these combined financial statements for the year ended December 31, 2021 and in the preparation of an opening IFRS combined statement of financial position at January 1, 2021 (the Group's date of transition to IFRS).

**(b) Basis of combinations**

The Group has conducted the combination of EVM Energía and EVM Tenedora and subsidiary under the approach of common control. All companies were owned by the same shareholders. After the execution of the Purchase and Sale Agreement with Buffalo, on July 13, 2023, the Group is now wholly owned by Buffalo (refer to note 19).

The combined companies share the same financial reporting system, accounting policies under IFRS and operate in the energy industry and are operated by the same management group.

Transactions among the combined companies and the balances and unrealized gains or losses arising from intra-group transactions have been eliminated in the preparation of the combined financial statements following the guidance of IFRS 10 *Consolidated Financial Statements*, with the particularity that all shareholder's equity accounts are added up, after eliminations of intercompany transactions, and presented as the "Net Parent Investment".

The non-controlling interests arise from the consolidation procedures of EVM Tenedora, and it is measured initially and subsequently at the proportionate share of the subsidiary's net assets, which is determined by the percentual ownership interests over the subsidiary.

**(c) Basis of measurement**

The combined financial statements have been prepared on the historical cost basis, except for derivative financial instruments and net defined benefit liability, which are measured at fair value at the end of each reporting period.

**(d) Going concern basis**

The combined financial statements have been prepared on a going concern basis, which assumes that the Group will be able to discharge its liabilities including the bank loans, as disclosed in Note 9 and will have adequate resources to continue in operational existence for the foreseeable future.

**(e) Functional and presentation currency**

These combined financial statements are presented in US Dollars. All amounts have been rounded, unless otherwise indicated. Management has exercised judgment in selecting the functional currency of each of the entities included in these combined financial statements based on the primary economic environment in which the Companies operate and in reference to the various indicators including the currency that primarily influences or determines interest income, interest expense and other expenses. Based on this evaluation, management has determined that the functional currency of each of the entities included in these combined financial statements are US Dollars.

For purposes of disclosure in the notes to the combined financial statements, "$", and "dollars" or "U.S.$" means the United States of America dollars.

**(f) Use of judgements and estimates**

In preparing these combined financial statements, management has made judgments and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

A. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the combined financial statements is included in the following notes:

Note 3 (c) - revenue recognition: whether revenue from contracts with customers is recognized over time or at a point in time.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties as of December 31, 2022, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

Note 3 (k) – recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized;

Note 3(j) – measurement of defined benefit obligations: key actuarial assumptions; and

Note 3 (m) – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

C. Measurement of fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group reviews the significant observable inputs and valuation adjustments.

If third-party information, such as broker quotes or pricing services, is used to measure fair values, the Group evaluates the evidence obtained from third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses observable market data whenever possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1:* Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2:* Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3:* Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

## 3. Summary of significant accounting policies

The Group has consistently applied the following accounting policies to all the periods presented in these combined financial statements.

### (a) Basis of combination

The Group has conducted the combination of EVM Energía del Valle de Mexico, S. A. P. I. de C. V., and EVM Tenedora, S. A. P. I. de C. V. In addition, EVM Tenedora S. A. P. I. de C. V. also consolidates a 60% owned subsidiary, EVM Energía del Valle de Mexico Generador S. A. P. I. de C. V. The combination was prepared under the approach of “Common control”. All Companies are managed by the same control Group (“Group of Directors”), share the same financial reporting system and accounting financial policies (IFRS) and are part of the same operating industry.

Transactions, balances and unrealized gains or losses on transactions arising from intragroup transactions are eliminated on the combination following the principles signed by IFRS 10.

### (b) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on the historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss and presented within finance costs.

### (c) Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control over a good or service to a customer.

The Company acts as a principal in the activities from which it generates its revenue. Our revenues are primarily derived from (1) the ownership, design, development, construction, commission and operation of a 850-megawatt combined cycle gas turbine power plant and associated facilities, as well as (2) selling the produced energy.

For the selling of the energy by EVM Energía, revenue is recognized when the KW are transited and have been accepted by customers. For the operation revenue the Group recognizes the accrued amount based on the pattern of the transfer of control of the service, which is determined based on a formula that considers resources consumed and costs incurred.

As of December 31, 2022, 2021 and January 1, 2021 the Company did not capitalize costs to obtain contracts with customers because at the time of recognition, there was no reasonable certainty that these costs would be recovered. Due to the operations of the Group, the incremental costs are recognized in profit or loss as incurred.

**(d) Cash and cash equivalents**

Cash and cash equivalents of the Company are represented primarily by cash (cash on hand and demand deposits) and cash equivalents. Cash equivalents are short-term highly liquid investments with maturities no longer than 90 days, which are subject to an insignificant risk of changes in value. Cash is stated at nominal value and cash equivalents are measured at fair value.

**(e) Contributions for future net parent investment**

Contributions for future parent investment are contributions granted by the shareholders of the Group that will become part of the net parent investment on a certain date or when certain conditions are met, these contributions are recognized at the transaction price as a liability since there is no present value interest component to recognize.

**(f) Financial instruments**

(i) ***Recognition and initial measurement***

Financial assets and financial liabilities are recognized in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

(ii) ***Classification and subsequent measurement***

Financial assets –

On initial recognition, a financial asset is classified as measured at amortized cost or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at Fair Value Through Other Comprehensive Income ("FVOCI") if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in Other Comprehensive Income ("OCI"). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

*Financial assets – Business model assessment:*

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to investors. The information considered includes.

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Group's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flow collected; and

- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

*Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest.*

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual per amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

*Financial assets – Subsequent measurement and gains and losses:*

| | |
|---|---|
| Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. |
| Financial assets at amortized cost | These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gain or losses and impairment are capitalized. Any gain or loss on derecognition is recognized in profit or loss. |
| Debt investments at FVOCI | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. |
| Equity investments t FVOCI | These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss. |

*Financial liabilities – Classification, subsequent measurement and gains and losses*

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

(iii) ***Derecognition***

*Financial assets*

The Group derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:

  i. substantially all the risks and rewards of ownership of the financial asset are transferred; or
  ii. the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its combined statement of financial position but retains either all or substantially all of the risk and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

*Financial liabilities*

The Group derecognizes a financial liability when its contractual obligations are discharged or canceled or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

*Interest rate benchmark reform*

When the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changed as a result of interest rate benchmark reform, the Group updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and

- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

(iv) ***Offsetting***

Financial assets and financial liabilities are offset and the net amount presented in the combined statement of financial position when, and only when, the Group currently has a legally enforceable right to .set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(v) ***Derivative financial instruments***

The Group holds derivative financial instruments with the intention to hedge interest rate risk exposures.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

*Cash flow hedges*

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognized in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

(vi) ***Impairment of Non-financial assets***

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the Asset's recoverable amount is estimated.
For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognized in profit or loss.

For assets, other than goodwill, is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(g) Prepayments**

Prepaid expenses are initially recognized as assets as of the date the payment is made, provided that it is probable that the future economic benefits associated with the asset will flow to the Group. At the time the goods or services are received, prepaid expenses are either capitalized or recognized in profit or loss as an expense, depending on whether there is certainty that the acquired goods or services will generate future economic benefits. The Group periodically evaluates its prepaid expenses to determine the likelihood that they will cease to generate future economic benefits and to assess their recoverability. The Company classifies its prepayments as current or non-current assets, depending on the period when the Company expects to exercise them. Unrecoverable prepaid expenses are recognized as impairment losses in profit or loss.

**(h) Property, plant and equipment**

*i. Recognition and measurement*

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment as of 1 January 2021, the Company's date of transition to IFRS, was determined with reference to its fair value at that date

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

*ii. Subsequent expenditure*

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

*iii. Depreciation*

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Property, plant and equipment, are recorded at acquisition cost.

Depreciation on property, plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets as determined by the Company's Management.

On December 27, 2017, a service agreement was signed with GE Global Parts & Products GmbH, General Electric Global Services GmbH and GE Grid Solutions, S. A. de C. V., in order to carry out engineering, procurement and construction to design, develop, build, own and operate the Combined Cycle Power Plant in the municipality of Axapusco, State of México and began operations.

The Company has capitalized interest in Property, plant and equipment as a supplement of the acquisition cost of Power Plant, aggregating $40,158,280 as of January 1, 2021.

The Investments in process expenditures mainly include consultancies and services for the construction and operation of the combined cycle gas turbine power plant. These assets are recorded at acquisition cost and once in operation, will depreciate in a straight line, based on the validity of the concession.

Depreciation on property, plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets as determined by the Company's Management. The total useful lives and annual depreciation rates of the principal asset classes are shown below:

| | **Useful lives (years)** | **Rates** |
|---|---|---|
| Plant, machinery and equipment | 30 | 3% |
| Rotors | 15 | 6% |
| Transportation equipment | 4 | 25% |
| Office furniture and equipment | 10 | 10% |
| Computer equipment | 3.3 | 30% |

**(i) Intangible Assets**

Intangible assets with a defined useful life include mainly the rights paid the Federal Electricity Commission ("CFE", for its acronym in Spanish) for the supply and distribution of electric power to the entire Valley of Mexico and the implementation of a computer system, SAP and interface to other systems.

These assets are recorded at their acquisition cost and are amortized using the straight-line method over it´s their 20-year term.

**(j) Employee benefits**

i. **Short-term employee benefits**

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii. **Other long-term employee benefits**

The Group's net obligation in respect of long-term employee benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

iii. **Termination benefits**

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

iv. **Defined employee benefit**

In accordance with Mexican Labor Law, the Company provides seniority premium benefits to its employees under certain circumstances, which is recognized as a defined benefit plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of the defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of the economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan.

To calculate the present value of the economic benefits, consideration is given to any applicable minimum funding requirements

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, return on plan assets (excluding interest), and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset), taking into account any change in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or curtailment gain or loss is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

**(k) Income tax**

Income tax expense comprises current and deferred tax and it is recognized in profit or loss.

*Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivables is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

*Deferred tax*

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Temporary differences in relation to a right-of-use asset and a lease liability for a specific lease are regarded as a net package (the lease) for the purpose of recognizing deferred tax.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting fate, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

**(l) Finance income and finance cost**

The Group's finance income and finance cost include:

- interest income,
- interest expense,
- changes in the fair value of derivative financial instruments, and
- the foreign currency gain or loss on financial assets and financial liabilities,

Interest income or expense is recognized using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the assets (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

**(m) Contingencies**

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, disclosure is provided in the notes to the combined financial statements. Contingent revenues, earnings or assets are not recognized until realization is assured.

**(n) Provisions**

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

**(o) Fair value measurement**

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market in which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities (see Note 12(C)).

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is considered 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received.

If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

**(p) Combined Statements of cash flows**

The combined statement of cash flows shows the cash inflows and outflows that occurred during the period. In addition, the combined statement of cash flows starts with the loss of the period, presenting first cash flows from operating activities, then investment activities and finally, financing activities.

The combined statement of cash flows for the years ended December 31, 2022 and 2021 were prepared using the indirect method.

**4. New standards or amendments issued**

In the current year, the Group has applied a number of amendments to IFRS Accounting Standards issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2022. Their adoption has not had any material impact on the disclosures or the amounts reported in these financial statements.

***Amendments to IFRS 3 Business Combinations—Reference to the Conceptual Framework***

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

The amendments add an explicit statement that the buyer will not recognize a contingent asset acquired from a business combination.

***Amendments to IAS 16, Property, Plant and Equipment – Proceeds before Intended Use***

The amendments prohibit deducting from the cost of a property, plant and equipment asset any income from the sale of goods produced before it is ready for use, for example, income generated while the asset is moved to a location and refurbished. necessary to make it operable in the manner that it is intended in accordance with the intentions of the administration. Consequently, an entity must recognize those sales revenues and costs in profit or loss. The Group measures the costs of those goods produced in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is working properly'. Now, IAS 16 specifies this as an assessment in which the physical and technical performance of the asset is capable of being used in the production or supply of goods or services, for rental or other, or administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of revenue and cost in profit or loss related to items that are not an output from the ordinary activities of the Group, in the line item(s) in the statement of comprehensive income where revenues and costs are included.

The Group has adopted the amendments included in the Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle for the first time in the current year. The Annual Improvements include amendments to four standards.

***New and revised IFRS Accounting Standards in issue but not yet effective***

The following new and amended standards are not expected to have material impact on these combined financial statements.

| | |
|---|---|
| IFRS 10 and IAS 28 (amendments) | *Sale or contribution of assets between an investor and its associate or joint venture* |
| Amendments to IAS 1 | *Classification of Liabilities as Current or Non-current.* |
| Amendments to IAS 37 | *Onerous Contracts — Cost of Fulfilling a Contract* |
| Amendments to IAS 1 and IFRS Practice Statements | *Disclosure of accounting policies* |
| Amendments to IAS 8 | *Definition of accounting estimates* |
| Amendments to IAS 12 | *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* |

## 5. Cash and cash equivalents

As of December 31, 2022, and 2021, cash and cash equivalents is as follows:

| | As of December 31, 2022 | As of December 31, 2021 |
|---|---|---|
| Cash | $ 45,536,567 | $ 24,105,071 |
| Cash equivalents | 15,717 | 886,145 |
| Total cash and cash equivalents | $ 45,552,284 | $ 24,991,216 |

## 6. Trade accounts receivable and other receivables

a) As of December 31, 2022 and 2021, the total amount of trade accounts receivable is comprised of the amount of revenue of services rendered by the Group, pending to be billed to CENACE and CFE after the energy measurement reconciliation:

| | December 31 2022 | December 31 2021 |
|---|---|---|
| Accounts receivable | $ 52,105,225 | $ 43,366,057 |
| Of which: | | |
| Pending to be billed | 43,505,168 | 33,286,101 |
| Billed pending collection | 8,600,057 | 10,079,957 |

Accounts receivable billed pending collection have a collection term of 7 to 15 days, since these contracts are subject to the Mexican Government's Energy Market Regulations. Billings are issued either bi-weekly or on a monthly basis, as per the contractual agreements and regulatory requirements.

b) The balance of other receivables is as follows:

| | December 31 2022 | December 31 2021 |
|---|---|---|
| Recoverable value-added tax | $ 7,021,986 | $ 5,873,580 |
| IT withheld by banks | - | 78,793 |
| Sundry debtors | 26,362 | 27,126 |
| Others receivables related to operating services | 873,806 | 841,917 |
| | $ 7,922,154 | $ 6,821,416 |

7. **Property, plant and equipment, net**

Property, plant, and equipment, net consist of the following:

| Cost | Land | Machinery and equipment | Rotors | Construction in process | Transportation equipment | Spare parts inventory | Computer equipment | Machinery (forklifts) and tools | Office furniture and fixtures | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balances as of January 1, 2021** | $ 15,667,551 | $ 118,139,481 | $ - | $ 739,385,753 | $ 519,943 | $ 13,641,136 | $ 36,842 | $ 16,211 | $ 964,655 | $ 888,371,572 |
| Additions | - | - | - | - | 3,771 | 1,256,710 | 20,367 | - | 915,103 | 2,195,951 |
| Retirements and disposals | - | - | - | - | (22,233) | - | - | - | - | (22,233) |
| Reclassifications | - | 688,330,086 | 45,174,189 | (739,385,753) | - | 5,881,478 | - | - | - | - |
| **Balance as of December 31, 2021** | 15,667,551 | 806,469,567 | 45,174,189 | - | 501,481 | 20,779,324 | 57,209 | 16,211 | 1,879,758 | 890,545,290 |
| Additions | - | 408,762 | - | - | - | 2,871,145 | 1,763 | - | 198,789 | 3,480,459 |
| Retirements and disposals | - | - | - | - | (155,552) | (63,500) | - | - | - | (219,052) |
| **Balance as of December 31, 2022** | $ 15,667,551 | $ 806,878,329 | $ 45,174,189 | $ - | $ 345,929 | $ 23,586,969 | $ 58,972 | $ 16,211 | $ 2,078,547 | $ 893,806,697 |

| Accumulated depreciation | Land | Machinery and equipment | Rotors | Construction in process | Transportation equipment | Spare parts inventory | Computer equipment | Machinery (forklifts) and tools | Office furniture and fixtures | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as of January 1, 2021** | $ - | $ 22,686,375 | $ - | $ - | $ 233,131 | $ - | $ 13,810 | $ 5,967 | $ 102,083 | $ 23,041,366 |
| Depreciation of the period | - | 28,826,836 | 3,011,613 | - | 108,920 | - | 13,182 | 3,051 | 220,870 | 32,247,971 |
| Retirements | - | - | - | - | (22,333) | - | - | - | - | (22,333) |
| **Balance as of December 31, 2021** | - | 51,576,710 | 3,011,613 | - | 319,718 | - | 26,992 | 9,018 | 322,953 | 55,267,004 |
| Depreciation of the period | - | 28,953,835 | 3,011,613 | - | 3,562 | - | 16,379 | 2,780 | 237,201 | 32,225,370 |
| Retirements | - | (63,500) | - | - | (26,667) | - | - | - | - | (90,167) |
| **Balance as of December 31, 2022** | $ - | $ 80,467,046 | $ 6,023,226 | $ - | $ 296,613 | $ - | $ 43,371 | $ 11,798 | $ 560,154 | $ 87,402,208 |
| **Carrying amount January 1, 2021** | $ 15,667,551 | $ 95,453,106 | $ - | $ 739,385,753 | $ 286,812 | $ 13,641,136 | $ 23,032 | $ 10,244 | $ 862,572 | $ 865,330,206 |
| **Carrying amount December 31, 2021** | $ 15,667,551 | $ 754,892,857 | $ 42,162,576 | $ - | $ 181,763 | $ 20,779,324 | $ 30,217 | $ 7,193 | $ 1,556,805 | $ 835,278,286 |
| **Carrying amount December 31, 2022** | $ 15,667,551 | $ 726,411,283 | $ 39,150,963 | $ - | $ 49,316 | $ 23,586,969 | $ 15,601 | $ 4,413 | $ 1,518,393 | $ 806,404,489 |

8. **Other liabilities**

As of December 31, 2022, and 2021, other liabilities balances is as follows:

| | As of December 31, 2022 | As of December 31, 2021 |
|---|---|---|
| Income tax payable | $ 2,164,230 | $ 1,098,868 |
| VAT payable | 1,413,980 | - |
| Others | 179,137 | 268,745 |
| Total other liabilities | $ 3,757,347 | $ $1,367,613 |

## 9. Debt

***Terms and repayment schedule***

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Loan for an amount of up to $469,000,000 in 2018 with Citi as Intercreditor Agent, approved on September 21, 2018, at an interest rate of 6.02%. Maturity date on December, 2040. Payable in December 2027. (Includes amortized cost in 2022 for $12,168,921 and in 2021 for $12, 738, 728 USD) | $ 457,438,174 | $ 456,831,079 |
| Loan for an amount of up to $125,000,000 in 2018 with Citibanamex as Administrative Agent, approved on September 21, 2018, of which 2 provisions for $55,000,000 and $70,000,000 in 2020, at an interest rate of SOFR plus 2%. Maturity date on June and December, 2027. (Includes amortized cost in 2022 for 2,473,277 and in 2021 for 3,286,345 USD in 2020) | 88,960,511 | 104,839,223 |
| Loan for an amount of $70,000,000 USD in 2018 with BlackRock received on July 31, 2018, at 9.95%, interest rate. Maturity date on July, 2025. (Includes amortized cost in 2022 for 2,444,475 and in 2021 for 3,493,522 USD) | 69,088,135 | 64,257,525 |
| Loan for an amount of up to $100,000,000 USD in 2018, with Bancomext, received on September 24, 2018, of which 3 provisions were made for $505,880, $513,910 and $314,204 in 2020, at the Equilibrium Interbank Interest Rate ("TIIE" by its acronym in Spanish) 91 days, as 2.5% interest rate. Maturity date on December 2023. Reimburse of the fiscal credit was $2,395,692 in 2021. | - | 1,184,073 |
| Loan for an amount of $80,000,000 USD in 2018 with BNP Paribas Securities Corp. as Intercreditor Agent received on July 31, 2018, at 6.19%. Maturity date in June, 2037 (i) | 68,077,995 | 72,018,761 |
| Interest payable | 2,927,046 | 2,773,311 |
| Total debt | 686,491,861 | 701,903,972 |
| Less current installments | 22,838,397 | 23,301,579 |
| Long-term debt, excluding current installments | $ 663,653,464 | $ 678,602,394 |

Interest expense on loans for the years ended December 31, 2022 and 2021, aggregated $39,255,785 and $42,201,484, respectively with Citi and Citibanamex.

Bank loans establish certain covenants, including maintaining certain financial ratios and not incurring direct or contingent liabilities. The Company has complied with such covenants as of December 31, 2022.

The Bank loans are warranted through a trust, all the assets of the companies were transferred for this purpose to the trust, that this, the collection rights, the most relevant contracts of each project, real estate, permit titles.

Reconciliation of movements of financial liabilities to cash flows arising from financing activities:

| | Financial liabilities |
|---|---|
| **Balances as of January 1, 2021** | 822,531,723 |
| Payments of principal | (25,546,500) |
| Interest paid | (48,269,547) |
| Proceeds from loans | 5,280,156 |
| Accrued interest | 62,234,999 |
| Amortization of cost to obtain loans and commissions | 1,049,048 |
| Total changes from financing cash flows | (5,250,846) |
| Increase in Due to Related Parties | 298,157 |
| Total changes from operating cash flows | 298,157 |
| **Balances as of December 31, 2021** | 817,578,036 |

| | Financial liabilities |
|---|---|
| **Balances as of January 1, 2022** | 817,578,036 |
| Payments | (21,720,295) |
| Interest paid | (44,076,177) |
| Proceeds from loans | - |
| Accrued interest | 58,812,418 |
| Amortization of cost to obtain loans and commissions | 930,504 |
| Total changes from financing cash flows | (6,053,550) |
| Increase in Due to Related Parties | 1,980,790 |
| Total changes from operating cash flows | 1,980,790 |
| **Balances as of December 31, 2022** | 813,505,275 |

## 10. Employee benefits

In accordance with Mexican Labor Law, the Group provides seniority premium benefits, which consist of a single payment of 12 days for each year worked based on the last salary, limited to twice the minimum salary established by law. The relative liability and the annual cost of benefits are calculated by independent actuaries in accordance with the bases defined in the plans, using the projected unit credit method.

| | As of December 31, | |
|---|---|---|
| | 2022 | 2021 |
| **Balance as of January 1,** | | |
| Included in profit and loss: | | |
| Labor Cost of Current Service (LCCS) | $ 6,946 | $ 3,609 |
| Net interest on Defined Benefits for Net Liabilities (DBNL) or Defined Benefits for Net Assets (DBNA) | 737 | 170 |
| Prior Service Labor Cost provided in the year | 615 | 393 |
| **Balance as of December 31,** | $ 8,298 | $ 3,632 |

***Movement in net defined benefit liability***

| | As of December 31, | |
|---|---|---|
| | **2022** | **2021** |
| **Balance as of January 1,** | | |
| Included in profit and loss: | | |
| Current service cost | $ 6,946 | $ 3,609 |
| Interest cost | 9,321 | 5,368 |
| **Included in OCI** | | |
| Remeasurement of net defined benefit liability | 330 | 1,236 |
| **Balance as of December 31,** | $ 9,651 | $ 6,604 |

***Actuarial assumptions***

The following were the principal actuarial assumption at the reporting date (expressed as weighted averages):

| | **2022** | **2021** |
|---|---|---|
| Discount rate | 9.45% | 7.50% |
| Future salary growth | 6% | 7.50% |

As of December 31, 2022 and 2021, the weighted -average duration of the defined benefit obligation was 6.3 years per employee.

## 11. Income tax

| | For the Year Ended December 31, | |
|---|---|---|
| | **2022** | **2021** |
| Current tax expense | $ 1,080,037 | $ - |
| Deferred income tax | 19,063,976 | (8,852,041) |
| Income taxes | $ 20,144,013 | $ (8,852,041) |

The Mexican Tax Law effective as of January 1, 2014 is applicable to the Group, which imposes an income tax rate of 30%.

***Amounts recognized in profit or loss***

The income tax expense and deferred tax of the Group as of December 31, 2022 and 2021 are $20,144,013 and $(8,852,041), respectively.

***Amounts recognized in OCI***

| | As of December 31, 2022 | | | As of December 31, 2021 | | |
|---|---|---|---|---|---|---|
| | **Before tax** | **Tax (expense) benefit** | **Net of tax** | **Before tax** | **Tax (expense) benefit** | **Net of tax** |
| Remeasurements of defined benefit liability | - | - | - | 1,236 | 87 | 1,324 |
| Changes in fair value of derivative financial instruments | 4,581,414 | 1,374,425 | 5,955,839 | 2,153,942 | 669,782 | 2,823,724 |
| | **4,581,414** | **1,374,425** | **5,955,839** | **2,155,178** | **669,869** | **2,825,048** |

***Income Tax Benefit (expense)***

| | For the Year Ended December 31, 2022 | 2021 |
|---|---|---|
| Loss before income taxes | $ (6,709,976) | $ (13,964,866) |
| Tax using the Company´s domestic tax rate | 30% | 30% |
| Income tax benefit at legal tax rate | (2,012,993) | (4,189,460) |
| Tax effect of: | | |
| Annual adjustment for effects of inflation, net | 22,101,666 | (5,521,046) |
| Non-deductible expenses | 55,340 | 858,366 |
| Income Tax Expense (benefit) | $ 20,144,013 | $ (8,852,041) |

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities, at December 31, 2022 and 2021, are presented below:

| 2022 | Net balance as of January 1, | Recognized in profit and loss | Recognized in OCI | Final balance |
|---|---|---|---|---|
| Tax losses carried forward | $ 41,111,495 | $ (32,108,895) | $ - | $ 9,002,600 |
| Provisions | 14,406,848 | 5,526,357 | - | 19,933,205 |
| Financial instruments | - | (1,374,425) | 1,374,425 | - |
| Furniture and transportation equipment | 6,267,934 | 1,700,299 | - | 7,968,233 |
| Employees' statutory profit sharing | 9,708 | 612 | - | 10,320 |
| Employees' benefits | 2,071 | 912 | - | 2,983 |
| | 61,798,056 | (26,255,140) | 1,374,425 | 36,917,341 |
| Property, plant and equipment, net | 43,008,625 | (8,163,948) | $ - | 34,844,677 |
| Financing cost to be amortized | 185,739 | 332,318 | - | 518,057 |
| Prepaid expenses | 245,543 | 640,466 | - | 886,009 |
| | 43,439,907 | (7,191,164) | - | 36,248,743 |
| Deferred income tax, net | $ 18,358,148 | $ (19,063,976) | $ 1,374,425 | $ 668,599 |

| 2021 | Net balance as of January 1, | Recognized in profit and loss | Recognized in OCI | Final balance |
|---|---|---|---|---|
| Tax losses carried forward | $ 36,463,731 | $ 4,647,764 | $ - | $ 41,111,495 |
| Provisions | 9,548,029 | 4,858,819 | - | 14,406,848 |
| Financial instruments | - | (669,782) | 669,782 | - |
| Deferred revenues | 5,408,171 | (5,408,171) | - | - |
| Financing cost to be amortized | 482,135 | (482,135) | - | - |
| Furniture and transportation equipment | 4,118,175 | 2,149,759 | - | 6,267,934 |
| Employees' statutory profit sharing | - | 9,708 | - | 9,708 |
| Employees' benefits | - | 1,984 | 87 | 2,071 |
| To the next page | 56,020,241 | 5,107,946 | 669,869 | 61,798,056 |

| 2021 | Net balance as of January 1, | Recognized in profit and loss | Recognized in OCI | Final balance |
|---|---|---|---|---|
| From the previous page | 56,020,241 | 5,107,946 | 669,869 | 61,798,056 |
| Property, plant and equipment, net | 46,896,047 | (3,887,422) | - | 43,008,625 |
| Financing cost to be amortized | - | 185,739 | - | 185,739 |
| Prepaid expenses | 287,958 | (42,415) | - | 245,543 |
| | 47,184,005 | (3,744,098) | - | 43,439,907 |
| Deferred income tax, net | $ 8,836,236 | $ 8,852,041 | $ 669,869 | $ 18,358,148 |

***Tax losses carried forward***

Tax losses for which no deferred tax assets was recognized expire as follows:

| | Year | Gross amount |
|---|---|---|
| | 2028 | $ 9,384,445 |
| | 2030 | 5,653,240 |
| | 2031 | 14,970,983 |
| Total income tax losses | | $ 30,008,668 |

## 12. Net Parent Investment

a. ***Increase in net parent investment***

During the year ended December 31, 2022 the Group's shareholders contributed $11,713 in cash to the net parent investment of the Group's Companies.

In addition, on December 27,2022, the Group's shareholders protocolized contributions for future capital of $191,718 to the net parent investment of the Group's Companies.

## 13. Financial instruments

*Measurement of fair values*

i. Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring Level 2 fair value of financial instruments in the combined statements of financial position.

Financial instruments measured at fair value

| Type | Valuation technique |
|---|---|
| Interest rate swaps | FV is determined using market participant assumptions to measure these derivatives. Market participants' assumptions include the risk inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. |
| Other financial liabilities[1] | FV is estimated considering discounted cash flows: the valuation model considers the present value of expected payments, discounted using a risk-adjusted discounted rate. |

[1] Other financial liabilities includes debt, trade accounts payable, due to related parties and other liabilities.

ii. Transfers between levels

There were no transfers between Level 1 and 2 during the current or prior year. There were no transfers to Level 3 during the current or prior year.

*Financial risk managements*

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

iii. Risk management framework

The risk committee is the highest authority in making operational decisions and has overall responsibility for the establishment and oversight of the Group's risk management framework. The risk committee has established the risk management committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the board of directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

Derivatives

Derivative instruments are subscribed with banks which have a ranking between A and AAA, according to Standard and Poor's.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivable from customers and investments in debt securities.

*Trade receivables*

The Group has limited exposure to credit risk from trade receivables since the nature of the industry and the business practices require payment under a specified calendar, after the measurement procedures are concluded.

Also, this risk is not representative to the Group since its customers are not likely to fail to meet its contractual obligations.

*Business and credit concentration-*

Sales are made to CFE Calificados, S. A. de C. V. and to Centro Nacional de Control de Energía (CENACE) amount to 68% and 32%, respectively of the 100% of the sales during 2022 and 77% and 23%, respectively of the 100% of the sales during 2021.

The principal supplier of natural gas is CFE Energía, S. A. de C. V., from which the Company made approximately 100% in 2022 and 2021 of the Company's total purchases of gas.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group´s objective when managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group´s reputation.

*Exposure to liquidity risk*

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements:

| | | | Contractual cash flows | | |
|---|---|---|---|---|---|
| **As of December 31, 2022** | **Carrying amount** | **0-12 Months** | **1-2 Years** | **More than 2 Years** | **Total** |
| **Non-derivative financial liabilities** | | | | | |
| Financial liabilities debt | $ 686,491,861 | $ 19,911,351 | $ 75,830,519 | $ 587,822,945 | $ 683,564,815 |
| Interests | - | 45,797,434 | 87,525,035 | 323,715,396 | 457,037,865 |
| Trade accounts payable | 37,677,268 | 37,677,268 | - | - | 37,677,268 |
| **Total non-derivative financial liabilities** | $ 724,169,129 | $ 103,386,053 | $ 163,355,554 | $ 911,538,341 | $1,178,279,948 |

| | | | Contractual cash flows | | |
|---|---|---|---|---|---|
| **As of December 31, 2021** | **Carrying amount** | **0-12 Months** | **1-2 Years** | **More than 2 Years** | **Total** |
| **Derivative financial liabilities** | | | | | |
| Derivatives (Interest rate swaps) | $ 5,353,920 | $ 1,217,104 | $ 1,746,832 | $ 2,714,997 | $ 5,678,933 |
| **Total derivative financial liabilities** | **5,353,920** | **1,217,104** | **1,746,832** | **2,714,997** | **5,678,933** |
| **Non-derivative financial liabilities** | | | | | |
| Financial liabilities debt | $ 701,903,972 | $ 20,536,224 | $ 53,336,415 | $ 625,265,979 | $ 699,138,618 |
| Interests | - | 45,423,265 | 90,874,725 | 369,032,717 | 505,330,707 |
| Trade accounts payable | 35,974,092 | 35,974,092 | - | - | 35,974,092 |
| **Total non-derivate financial liabilities** | $ 737,878,064 | $ 101,933,581 | $ 144,211,140 | $ 994,298,696 | $1,240,443,417 |

Market risk

Market risk is the risk that changes in market prices – e.g. foreign exchange rates, interest rates and equity prices – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk managements is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group uses derivatives to manage market risks. All such transactions carried out within the guidelines set by the risk management committee.

**Managing interest rate benchmark reforms and associated risks**

*Overview*

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as "IBOR reform"). In 2021, the Group undertook amendments to most financial instruments with contractual terms indexed to IBORS such that they incorporate new benchmark rates, e.g. SONIA. As at 31 December 2022, the Group's remaining IBOR exposure is indexed to US dollar LIBOR. The alternative reference rate for US dollar LIBOR is the Secured Overnight Financing Rate (SOFR). The Group finished the process of implementing appropriate fallback clauses for all US dollar LIBOR indexed exposures in 2021. These clauses automatically switch the instrument from USD LIBOR to SOFR as and when USD LIBOR ceases. As announced by the Financial Conduct Authority (FCA) in early 2022, the panel bank submissions for US dollar LIBOR will cease in mid-2023.

The risk management committee monitors and manages the Group's transition to alternative rates. The committee evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The committee reports to the Company's board of directors quarterly and collaborates with other business functions as needed. It provides periodic reports to management of interest rate risk and risks arising from IBOR reform.

*Non-derivative financial liabilities*

The Group modified all of its floating-rate liabilities indexed to sterling LIBOR to reference SOFR during the year ended 31 December 2021. As a result, the Group's IBOR exposures to non-derivative financial liabilities as at 31 December 2022 and 31 December 2021 were secured bank loans indexed to SOFR.

*Derivatives*

The Group holds interest rate swaps for risk management purposes. The interest rate swaps have floating legs that are indexed to SOFR. The Group's derivative instruments are governed by contracts based on the International Swaps and Derivatives Association (ISDA)'s master agreements.

The management of the Group has used a series of unobservable inputs in the process of determining the fair value of its derivative financial instruments. These inputs are classified as Level 2 according to the fair value measurement hierarchy and are based on management's estimates and judgements. Fair value hierarchy levels 1 to 3 are based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The risk management function includes the responsibility for implementing the procedures for the measurement, management and control of risks, based on the parameters established.

The following tables show the carrying amount and fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value since the carrying amount is reasonable approximation of the estimated fair value, except for debt:

**Financial assets and financial liabilities not measured at fair value.**

| Description | Carrying amount December 31, 2022 | Financial assets at fair value | Financial assets at Amortized Cost | Financial liabilities at Amortized Cost |
|---|---|---|---|---|
| Cash and cash equivalents (Level 1) | $ 45,552,284 | $ 45,552,284 | - | - |
| Trade accounts receivable (Level 2) | 52,105,225 | - | 52,105,225 | - |
| Due from related parties (Level 2) | 8,780 | - | 8,780 | - |
| Other receivables[1] (Level 2) | 900,168 | - | 900,168 | - |
| Debt [3] (Level 2) | 686,491,861 | - | - | 686,491,861 |
| Trade accounts payable (Level 2) | 37,677,268 | - | - | 37,677,268 |
| Due to related parties (Level 2) | 127,013,414 | - | - | 127,013,414 |
| Other liabilities[2] (Level 2) | 179,137 | - | - | 179,137 |

| Description | Carrying amount December 31, 2021 | Financial assets at fair value | Financial assets at Amortized Cost | Financial liabilities at Amortized Cost |
|---|---|---|---|---|
| Cash and cash equivalents (Level 1) | $ 24,991,216 | $ 24,991,216 | - | - |
| Trade accounts receivable (Level 2) | 43,366,057 | - | 43,366,057 | - |
| Due from related parties (Level 2) | 8,260 | - | 8,260 | - |
| Other receivables[1] (Level 2) | 869,043 | - | 869,043 | - |
| Debt [4] (Level 2) | 701,903,973 | - | - | 701,903,973 |
| Trade accounts payable (Level 2) | 35,974,092 | - | - | 35,974,092 |
| Due to related parties (Level 2) | 115,674,063 | - | - | 115,674,063 |
| Other liabilities[2] (Level 2) | 268,745 | - | - | 268,745 |

[1] Excludes recoverable value-added tax and IT withheld by banks which do not qualify as financial instruments, refer to note 6 (b).

[2] Excludes income tax payable and VAT payable and which do not qualify as financial instruments, refer to note 8.

[3] The estimated fair value of debt as of December 31, 2022 was $597,065,199.

[4] The estimated fair value of debt as of December 31, 2021 was $845,064,296.

**Financial assets and financial liabilities measured at fair value.**

| Description | December 31, 2022 | Fair value measurements at reporting date using: Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| Assets: | | | | |
| Derivative financial instruments | 1,727,216 | - | 1,727,216 | - |
| Total assets | $ 1,727,216 | $ - | $ 1,727,216 | $ - |

| Description | December 31, 2021 | Fair value measurements at reporting date using: Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| Liabilities: | | | | |
| Derivative financial instruments | 5,353,930 | - | 5,353,930 | - |
| Total assets | $ 5,353,930 | $ - | $ 5,353,930 | $ - |

The movements on the balances of derivative financial instruments for the years ended December 31, 2022 and 2021 are as follows:

| | Debt |
|---|---|
| **Asset (liability) balance as of January 1, 2021** | (10,199,927) |
| Gain (loss) from changes in the fair value of derivative financial instruments recognized in profit or loss | 2,692,065 |
| Gain (loss) from changes in the fair value of derivative financial instruments recognized in OCI (before tax, see Note 11) | 2,153,942 |
| **Asset (liability) balance as of December 31, 2021** | **(5,353,920)** |

| | Debt |
|---|---|
| **Asset (liability) balance as of January 1, 2022** | (5,353,920) |
| Gain (loss) from changes in the fair value of derivative financial instruments recognized in profit or loss | 2,499,722 |
| Gain (loss) from changes in the fair value of derivative financial instruments recognized in OCI (before tax, see Note 11) | 4,581,414 |
| **Balances as of December 31, 2022** | **1,727,216** |

*Currency risk*

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Group companies. The functional currency of the Group companies is USD.

*Interest rate risks*

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fluctuation in interest rates depends heavily on the state of the global economy. An improvement in long-term economic prospects tends to move long-term rates upward while a drop tends to be associated with periods of slow economic growth.

The Company uses interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates.

The Company determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities and the notional or par amounts.

## 14. Net sales, Cost of sales and Operating expenses

The main items comprising revenues are:

| | For the Year Ended December 31, 2022 | 2021 |
|---|---|---|
| Income from spot energy sales | $ 102,315,786 | $ 68,433,160 |
| Income from contractual energy sales | 236,678,722 | 138,493,947 |
| Fixed charge for operation | 160,657,655 | 167,913,084 |
| Total revenue from customers | $ 499,652,163 | $ 374,840,192 |
| Other revenue | 377 | 2,174 |
| Total revenue | $ 499,652,540 | $ 374,842,366 |

The main items comprising cost of sales at December 31, 2022 and 2021 are shown below:

| | For the Year Ended December 31, 2022 | 2021 |
|---|---|---|
| Gas cost | $ 322,270,621 | $ 221,244,801 |
| Depreciation and amortization | 32,246,982 | 32,246,982 |
| Operation market cost and other | 44,348,407 | 37,607,642 |
| Maintenance gas turbines (CSA) | 11,433,993 | 9,460,784 |
| Ancillary services | 2,581,472 | 790,202 |
| Insurance | 5,898,662 | 5,936,616 |
| Cost of services | 2,993,866 | 3,488,920 |
| Maintenance | 781,055 | 955,706 |
| Others | 1,240,724 | 749,694 |
| Total | $ 433,795,782 | $ 312,481,347 |

The main items comprising operating expenses at December 31, 2022 and 2021 are shown below:

| | For the Year Ended December 31, 2022 | 2021 |
|---|---|---|
| Management expenses | $ 16,002,392 | $ 15,519,715 |
| Depreciation and amortization | 331,858 | 377,350 |
| Advisory | 417,846 | 388,078 |
| Bank fees | 3,931,863 | 3,512,884 |
| Maintenance and repairs | 648,666 | 300,810 |
| Private security services | 273,466 | 241,599 |
| Insurance and sureties | 126,456 | 11,990 |
| Other expenses | 800,112 | 561,092 |
| Total | $ 22,532,659 | $ 20,913,518 |

## 15. Related party balances and transactions

a. Transactions with key management personnel

*Key management personnel compensation*

The Group does not have key management personnel since all its personnel is operative and receives administrative and professional services from a related party.

b. Transactions carried out with related parties during the year ended December 31, 2022 and 2021 are shown as follows:

| | December 31, 2022 | 2021 |
|---|---|---|
| Interest income from: | | |
| EVM Administración, S.A. de C.V.(1) (4) | $ 1,769,369 | $ 1,766,110 |
| Interest expenses to: | | |
| EFS Global Energy, B. V.(2) | $ 5,351,366 | $ 5,351,366 |
| Mauricio Quintanilla Hernández(3) | 697,430 | 697,430 |
| EVM Administración, S.A. de C.V. (5) | 2,342,973 | 2,342,973 |
| Total | 8,391,769 | 8,391,769 |

| | December 31, 2022 | 2021 |
|---|---|---|
| Administrative management services: | | |
| EVM Administración, S.A. de C.V. (1) | $ 14,808,566 | $ 13,724,444 |

| | December 31, | |
|---|---|---|
| | 2022 | 2021 |
| Professional Services: | | |
| EVM Administración, S.A. de C.V. (1) | $ 100,000 | $ 100,000 |
| Due from related parties: | | |
| EVM Administración, S.A. de C.V. (1) | $ 8,780 | $ 8,260 |
| Due to related parties, short term: | | |
| EVM Administración, S.A. de C.V. (1) | $ 9,590,887 | $ 4,871,274 |
| Mauricio Quintanilla Hernández | 1,322,212 | 1,243,715 |
| Total | $ 10,913,099 | $ 6,114,989 |
| Due to related parties, long-term portion: | | |
| EFS Global Energy B.V. (2) | $ 75,637,527 | $ 70,286,161 |
| EVM Administración, S.A. de C.V. (1) | 22,187,605 | 21,695,160 |
| Mauricio Quintanilla Hernández (3) | 18,275,182 | 17,577,753 |
| Total | $ 116,100,315 | $ 109,559,074 |

(1) EVM Administración ultimate parent was the same as the Group. The outstanding balances are for services rendered not yet paid. The services provided by EVM Administracion to the Group consiste on management, finance, accounting, tax, reporting and other supporting services. The services were billed and paid monthly. The Group exited this service agreements on the date of the Acquisition by Buffalo.

(2) EFS Global Energy, B. V. was a shareholder of the Group. The outstanding balances are for services rendered not yet paid and a loan that was provided by EFS Global Energy, B.V. to EVM Energía on September 24, 2018, with maturity January 2, 2041, which bears interest at an annual interest rate of 10% the payment of interest was subject to having surplus cash. As of the reporting date, no payments were made, EVM Energía only recognized accrued interest with no principal or interest payments. For further information related to this loan, refer to note 19.

(3) Mauricio Quintanilla was a shareholder of the Group. The outstanding balances consist of $4,842,826 for18 lots of land, $2,035,933 for the concept of 2 additional lots of land, as well as $8,316,267 related to services provided to the Group for development and construction services. The balance also includes contractual accrued interest for the outstanding balances. All the due amounts to Mauricio Quintanilla bear a 10% annual interest rate and have the same maturity date of January 2, 2041, the payment of interest was subject to having surplus cash. For further information related to this loan, refer to note 19.

(4) EVM Administración received a loan of $20,449,505 from EVM Tenedora which bears an annual interest rate of 8.5%, with payment of principal and interest due on December 31, 2041, the payment of interest was subject to having surplus cash. EVM Administracion is able, but not bound to, make payments of principal amounts before the due date, while interest payments on accrued interest are done on an annual basis. For further information related to this loan, refer to note 19.

(5) EVM Administración provided a loan of $23,108,779 to EVM Tenedora which bears an annual interest rate of 10%, with payment of principal and interest due on December 31, 2041, the payment of interest was subject to having surplus cash. EVM Tenedora is able, but not bound to, make payments of principal amounts before the due date, while interest are accrued on an annual basis. For further information related to this loan, refer to note 19.

## 16. Prepayments

**For the Year Ended December 31,**

| | 2022 | 2021 |
|---|---|---|
| Insurance | $ 17,993 | $ 28,041 |
| Advances to suppliers | 3,465,083 | 198,744 |
| Total prepayments | $ 3,483,076 | $ 226,785 |
| Less current prepayments | 3,471,826 | 211,051 |
| Long-term prepayments | $ 11,250 | $ 15,734 |

## 17. Provisions

The main items comprising provisions as of December 31, 2022 and 2021 are shown below:

| | As of December 31, 2022 | 2021 |
|---|---|---|
| Payroll provisions | $ 393,363 | $ 137,981 |
| Provision for professional services and audit fees | 770,163 | 1,014,954 |
| CENACE (1) | 15,949,874 | - |
| Provision for tests and operator expenses | 1,089,631 | 2,490,169 |
| Others | 16,323 | 61,806 |
| Total | $ 18,219,354 | $ 3,704,910 |

(1) The significant increase in CENACE's expense provision is related to EVM's unexpected failure of an equipment that caused the stop of operations for 40 hours during critical demand time, which represented an unexpected decrease on the generation of Power for 102.54 MW, in relation to the programmed power. The Group is expecting to cover such losses as per the service agreement signed with CENACE.

## 18. Commitments and contingencies

- The Group signed two Power Purchase Agreement (PPA) with CFE Calificados, S. A. de C. V. to generate 100MW and 750MW, respectively with a duration period of 20 years starting in 2017 and 2021, respectively. For these PPAs, the Group receives fixed capacity revenues and energy revenues at a guaranteed heat rate and market gas price. The PPAs stablish that 94% of the energy generated by the Group is compromised with CFE Calificados, S. A. de C. V.

- The Group has entered into service agreements with related parties, under which these companies provide management and administrative services for the Company's operations. These agreements are for an undefined period. Total payments under these agreements, reported under cost of sales expenses, were $1,127,604 in 2022 and $1,111,662 in 2021.

- The Group has entered into loan agreements with related parties, under which these companies loan necessary for the Company's operations. These characteristics of this agreements is discussed in Note 15.

- In accordance with Mexican tax law, the tax authorities are empowered to examine transactions carried out during the five years prior to the most recent income tax return filed.

- In accordance with the IT Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's-length transactions. Should the tax authorities examine the transactions and reject the related-party prices, they could assess additional taxes plus the related inflation adjustment and interest, in addition to penalties of up to 100% of the omitted taxes.

## 19. Subsequent events

- On July 13, 2023, the Group's shareholders entered into a Purchase and Sale Agreement (the

"PSA") with Buffalo Energy Infrastructure S.A. de C.V. ("Buffalo"), an unrelated third party. Buffalo acquired all of the issued share capital of EVM Energía del Valle de México, S.A de C.V. and EVM Tenedora, S.A.P.I. de C.V. and subsidiary. As a result of this transaction, the Group had a change in control in such date. No other related party entities were part of this transaction.

- Based on the requirements of the PSA, Buffalo paid the outstanding balances of the loans between the Group with EFS Global Energy, B. V., Mauricio Quintanilla and EVM Administración (disclosed in note 15). Therefore, these loans are no longer outstanding.
- The Group is being re-branded with immediate effect as "Valia Energía" ("Valia") and will focus on delivering an equitable Energy Transition in Mexico with sustainability at the core of its investment strategy.

* * * * * *

**EVM Tenedora, S. A. P. I. de C. V. and subsidiary, and EVM Energía del Valle de México, S. A. P. I de C. V.**

Condensed Combined Interim Financial Statements as of September 30, 2023 (unaudited) and December 31, 2022 and for the nine-month periods ended September 30, 2023 and 2022 (unaudited)

**Contents**

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# Independent Auditors' Report to the Board of Directors and Stockholders of EVM Tenedora, S. A. P. I. de C. V. and EVM Energía del Valle de México, S. A. P. I. de C. V.

***Introduction***

We have reviewed the accompanying Condensed Interim Consolidated Statements of Financial Position of EVM Tenedora, S. A. P. I. de C. V. and subsidiary, and EVM Energía del Valle de México, S. A. P. I. de C. V. (the "Entity") as of September 30, 2023 (unaudited) and the related Condensed Combined Interim Statements of Profit or Loss and Other Comprehensive Income, Condensed Combined Interim Statements of Net Parent Investment and Condensed Combined Interim Statements of Cash Flows for the nine-month periods ended September 30, 2023 and 2022 (unaudited), and a summary of significant accounting policies and other explanatory information. Management is responsible for the preparation and fair presentation of this interim combined financial information unaudited in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" (IAS 34). Our responsibility is to express a conclusion on this interim consolidated financial information unaudited based on our review.

***Scope of Review***

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity (ISRE 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

***Other matters***

*The statements of financial position of the Entity as of December 31, 2022 and for the ending year on that date, were audited by other auditors, who expressed an unqualified opinion on said financial statements on June 22, 2023.*

***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Combined Interim Financial Information does not give a true and fair view of (or "does not present fairly, in all material respects,") the Condensed Combined Interim Financial Position of the EVM Tenedora, S. A. P. I. de C. V. and subsidiary, and EVM Energía del Valle de México, S. A. P. I de C. V. as of September 30, 2023 (unaudited) and December 31, 2022, and of its Condensed Combined Interim Financial Performance and its Condensed Combined Interim Cash Flows for the nine-month periods ended September 30, 2023 and 2022 (unaudited) in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34).

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C. P. C. Erik Padilla Curiel
Mexico City
January 3, 2024

## EVM Tenedora, S. A. P. I. de C. V. and subsidiary, and
## EVM Energía del Valle de Mexico S. A. P. I. de C. V.

# Condensed Combined Interim Statements of Financial Position

**As of September 30, 2023 (unaudited) and December 31, 2022**
**(U.S. dollars)**

| | Notes | September 30, 2023 (Unaudited) | December 31, 2022 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets:** | | | |
| Cash and cash equivalents | 5 | $ 72,131,353 | $ 45,552,284 |
| Trade accounts receivable | 6 | 58,929,728 | 52,105,225 |
| Due from related parties | 10 | 44,440 | 8,780 |
| Other receivables | | 1,842,648 | 7,922,154 |
| Recoverable income tax | | 10,836,952 | 192,086 |
| Prepayments | | 6,944,376 | 3,471,826 |
| **Total current assets** | | 150,729,497 | 109,252,355 |
| Prepayments, long-term | | - | 11,250 |
| Derivative financial instruments | | 2,634,269 | 1,727,216 |
| Property, plant and equipment, net | 7 | 759,293,811 | 782,817,520 |
| Spare parts inventories | | 24,069,046 | 23,586,969 |
| Intangible assets, net | | 5,320,128 | 5,619,215 |
| Deferred income tax | 9 | 21,008,730 | 10,896,427 |
| Security deposits | | 3,389,537 | 1,096,391 |
| **Total non-current assets** | | 815,715,521 | 825,754,988 |
| **Total assets** | | $ 966,445,018 | $ 935,007,343 |
| **Liabilities and Net Parent Investment** | | | |
| **Current Liabilities:** | | | |
| Current installments of long-term debt | 8 | $ 29,882,006 | $ 22,838,397 |
| Trade accounts payable | | 57,733,883 | 37,677,268 |
| Due to related parties, short term | 10 | - | 10,913,099 |
| Other liabilities | | - | 3,757,347 |
| Statutory employee profit sharing payable | | - | 34,400 |
| Tax payable | | 8,305,423 | - |
| Provisions | | 539,117 | 18,219,354 |
| **Total current liabilities** | | 96,460,429 | 93,439,865 |
| **Non-current Liabilities:** | | | |
| Due to related parties, long-term portion | 10 | 290,657,048 | 116,100,314 |
| Employee benefits | | 12,748 | 9,651 |
| Other liabilities | | - | 3,631,923 |
| Deferred income tax | 9 | 725,807 | 10,227,828 |
| Long-term debt, excluding current installments | 8 | 584,761,795 | 663,653,464 |
| **Total non-current liabilities** | | 876,157,398 | 793,623,180 |
| **Total liabilities** | | $ 972,617,827 | $ 887,063,045 |

| | Notes | September 30, 2023 (Unaudited) | December 31, 2022 |
|---|---|---|---|
| **Net Parent Investment** | | | |
| Controlling interest: | | | |
| Net parent investment | | 17,395,754 | 106,286,717 |
| Accumulated deficit | | (42,277,386) | (64,051,364) |
| Other comprehensive income | | 4,945,445 | 5,315,864 |
| **Net parent investment attributable to controlling interest** | | (19,936,187) | 47,551,217 |
| Non-controlling interest | | 13,763,378 | 393,081 |
| Total net parent investment | | (6,172,809) | 47,944,298 |
| **Total liabilities and net parent investment** | | $ 966,445,018 | $ 935,007,343 |

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

## EVM Tenedora, S. A. P. I. de C. V. and subsidiary, and
## EVM Energía del Valle de Mexico S. A. P. I. de C. V.

# Condensed Combined Interim Statements of Profit or Loss and Other Comprehensive Income

**For the nine months ended September 30, 2023 and 2022 (Unaudited)**
**(U.S. dollars)**

| | For the nine months ended September 30, 2023 (Unaudited) | 2022 (Unaudited) |
|---|---|---|
| Net sales | $ 272,363,753 | $ 403,948,791 |
| Cost of sales | 194,898,992 | 342,363,787 |
| Gross profit | 77,464,761 | 61,585,004 |
| Operating expenses | 17,401,931 | 16,253,697 |
| Finance income (cost): | | |
| Interest income | 2,498,864 | 1,759,015 |
| Interest expense | (45,988,706) | (42,356,921) |
| Other financing income | 36,066 | 14,258 |
| Other financing loss | (1,694,368) | (2,438,474) |
| Changes in the fair value of derivative financial instruments | 1,381,949 | - |
| Foreign exchange gain (loss), net | 12,414,201 | (114,119) |
| Finance cost, net | 31,351,994 | 43,136,241 |
| Profit before income taxes | 28,710,836 | 2,195,066 |
| Current income tax expense | 13,038,725 | - |
| Deferred income tax (benefit) expense | (19,719,114) | 13,065,293 |
| **Net profit (loss) for the period** | $ 35,391,225 | $ (10,870,227) |
| Other comprehensive income: | | |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Changes in fair value of derivative financial instruments, net of tax | (617,365) | - |
| **Other comprehensive income (loss) for the period** | $ 34,773,860 | $ (10,870,227) |
| **Net loss attributable to:** | | |
| Controlling interest | 21,773,978 | (12,159,259) |
| Non-controlling interest | 13,617,243 | 1,289,032 |
| | 35,391,221 | (10,870,227) |
| **Other Comprehensive loss attributable to:** | | |
| | 21,403,562 | (12,159,259) |
| Controlling interest | 13,370,298 | 1,289,032 |
| Non-controlling interest | 34,773,860 | (10,870,227) |

The accompanying notes are an integral part of these condensed combined interim financial statements

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**EVM Tenedora, S. A. P. I. de C. V. and subsidiary, and EVM Energía del Valle de Mexico S. A. P. I. de C. V**

# Condensed Combined Interim Statements of Net Parent Investment

**For the nine months ended September 30, 2023 and 2022 (Unaudited)**
**(U.S. dollars)**

| | Net parent investment | Accumulated deficit | Other comprehensive loss | Net parent investment attributable to controlling interest | Non-controlling interest | Total net parent investment |
|---|---|---|---|---|---|---|
| Balances as of January 1, 2022 | $ 106,083,286 | $ (46,307,205) | $ 1,742,360 | $ 61,518,441 | $ 7,120,576 | $ 68,639,017 |
| Net loss for the period | - | (12,159,259) | - | (12,159,259) | (1,289,032) | (10,870,227) |
| Other comprehensive income for the period | - | - | - | - | - | - |
| Balances as of September 30, 2022 (unaudited) | 106,083,286 | (58,466,464) | 1,742,360 | 49,359,182 | 8,409,608 | 57,768,790 |
| Balances as of January 1, 2023 | 106,286,717 | (64,051,364) | 5,315,864 | 47,551,217 | 393,081 | 47,944,298 |
| Equity decrease | (88,890,963) | - | - | (88,890,963) | - | (88,890,963) |
| Net loss for the period | - | 21,773,978 | - | 21,773,978 | 13,617,243 | 35,391,221 |
| Other comprehensive income for the period | - | - | (370,419) | (370,419) | (246,946) | (617,365) |
| Balances as of September 30, 2023 (unaudited) | $ 17,395,754 | $ (42,277,386) | $ 4,945,445 | $ (19,936,187) | $ 13,763,378 | $ (6,172,809) |

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

## EVM Tenedora, S. A. P. I. de C. V. and subsidiary, and
## EVM Energía del Valle de Mexico S. A. P. I. de C. V

# Condensed Combined Interim Statements of Cash Flows

**For the nine months ended September 30, 2023 and 2022 (Unaudited)**
**(U.S. dollars)**

| | Notes | For the nine months ended September 30, 2023 (Unaudited) | 2022 (Unaudited) |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit before income taxes | | $ 28,710,836 | $ 2,195,066 |
| Adjustments for: | | | |
| Changes in the fair value of derivative financial instruments | | (1,524,418) | - |
| Amortized cost | | 2,307,960 | 1,746,968 |
| Interest income | | - | (1,759,015) |
| Depreciation and amortization | | 24,507,884 | 24,890,328 |
| Gain on sale of Property, plant and equipment | | 2,360 | 11,875 |
| Interest expense | | 45,816,143 | 37,415,025 |
| Changes in: | | | |
| Trade accounts receivable | | (6,824,503) | (20,094,300) |
| Due from related parties | | (35,660) | (844,343) |
| Others receivable | | 6,079,506 | 6,816,721 |
| Prepayments | | (3,461,300) | (2,397,743) |
| Recoverable taxes | | (15,273,379) | (4,730,377) |
| Security Deposits | | (2,293,146) | (14,104) |
| Trade accounts payable | | 20,056,615 | 75,132,783 |
| Other liabilities | | (7,389,271) | (4,783,914) |
| Provisions | | (17,680,237) | (3,405,649) |
| Due to related parties | | - | (56,630,407) |
| Employee Benefits | | 3,097 | 1,603 |
| Employee profit sharing | | (34,400) | (32,358) |
| Contributions for future capital stock increases | | - | (191,718) |
| Net cash from operating activities | | 72,968,087 | 53,326,441 |
| **Cash flows from investing activities** | | | |
| Acquisition of Property, plant and equipment | 7 | (1,169,527) | (367,000) |
| Interest received | | - | 1,759,015 |
| Net cash from investing activities | | (1,169,527) | 1,392,015 |
| **Cash flows from financing activities** | | | |
| Capital decrease | | (88,890,963) | - |
| Interest paid | 9 | (29,053,176) | (25,171,710) |
| Proceeds from loans | 9 | 290,657,048 | 3,900,106 |
| Payments of loans | 9 | (217,932,400) | (11,464,368) |
| Net cash used in financing activities | | (45,219,491) | (32,735,972) |
| Net increase in cash and cash equivalents | | 26,579,069 | 21,982,484 |
| Cash and cash equivalents: | | | |
| At beginning of | | 45,552,284 | 24,991,216 |
| At end of year | | 72,131,353 | 46,973,700 |

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

# EVM Tenedora, S. A. P. I. de C. V. and subsidiary, and
# EVM Energía del Valle de México, S. A. P. I de C. V.

# Notes to the Condensed Combined Interim Financial Statements

**As of September 30, 2023 and December 31, 2022 and for the nine-month periods ended September 30, 2023 and 2022**
**(U.S. Dollar)**

## 1. Reporting Entity and description of business

### (a) Corporate information

The entities listed below (collectively, the "Group", "the Company" or the "Companies") are headquartered at Montes Urales 505, Lomas – Virreyes, Lomas de Chapultepec, Miguel Hidalgo, C.P. 11000, Mexico City. The Group will prepare its financial information on a combined basis since it does not have an immediate controlling parent, and there are no evident parent-subsidiary relationships between the entities of the Group. The Companies are under common control and are presented herein on a condensed combined basis as a single reporting entity:

i. EVM Tenedora, S.A.P.I. de C.V. and subsidiary ("EVM Tenedora"); and
ii. EVM Energía del Valle de México, S. A. P. I. de C. V. ("EVM Energía").

EVM Energía del Valle de Mexico Generador, S. A. P. I. de C. V., subsidiary of EVM Tenedora, has started commercial operation on January 1, 2021. Its main activity is the ownership, design, development, construction, commission and operation of an 850-megawatt combined cycle gas turbine power plant and associated facilities in the Axapusco municipality, Estado de México, México.

The Group main activity is the ownership, design, development, construction, commission and operation of a 100-megawatt open cycle gas turbine power plant and associated facilities in the Axapusco municipality, Estado de México, México.

Administrative services are provided by EVM Administración, S. A. de C. V., which is a related party.

On August 18, 2016, a service agreement was signed with the Centro Nacional de Control de Energía (CENACE), in order to carry out and maintain electric services in the Mexico City Valley during the 20 years of operation established in such agreement.

### (b) Significant events

- On July 13, 2023, the former shareholders of the Group entered into a Purchase and Sale Agreement (the "PSA") with Buffalo Energy Infrastructure S. A. de C. V. ("Buffalo"), an unrelated third party. Buffalo acquired all of the issued share capital of EVM Energía del Valle de México, S. A. de C. V. and EVM Tenedora, S. A. P. I. de C. V. and subsidiary. As a result of this transaction, the Group had a change in control in such date. No other related party entities were part of this transaction.

- Based on the requirements of the PSA, Buffalo paid the outstanding balances of the loans between the Group with EFS Global Energy, B. V., Mauricio Quintanilla and EVM Administración (disclosed in note 11). Therefore, these loans are no longer outstanding.

- The Group is being re-branded with immediate effect as “Valia Energía” (“Valia”) and will focus on delivering an equitable Energy Transition in Mexico with sustainability at the core of its investment strategy.

- On July 2023, the former shareholders of the Group decided to reimburse $88,890,963 of equity.

## 2. Basis of preparation –

These condensed combined interim financial statements have been prepared for purposes of including them in an exempt filing under Rule 144A that is being undertaken by Buffalo Energy Mexico Holdings, S.A. de C.V. (“Buffalo”), which became the Group’s holding entity on July 13, 2023, as discussed in Note 1(b).

### (a) Statement of compliance

These condensed combined interim financial statements for the nine months ended September 30, 2023 have been prepared in accordance with the International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*.

These condensed combined interim financial statements do not include all the information and disclosures required for full annual consolidated financial statements and should be read in conjunction with the Group’s annual combined financial statements as of and for the year ended December 31, 2022. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual financial statements.

### (b) Basis of combinations

The Group has conducted the combination of EVM Energía and EVM Tenedora and subsidiary under the approach of common control. After the execution of the Purchase and Sale Agreement with Buffalo, on July 13, 2023, the Group is now wholly owned by Buffalo (refer to note 14).

The combined companies share the same financial reporting system, accounting policies under IFRS and operate in the energy industry and are owned by the same shareholders and operated by the same management group.

Transactions among the combined companies and the balances and unrealized gains or losses arising from intra-group transactions have been eliminated in the preparation of the condensed combined interim financial statements following the guidance of IFRS 10 *Consilidated Financial Statements*, with the particularity that all shareholder’s equity accounts are added up, after eliminations of intercompany transactions, and presented as the “Net Parent Investment”.

The non-controlling interests arise from the consolidation procedures of EVM Tenedora, and it is measured initially and subsequently at the proportionate share of the subsidiary’s net assets, which is determined by the percentual ownership interests over the subsidiary.

### (c) Basis of measurement

The condensed combined interim financial statements have been prepared on the historical cost basis, except for derivative financial instruments and net defined benefit liability, which are measured at fair value at the end of each reporting period.

(d) **Going concern basis**

The condensed combined interim financial statements have been prepared on a going concern basis, which assumes that the Group will be able to discharge its liabilities including the bank loans, as disclosed in Note 8 and will have adequate resources to continue in operational existence for the foreseeable future.

(e) **Functional and presentation currency**

These condensed combined interim financial statements are presented in U.S. Dollars. All amounts have been rounded, unless otherwise indicated.

Management has exercised judgment in selecting the functional currency of each of the entities included in these condensed combined interim financial statements based on the primary economic environment in which the Companies operate and in reference to the various indicators including the currency that primarily influences or determines interest income, interest expense and other expenses. Based on this evaluation, management has determined that the functional currency of each of the entities included in these condensed combined interim financial statements are U.S. Dollars.

For purposes of disclosure in the notes to the condensed combined interim financial statements, “$”, and “dollars” or “U.S.$” means the United States of America dollars.

(f) **Use of judgements and estimates**

In preparing these condensed combined interim financial statements, management has made judgments and estimates that affect the application of the Group’s accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those describes in the last annual financial statements.

**3. Summary of significant accounting policies**

These condensed consolidated interim financial statements follow the same accounting policies and methods of computation as the Group’s combined financial statements as of and for the year ended December 31, 2022.

**4. Accounting standards issued but not yet effective**

A number of new accounting standards and amendments to accounting standards are effective for annual periods beginning after January 1, 2023 and early application is permitted. The Group has not early adopted any forthcoming new or amended accounting standards in preparing these condensed combined interim financial statements. The Group does not expect to have a significant impact from the adoption of the forthcoming standards.

5. **Cash and cash equivalents**

Cash and cash equivalents is as follows:

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Cash | $ 71,241,993 | $ 45,536,567 |
| Cash equivalents | 889,360 | 15,717 |
| Total cash and cash equivalents | $ 72,131,353 | $ 45,552,284 |

6. **Trade accounts receivable and other receivables**

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Mexican Federal Electricity Commission | $ 27,900,644 | $ 31,596,536 |
| National Center of Energy Control | 31,029,084 | 20,508,689 |
| Total | $ 58,929,728 | $ 52,105,225 |

7. **Property, plant and equipment, net**

Property, plant, and equipment, net consist of the following:

| Cost | Land | Machinery and equipment | Rotors | Transportation equipment | Computer equipment | Machinery (forklifts) and tools | Office furniture and fixtures | Total |
|---|---|---|---|---|---|---|---|---|
| **Balances as of January 1, 2022** | $ 15,667,551 | $ 806,469,567 | $ 45,174,189 | $ 501,481 | $ 57,209 | $ 16,211 | $ 1,879,758 | $ 869,765,966 |
| Additions | - | 408,762 | - | - | 1,763 | - | 198,789 | 609,314 |
| Retirements and disposals | - | - | - | (155,553) | - | - | - | (155,553) |
| **Balance as of December 31, 2022** | $ 15,667,551 | $ 806,878,329 | $ 45,174,189 | $ 345,928 | $ 58,972 | $ 16,211 | $ 2,078,547 | $ 870,219,727 |
| **Balances as of January 1, 2023** | $ 15,667,551 | $ 806,878,329 | $ 45,174,189 | $ 345,928 | $ 58,972 | $ 16,211 | $ 2,078,547 | $ 870,219,727 |
| Additions | - | 140,673 | - | - | 14,927 | - | 531,851 | 687,451 |
| Retirements and disposals | - | - | - | (25,652) | - | - | - | (25,652) |
| **Balance as of September 30, 2023 (Unaudited)** | $ 15,667,551 | $ 807,019,002 | $ 45,174,189 | $ 320,276 | $ 73,899 | $ 16,211 | $ 2,610,398 | $ 870,881,526 |

| | Land | Machinery and equipment | Rotors | Transportation equipment | Computer equipment | Machinery (forklifts) and tools | Office furniture and fixtures | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as of January 1, 2022** | $ - | $ 51,576,710 | $ 3,011,613 | $ 319,718 | $ 26,992 | $ 9,018 | $ 322,953 | $ 55,267,004 |
| Depreciation of the period | - | 28,953,835 | 3,011,613 | 3,562 | 16,379 | 2,780 | 237,201 | 32,225,370 |
| Retirements | - | (63,500) | - | (26,667) | - | - | - | (90,167) |
| **Balance as of December 31, 2022** | $ - | $ 80,467,045 | $ 6,023,226 | $ 296,613 | $ 43,371 | $ 11,798 | $ 560,154 | $ 87,402,207 |
| **Balances as of January 1, 2023** | $ - | $ 80,467,045 | $ 6,023,226 | $ 296,613 | $ 43,371 | $ 11,798 | $ 560,154 | $ 87,402,207 |
| Retirements | - | - | - | (23,291) | - | - | - | (23,291) |
| Depreciation of the period | - | 21,686,011 | 2,258,709 | 40,005 | 9,469 | 781 | 213,824 | 24,208,799 |
| **Balance as of September 30, 2023 (Unaudited)** | $ - | $ 102,153,056 | $ 8,281,935 | $ 313,327 | $ 52,840 | $ 12,579 | $ 773,978 | $ 111,587,715 |
| **Carrying amount December 31, 2022** | $ 15,667,551 | $ 726,411,284 | $ 39,150,963 | $ 49,315 | $ 15,601 | $ 4,413 | $ 1,518,393 | $ 782,817,520 |
| **Carrying amount September 30, 2023 (Unaudited)** | $ 15,667,551 | $ 704,865,946 | $ 36,892,254 | $ 6,949 | $ 21,059 | $ 3,632 | $ 1,836,420 | $ 759,293,811 |

## 8. Debt

***Terms and repayment schedule***

| | September 30, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Loan for an amount of up to $469,000,000 in 2018 with Citi as Intercreditor Agent, approved on September 21, 2018, at an interest rate of 6.02%. Maturity date on December, 2040. Payable in December 2027. (Includes amortized cost in the nine-month period ended September 30, 2023 for $11,083,220 and in 2022 for $11,561,826) | $ 457,916,781 | $ 457,438,174 |
| Loan for an amount of up to $125,000,000 in 2018 with Citibanamex as Administrative Agent, approved on September 21, 2018, of which 2 provisions for $55,000,000 and $70,000,000 in 2020, at an interest rate of SOFR plus 2%. Maturity date on June and December, 2027. (Includes amortized cost in the nine-month period ended September 30, 2023 for $1,449,106 and in 2022 for $1,764,489) | 81,063,394 | 88,960,511 |
| Loan for an amount of $70,000,000 USD in 2018 with BlackRock received on July 31, 2018, at 9.95%, interest rate. Maturity date on July, 2025. (Includes amortized cost in the nine-month period ended September 30, 2023 for $762,106 and in 2022 for $1,513,972) | - | 69,088,135 |
| Loan for an amount of $80,000,000 in 2018 with BNP Paribas Securities Corp. as Intercreditor Agent received on July 31, 2018, at 6.19%. Maturity date in June, 2037 (i) | 66,023,066 | 68,077,995 |
| Interest payable | 9,640,560 | 2,927,046 |
| Total debt | 614,643,801 | 686,491,861 |
| Less current installments | 29,882,006 | 22,838,397 |
| Long-term debt, excluding current installments | $ 584,761,795 | $ 663,653,464 |

Interest expense on loans for the nine months ended on September 30, 2023 and 2022, aggregated $26,129,876 (plus $803,737 withholding tax) and with $23,045,451 (plus $757,394 withholding tax), respectively with Citi and Citibanamex.

Bank loans establish certain covenants, including maintaining certain financial ratios and not incurring direct or contingent liabilities. The Company has complied with such covenants as of September 30, 2023.

The Bank loans are warranted through a trust, all the assets of the companies were transferred for this purpose to the trust, that this, the collection rights, the most relevant contracts of each project, real estate, permit titles.

## 9. Income tax

Income tax expense is recognized at an amount determined by multiplying the profit before income taxes for the interim reporting period by management's best estimate of the weighted-average annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognized in full in the interim period. As such, the effective tax rate in the interim financial statements may differ from management's estimate of the effective tax rate for the annual financial statements.

The main reasons that caused the changes in effective tax rate from September 2022 to September 2023 are permanent differences, such as:

- Annual adjustment for inflation
- Non-deductible interest
- Fines
- Other non-deductible items

## 10. Related party balances and transactions

a. Transactions with key management personnel

*Key management personnel compensation*

The Group does not have key management personnel since all its personnel is operative and receives administrative and professional services from a related party.

b. Transactions carried out with related parties during the nine months ended on September 30, 2023 and 2022 and for the year ended December 31, 2022 are shown as follows:

| | For the nine months ended September 30, 2023 (Unaudited) | 2022 (Unaudited) |
|---|---|---|
| Interest income from: | | |
| EVM Administración, S.A. de C. V.[1] [4] | $ 953,709 | $ 1,321,926 |
| Interest expenses to: | | |
| Buffalo Energy Infrastructure, S. A. de C. V. | $ 5,589,170 | $ - |
| EFS Global Energy, B. V. [2] | 2,844,288 | 4,002,529 |
| Mauricio Quintanilla Hernández [3] | 370,689 | 521,639 |
| EVM Administración, S. A. de C. V. [5] | 1,245,306 | 1,752,416 |
| Total | $ 10,049,453 | $ 6,276,584 |
| Administrative management services: | | |
| EVM Administración, S. A. de C. V. [1] | $ 2,963,889 | $ 11,096,152 |

c. Balances with related parties as of September 30, 2023 and December 31, 2022 are shown as follows:

| | As of September 30, 2023 (Unaudited) | December 31, 2022 |
|---|---|---|
| Due from related parties: | | |
| Buffalo Energy Infrastructure, S. A. de C. V. [6] | $ 44,123 | $ - |
| EVM Administración, S. A. de C. V. [1] | - | 8,780 |
| Buffalo Generation Infrastructure | 317 | - |
| | $ 44,440 | $ 8,780 |
| Due to related parties, short term: | | |
| EVM Administración, S. A. de C. V. [1] | $ - | $ 9,590,887 |
| Mauricio Quintanilla Hernández [3] | - | 1,322,212 |
| Total | $ - | $ 10,913,099 |

| | As of | |
|---|---|---|
| | **September 30, 2023 (Unaudited)** | **December 31, 2022** |
| Due to related parties, long-term portion: | | |
| Buffalo Energy Infrastructure | $ 290,657,048 | $ - |
| EFS Global Energy B.V. [2] | - | 75,637,527 |
| EVM Administración, S. A. de C. V. [1] [4] | - | 22,187,605 |
| Mauricio Quintanilla Hernández [3] | - | 18,275,182 |
| Total | $ 290,657,048 | $ 116,100,314 |

(1) EVM Administración ultimate parent was the same as the Group. The services provided by EVM Administracion to the Group consisted on management, finance, accounting, tax, reporting and other supporting services. The services were billed and paid monthly. The Group exited this service agreements on the date of the Acquisition by Buffalo.

(2) EFS Global Energy, B. V. was a shareholder of the Group. The outstanding balances as of December 31, 2022 were for services rendered and a loan that was provided by EFS Global Energy, B.V. to EVM Energía on September 24, 2018, with maturity on January 2, 2041, which bore interest at an annual interest rate of 10% the payment of interest was subject to having surplus cash. As of September 30, 2023, this loan was fully repaid, for further information refer to note 1(b).

(3) Mauricio Quintanilla was a shareholder of the Group. The outstanding balances as of December 31, 2022 consisted of $4,842,826 for18 lots of land, $2,035,933 for the concept of 2 additional lots of land, as well as $8,316,267 related to services provided to the Group for development and construction services. The balance also included contractual accrued interest for the outstanding balances at that time. All the due amounts to Mauricio Quintanilla bore a 10% annual interest rate and have the same maturity date of January 2, 2041, the payment of interest was subject to having surplus cash. As of September 30, 2023, this loan was fully repaid, for further information refer to note 1(b).

(4) EVM Administración received a loan of $20,449,505 from EVM Tenedora which bore an annual interest rate of 8.5%, with payment of principal and interest due on December 31, 2041, the payment of interest was subject to having surplus cash. EVM Administración was not bound to make payments of principal amounts before the due date, while interest payments on accrued interest were done on an annual basis. For further information related to this loan, refer to note 1(b).

(5) EVM Administración provided a loan of $23,108,779 to EVM Tenedora which bore an annual interest rate of 10%, with payment of principal and interest due on December 31, 2041, the payment of interest was subject to having surplus cash. EVM Tenedora was not bound to make payments of principal amounts before the due date, while interest were accrued on an annual basis. As of September 30, 2023, this loan was fully repaid, for further information refer to note 1(b).

(6) In July, 2023, the Entity executed a loan contract for the amount of $259,755,470 with Buffalo Energy Infrastructure for a period of seven years, which accrues interest at a 9.7% fixed interest rate for $183,646,293 and 10.00% fixed interest rate for $76,109,177 as follow:

| Borrower | Amount | Rate % | Interest | Total debt |
|---|---|---|---|---|
| EVM Tenedora | $ 108,214,781 | 9.7 | $ 2,303,472 | $ 110,518,253 |
| EVM Tenedora | 75,431,511 | 9.7 | 1,605,643 | 77,037,154 |
| EVM II | 52,780,597 | 10 | 26,491,106 | 79,271,703 |
| EVM II | 21,213,190 | 10 | 465,512 | 21,678,702 |
| EVM I | 2,115,390 | 10 | 35,844 | 2,151,234 |
| | $ 259,755,469 | | $ 30,901,577 | $ 290,657,048 |

## 11. Financial instruments

*Measurement of fair values*

i. Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring Level 2 fair value of financial instruments in the combined statements of financial position.

Financial instruments measured at fair value:

| Type | Valuation technique |
|---|---|
| Interest rate swaps | FV is determined using market participant assumptions to measure these derivatives. Market participants' assumptions include the risk inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. |
| Other financial liabilities[1] | FV is estimated considering discounted cash flows: the valuation model considers the present value of expected payments, discounted using a risk-adjusted discounted rate. |

[1] Other financial liabilities includes debt, trade accounts payable, due to related parties and other liabilities.

ii. Transfers between levels

As of September 30, 2023 and December 31, 2022, there were no transfers between Level 1 and 2. Also, there were no transfers to Level 3.

## 12. Commitments and contingencies

***Commitments***

a. EVM signed three Power Purchase Agreement (PPA) with CFE Calificados, S. A. de C. V. to generate 100MW, 750MW and 90MW. The first two PPAs have a duration period of 20 years starting in 2017 and the third PPA has a duration of 18 years starting in 2022. For these PPAs, the EVM receives fixed capacity revenues and energy revenues at a guaranteed heat rate and market gas price. The PPAs stablish that up to 98% of the energy generated by the EVM is compromised with CFE Calificados, S. A. de C.V.

b. In accordance with Mexican tax law, the tax authorities are empowered to examine transactions carried out during the five years prior to the most recent income tax return filed.

c. In accordance with the IT Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's-length transactions. Should the tax authorities examine the transactions and reject the related-party prices, they could assess additional taxes plus the related inflation adjustment and interest, in addition to penalties of up to 100% of the omitted tax payments.

d. For the commitments related with the debt, see Note 8 Debt.

***Contingencies***

a. Electric Industry Law - as part of the bills submitted by Mexico's President since May 15, 2020, to strengthen the role of the CFE through the Policy on the Reliability, Continuity and Security of the National Electricity System (which was repealed on March 4, 2022, following the verdict issued by a District Court Judge. Therefore, the Reliability Policy established by the Ministry of Energy, published in the Official Gazette of the Federation on February 28, 2017, was reinstated)), on March 9, 2022, the President submitted an amendment to certain provisions of the Electric Industry Law ("LIE", for its acronym in Spanish), which was published in the Mexican Federal Official Gazette ("DOF", for its acronym in Spanish).

  - EVM I and EVM II got a favorable resolution, and the authority filed an-appeal against this resolution which is pending. The definitive suspension has been denied but there is a suspension granted with general effects that protects all companies until such procedures were concluded.

b. EVM has entered into loan agreements with related parties, under which these companies loan necessary for the Company's operations.

c. In accordance with Mexican tax law, the tax authorities are empowered to examine transactions carried out during the five years prior to the most recent income tax return filed.

d. In accordance with the IT Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's-length transactions. Should the tax authorities examine the transactions and reject the related-party prices, they could assess additional taxes plus the related inflation adjustment and interest, in addition to penalties of up to 100% of the omitted taxes.

e. On August 22, 2023, the Attorney General's Office of the State of Mexico (the "Attorney General's Office") initiated an investigation (the "Investigation") in connection with an environmental criminal complaint (the "Complaint") filed against EVM Energía del Valle de México Generador, S.A.P.I. de C.V. ("EVM II"), the Company, EVM Tenedora, S.A.P.I. de C.V. ("EVM Tenedora"), Buffalo Energy Infrastructure, S. A. de C. V. ("Buffalo Energy") and Buffalo Generation Infrastructure, S. A. de C. V. ("Buffalo Generation" and, together with EVM II, the Company, EVM Tenedora y Buffalo Energy, the "Companies"), by Francisco Robles Badillo, and naming the community of Axapusco, State of Mexico, as the affected party. The Complaint alleges that the Companies have collectively been generating substances hazardous to the communities in which they are located. The Company is in compliance with all Environmental and Social Standards as corroborated by independent third-party reports prepared by experts appointed by the Attorney General's Office. It is based on these reports that the Company believes the Attorney General's Office has no basis for the Investigation. Moreover, due to the numerous procedural inconsistencies and deficiencies with which the Investigation has been carried out, including an inspection of the Project that was conducted without court authorization, the Companies do not anticipate the Investigation to continue and expect the Complaint to be dismissed with no impact to the Project or its operations, nor do they expect the Investigation to result in a Material Adverse Effect on the Company or the Project. Pending such dismissal, the Companies have taken steps to terminate or quash the Investigation, including by means of filing an amparo claim on November 7, 2023 before the Fifth District Court in the State of Mexico (file number 1398/2023).

f. Indirect amparo lawsuit filed against: (i) decree number 21, published on January 31, 2022; (ii) Decree No. 120, published on December 21, 2022; and (iii) the "General Rules of the Ministry of Finance for Fiscal Year 2023", published on February 9, 2023, all in the Official Gazette of the Government of the Free and Sovereign State of Mexico, by which it is added to Title Three, Chapter One, Section Seven called "On the Tax on the Emission of Pollutant Gases into the Atmosphere" with articles 69 S, 69 S Bis, 69 S Ter, 69 S Quáter, 69 S Quinquies and 69 S Sexies, all of the Financial Code of the State of Mexico and Municipalities.

By means of that decree, the complainant was imposed on a number of obligations:

An obligation to pay, i.e., the complainant must determine and make provisional and annual payments due to the emissions of gases it generates into the atmosphere.

It imposes formal tax burdens, as it must file provisional and annual returns on the taxes generated due to the emissions of gases generated into the atmosphere; It is also required to keep a record book of polluting emissions that will contain records of emissions generated into the atmosphere, types of fuels and gases emitted, among other things.

On February 13, 2023, the complainant company filed an amparo lawsuit through the Online Services portal of the Judicial Branch of the Federation, which was filed before the Seventeenth District Court in the State of Mexico, with residence in Netzahualcoyotl, under file number 149/2023. In this way, by agreement dated February 22, 2023, the District Judge admitted the amparo lawsuit for processing, requiring those responsible to submit their respective justified report.

In addition, on the same date, by means of an agreement issued in the incidental record of the aforementioned amparo proceeding, the District Judge decided to grant the provisional suspension of the acts complained of.

By interlocutory judgment of March 8, 2023, the District Judge decided to grant the definitive suspension against the acts complained of to the effect that it would not be applied until the amparo trial is resolved.

By judgment of May 23, 2023, the District Judge decided to dismiss the amparo proceeding on the grounds that the rules complained of are hetero-applicative, so an act of application is required in order to be challenged.

An appeal for review was lodged against that judgment, which was granted by order of 9 June 2023. Currently, this appeal is pending to be referred to the corresponding Collegiate Court for resolution.

We consider that there are strong arguments for the reversal of the judgment handed down by the District Judge, since, on the one hand, given the nature of the rule establishing periodic obligations of self-determination, no specific act of application is required to challenge it. And second, because precisely because of the definitive suspension granted in the amparo trial, the obligation on EVM to pay the contribution has not been generated.

g. Except for the issues detailed in the preceding paragraphs, the Entity and its assets are not subject to any legal action other than the routine legal proceedings related to its activity.

## 13. Authorization to issue the Condensed Combined Interim Financial Statements

On January 3, 2024, the issuance of the accompanying Condensed Combined Interim Financial Statements was authorized by Arturo Infanzón Favela, Chief Financial Officer and Alejandro Milián López, Director of Controlling, Administration, and Procurement; consequently, they do not reflect events occurred after the date. These Condensed Combined Interim Financial Statements are subject to the approval of the Board of Directors.

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**Buffalo Energy Infrastructure, S.A. de C.V.** **Buffalo Energy, S.A. de C.V.**

**7.875% Senior Secured Notes due 2039**

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**OFFERING MEMORANDUM**

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***Global Coordinators and Joint Book-Runners***

**BNP PARIBAS** **Citigroup** **J.P. Morgan** **Morgan Stanley**

***Joint Book-Runner***

**SOCIÉTÉ GÉNÉRALE**

**January 16, 2024**