

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements expressed in U.S. dollars of Refinadora Costarricense de Petróleo, S.A. ("RECOPE"), which comprise the statement of financial position as of December 31, 2011 and the corresponding statements of comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Bases for the Qualified Opinion

1. As of December 31, 2011, the refinery's assets are not being used at their entire capacity, and there are indications that their recoverable amount could be less than the book value. RECOPE's management does not have the impairment analysis of the previously indicated assets required by the International Accounting Standard No.36, and it was not possible for us to determine the recoverable value by means of other auditing procedures. Consequently, we were not able to determine if any adjustment that would be necessary to include in the accompanying financial statements to record the refinery's assets at their recoverable amount.
2. As indicated in Note 1 to the accompanying financial statements, RECOPE determines the depreciation of property, plant, vehicles, and equipment based on the rates determined by the Regulations to the Income Tax Law. Also, starting on December 31, 2008, it has the policy of not determining the residual value of its assets (previously, 10% was applied to the totality of the assets), RECOPE's management does not have available any technical study performed by a competent expert to determine whether the depreciation rates and the residual values are appropriate in accordance with the specific characteristics of each of the assets or groups of assets, and we were not able to satisfy ourselves on their fairness through other auditing procedures.
3. As of December 31, 2011, RECOPE uses the specific price index methodology to determine the fair value of its property, plant, vehicles and equipment. The International Accounting Standard No.16 indicates that fair value will usually be determined based on market value obtained from an appraisal made by an expert, and if a market value does not exist, fair value would have to be obtained through other methods that take into account income from assets or their replacement cost once the corresponding depreciation has been reduced and net of any obsolescence effect. Therefore, the recorded value of property, plant, vehicles, and equipment, deferred income tax, surplus from revaluation, the results of the period, and the retained earnings as of December 31, 2011, are not in accordance with the current accounting standards. Management has not determined the effect that would have the use of a methodology, in accordance with the accounting standard referred to above.
4. The financial statements as of December 31, 2011 include an accrual for employees' severance benefits for US\$22,882,461, which was initially determined in 2003, and after that, a monthly credit equivalent to 5.33% of the monthly gross payroll has been recorded, as detailed in Note 1n to the financial statements. According to the International Accounting Standard No.19, the calculation of liability for the benefit plans defined by death, retirement, permanent disability or voluntary resignation that RECOPE has for its employees requires the use of actuarial techniques to determine the sum of the benefits that the employees have earned in return for the services provided in the current and previous periods. In our opinion, the methodology used by RECOPE does not comply with the standards mentioned above. Therefore, the recorded liability as of December 31, 2011, as well as the related expenses, are affected in amounts not determined by management.

Qualified Opinion

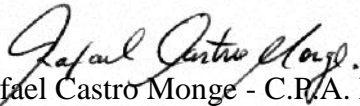
In our opinion, except for the possible effects of the matters described in paragraphs 1 and 2 of the Bases for Qualified Opinion and except for the matters described in paragraphs 3 and 4 of the Bases for Qualified Opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Refinadora Costarricense de Petróleo, S.A. as of December 31, 2011, its financial performance, and its cash flows for the year then ended, in conformity with the International Financial Reporting Standards.

Other Matters

The financial statements of Refinadora Costarricense de Petróleo, S.A. for the year ended December 31, 2010 were audited by an other independent auditors, who expressed an unqualified opinion on those statements on March 25, 2011.

As part of our audit of the financial statements of 2011, we audited the adjustments described in Note 21, which were applied to amend the 2010 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply audit procedures for the 2010 financial statements of the Company other than with respect to the adjustments and accordingly, and we do not express an opinion or any other form of assurance on the 2010 financial statements taken as a whole.

These financial statements have been translated into English for the convenience of the readers.


Rafael Castro Monge - C.R.A. No.1795
Insurance Policy No.0116 FIG 7
Expires: September 30, 2012
Revenue law stamp for ¢1.000, Law No.6663, has been adhered and paid.

June 7, 2012



REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

(Stated in United States Dollars)

	Notas	2011	2010 (Restructured)	2009 (Restructured in Thousands)
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	1c, 2	US\$ 121,804,330	US\$ 126,008,348	US\$ 75,555
Investments in securities				13,356
Accounts receivable	1d, 3	7,109,087	12,092,884	5,696
Inventories	1e, 1w, 4	414,007,745	235,659,459	231,105
Prepaid expenses	5	<u>22,793,421</u>	<u>25,930,170</u>	<u>31,689</u>
Total current assets		565,714,583	399,690,861	357,401
LONG TERM ACCOUNTS RECEIVABLE	3	792,409	802,313	
ADVANCES TO JOINT VENTURE	14	5,913,815		
PROPERTY, PLANT, VEHICLES AND EQUIPMENT - Net	1g, 1h, 1i, 1j, 6	527,880,929	464,864,678	364,607
INVESTMENT IN JOINT VENTURE	1k, 7	27,558,492	2,532,595	
OTHER ASSETS	8	<u>14,633,192</u>	<u>7,426,182</u>	<u>6,872</u>
TOTAL		<u>US\$1,142,493,420</u>	<u>US\$ 875,316,629</u>	<u>US\$ 728,880</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Notes payable	11	US\$ 60,678,233		
Current portion of the long term debt	12	8,900,145	US\$ 8,929,523	US\$ 9,250
Accounts payable	9	270,143,230	123,741,794	72,756
Deferred income	1m	50,971,392	21,488,906	28,538
Accumulated expenses and other liabilities	1o, 1p,10	<u>5,372,752</u>	<u>4,725,509</u>	<u>7,862</u>
Total current liabilities		396,065,752	158,885,732	118,406
LONG TERM DEBT	12	42,900,146	51,859,046	60,741
DEFERRED INCOME TAX	1l, 13	18,983,605	17,209,997	21,197
PROVISION FOR EMPLOYEES' LEGAL BENEFITS	1n	<u>22,882,461</u>	<u>23,935,434</u>	<u>21,619</u>
Total liabilities		<u>480,831,964</u>	<u>251,890,209</u>	<u>221,963</u>
STOCKHOLDERS' EQUITY:				
Capital stock	15	350,058	350,058	350
Investment reserve	1r	44,816,631	122,043,192	51,751
Legal reserve	1q	3,981	3,981	4
Surplus from revaluation	1s	308,676,967	303,991,993	332,890
Surplus from donation	1t, 16	34,808,316	34,808,316	34,808
Retained earnings		532,147,104	423,403,314	399,207
Foreign currency translation adjustment	1b	<u>(259,141,601)</u>	<u>(261,174,434)</u>	<u>(312,093)</u>
Total stockholders' equity		<u>661,661,456</u>	<u>623,426,420</u>	<u>506,917</u>
TOTAL		<u>US\$1,142,493,420</u>	<u>US\$ 875,316,629</u>	<u>US\$ 728,880</u>

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

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

COMPREHENSIVE INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010 (Stated in United States Dollars)

	Notes	2011	2010
SALES	1u	US\$ 3,003,877,030	US\$ 2,498,486,321
COST OF SALES	1v	<u>(2,797,876,382)</u>	<u>(2,246,676,130)</u>
GROSS PROFIT		206,000,648	251,810,191
OPERATING EXPENSES	1w, 1x, 17	<u>(163,790,453)</u>	<u>(135,968,065)</u>
OPERATING PROFIT		42,210,195	115,842,126
OTHER INCOME (EXPENSES):			
Sale of services		334,024	374,366
Financial expenses		(17,694,762)	(18,187,221)
Financial income	1u	926,224	11,819,218
Other expenses - net		<u>(3,469,452)</u>	<u>(1,597,168)</u>
PROFIT BEFORE INCOME TAX		22,306,229	108,251,321
INCOME TAX	1l, 13	<u>2,523,729</u>	<u>(43,420,619)</u>
NET PROFIT		24,829,958	64,830,702
OTHER COMPREHENSIVE INCOME			
Foreign currency translation adjustment	1b	2,032,833	50,918,566
Effect from assets' revaluation	1s	<u>15,626,823</u>	<u>3,036,132</u>
COMPREHENSIVE INCOME OF THE YEAR		<u>US\$ 42,489,614</u>	<u>US\$ 118,785,400</u>

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

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Stated in United States Dollars)

	Notes	Capital Stock	Investment Reserve	Legal Reserve	Surplus from Revaluation	Surplus from Donation	Retained Earnings	Foreign Currency Translation Adjustment	Total
BALANCES, DECEMBER 31, 2009		US\$350,058	US\$ 51,750,730	US\$3,981	US\$332,890,312	US\$34,808,316	US\$ 392,867,902	US\$(312,093,000)	US\$500,578,299
Restructuring adjustment	21						6,338,687		6,338,687
BALANCES, DECEMBER 31, 2009 (Reestructured)		350,058	51,750,730	3,981	332,890,312	34,808,316	399,206,589	(312,093,000)	506,916,986
Comprehensive income of the year					3,036,132		120,452,768	50,918,566	174,407,466
Transfer to investment reserve (law 7722)	1r		120,452,768				(120,452,768)		
Realization to retained earnings	1s				(58,317,272)		58,317,272		
Surplus from revaluation for deferred income tax adjustment					50,037,562				50,037,562
Deferred income tax adjustment							(20,472,356)		(20,472,356)
Reversal of the 2009 period reserves	1r		(50,160,306)				44,779,480		(5,380,826)
Other adjustments from previous periods					639,421				639,421
Restructuring adjustment	21				(24,294,162)		(58,427,671)		(82,721,833)
BALANCES, DECEMBER 31, 2010 (Reestructured)		350,058	122,043,192	3,981	303,991,993	34,808,316	423,403,314	(261,174,434)	623,426,420
Comprehensive income of the year					15,626,823		24,829,958	2,032,833	42,489,614
Realization to retained earnings					(6,687,271)		6,687,271		
Surplus from revaluation for deferred income tax adjustments					(4,254,578)				(4,254,578)
Reversal of the 2009 period reserves	1r		(77,226,561)				77,226,561		
BALANCES, DECEMBER 31, 2011		<u>US\$350,058</u>	<u>US\$ 44,816,631</u>	<u>US\$3,981</u>	<u>US\$308,676,967</u>	<u>US\$34,808,316</u>	<u>US\$ 532,147,104</u>	<u>US\$(259,141,601)</u>	<u>US\$661,661,456</u>

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

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010 (Stated in United States Dollars)

	Notes	2011	2010 (Not Audited)
OPERATING ACTIVITIES			
Net profit of the year		US\$ 24,829,958	US\$ 64,830,702
Income tax expense	13		46,835,031
Deferred tax	13	(2,523,729)	(3,414,412)
Interest expense		16,523,686	2,993,360
Depreciation and amortization	6, 8	26,613,255	24,285,259
Unrealized exchange rate differences		(281,024)	(6,626,111)
Expense for doubtful accounts	3	766,944	
Changes in operating assets and liabilities:			
Accounts receivable		557,326	(53,301,528)
Inventories		(178,821,640)	17,331,930
Prepaid expenses		(702,956)	8,586,419
Other assets		(8,354,255)	107,640
Accounts payable		147,171,328	(795,524)
Deferred income		29,648,901	20,925,085
Accumulated expenses and other liabilities		757,132	4,403,265
Employees' legal benefits		(1,140,814)	217,725
Cash provided by the operating activities		55,044,112	126,378,841
Tax paid		(5,270,353)	
Interest paid		(3,678,621)	(3,201,322)
Net cash provided by the operating activities		<u>46,095,138</u>	<u>123,177,519</u>
INVESTMENT ACTIVITIES			
Additions of fixed assets	6	(72,388,948)	(85,841,231)
Disposals of fixed assets	6	924,779	86,660
Advances to joint venture		(5,913,815)	
Acquisition of investments in joint venture	7	(25,025,897)	(2,532,595)
Short term investments			14,250,179
Net cash used in the investment activities		<u>(102,403,881)</u>	<u>(74,036,987)</u>
FINANCING ACTIVITIES			
New loans	11	60,678,233	
Debt amortization		(8,988,278)	(8,917,437)
Net cash provided by (used in) the financing activities		<u>51,689,955</u>	<u>(8,917,437)</u>

(Continues)

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010 (Stated in United States Dollars)

	2011	2010 (Not Audited)
NET VARIATION IN CASH AND CASH EQUIVALENTS	US\$ (4,618,788)	US\$ 40,223,095
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	126,008,348	75,555,000
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	<u>414,770</u>	<u>10,230,253</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>US\$121,804,330</u>	<u>US\$126,008,348</u>

TRANSACTIONS THAT DO NOT AFFECT THE USE OF CASH:

As of December 31, 2011, an appraisal on property, plant, vehicle, and equipment was registered, which originated an increase in these assets and surplus from revaluation for the sum of US\$15,517,659.

(Ends)

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

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010 (Stated in United States Dollars)

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

Nature of Operations - Refinadora Costarricense de Petróleo, S.A. (RECOPE) was incorporated in accordance with the laws of the Republic of Costa Rica by means of a notarially recorded instrument. As stipulated in Law Number 5508 of April 19, 1974; all the shares of Allied Chemical y Atico, S.A. were transferred and assigned to the government of Costa Rica for the price of one US dollar (\$1,00).

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

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

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

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

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

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

Presentation Basis - RECOPE's financial statements have been prepared in conformity with the International Financial Reporting Standards (IFRS).

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

- a. **Currency and Transactions in Foreign Currency** - Management has determined that the Costa Rican colon is RECOPE's functional currency. The transactions denominated in US dollars are registered at the exchange rates in force as of the date of the transaction; RECOPE's assets are registered at the purchasing exchange rate and liabilities at the selling exchange rate. Exchange rate differences originated from the liquidation of assets and obligations denominated in such currency, as well as the adjustment of balances as of closing date, are registered as part of RECOPE's results. As of December 31, 2011 and 2010, the exchange rate of the colon regarding the US dollar for companies of the non banking public sector was ¢519,82 and ¢512,50 for selling transactions, respectively, and ¢510,30 and ¢511,98, for purchasing transactions, respectively.

As of the date of issue of the financial statements, exchange rate was ¢505,11.

- b. **Currency Translation into U.S. Dollars** - The Company's functional currency is the Costa Rican colon (¢). Accordingly, the local currency financial statements were translated into United States Dollars using the following basis: assets and liabilities were translated at the closing exchange rate, stockholder's equity was measured using the historical exchange rates prevailing when each transaction took place. Income and expense items were translated at the weighted average rate for the period. The effect of translation is charged to stockholder's equity in a separate item denominated Foreign Currency Translation Adjustment.
- c. **Cash Equivalents** - RECOPE considers as cash equivalents all its held-to-maturity investments, with an original maturity equal to or less than three months.
- d. **Allowance for Doubtful Accounts** - The allowance for doubtful accounts is registered crediting the operation results, and it is determined based on an evaluation of the recoverability of the accounts receivable portfolio, taking into account the existing delinquency, guarantees received, and management's criterion on the debtors' payment capacity. As of December 31, 2011 the allowance for doubtful accounts is mainly composed by a balance of US\$595 thousand receivable from Concessions National Board. RECOPE do not include account receivables from clients because its sales are on cash

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

Finished product and works in progress are registered at the average manufacturing cost. The raw materials, materials, supplies, and spare parts are registered at the average cost in warehouse, and merchandise in transit is registered at cost according to the suppliers' invoice.

The raw materials inventory (petroleum and other raw materials), as well as materials and supplies are valued at the average weighted cost.

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

- Value of the invoice
- Cost of maritime freight
- Insurance cost
- Payment of single fuel tax, according to Law 8114
- Payment of port services: Japdeva and independent inspectors

The indirect shipping costs are registered as operating expenses, as established in the *International Accounting Standard (IAS) 2*, such as:

- Expenses from the Port Administration,
- Expenses from the Fuel Trading Administration,
- Depreciation of the Moín Oil Dock,
- Payment of delays,

Raw materials and materials in transit at cost according to invoice price, plus incidentals.

Petroleum is valued at the CIF import price plus required expenses to put it in the refinery storage tanks, plus 1% tax according to Law 6946.

Imported finished product is valued at the CIF import price plus the single fuel tax established by the Law for Tax Efficiency and Simplification Number 8114, published in the La Gaceta No.131, Paragraph 53, of July 9, 2001, which became effective on August 1, 2001; that is to say, other expenses required to place it in storage tanks at the

refinery and other plants. D.A.I. to the import of crude oil is eliminated through Executive Order No.29750-COMEX published in the official newspaper La Gaceta No.170 of September 5, 2001.

Allowance for Obsolete Inventory - The amount is calculated based on the materials declared obsolete by the user in coordination with the warehouse department and according to a projection from the warehouse department regarding the lines declared obsolete in respect of the total of lines existing in the inventory.

- f. **Single Fuel Tax** - Upon enactment and enforcement of the Tax Simplification and Efficiency Law (Law 8114), a single tax is instituted on fuel type -both domestically produced and imported fuel.

The taxable event - as set forth in Article 1 of this Law - takes place on two occasions:

- Upon import of finished goods prior to customs clearance
- For local production, manufacturing, cracking or refining, RECOPE shall settle and pay this tax within the first 15 calendar days of each month.

RECOPE is the single taxpayer and records this tax in its financial statements, as the taxable event takes place as part of Account 2102020401 Accounts Payable - Single Tax.

The tax on fuel type is updated on a quarterly basis, subject to changes in the Consumer Price Index determined by the National Statistics and Censuses Institute (INEC). Under no circumstances shall the quarterly adjustment be above 3%. The existing decree. (Decree 36842-H) published in official newspaper *La Gaceta*, Issue 219 as of November 15, 2011, effective from November 1st, 2011 to January 31st, 2012, provided for an adjustment of 0.44%. The tax broken down by product is as follows:

	Tax per Liter (¢)
Plus 91 gasoline	203,50
Premium gasoline	213,00
Diesel	120,25
Asphalt	41,00
Asphalt emulsion	30,50
Fuel Oil	20,00
LPG	41,00
Jet Fuel A1	121,75
Av. Gas	203,50
Kerosene	58,75
Asphalt	39,50
Heavy naphtha	29,00
Light naphtha	29,00

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

- Fuel designated to supply commercial airlines and merchant ships or commercial passenger shipping lines, all providing international services.
- Fuels used by the National Fishing Fleet, for non sports fishing, in accordance with Law 7384.
- Product allocated for export.
- Products sold to companies that enjoy the export free zone regime benefits.
- Products sold to companies using the tax exemption benefit, under the specific legislation, in order to cover road construction service agreements.

g. ***Property, Plant, Vehicles, and Equipment*** - These assets are originally recorded at cost of acquisition and construction, as it corresponds, afterwards, any revaluation, less the accumulated depreciation or impairment of those assets is charged to such cost, so that they represent their fair value.

The constructions and facilities in progress are temporarily registered, and then they are transferred to the definite account fixed assets account at the moment of receiving the completion reports and when their capitalization has taken place. The disbursements for ordinary repairs and maintenance are charged to the expenses of the cost center that originates them.

RECOPE makes revaluations of the fixed assets in operation by specific price indexes. The revaluation of the balances of the historical and revaluated fixed assets as of December 31, 2010 was registered in 2011, in order to update them to 2011 prices, as follows:

- Industrial Producer Price Index for Moín Port Complex and Facilities, in local investment and construction index for local investment buildings.
- External indexes of the Chemical Engineering magazine by McGraw Hill Publication to:
 - Revalue plants, facilities of refinery and oil pipeline, Plant Cost Index,
 - Moín Port Complex, Construction Cost Index,

These indexes are combined with the exchange rate variation of the colon in respect of the U.S. dollar.

The indexes applied in 2011 are the following:

Description	Revaluation Factor
Properties	4,73%
Moín Port Complex	3,87%
Refinery facilities	7,13%
Distribution facilities	7,39%
Oil pipeline installations	7,95%
Buildings	3,87%
Machinery and equipment	4,73%
Furniture	4,73%
Vehicles	4,73%

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

The resolution of the President's Cabinet was presented to the Board of Directors of RECOPE, and Management was notified, in accordance with Article 12 of meeting number 2240-191 held on April 22, 1988.

- i. ***Depreciation*** - The depreciation on the revaluated amounts and historical cost is charged to the results of the period. The depreciation of fixed assets, both historical and revaluated, is calculated using the straight-line method, taking as a basis the useful life indicated in the Regulations to the Income Tax Law, For calculating depreciation of those assets acquired before 2008, 90% of the registered cost is used as a basis, and for those acquired after 2008, they are depreciated taking as a basis 100% of the cost. The change was an Administrative decision, after the new accounting system begins its operation.

In order to appraise the Moín Port Complex, the different operational areas were divided by function, and as a result, different annual depreciation rates are applied to each area: petroleum dock, roll-on-roll-off dock and banana dock from 3% to 10%; maritime works from 2% to 10 %, and general ground works from 3% to 5%.

Depreciation costs are distributed among the cost centers to which the assets provide services. Depreciation costs for the Refining Management are classified as costs for processing petroleum, except for Depreciation of the Moín Port Complex, which is allocated to the cost of imported product.

Currently, registration of depreciation expenses has been separated, on one hand what corresponds to the assets registered at historical cost value, and on the other hand the revaluated asset expense.

- j. **Works in Progress** - This item registers the construction works in progress, which when concluded are reclassified and become part of the property, plant, vehicles, and equipment. A construction agreement is a specifically negotiated contract to manufacture an asset or group of assets that are intimately related among themselves or are independent in terms of design, technology, and function, or else, in regards to their final use or destination. The records that affect this account are made as established by the IAS 11, "Construction Contracts".
- k. **Investment in Joint Venture** - In compliance with IAS 31, a joint venture is a contractual arrangement whereby two or more participants undertake an economic activity which is subjected to joint control.

The existing control is a joint venture and consists on the possibility to address the financial and operations policies of an entity with the aim to obtain benefits from its activities. In accordance with IAS-31 paragraph 57, "*The participant shall disclose the accounting method used to recognize their participation in jointly controlled entities.*"

For RECOPE, there is no absolute control of the business interest; both companies have 50% of the participation. Thus, the investment is recognized in the account denominated SORESCO S.A., which RECOPE has registered at the cost. As of December 31, 2011, Management determined that the effect of not recording the investment under the equity method is not material for the financial statements.

- l. **Income Tax** - It is determined according to provisions established by the Income Tax Law, should any tax result from this calculation, it is charged to results and credited to a liability account. Deferred income tax is registered using the liability method and is applied to those temporary differences between the carrying value of the assets and liabilities and the values used for tax purposes. A deferred tax liability represents a taxable temporary difference, and a deferred tax asset represents a deductible temporary difference. The asset or liability is not recognized if the temporary difference is originated from goodwill or from the initial registration of an asset or liability (different from a business combination) that does not affect the tax or accounting profit.

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

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

- m. **Deferred Incomes** - It corresponds to deposits made by the clients in behalf of RECOPE, which will be applied once the product is sold.
- n. **Employees' Legal Benefits** - A monthly provision charged to operating expenses for each cost center where salaries are paid is registered. Such provision is calculated as 5,33% of salaries, Costa Rican legislation requires payment of severance to all personnel dismissed without a justified cause, employees that opt for the retirement or who suffer permanent disability, and to the relatives of deceased employees, for an amount equal to one month's salary for each year of continuous service for a maximum of eight months. RECOPE has the policy to provision 8.33% based on Board of Directors' agreement, article No.8 of the minutes of Regular Meeting No.03407-152 held on November 15, 1999, Such policy was changed as mentioned below.

Severance pay may not exceed twenty-four months, according to article No.142 of the Collective Labor Agreement in force. This article was so modified and becomes effective on November 27, 1996, according to memorandum AFRH-183-97 of June 28, 1997. Calculation of severance pay shall include the time served in the public sector provided there is neither solution of continuity nor the payment of benefits. The payment of severance has gone from expectation to a real right because, as set forth in article 142 of the collective agreement in force, the worker can request it for any cause when the indefinite employment contract terminates, and RECOPE must pay. The only exception to this right occurs when the Personnel Management Department estimated that the provision for employees' legal benefits had to be increased in US\$30,162,832 in the year 2003, according to Communication APE-851-2003, and after this year, a monthly credit to the 5.33% provision on the basis of the gross payroll continues to be recorded.

- o. **School Supplies Bonus** - It is calculated in accordance with the decrees issued by the Ministry of Labor every time there is a salary increase, and it is paid in January according to existing regulations. For 2011, 8.19% of the monthly payroll was provisioned, according to D,E, No.36420-MTSS.
- p. **Thirteenth Month** - RECOPE makes a monthly provision corresponding to payment of Christmas bonus to its employees in December, as established in the Code of Labor, Such provision corresponds to 8.33% per month.
- q. **Legal Reserve** - The commercial legislation of Costa Rica establishes that every corporation must reserve 5% from its net profit up to reaching 20% of its capital stock.
- r. **Investment Reserve** - It corresponds to the reserves authorized by the Regulatory Authority with the aim to sustain the investments programs. In compliance with Law 7593 of the Regulatory Authority and the provisions set forth in the resolution RRG-8988-2008 during the 2010 and based on agreement of the Board of Directors, Article 6 subsection 3) of the ordinary session 4470-23 of August 4, 2010 it was decided that RECOPE shall apply the profits or surplus of the period to the reserves as an investment.

- s. ***Surplus from Revaluation*** - This account records the surplus from asset revaluation that RECOPE has made through the years and represents the resulting difference of the value of the asset revaluation compared to the revaluation value of the accumulated depreciation; in other words, it is the net increase of the value of the assets that result from the annual revaluation, less the annual transfers corresponding to expense from depreciation for revaluation, net of the deferred income tax that is registered against the retained earnings.
- t. ***Surplus from Donation*** - It records donations received from Allied Chemical Corp., Petro Canada, and the Agency for International Development (AID) to perform the explorations of charcoal, as well as those from the Costa Rican Electricity Institute (ICE) to build the Castella-Garita oil pipeline and a debt remission from the Dutch government.
- u. ***Revenue Recognition*** - The sales of hydrocarbons are in cash, by which revenues are recognized when RECOPE has transferred to the buyer all significant risks and benefits related to the ownership of the sold fuels, RECOPE does not keep for itself any association with the common management of the goods sold. The amount of revenue can be reliably measured. It is probable that RECOPE receives the economic benefits associated with the sale, and the transaction costs can be reliably measured.

Interest earned is recognized as they accrue.

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

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

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

These mechanisms are described in the following regulations:

- *Law 6588 August 13, 1981.*
- *Law 7593 of the Regulatory Authority for Public Services.*
- *Resolution RRG-9233-2008, La Gaceta No.227 of November 24, 2008.*

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

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

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

National Products/ Plant Price	Regulatory Authority Resolutions (¢/Lt, Without tax)						
	700- RCR	630- RCR	621- RCR	578- RCR	547- RCR	501- RCR	464- RCR
Premium gasoline	392,294	410,917	454,864	454,864	461,584	489,604	460,701
Plus 91 gasoline	380,695	396,613	441,438	441,438	449,170	484,122	447,944
Diesel 0,05% S (automotive 500)	452,978	436,121	475,666	475,666	493,002	466,695	472,872
Diesel 0,50% S (thermal)	420,719	399,528	463,537	463,537	482,964	455,391	460,820
Kerosene	428,860	417,081	451,750	451,750	473,972	480,986	479,739
Bunker	337,788	319,559	352,760	352,760	359,941	351,592	357,642
IFO 380	337,274	337,274	367,386	367,386	371,192	374,603	371,374
AC20/30 and PG 70 asphalts	273,457	269,438	316,803	316,803	332,531	352,205	326,440
Heavy diesel (gasoil)	385,975	366,132	399,821	399,821	413,766	409,688	415,395
Asphaltic emulsion	191,148	186,243	216,929	216,929	225,943	224,355	210,497
G.L.P.	232,091	237,809	255,701	255,701	260,065	259,374	239,992
Av-Gas	596,066	615,287	694,785	694,785	704,805	704,016	642,158
Jet A-1	440,995	429,217	465,200	465,200	487,422	481,296	480,049
Light naphta	351,502	356,676	397,300	397,300	417,607	475,058	443,791
Heavy naphta	359,042	360,556	399,437	399,437	420,031	476,567	445,844

Rate Model to Establish the Fuel Price - Through resolution RRG-9233-2008, published in the official newspaper La Gaceta No.227 of November 24, 2008, the Regulatory Authority published the new rate model to define the price of fuels derived from hydrocarbons at distribution plants and to the end consumer. This model is in effect since November 25, 2008.

The model establishes the method and ways to determine the plant prices and the end user of the products dispatched by RECOPE.

- **Ordinary Price Definition** - For establishing the price of the fuel, the provisions set forth in law 7593 and its regulations should be followed; the following formula will be applied:

$$NPPCi = (Pr_{ji} * TCR) * [1 + K_j] \pm Di \pm Si$$

Where:

j = 1, 2, 3 n, It indicates the number of extraordinary price adjustments, made from the date the ordinary price study rate enters into force.

$i = 1, 2, 3$ h, It represents the types of fuels that are sold in the national territory.

h = It represents the total number of fuels that are sold in the national territory.

$NPPC_i$: It is the new sales price at RECOPE's distribution plant, in colones per liter, of i fuel, without the single tax, and which will directly affect the price of i fuel or the end user.

PR_{ji} : It is the simple average FOB price of reference in US dollars, per barrel, converted into colones per liter (a barrel is equal to 158,987 liters), Its calculation is made based on the international prices of 15 calendar days previous to the cutoff date of making the study, and where the daily price is the simple average of the higher and lower prices reported by the source of reference –Platt's Oilgram Price Report of the Gulf Coast by Standard & Poors of the United States, while other markets of reference for the region are found. Also, if the price of this market has been influenced by anomalous factors, it is possible to modify the source with other markets of the region. This price will be periodically adjusted according to what is stated in the model to set the extraordinary price of fuels. It is not necessary to do any type of extra charge to this price.

The fuel reference prices matched to the locally sold products are the following ones:

<i>Premium gasoline</i>	Unleaded mid-graded: 89 octanes R+M/2,
<i>Regular gasoline:</i>	Regular unleaded: 87 R+M/2,
<i>Diesel 0,05% S:</i>	Diesel LS (low sulfur),
<i>Diesel 0,20% S:</i>	Fuel Oil No.2, 0,2% sulfur
<i>Diesel 0,50% S:</i>	Fuel Oil No.2, 0,2% sulfur, adjusted
<i>Kerosene</i>	Jet/Kero 54, 0,3% sulfur
<i>Jet fuel:</i>	Jet/Kero 54, 0,3% sulfur
<i>Bunker</i>	Residual fuel No.6 3,0% S (sulfur)
<i>Oil liquefied gas</i>	Normal Propane Mont Belvieu, non-tet & Regular Butane de Mont Belvieu, nontet; mix in 60% of propane & 40% of maximum butane.
<i>Heavy Naphtha</i>	Heavy naphtha
<i>Light Naphtha</i>	Naphtha
<i>Others</i>	According to new requests of the country, like the pure bio-fuels and its mixes with hydrocarbons

For the fuels for which the Regulatory Authority does not have the reference price of Platt's Oilgram Price Report Coast of the Gulf and/or another market of the region; they are:

Asphalt: Selling Prices Asphalt Cement, Gulf Coast, Area Barge or Asphalt Cement Text/Louisiana Gulf.

Asphalt emulsion: In case that the price reference is not available, it is possible to use 65 % of the mix of 86 % of the price of the asphalt plus 14 % of the price of the bunker.

Av- Av-gas: Weekly average price of the following references in Platts:

Avgas 100/30 Carib Exxon

Avgas 100/30 Carib Shell

Avgas 100/30 Carib Trintoc

Avgas 100/30 Carib Chevron

Ifo-380: Net Orleans i.e., viscosity 380 CST, 3,0-4,0 S (sulfur), with conversion factor reported by Platt's of 6,40 barrels per ton.

Heavy Diesel: In case that the price reference is not available, it is possible to use a mix of 55,23% diesel price plus 44,77% bunker price.

Others: According to new requests of the country, like the bio-fuels and its mixes with hydrocarbons. To determine the reference price of the combinations of bio-fuels, it is possible to use the following equation:

$$Prmezcla = X \% * Prbiocombustible + (1 - X \%) * PR hidrocarburo$$

Where:

X: It represents the bio-fuel participation in the mix the products that RECOPE sells.

The reference price will be provided firstly by RECOPE, according to reference of specialized publication, or it can be calculated based on the reference prices of the variety of fuels that the company has, In case of some publication, RECOPE must provide the reference of the information source.

The previous references can be modified as long as they are approved by the Regulatory Authority. For that, RECOPE must request the change two weeks before the cutoff date for application of the price adjustment model.

For jet fuels, av-gas and ifo 380, which RECOPE sells to large consumers (fulfilling the minimum volume standard) in airports or ports, the PRi can be set automatically within a band, which will fluctuate in more or less the standard deviation in dollars per barrel of the international FOB price of every fuel. The

deviation must be calculated based on 300 observations of international prices of every fuel occurred before the cutoff date of fuel price review. Once the international price (PR_i) is modified according to the variation range, it is necessary to add the K_j, ±D_i, ± S_i to define the final price for the above mentioned clients. The formulas to calculate the maximum and the minimum prices, in Costa Rican colones or US dollars per liter, are the following ones:

If the price is expressed in colones CRC:

$$NPPC_i (PR_i * TCV_z) + K_i \pm D_i \pm S_i$$

If the price is expressed in dollars USD:

$$NPPC_i = PR_i + \frac{K_i \pm D_i \pm S_i}{TCV_z}$$

Banda de precios	Precio máximo	en colones	$NPPC_i^{máximo} = (PR_i + \sigma_i) * TCV_z + K_i \pm D_i \pm S_i$
		en dólares	$NPPC_i^{máximo} = PR_i + \sigma_i + \frac{K_i \pm D_i \pm S_i}{TCV_z}$
	Precio mínimo	en colones	$NPPC_i^{mínimo} = (PR_i - \sigma_i) * TCV_z + K_i \pm D_i \pm S_i$
		en dólares	$NPPC_i^{mínimo} = PR_i - \sigma_i + \frac{K_i \pm D_i \pm S_i}{TCV_z}$

Where:

σ_i: Standard deviation of the product i, calculated from 300 observations of the international prices of reference, with cutoff date at the date of prices review.

TCV_z: Selling exchange rate (colones per dollar) for the not financial sector published by the Central Bank of Costa Rica, published for the day z in which the sale of the fuel is made.

TCR: It is the selling exchange rate (colones CRC /dollars USD) for the non-financial sector to be used on the cutoff date of the study, which is determined by the Central Bank of Costa Rica.

K_j: It is an operation margin percentage, and it represents the cost that is recognized to RECOPE, for necessary projected domestic costs to place the product in the distribution plants, that is, it represents the difference between the international FOB price of the fuel and the distribution plant price, excluded that related to the refinery activity because it is already included in the international fuel price. The K will be determined of the following way:

- By means of a comparative margin study among several countries (benchmarking), which means the search of better practices of management, through a continuous and systematic procedure for the evaluation of products, services and work processes belonging to organizations known as leaders; in other words, it is the search of better practices in an industry, and which drives to a higher performance. This comparative study will have to include at least the following:
 - i. Definition of the scope of application.
 - ii. Description: of the countries selected to make the comparison.
 - iii. Procedures used to select the countries.

When this procedure is applied, the study to determine K will be submitted to the consideration of a public hearing, and it can be applied until the moment K is published in the official newspaper La Gaceta.

- Historical and reference costs such as cost of maritime transportation, insurance, loss in transit, port costs, financial costs (debt service of short and long term), fuel reception terminal costs, pass through cost in pipelines and cisterns, distribution plant costs (storage and shipment), investment (total of depreciation), security inventory in finished product, other charges indicated by legal regulation (fees, contribution to entities and tax rates) and when it applies, other rate costs for the distribution costs of the finished products placed in each distribution plant. When this procedure is applied, the study to determine K will be subjected to public hearing, and it can be applied when the resolution that states the K be published in the official newspaper La Gaceta.
- The value of K, of the formula that will be used to set the fuel prices will be the lower figure between those obtained from the comparative study between the benchmarking and the analysis of historical and reference costs, (Resolution of Board of Directors of the Regulatory Authority number 001-043-2008, Sole Article, Section 1 of the minutes of the Special Meeting 043-2008 of August 14, 2008 and ratified on the 27th of the same month and year), except qualified exception that the General Regulator or whoever has power for that shall determine in reasoned and expressed way, in the corresponding pricing resolution.

This percentage (Kj) will generate the income to cover the operation cost (margin of operation), and it will be determined at least once a year either in an ordinary way, following the procedure stated in the Law 7593 and its regulation, or in extraordinary way, whenever the fuel extraordinary price setting model is applied, in order to maintain the income that the company needs to cover the operation margin, whenever the domestic plant price without the single tax is adjusted, as a result of the change of the price of the fuel international market.

To determine the K_j percentage, the following equation will be used for all the products:

$$K_j = \frac{\sum_{i=1}^h (K_{(j-1)i} / PR_{ji}) * Q_i}{\sum_{i=1}^h Q_i} \quad j = 1, 2, 3... n.$$

Where:

K_j = Average percentage contribution per fuel that generates the income for RECOPE to cover the costs of admission to the country.

K = Absolute contribution by type of fuel, which makes that the RECOPE's incomes to cover the admission costs do not change in the same way as the fuel domestic prices when the international price changes.

P_{ri} = Fuel international price.

Q = Estimated sales by type of fuel per calendar year.

$j = 1, 2, 3... n$, It indicates the number of extraordinary price adjustments, made from the date the ordinary price study rate enters into force.

$i = 1, 2, 3... h$, It represents the types of fuels that are sold in the national territory.

h = It represents the total number of fuels that are sold.

Before every change of fuel prices, as a result of the change of the international prices; RECOPE's income to cover the costs of admission to the country of the fuels that it sells can be calculated by the following equation:

$$I = \sum_{i=1}^h (K_{(j-1)i} \times PR_{ji}) * Q_i \quad j = 1, 2, 3... n.$$

Where -

I = RECOPE's total income to cover the internal operation costs of the fuels.

Di: Total in Costa Rican colones per liter, in which the price of each fuel must be adjusted - increased or reduced- temporarily (deducting the total of the income tax that RECOPE has transferred to the Ministry of Financing), caused by the price difference between the international price reference (PRi) incorporated in the plant sale price and the current international price at the moment in which RECOPE imports the fuels. This component includes the fact whether RECOPE bought fuel at a market price, where the price reference was affected by an anomalous factor, and the price adjustment made. The Regulatory Authority used other price reference market, in order to avoid the influence of the above mentioned anomaly in the domestic prices. This factor will be checked in June and in December of every year by means of the extraordinary price adjustment procedure, and it will be effective for the period necessary to offset the differences. It will be applied according to the influence of every product on the entire differential through the following formula:

$$D_{i,j} = \frac{\sum_{t=1}^n [(PR_i - PI_{i,j}) * TCI_j * VDM_i]_t}{VTP_i}$$

Where:

t: Number of days in which a shipment of the product *i* is sold, and it is calculated as relation of the shipment volume and the monthly daily sales.

PIi, j: Reference price of the day in which the shipment of the product (bill of landing, BL) of the shipment *j* for the product *i* is made, reported by RECOPE in the import monthly reports, The value of *PIi, j* will be different for each *t* period.

TCIj: Import exchange rate used in the shipment *j*, expressed in Costa Rican colones per dollar of the United States of America.

VDMi: Daily sales average of the *i* product in the *t* period.

VTPi: Total sales budgeted for *i* for the period in which the *Di* adjustment is made.

The review of the *Di* calculation will be performed in the indicated months, but on the same date in which the *PRi* extraordinary review is made.

Si: Specific subsidy by type of fuel granted by the State and applied to fuel when it is officially proven that the total subsidy will be transferred to RECOPE, or also, the cross subsidization that Regulatory Authority

indicated that should be established among products. For the case of the subsidy approved by the Legislative Assembly, it can be applied on the partial values that the Ministry of Financing transfers to RECOPE. Once the subsidy is used, the price of the fuel will automatically be the normal one of the sum of the international price plus K_i and D_i . This factor will be applied to the fuel price following the extraordinary procedure of price adjustment using the following formula:

$$S_{i,t} = \frac{VTS_i}{VTP_{i,t}}$$

Where:

$S_{i,t}$: Value in which the i fuel is affected by the subsidy in the t period, expressed in Costa Rican colones per liter.

VTS_i : Total value of the subsidy approved by the Legislative Assembly or determined by Regulatory Authority for the i product.

$VTP_{i,t}$: Total sales budgeted for i for the period t in which S_i will be applied.

- **Extraordinary Price Definition** - For establishing fuel price through the application of the extraordinary procedure, the following formula will be used:

$$NPPC_i = (PR_i * TCR) * (1 + K_j) \pm D_i \pm S_i$$

$NPPC_i$, PR_i , TCR , K_j , D_i , S_i defined in point a) of the ordinary price definition.

$NPPC_i = (P_{ri} * TCR_p) * (1 + K_j)$, P_{ri} can be automatically adjusted between one above or one below the standard deviation, in dollars per barrel by type of fuel.

Where -

TCR_p : It is the average selling exchange rate in the banking sector as of the selling date of the fuel (colones CRC / dollars USD), calculated according to the Central Bank report of what happened on the previous day, If the rate is set in dollars, the same exchange rate definition must be applied (TCR_p).

The previous formula will be applied in the following way:

The Regulatory Authority will define the prices for each of the i products, on the second Friday of every month, When such Friday falls on a holiday or a day off, the calculation will be made the following business day, by using the same cutoff date of the second Friday of the month. The price adjustment will be

submitted to the procedure stated on the Law 7593 regulations to solve the adjustments of extraordinary prices (15 business days), within which the Regulatory Authority will try to obtain civil participation, by following the procedure stated on the RRG-7205- resolution 2007 of September 7, 2007 and published in La Gaceta N° 181 of September 20, 2007.

σ_i : The standard deviation of the i product, which calculation was based on 300 observations of the international reference prices, with cutoff on the date of review of the prices. It is reviewed in an extraordinary way every time the extraordinary fuel price definition model is applied (on the second Friday of every month). This procedure allows RECOPE to automatically adjust the PR_i within the band, in above or below the standard deviation in dollars per barrel of the FOB international price of each fuel.

K_j : It will be reviewed in an extraordinary way whenever the extraordinary fuel price definition model is applied, in order to maintain the level of income that the company needs to cover the operation margin.

D_i : This factor will be reviewed in June and in December by means of the extraordinary pricing adjustment procedure established in the present model. The review of the calculation of D_i will be made in the stated months, but in the same date in which the extraordinary review of the PR_i is made.

S_i : This factor will be applied at the fuel cost by following the extraordinary procedure of price adjustment indicated in the present model. The calculation review of S_i will be made in the same date in which the extraordinary review of the PR_i is made.

- **Transfer of the Price Adjustment to the End User** - Once the price at the distribution plant has been adjusted; the adjustment should be transferred to the consumer prices for the end user incorporating the sole tax of each fuel into the price. The formulas to transfer the adjustment to the end user are the following ones:

$$1- \quad PPC_i = NPPC_i + T_i$$

$$2- \quad PC_{iDF} = PPC_i + MgT_i + MgD_i$$

Where -

i : Fuels that RECOPE dispatches in the distribution plant, within the national territory.

PPC_i : Distribution plant price, in colones per liter, by fuel type, with the sole tax included.

NPPC_i: New sale price in RECOPE's distribution plant, in colones per liter, of the fuel *i*, without the sole tax, which at the same time will directly affect the fuel price of *i*, for the end user.

T_i: : Sole tax in colones per liter, by type of fuel and reviewable every three months, according to what is indicated by the Ministry of Financing, pursuant to Law 8114, Law of Simplification and Tax Efficiency.

PC_iDF: Fuel price of *i*, for the fuel distribution retailer, in colones per volume unit.

MgT_i: Distributor margin, in colones per liter and by fuel type. The freight charge will be determined based on the corresponding pricing methodology.

MgD_i: Distributor margin, in colones per liter, fuel type; it will be determined based on the corresponding pricing methodology.

For the purpose of controlling these ordinary and extraordinary procedures, RECOPE is required to provide to the Regulatory Authority, in writing and in electronic document, the following:

- No later than sixty calendar days after the closing date of every fiscal year, for the year recently concluded, a chart that includes the pricing list of the effective purchasing prices by fuel type and a report of the quantity of imported fuels separated by supplier, in absolute and percentage terms.
- No later than sixty calendar days after the closing date of every fiscal year, for the year recently concluded, a chart that details -by liter and type of fuel- the FOB price of the imported fuel, the freight charges, the load insurance and a detail of port costs. The information should be provided in electronic format (Excel), and the information that gave origin to the calculation of the indicated price should be provided as well.
- No later than sixty calendar days after the closing date of every fiscal year, for the year recently concluded, a chart that details -by liter and type of fuel- other costs indicated by the model and that justify placing the fuel in every distribution plant, in the terms that the ordinary pricing methodology establishes. The information should be provided in electronic format (Excel), and the information that gave origin to the calculation of the indicated price should be provided as well.
- No later than sixty calendar days after the closing date of every fiscal year, for the year recently concluded, a detailed management report based on accounting results, corresponding to the last closed fiscal period; it should include at least:

- i. Statement of origin and application of rate funds, current and at one-year projection, It should include a detailed explanation of the sources of funds and their applications.
 - ii. Financial analysis.
 - iii. Analysis of the implementation of investments, foreign charges, and debt service.
- Quarterly report and the respective accruals of the calculation of the rate lagging caused by the price difference that is produced between the international reference price and the current international price at the moment in which RECOPE imports the fuels; the report should be presented in electronic format (Excel).
 - In December of each year RECOPE must inform the Regulatory Authority of the estimated sales (in liters) by product and by month, corresponding to the following year.
 - Quarterly report of the effective fuel prices that it sells in ports and airports; the report should be presented in electronic format (Excel).
 - It must present the monthly and yearend financial statements, in electronic format (Excel).
 - It must display in its website the current plant prices with and without taxes, as well as the fuel prices that it sells in ports and airports every time they are modified.
 - It must improve the accounting records to separate the refinement activity from the others.

- **Additional Provisions**

Pursuant to the provisions set forth in the General Law of Public Administration, Articles 145, subparagraphs 2 and 3, and 256 subparagraph 4 of Law 7593 and regulations.

1. The fuel pricing model is effective upon publication.
2. Resolution RRG-6878-2007 as of August 1, 2007, published in official newspaper *La Gaceta*, Issue 155 as of August 14, 2007 containing the “Pricing model for hydrocarbon - derived fuels in distribution plants to end users” is repealed.

- i. Approving RECOPE (K%) operating margin by 14,79% applicable to the international reference price on fuel type for the application of the pricing model.
- ii. Determining standard deviation for RECOPE to vary - within a price range - the price of fuel sold at ports and airports as follows:

Variation Range of Sales Price for Ifo-380, Av- Gas & Jet Fuel (Dollars per Liter)				
Product	Average	Standard Deviation	Floor	Ceiling
IFO-380	0,51	0,1	0,41	0,61
AV-GAS	0,88	0,16	0,72	1,04
JET FUEL	0,78	0,18	0,60	0,97

Categories of Clients and Prices - RECOPE maintains business relationships with different categories of clients. Accordingly, there are different ways of calculating the sales price for fuels invoiced as shown below, Example for premium gasoline (630-RCR-2011, *La Gaceta*, Issue 181 as of September 21, 2011):

- **Sale of National Fuel to Service Stations** - The sales price (premium gasoline) sold by RECOPE to gas stations includes the actual operating margin determined by the Regulating Authority (ARESEP) for sale to end users. Sale invoice is calculated in the plant as follows: when recording the invoice, the difference between actual margin and average margin is adjusted from the sales account in the accounting records.

	Colones per Liter
Sale of National Fuel to Service Stations	
Reference Plant Price Premium Gasoline	¢338,964
Plus:	
K Value of internal costs RECOPE	53,330
Single tax law 8114	<u>213,000</u>
Sub-total	605,294
Plus: Average margin to gas station	<u>50,555</u>
Sales Price to consumer	<u><u>¢656,000</u></u>

- **Sale of National Fuel to Direct Clients (Industries)** - Fuel is sold as follows:

	Colones per Liter
Sale of National Fuel to Direct Clients	
Reference Plant Price	¢338,964
Plus:	
K Value of internal costs RECOPE	53,330
Single tax law 8114	<u>213,000</u>
Sales price to direct client	<u><u>¢605,294</u></u>

- **Sale of National Fuel to Distributors without Fixed Sales Point** - Fuel is sold as follows:

	Colones per Liter
Sale of National Fuel to Distributors without Fixed Sales Point	¢338.964
Reference plant price	
Plus:	
K Value of internal costs RECOPE	53.330
Single tax law 8114	<u>213.000</u>
Sales price to distributor	605.294
Plus: Average margin	<u>3.746</u>
Sales price to distributor	<u>¢609.040</u>

These prices are established through regular and/or special pricing as provided in Law 7593 “Law of the Public Services Regulating Authority” and regulations based on the pricing model defined in Resolution RRG-9233-2008.

Special Price Adjustment for National Fuel - Sales prices of national fuel applicable to every client at service stations under Resolution 700-RCR-2011, published in official newspaper *La Gaceta*, Issue 111 as of September 26, 2011, are as follows:

Prices at Service Stations ¢ Colones per Liter					
Products	Plant Price No Taxes	Single Tax	Business Margin	Final Price	Service Station Price
Premium Gasoline	392,294	213,00	50,5548	655,85	656
Regular Gasoline	380,695	203,50	50,5548	634,75	635
Diesel 0,05% S	452,978	120,25	50,5548	623,78	624
Kerosene	428,860	58,75	50,5548	538,16	538
Av-Gas	596,066	203,50	14,8552	814,42	814
Jet A-1 General	440,995	121,75	14,8552	577,60	578

700-RCR-2011, Scope No.111, official newspaper *La Gaceta*, Issue 248 as of December 26, 2011.
Single Tax Decree 36842-H *La Gaceta* Issue 219 as of Nov, 15, 2011, Effective until 01-31-2012.

Sales price percentage composition is as follows:

Products	Plant Price No Taxes	Single Tax	Business Margin	Final Price	Service Station Price
Premium Gasoline	60%	32%	8%	100%	100%
Regular Gasoline	60%	32%	8%	100%	
Diesel 0,05% S	71%	19%	8%	100%	
Kerosene	80%	11%	9%	100%	
Av-Gas	73%	25%	2%	100%	
Jet A-1 General	76%	21%	3%	100%	

- **Sale of Fuel to the Local Fishing Fleet** - This refers to products such as gasoline and diesel sold to clients subject to Law 7384 “Law for the Creation of INCOPECA”, having a differentiated price. Prices are set using the following framework:

By Resolution RRG-2774-2002 of September 26, 2002, the Regulatory Authority made a fundamental change in the procedure for setting rates for fuel consumed by the national fishing fleet. It recommends:

“...set fuel prices for Diesel and Regular Gasoline consumed by the National Fishing Fleet at the price equal to the RECOPE plant price without charging the single tax, either using the normal or extraordinary Procedure...”

The General Regulatory Authority resolved that:

II. “...setting fuel prices for Diesel and Regular Gasoline consumed by the National Fishing Fleet is made in accordance with the provisions set forth in Articles 3, 30 and 31 of Law Number 7593...”

III. “...fuel prices for Diesel and Regular Gasoline consumed by the National Fishing Fleet will be set in accordance with Resolution Number 2710-2002, until such time as a new rate setting procedure is established for RECOPE...”

Through section IV of resolution 700-RCR-2011, published in La Gaceta number 248 of September 26, 2011, the Regulatory Authority resolves to set the fuel price for the national fishing fleet at RECOPE’s institutional price, per liter, as follows:

Regular gasoline	<u>¢380.695</u>
Diesel 0,05% S	<u>¢452.978</u>

- v. **Cost of Sales** - The cost of sales accounts for the issue of inventory for sale. The cost of inventory includes overall hydrocarbon production or purchase costs sold by RECOPE. Such sale results in regular income to RECOPE. Assessing inventory costs requires the moving average cost method, for it keeps costs as updated as possible, given inventory turnover and volatility of international hydrocarbon prices.
- w. **Production Cost in Refinery** - Refined products from processing light and heavy crude oil with added value from manpower and indirect costs are assessed as follows:

Fixed and variable costs are directly applied to each production unit through the expense accrual method at the different production units. Then they are assigned to each product based on production.

Production units include:

- **Atmospheric Distillation Unit** - Costs and expenses of this unit are sensitized by means of the Relative Sales Price method using international FOB prices.
- **Thermal Cracking Unit** - Variable and fixed costs and expenses are applied to the production of naphtha based on the FOB relative sales price of the main products.

In the case of the production units mentioned below, the method of allocating costs to the production obtained is distributed according to the production volume.

- **Vacuum unit**
- **Naphta hydrosulfurization unit and catalytic reforming**
- **Distillation unit - jet fuel**
- **Gascon - merox unit**
- **Mixing Unit** - This unit combines products to produce marine fuel and commercial gasoline among others. The costs obtained from the units above corresponding to new product are averaged products prepared from this mixing process include:
 - IF 180 (mix of fuel oil and gasoil)
 - IF 380 (mix of fuel oil and gasoil)
 - Regular gasoline (Gasoil + colorants and additives)
 - Premium gasoline (MOGAS + MTBE)

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

- x. **Expense Recognition** - Expenses are recognized on the accrual basis, as goods or services acquired are received or as accounting amortizations and reserves are registered, such as depreciation, asset impairment, and provisions for losses.
- y. **Asset Impairment** - As of yearend, RECOPE evaluates the registered value of its assets to determine if there is any indication that such assets have suffered any impairment loss. When there exists such indication, the recoverable amount of the assets is estimated, in order to determine the amount of the loss, if any.

- z. **Use of Estimates** - The financial statements are prepared according to the International Financial Reporting Standards, and consequently, they include amounts that are based on management's best estimate and judgment. The actual results could differ from such estimates. Estimates made by management include the useful life of property, plant, vehicles, and equipment, as well as the determination of provisions.
- aa. **Financial Instruments** - All financial assets and liabilities are initially recorded at fair value. After the initial registration, the financial assets are registered at such value because they consist mainly of cash and cash equivalents, held-to-maturity investments, accounts receivable, and notes receivable. Financial liabilities consist basically of accounts payable and debt, which are valued at the originally registered amount less the payments made or at amortized cost, as applicable. As of December 31, 2011 and 2010. RECOPE has not entered into any agreement whatsoever that involves derivative financial instruments, such as futures, option, and financial swaps.
- bb. **Adoption of New or Revised International Financial Reporting Standards** - As of December 31, 2011, the following standards and interpretations had been published by the International Accounting Standard Board (IASB):
- **Standards and Interpretations without an Effect on the Financial Statements** - The standards and interpretations which became effective on January 1, 2011, but which were not applicable to RECOPE due to the current nature of its operations, and which could have an effect on future transactions or agreements are the following:

Standard	Effect
NIC 24 - <i>Related Party Disclosure</i>	<p>The standard changes some related party definitions and requires disclosure in the Company's financial statements.</p> <p>The application of this standard and its changes does not have an impact in the disclosures because the Company properly discloses the transactions with related parties.</p>
Amendment to IAS 32 - <i>Classification of Rights Issues</i>	<p>It changes the classification of some issued rights and denominated in foreign currency, such as capital instruments and financial liabilities.</p> <p>The application of this amendment does not have any effect on the Company's financial statements because no transactions of this nature have been made.</p>

(Continues)

Standard	Effect
IFRIC 19 - <i>Extinguishing Financial Liabilities with Equity Instruments</i>	The interpretation provides guidance on the accounting for the extinguishment of a financial liability by issuing equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount.

- **Standards and Interpretations Issued but not Adopted Yet** - The standards and interpretations that have already been issued, but which have not been adopted yet due to their effective date are listed below:

Standard or Interpretation	Effective Date for Periods Starting on
Amendments to IFRS 7 - <i>Disclosures - Transfers of Financial Assets</i>	July 1 st , 2011
IFRS 9 - <i>Financial Instruments</i>	January 1 st , 2013
IFRS 10 - <i>Consolidated Financial Statements</i>	January 1 st , 2013
IFRS 11 - <i>Joint Arrangements</i>	January 1 st , 2013
IFRS 12 - <i>Disclosure of Interests in Other Entities</i>	January 1 st , 2013
IFRS 13 - <i>Fair value Measurement</i>	January 1 st , 2013
Amendments to IAS 1 - <i>Presentation of Items of Other Comprehensive Income</i>	July 1 st , 2012
Amendments to IAS 12 - <i>Income taxes</i>	January 1 st , 2013
IAS 19 - (as Revised in 2011), <i>Employee Benefits</i>	January 1 st , 2013
IAS 27 - (as Revised in 2011), <i>Separate Financial Statements</i>)	January 1 st , 2013
IAS 28 - (as Revised in 2011), <i>Investments in Associates and Joint Ventures</i>	January 1 st , 2013

IFRS 10 replaces the portion of IAS 27 “Consolidated and Separate Financial Statements” that addresses the accounting for consolidated financial statements.

Especially on those special purpose entities, IFRS 10 uses control as the single basis for consolidation. In addition, the standard includes a new control model, which contains three elements: (a) power over the investee, (b) rights on the investment, and (c) the ability to use the power over the investee to affect the amount of the investor’s return.

The movement of the allowance for doubtful accounts is presented as follows:

	2011	2010
Initial balance	US\$ 42,716	US\$ 887,997
Increases	766,944	
Decreases		(822,267)
Foreign currency translation adjustment	<u>(5,217)</u>	<u>(23,014)</u>
Final balance	<u>US\$804,443</u>	<u>US\$ 42,716</u>

4. INVENTORIES

The inventory account is broken down as follows:

	2011	2010
Raw materials	US\$ 65,773,468	US\$ 35,620,440
Finished product	205,017,003	135,645,346
Semi-finished product	5,514,596	33,913,760
Inventory in transit	132,390,700	25,314,650
Material inventory	<u>7,240,546</u>	<u>7,094,126</u>
Sub-total	415,936,313	237,588,322
Allowance for obsolete inventory	<u>(1,928,568)</u>	<u>(1,928,863)</u>
Total	<u>US\$414,007,745</u>	<u>US\$235,659,459</u>

The movement of the allowance for obsolete inventory is the following:

	2011	2010
Initial balance	US\$1,928,863	US\$2,002,454
Decreases	(6,692)	(71,588)
Foreign currency translation adjustment	<u>6,397</u>	<u>(2,003)</u>
Final balance	<u>US\$1,928,568</u>	<u>US\$1,928,863</u>

5. PREPAID EXPENSES

Prepaid expenses are detailed as follows:

	2011	2010
Contractor's cash in advance	US\$11,977,337	US\$ 5,946,823
Income tax withholdings to clients	4,249,841	2,691,908
Letters of credit for services	5,053,013	15,109,514
Insurance	1,095,268	647,867
Others	<u>417,962</u>	<u>1,534,058</u>
Total	<u>US\$22,793,421</u>	<u>US\$25,930,170</u>

6. PROPERTY, PLANT, VEHICLES, AND EQUIPMENT

The detail of property, plant, vehicles, and equipment as of December 31, 2011 is the following:

Description	Initial Balance	Annual Revaluation	Additions	Disposals	Transferred	Foreign Currency Translation Adjustment	Final Balance
Fixed assets at cost:							
Properties	US\$ 11,761,045					US\$ 38,720	US\$ 11,799,765
Moín port complex	4,907,069				US\$ 15,413,796	16,155	20,337,020
Facilities	223,177,358			US\$ (508,807)	19,543,674	734,740	242,946,965
Building	12,477,443			(176,883)		41,078	12,341,638
Heavy machinery and equipment	14,651,054		US\$ 3,045,487		9,543,837	48,234	27,288,612
Furniture and equipment	18,302,080		2,716,063	(443,021)	2,080,193	60,255	22,715,570
Vehicles	6,441,895		2,135,149	(169,882)		21,208	8,428,370
Works in progress	162,283,785		64,492,249		(46,581,500)	534,269	180,728,803
Total at cost	454,001,729		72,388,948	(1,298,593)		1,494,659	526,586,743
Revaluated fixed assets:							
Properties	18,473,542	US\$ 1,434,804				60,819	19,969,165
Moín port complex	102,595,673	3,376,730				337,763	106,310,166
Facilities	179,358,558	21,308,767				590,481	201,257,806
Building	34,481,801			(234,660)	(123,471)	112,748	34,236,418
Plant machinery and equipment	8,717,630	572,391		(2,637)	8,819	28,692	9,324,895
Furniture and equipment	7,888,459	169,293		(248,123)	114,652	25,152	7,949,433
Vehicles	3,614,814	304,758		(254,058)		11,064	3,676,578
Revaluated total	355,130,477	27,166,743		(739,478)		1,166,719	382,724,461
Sub-total fixed assets	809,132,206	27,166,743	72,388,948	(2,038,071)		2,661,378	909,311,204
Depreciation at cost:							
Total accumulated depreciation of assets at cost	(88,995,258)		(16,158,822)	523,147		(292,989)	(104,923,922)
Revaluated depreciation:							
Total accumulated depreciation of revaluated assets	(255,272,270)	(11,649,084)	(9,334,741)	590,145		(840,403)	(276,506,353)
Total depreciation	(344,267,528)	(11,649,084)	(25,493,563)	1,113,292		(1,133,391)	(381,430,275)
Total	US\$ 464,864,678	US\$ 15,517,659	US\$46,895,385	US\$ (924,779)	US\$	US\$ 1,527,986	US\$ 527,880,929

Detail of property, plant, vehicles and equipment as of December 31, 2010 is the following:

Description	Initial Balance	Annual Revaluation	Additions	Disposals	Foreign Currency Translation Adjustment	Final Balance
Fixed assets at cost:						
Properties	US\$ 7,270,867		US\$ 3,801,014	US\$ (14,660)	US\$ 703,824	US\$ 11,761,045
Moín port complex	4,473,984				433,085	4,907,069
Facilities	196,592,905		7,554,130		19,030,323	223,177,358
Building	11,376,218				1,101,225	12,477,443
Heavy machinery and equipment	12,042,210		1,451,894	(8,744)	1,165,694	14,651,054
Furniture and equipment	15,440,748		1,462,407	(95,748)	1,494,673	18,302,080
Vehicles	5,568,640		458,804	(124,597)	539,048	6,441,895
Works in progress	<u>83,124,315</u>		<u>71,112,982</u>		<u>8,046,488</u>	<u>162,283,785</u>
Total at cost	<u>335,889,887</u>		<u>85,841,231</u>	<u>(243,749)</u>	<u>32,514,360</u>	<u>454,001,729</u>
Revaluated fixed assets:						
Properties	15,335,514	US\$ 1,653,540			1,484,488	18,473,542
Moín port complex	97,338,039	(4,164,753)			9,422,387	102,595,673
Facilities	163,832,239	(332,750)			15,859,069	179,358,558
Building	29,625,876	1,988,121			2,867,804	34,481,801
Plant machinery and equipment	7,437,728	561,643		(1,718)	719,977	8,717,630
Furniture and equipment	6,513,265	816,401		(71,696)	630,489	7,888,459
Vehicles	<u>3,139,000</u>	<u>311,182</u>		<u>(139,225)</u>	<u>303,857</u>	<u>3,614,814</u>
Revaluated total	<u>323,221,661</u>	<u>833,384</u>		<u>(212,639)</u>	<u>31,288,071</u>	<u>355,130,477</u>
Sub-total fixed assets	<u>659,111,548</u>	<u>833,384</u>	<u>85,841,231</u>	<u>(456,388)</u>	<u>63,802,431</u>	<u>809,132,206</u>
Depreciation at cost:						
Total accumulated depreciation of assets at cost	(69,345,835)		(13,115,134)	178,434	(6,712,723)	(88,995,258)
Revaluated depreciation:						
Total accumulated depreciation of revaluated assets	<u>(225,158,376)</u>	<u>2,660,416</u>	<u>(11,170,125)</u>	<u>191,294</u>	<u>(21,795,479)</u>	<u>(255,272,270)</u>
Total depreciation	<u>(294,504,211)</u>	<u>2,660,416</u>	<u>(24,285,259)</u>	<u>369,728</u>	<u>(28,508,202)</u>	<u>(344,267,528)</u>
Total	<u>US\$ 364,607,337</u>	<u>US\$ 3,493,800</u>	<u>US\$ 61,555,972</u>	<u>US\$ (86,660)</u>	<u>US\$ 35,294,229</u>	<u>US\$ 464,864,678</u>

7. INVESTMENTS IN JOINT VENTURE

As indicated in note 19, RECOPE owns 50% participation at Soresco, S.A.

The movement of year in the investment is the following:

	Note	2011	2010
Initial balance		US\$ 2,532,595	
Increases		<u>25,025,897</u>	<u>US\$2,532,595</u>
Final balance	14	<u>US\$27,558,492</u>	<u>US\$2,532,595</u>

On October 26, 2011 a contribution for a total of US\$24,6 million was registered.

In November 2011, a contribution for the sum of US\$417 thousand was registered, when the correct account balance as of December 31, 2011 was US\$27,5 million.

A detail of assets, liabilities, and results of Soresco, S.A. as of December 31, 2011 and 2010 in US dollars is the following:

	2011	2010
Assets:		
Current	US\$34,304,806	US\$ 4,204,729
Non current	<u>9,600,051</u>	<u>11,506</u>
Total assets	<u>US\$43,904,857</u>	<u>US\$ 4,216,235</u>
Liabilities:		
Current	<u>US\$ 7,457,813</u>	<u>US\$ 1,184,890</u>
Total liabilities	<u>US\$ 7,457,813</u>	<u>US\$ 1,184,890</u>
Stockholders' equity		
Capital stock	US\$ 10,000	US\$ 10,000
Additional paid-in capital	40,750,000	5,000,000
Accumulated losses	<u>(4,312,956)</u>	<u>(1,978,655)</u>
Total assets	<u>US\$36,447,044</u>	<u>US\$ 3,031,345</u>
Expenses	US\$ 2,354,117	US\$ 1,977,460
Financial expenses (income), net	<u>19,816</u>	<u>1,195</u>
Net loss	<u>US\$ 2,373,933</u>	<u>US\$ 1,978,655</u>

As of December,31,2011 and 2010, the additional paid in capital by RECOPE is US\$25,000,000 y US\$2,500,000, respectively.

8. OTHER ASSETS

Other assets is broken down as follows:

	2011	2010
Software licenses	US\$11,324,728	US\$ 2,909,912
Service stations - cost	18,629	18,568
Service stations - revaluation	5,272,183	5,254,883
Security deposits	1,068,779	1,174,254
Others	<u>197</u>	<u>197</u>
Sub-total	17,684,516	9,357,814
Accumulated amortization of software	<u>(3,051,324)</u>	<u>(1,931,632)</u>
Total	<u>US\$14,633,192</u>	<u>US\$ 7,426,182</u>

Increases from revaluation of service stations are credited to the surplus from revaluation in equity account. The last appraisal of the service stations took place on April 15, 2008, and it was made by an independent expert from the Costa Rican Tax Authority (Dirección General de Tributación Directa).

9. ACCOUNTS PAYABLE

Accounts payable are broken down as follows:

	Note	2011	2010
Supplier of oils and byproducts		US\$231,590,967	US\$ 73,185,923
Law 8114 Single Tax	14	28,123,138	43,285,958
Trade		7,582,646	4,358,434
Others		<u>2,846,479</u>	<u>2,911,479</u>
Total		<u>US\$270,143,230</u>	<u>US\$123,741,794</u>

10. ACCUMULATED EXPENSES AND OTHER LIABILITIES

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

	2011	2010
Provision for school supplies bonus	US\$4,373,076	US\$3,799,115
Provision for thirteenth month	401,214	210,908
Accumulated interest	<u>598,462</u>	<u>715,486</u>
Total	<u>US\$5,372,752</u>	<u>US\$4,725,509</u>

Year	Amount
2015	US\$ 8,000,000
2016	8,000,000
2017 and on	<u>10,000,001</u>
Total	<u>US\$51,800,291</u>

13. INCOME TAX

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

In regards to the income tax returns for the last three tax periods, they are open for review by the tax authorities. Consequently, some discrepancies could result from the application of certain concepts by the tax authorities that differ from those applied by RECOPE. The Company’s management considers that it has correctly applied and interpreted all the tax regulations.

As indicated below, the 2004 - 2008 tax periods were subject to review by the tax authorities.

Income Tax Calculation - Income Tax was calculated on pre-tax net income, applying the rate in force, deducting non-taxable income, and adding non-deductible expenses:

	2011	2010 (Restructured)
Profit before income tax	US\$ 22,306,229	US\$108,251,321
Plus: non deductible expenses	67,146,522	8,133,102
Less: other non deductible	(130,732,736)	(89,770,466)
Less: non taxable income	<u>(648,387)</u>	<u>(5,360,413)</u>
Taxable (loss) gain	<u>(41,928,372)</u>	<u>21,253,544</u>
Current income tax (30% on taxable gain)		(9,108,662)
Tax assesment		<u>(37,726,369)</u>
Current income tax		<u>(46,835,031)</u>
Deferred tax	<u>2,523,729</u>	<u>3,414,412</u>
Income tax of the period	<u>US\$ 2,523,729</u>	<u>US\$ (43,420,619)</u>

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

	2011	2010 (Restructured)
Balance at the beginning	US\$7,187,923	US\$7,120,778
Severance benefit accrual	<u>(339,853)</u>	<u>67,145</u>
Balance at the end	<u>US\$6,848,070</u>	<u>US\$7,187,923</u>

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

	2011	2010 (Restructured)
Balance at the beginning:	US\$(24,397,920)	US\$(30,361,832)
Translation adjustment	(56,254)	(7,294)
Asset revaluation	(4,220,556)	2,531,871
Deferred income tax on revaluated depreciation	<u>2,843,055</u>	<u>3,439,335</u>
Deferred income tax liability of the year	<u>US\$(25,831,675)</u>	<u>US\$(24,397,920)</u>
Deferred income tax of the year - net	<u>US\$(18,983,605)</u>	<u>US\$(17,209,997)</u>

2004-2008 Tax Audit - By virtue of the results of the tax audit conducted by the Tax Administration Agency determining income tax for 2004-2008 fiscal years, RECOPE started a process to challenge them, In parallel, in September 2010, it made a payment - under protest - equal to the established sum plus interests by applying a tax credit. Additionally, the balance was paid in cash and recorded as Accounts Receivable to the Ministry of Financing, pending final judgment of the Tax Administrative Court.

In September 2011, the Tax Administrative Court gave notice of judgment TFA-504-2011, supporting the proceedings of the Tax Administration Agency, In October 2011, RECOPE was informed of settlement resolution SFGCN-AL-170-11, indicating that payments by RECOPE through balance offset and payment under protest were properly made.

In addition, the Administrative Tax Court, in response to the appeal filed by RECOPE, resolved through ruling No.TFA-532-2011 of twelve hours of the twentieth of September of 2011 that the intended penalty to be imposed on RECOPE did not apply since the Company acted compelled by ARESEP's provisions.

2009-2010 Fiscal Years - Based on ruling TFA-504-2011, RECOPE's Management, on December 15, 2011, filed rectifying tax returns for each fiscal period.

As a result of filing these rectifying tax returns, there was no tax payable in 2009, and for 2010, the resulting income tax was for the sum of US\$8,5 million.

14. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Balances with related parties are broken down as follows:

	Notes	2011	2010
Investment in joint venture:			
Soresco, S.A.	7	<u>US\$27,558,492</u>	<u>US\$ 2,532,595</u>
Account receivable:			
Ministry of Financing	3	<u>US\$ 5,888,127</u>	<u>US\$ 8,860,713</u>
Account receivable - long term:			
Costa Rican Institute of Electricity		US\$ 829,105	
National Concession Board		<u>595,674</u>	<u>US\$ 593,719</u>
Sub-total	3	<u>1,424,779</u>	<u>593,719</u>
Less:			
Allowance for doubtful accounts	3	<u>(804,443)</u>	<u></u>
Total		<u>US\$ 620,336</u>	<u>US\$ 593,719</u>
Advances:			
Soresco, S.A.		<u>US\$ 5,913,815</u>	<u>US\$</u>
Accounts payable:			
Ministry of Financing	9	<u>US\$28,123,138</u>	<u>US\$43,285,958</u>
Total		<u>US\$28,123,138</u>	<u>US\$43,285,958</u>

The transactions with related parties are the following:

	2011	2010
Sales:		
Costa Rican Institute of Electricity	US\$223,578,579	US\$181,856,762
To the Ministries of the government		
of Costa Rica	<u>1,115,800</u>	<u>707,901</u>
Total	<u>US\$224,694,379</u>	<u>US\$182,564,663</u>
Cost of sales:		
Costa Rican Institute of Electricity	US\$208,241,087	US\$163,525,599
To the Ministries of the government		
of Costa Rica	<u>1,039,257</u>	<u>636,544</u>
Total	<u>US\$209,280,344</u>	<u>US\$164,162,143</u>
Expenses:		
Seating fees to the Board of Directors	US\$ 33,838	US\$ 32,249
Salaries to directors and managers	<u>1,469,298</u>	<u>1,414,654</u>
Total	<u>US\$ 1,503,136</u>	<u>US\$ 1,446,903</u>

15. CAPITAL STOCK

RECOPE's capital stock amounts to ¢3.000.000, represented by 30,000 common and nominative shares of ¢100 each.

16. SURPLUS FROM DONATION

As of December 31, 2011 and 2010 surplus from donation is broken down as follows:

Surplus donated by Allied Chemical Corp.	US\$16,776,309
PetroCanada donation	16,423,891
AID donation (carbon exploration)	326,840
Debit remission - Government of The Netherlands	1,129,446
Castella pipeduct	<u>151,830</u>
Total	<u>US\$34,808,316</u>

17. OPERATING EXPENSES

Expenses by nature are detailed as follows:

	2011	2010
Corporate and management administration		
Personal services	US\$ 10,974,352	US\$ 9,669,181
Non personal services	2,069,638	2,427,484
Materials and supplies	476,589	423,907
Depreciations and amortizations	2,461,102	1,625,007
Applied expenses	(7,022)	(3,918)
Ordinary transfers	<u>5,267,187</u>	<u>4,957,475</u>
Subtotal	<u>21,241,846</u>	<u>19,099,136</u>
Project and marketing management:		
Personal services	4,465,548	4,092,249
Non personal services	2,002,164	3,075,033
Materials and supplies	248,407	458,686
Depreciations and amortizations	1,273,030	109,820
Applied expenses		873,398
Ordinary transfers	<u>1,969,104</u>	<u>1,744,971</u>
Subtotal	<u>9,958,253</u>	<u>10,354,157</u>

(Continues)

	2011	2010
Refining management:		
Personal services	US\$ 13,473,031	US\$ 12,703,272
Non personal services	7,620,404	5,101,042
Materials and supplies	13,960,801	4,313,842
Depreciations and amortizations	11,236,483	12,111,597
Applied expenses	(6,317,699)	(1,049,340)
Ordinary transfers	<u>5,661,437</u>	<u>4,876,346</u>
Subtotal	<u>45,634,457</u>	<u>38,056,759</u>
Administration and finance management:		
Personal services	14,023,535	12,520,028
Non personal services	11,962,588	8,195,284
Materials and supplies	1,857,915	1,622,247
Depreciations and amortizations	902,869	590,787
Applied expenses		(150,423)
Ordinary transfers	<u>6,862,365</u>	<u>6,382,772</u>
Subtotal	<u>35,609,272</u>	<u>29,160,695</u>
Distribution and marketing management:		
Personal services	17,277,753	14,843,196
Non personal services	12,567,188	10,829,036
Materials and supplies	4,677,853	2,967,562
Depreciations and amortizations	10,739,771	9,848,048
Applied expenses	(582,430)	(4,981,785)
Ordinary transfers	6,666,490	5,791,261
Subtotal	<u>51,346,625</u>	<u>39,297,318</u>
Total	<u>US\$163,790,453</u>	<u>US\$135,968,065</u>

18. FINANCIAL INSTRUMENTS

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

18.1. SIGNIFICANT ACCOUNTING POLICIES

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

18.2. FINANCIAL INSTRUMENTS - CATEGORIES

Financial instruments are categorized as follows:

	2011	2010
Financial assets:		
Cash	US\$ 96,329,119	US\$126,008,348
At amortized cost:		
Cash equivalents - held to maturity	25,475,211	
Accounts receivable	<u>3,981,335</u>	<u>12,895,198</u>
Total assets	<u>US\$125,785,665</u>	<u>US\$138,903,546</u>
Financial liabilities:		
At amortized cost	<u>US\$382,621,754</u>	<u>US\$184,530,362</u>
Total liabilities	<u>US\$382,621,754</u>	<u>US\$184,530,362</u>

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

- a. **Credit Risk** - Financial instruments that potentially subject RECOPE to credit risk mainly consist of cash, cash equivalents, and accounts receivable. Cash and cash equivalents are maintained at a strong financial institutions. These are payable on demand with minimum recovery risk.

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

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

	2011	2010
Assets:		
Cash and cash equivalents	US\$ 41,957,408	US\$ 18,027,686
Accounts receivable	<u>1,075,879</u>	<u>301,952</u>
Total assets	<u>43,033,287</u>	<u>18,329,638</u>

(Continues)

	2011	2010
Liabilities:		
Accounts receivable	US\$(291,835,161)	US\$ (73,185,923)
Debt	<u>(51,800,000)</u>	<u>(60,788,568)</u>
Total liabilities	<u>(343,635,161)</u>	<u>(133,974,491)</u>
Net exposure	<u>US\$(300,601,874)</u>	<u>US\$(115,644,853)</u>

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

Sensitivity to Increase / Decrease in Exchange Rate -

Net exposure	<u>US\$(300,601,874)</u>
Closing exchange rate	<u>510,82</u>
Exchange rate variation of 2%	<u>10,2</u>
Loss / Profits	<u>¢ (3.066.139.115)</u>

- c. **Liquidity Risk** - Liquidity risk is the risk if RECOPE fails to meet all its obligations in the agreed terms, RECOPE maintains liquid financial assets for transactions. In addition, a methodological request for adjustment of fuel prices is made to reduce the risk of significant differences between fuel price and sales price. Sales to third parties are in cash, as provided in Law 6588, reducing default risk. Credit lines are also available for fuel purchase in order to reduce liquidity.

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

Expected recovery of financial assets as of December 31, 2011 is as follows:

Financial Assets	Interest Rate	Less than 1 Month	1-3 Months	3 Months 1 Year	More than 1 Year	Total
Interest rate bearing instruments	0.12% to 4.50%	US\$96,329,119	US\$25,475,211			US\$121,804,330
Non-interest rate bearing instruments			3,188,926		US\$792,409	3,981,335
Total		<u>US\$96,329,119</u>	<u>US\$28,664,137</u>	<u>US\$</u>	<u>US\$792,409</u>	<u>US\$125,785,665</u>

Scheduled payments of financial liabilities as of December 31, 2011 are as follows:

Financial Liabilities	Weighted Average Interest Rate	Less than 1 Month	1-3 Months	3 Months 1 Year	More than 1 Year	Total
Interest rate bearing obligations	5.98%		US\$64,128,306	US\$5,450,073	US\$42,900,145	US\$112,478,524
Non-interest rate bearing obligations		US\$269,741,443		401,787		270,143,230
Total		<u>US\$269,741,443</u>	<u>US\$64,128,306</u>	<u>US\$5,851,860</u>	<u>US\$42,900,145</u>	<u>US\$382,621,754</u>

Expected recovery of financial assets as of December 31, 2010 is as follows:

Financial Assets	Interest Rate	Less than 1 Month	1-3 Months	3 Months-1 Year	More than 1 Year	Total
Interest rate bearing instruments	0.12% to 4.50%	US\$126,008,348				US\$126,008,348
Non-interest rate bearing instruments			US\$7,406,217	US\$4,686,668	US\$802,313	12,895,198
Total		US\$126,008,348	US\$7,406,217	US\$4,686,668	US\$802,313	US\$138,903,546

Scheduled payments of financial liabilities as of December 31, 2010 are as follows:

Financial Liabilities	Weighted Average Interest Rate	Less than 1 Month	1-3 Months	3 Months 1 Year	More than 1 Year	Total
Interest rate bearing obligations	5.23%			US\$8,929,523	US\$51,859,046	US\$ 60,788,569
Non-interest rate bearing obligations		US\$123,741,793				123,741,793
Total		US\$123,741,793	US\$	US\$8,929,523	US\$51,859,046	US\$184,530,362

- d. **Interest Rate Risk** - RECOPE maintains significant liabilities mainly consisting of bank loans subject to interest rate variation, RECOPE hopes that its interest rates are not significantly increased in the short term. In case of the loan with *Instituto de Crédito Oficial del Reino de España* (Official Credit Institute of Spain), it is important to mention that this is a fixed rate loan, thus reducing this risk, In regards to the remaining existing loans, RECOPE is currently reviewing interest rates and renegotiating financial conditions.

RECOPE issues bank bonds bearing interest at variable rates. Accordingly, it is subject to interest rate fluctuation. This risk is considered normal within RECOPE financing structure, for loans are arranged at market rates. Given net borrowing as of December 31, 2011. Management has developed a sensitivity analysis on potential interest rate variations. The table below shows annual profits (losses) that may result from interest rate variation of 1 and 2 percentage points, respectively:

	Variable Interest Rate Borrowing	1%	2%
Increase	US\$50,050,950	US\$(500,509)	US\$(1,001,018)
Decrease	US\$50,050,950	US\$ 500,509	US\$ 1,001,018

- e. **Capital Management Policy** - Capital Management Policy is contained in different regulations of RECOPE, including, inter alia, Law 6588 "RECOPE Incorporation Act," Law 8131 "Law of Financial Administration and Public Budgets," and Law 7593 "Law of the Public Services Regulating Authority". Law No.7010 "Public Indebtedness Law", Law 5525 "National Planning Law", among others and the respective regulations.

- f. **Market Risk** - Market risk refers to international price variations of crude oil and petroleum by-products, International price variations from increased world demand for hydrocarbons always have an impact on the financial situation of RECOPE.

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

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

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

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

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

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

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

18.3. LEVERAGE RISK MANAGEMENT

In the normal course of operations, RECOPE is exposed to a variety of financial risks, which it tries to minimize through the application of risk management policies and procedures. These policies cover market risk, liquidity risk, exchange rate risk, and interest rate risk. In addition, RECOPE manages its capital structure in order to maximize the return for its stockholders by optimizing debt balance and stockholders' equity.

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

	2011	2010
Notes payable and bank debt	US\$ 112,478,525	US\$ 60,788,568
Cash and cash equivalents	<u>(121,804,330)</u>	<u>(126,008,348)</u>
Net debt	<u>US\$ (9,325,805)</u>	<u>US\$ (65,219,780)</u>
Stockholders' equity	<u>US\$ 661,661,456</u>	<u>US\$ 623,426,421</u>
Leverage index	<u>(1.41%)</u>	<u>(10.46%)</u>

18.4. FAIR VALUE OF THE FINANCIAL INSTRUMENTS

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

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

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

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

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

The market value of financial assets and liabilities on the short term is approximate to their respective book value, mainly due to their maturity.

The methods and assumptions used by RECOPE to establish fair market value of the financial instruments are detailed as follows:

- a. **Cash, Cash Equivalents** - Book value of these assets is approximate to their fair value due to their current nature.
- b. **Accounts Receivable, Accounts and Notes Receivable on the Long Term, and Accounts Payable** - Book value of these financial assets and liabilities at less than one year is approximate to their fair value due to their short term nature.
- c. **Notes Payable and Long Term Debt** - Except for the debt with the *Instituto de Crédito Oficial del Reino de España*, rates of the loan are agreed at market value, and they are adjustable so that they can remain always at fair value; therefore, their market value is approximate to their reasonable value. The effect of such debt is not relevant for RECOPE's financial statements.

19. AGREEMENTS

19.1 SPANISH LOAN WITH THE INSTITUTO DE CRÉDITO OFICIAL - I.C.O.

Through Law 7336 published in La Gaceta Number 89 of May 11, 1993, a loan with the Government of Spain was approved through the Instituto de Crédito Oficial (ICO) for 1,560 million pesetas payable twice a year, on March 1st and September 1st, with ordinary interest at an annual rate of 2% and a 0,25% fee for funds not used, plus a seven-year grace period. This loan was acquired in order to extend and modernize the refinery.

The grace period of this loan was seven (7) years as of the first disbursement that took place in April 1994. The last disbursement of this loan took place in July 1998.

Maturity of this loan will be in July 2013.

19.2 LOAN AGREEMENT WITH CORPORACION ANDINA DE FOMENTO (CAF)

On November 30, 2006, a loan agreement renegotiation was signed with *Corporacion Andina de Fomento* for the development of the Limon-Garita Poliduct Project under the following conditions:

Amount - US\$20 million

Expenditures - 20 biannual fees from the date of execution of the Loan Agreement.

Term and Mortgage - 12 years including a two-year grace period, 20 biannual fees, after the grace period with maturity in November 2018.

Interest Rate - Variable rate + LIBOR rate for 6-month loans.

Interest in Arrears - 2% on overdue and outstanding capital+ interest rate.

Commitment Fee - 0.75% annually on undrawn balance upon maturity each semester.

Tax Payment and Surcharges - Payment of fees and commissions shall be free of deductions for taxes, rates, liens or encumbrances, rights, and surcharges effective as of November 30, 2006 or as set forth in the future.

Other Finance Costs - If RECOPE abstains from receiving funds whose expenditure it has previously requested either partially or totally, it shall pay the consequential damages arising from such action.

Obligations - Clause 6-01

- a. Apply resources received only for the purpose of the loan.
- b. Maintain in force all the permissions or records that State authorities shall grant or do to achieve the legality or the execution of the Loan Agreement.
- c. Inform CAF at the earliest time about any amendments to the information in Clause 4.01 (Customer Statements), about ongoing trials, litigation, claims or any other relevant situation that may adversely affect the ability to comply with the Loan Agreement.
- d. Keep an insurance program for main, existing, or future assets in accordance with the replacement value. Every year, CAF shall be provided the supporting documentation of the insurance programs' validity issued by the insurance companies.
- e. Keep updated the contract with a suitable auditing company.
- f. Verify that disbursed resources are aimed to activities that additionally to Clause 2.01 (Purpose of the Loan) are in harmony with the environment, social actions, and comply with any applicable ecological, environmental protection and social action laws.

- g. At CAF's request, provide any information that may be requested by the institutions that may eventually provide total or partial resources to finance the Loan.
- h. Keep updated books and records related to the use of the loan in accordance with the International Accounting Standards.
- i. Authorize CAF officials to review any books, records, and documents in relation to the Loan.
- j. Provide CAF related documentation and reports as follows:
- A copy of the non-audited financial statements within thirty (30) days following each calendar quarter.
 - A copy of audited finance statements within one hundred-eighty (180) days following the yearly closing while the obligations arising under the Loan Agreement remain.
 - Any other reports that CAF shall consider appropriate regarding loan use.
 - At CAF's request, information about the topics discussed by the Board of Director and any other administrative bodies including any reports and memos that CAF shall consider directly or indirectly related to the Loan; exceptionally, CAF may request that the reports described in subparagraph (A) shall include the opinion of external auditors. The financial statements should have the following information: balance sheet, profit and loss statement, retained earnings statements, cash flow and notes expressed both in "colones" and US Dollars adjusted for exchange rate devaluation or exchange effect, RECOPE shall notify the auditors to provide directly to CAF all the information that it reasonably requires in relation to the Loan, Any costs arising from the preparation of the aforementioned documents and reports mentioned shall be covered by RECOPE.
- k. Maintain a tangible net worth value not less than US\$150 million.
- l. Maintain an EBITDA relationship to debt service not less than 2 to 1.
- m. Maintain a liquidity ratio to the previous closure not less that 1.2 to 1.0.
- n. The Finance and Administration Manager shall provide a certification stating that there is not or has not been any breach of the terms and conditions of Clause 7.01 and that RECOPE is in compliance with the obligations set forth in Clause 6.01, paragraphs (k), (l), and (m).

- o. On a no objection basis by CAF, RECOPE shall only incur new debts if it meets the financial obligations set forth in Clause 6,01, paragraphs (k), (l), (m), (n).

Clause 6.02, -Restricted Actions, - RECOPE shall send CAF a written notification in order to exercise its right to the following actions:

- Take or authorize liens or encumbrances or any other charges on assets or property except for those stated in Annex F of the Agreement.
- p. Split or merge or sell, assign, or lease any assets whose value exceeds 15% of the total value of assets.
- q. Enter into agreements that bind it to share its revenues or profits with any third party.
- r. Undertake business activities or acquire assets outside its line of business or hire operating or finance lease operations.
- s. Build or buy subsidiaries or invest in other businesses' capital.
- t. Undertake additional total indebtedness for a project other than the granted by CABEI.
- u. Grant best guarantees or higher privileges other than those granted to CAF to any other present or future creditor.

19.3 LOAN AGREEMENTS WITH THE CENTRAL AMERICAN BANK OF ECONOMIC INTEGRATION (CABEI)

On June 16, 2004, a Loan Agreement to finance the Third Stage of the Limon-Garita Poliduct Project was executed under the following terms and conditions:

Amount - US\$60 million

Expenditures - As agreed and scheduled by the parties

Term and Mortgage - 12 years including a two (2)-year grace period, 20 biannual fees and expiration date June 2016.

Interest Rate - The variable, reviewable, quarterly adjustable rate shall be the lowest of the following:

- IR of CABEI's regular resources quarterly determined.
- IR equal to 350 basic points above the Prime Rate, that is, 6,85% annually as of June 16, 2004.

Interest in Arrears - 3% on overdue and outstanding capital+ interest rate.

Commitment Fee - 0.75% annually on undrawn balance upon maturity each semester.

Supervision and Auditing Fee - 0.25% above US\$60 million one time only.

Tax Exemption - The Agreement is exempt of any kind of taxes, All taxes and duties set forth by the laws of Costa Rica related to the goods and services financed under this Agreement shall be paid with resources other than the Loan's.

General Obligations from RECOPE

Section 1.3:

- a. Authorize CABEI officials to check any loan-related books, records and documents.
- b. Purchase goods and services for implementation of the project useful to enable the JV's economy of scale.
- c. Maintain a Project Execution Unit in accordance with the operational, organizational and operational structure approved by CABEI during the implementation period of the Project and up to execution of the construction agreement by RECOPE.
- d. Submit financial statements every year.
- e. Maintain an exclusive account for the management of CABEI's financed resources for the Project.
- f. Submit bimonthly reports to CABEI regarding the project's implementation progress until its conclusion.
- g. Develop and submit a final report to CABEI regarding the Completion of the Project in the bank's provided format no later than three (3) months after conclusion of the Project.
- h. Keep properties, equipment, and upgrades properly insured. The insurance shall be endorsed to CABEI during the time of validity of the credit for at least an amount equivalent to the debit balance of the Loan.

Guarantee - The loan agreement is guaranteed through the issuance of a Standby letter of credit, confirmed and irrevocable issued by a bank approved by CABEI and the co-financer of the project. This letter of credit shall be issued in favor of CABEI and the co-financer of the project in an amount that covers, at least during the period of grace, a biannual fee to pay the interests of the Loan and the Loan granted by the co-financer, and during the repayment term (principal amortization), in an amount covering the equivalent of two biannual payments of the principal, interests and other charges of the contract.

19.4 JOINT VENTURE AGREEMENT - RECOPE- CNPCI

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

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

The Stockholders shall made a first contribution of capital of US\$100 million out of which 5% shall be paid during the creation and development of a Feasibility Study period and RECOPE shall disburse US\$2.5 million.

- a. ***The Project*** - The parties hereby agree to join efforts and resources for the development of the Project whose main objectives are
- To expand the refinery and its support and auxiliary services up to a capacity of 60,000 barrels of crude processing a day.
 - To produce fuels as specify in the Study, to offer significant improvements in product quality in compliance with international standards, to minimize the environmental impact of the process.
 - To improve the Refinery's competitiveness and profitability.

The Parties shall develop the project only if the financial results of the Study show an internal rate of return (IRR) of the project of at least 16 %.

- b. ***Lease Purchase Agreement*** - RECOPE undertakes to sign a Lease-Purchase Agreement with the joint venture for the use and enjoyment of the Project's assets.

From the start date of the lease term, RECOPE shall be responsible of operating, monitoring, insuring, and maintaining the Project's assets.

RECOPE shall notify the joint venture within at least three months before the end of the lease term, its decision to exercise its right to the purchase option.

Furthermore, RECOPE may exercise the purchase option in advance at any time prior to the expiration of the lease term by paying an amount equal to the salary, the balance of the Project's total outstanding value at that time.

- c. **Administration of the Joint Venture** - The joint venture shall have a Board of Directors of six (6) members; three (3) of them shall be appointed by RECOPE and the other three (3) by the CNPCI. The members appointed by either Party should have the right to make the required decisions for the operation of the joint venture. Board members shall be elected for a three (3) year term commencing at the Stockholders' Meeting or until removed at the Stockholders' Meeting, or their resignation or death.

The position of President will alternate every four years, first directed by a Director appointed by CNPCI and then by a Director appointed by RECOPE. The position of President and Vice-president shall alternate in reverse direction every four years.

The fiscal year of the joint venture shall be from January 1st to December 31.

- d. **Miscellaneous Provisions** - The Comptroller General of the Republic approved this agreement on September 2nd, 2009, according to Official Document No. 091782009.

20. SUBSEQUENT EVENTS

The last list of prices published by the Regulatory Authority of Public Services and published in the official newspaper La Gaceta on April 26, 2012 is the following:

Products	Price / Liter without Single Tax	Single tax	Average Margin of Local Service Stations	Price / total Liter
Premium gasoline	479,8500	216,0000	50,5548	746,0000
Plus 91 gasoline	477,4800	206,5000	50,5548	735,0000
Diesel 50	494,5030	122,0000	50,5548	667,0000
Kerosene	497,3350	59,5000	50,5548	607,0000
Av-Gas	599,1180	206,5000	14,8552	820,0000
Jet-A1	494,8750	123,5000	14,8552	633,0000

Products	Price / Liter without Single Tax	Single Tax	Average Margin of Local Service Stations
Premium gasoline	479,8500	216,0000	695,8500
Plus 91 gasoline	477,4800	206,5000	683,9800
Diesel 50	494,5030	122,0000	616,5030
Kerosene	497,3350	59,5000	556,8350
Bunker	408,2000	20,2500	432,1960

(Continues)

Products	Price / Liter without Single Tax	Single Tax	Average Margin of Local Service Stations
IFO 380	410,522		410,522
AC-20 asphalt	340,6390	41,5000	382,1390
AC-30 asphalt	340,6390	41,5000	382,1390
Heavy diesel	449,5810	40,0000	489,5810
Asphalt emulsion	227,7370	31,0000	258,7370
LPG	232,6890	41,5000	274,1890
Av-Gas	599,1180	206,5000	805,6180
Jet-A1	479,5510	123,5000	603,0510
Light naphta	444,3000	29,5000	473,8000
Heavy naphta	445,8200	29,5000	475,3200

21. RECLASSIFICATION OF FINANCIAL STATEMENTS

Taking into consideration, the results of the Administrative Tax Court rulings regarding tax matters, the financial statements as of December 31, 2010 and 2009 were restructured for the following:

- a. As of December 31, 2009, deferred income tax from the provision of employees' legal benefits for the sum of US\$6,338,687 was not included. Consequently, the deferred income tax liability was overvalued, and the retained earnings were undervalued in such amount.
- b. As of December 31, 2010, the deferred income tax liability was eliminated, and surplus from revaluation was transferred to retained earnings. Therefore, deferred tax liability and retained earnings as of December 31, 2010 were undervalued in US\$17,209,997 and US\$3,669,753 (net of the effect indicated in the previous section 1), surplus from revaluation is overvalued in US\$24,294,162, and the result of the year is undervalued in US\$3,414,412.
- c. Based on that established by ruling TFA-504-2011 of the Administrative Tax Court, the financial statements reported as of December 31, 2010 were restructured. Due to the above, as of December 31, 2010, deferred income tax expense is registered for US\$46,835,031, interests for US\$11,261,115, and other expenses for US\$940,333. Due to the foregoing, the account receivable previously registered from the Tax Administration for US\$60,688,777 is eliminated, resulting in a net profit lower for that amount.

Debit (Credit)

Account	Previously Reported Amount	Restructuring Adjustment	Restructured Amount 2009
Income tax deferred - liability	<u>US\$ (27,682,689)</u>	<u>US\$ 6,338,687</u>	<u>US\$ (21,344,002)</u>
Retained earnings	<u>US\$(392,867,902)</u>	<u>US\$(6,338,687)</u>	<u>US\$ (399,206,589)</u>

Effect on balances as of December 31, 2010

Debit (Credit)

Account	Previously Reported Amount 2010	Restructuring Adjustment 2009	Foreign Currency Translation Adjustment	Restructuring Adjustment 2010	Restructured Amount 2010
Income tax deferred - liability	<u>US\$ _____</u>	<u>US\$ 6,338,687</u>	<u>US\$(1,515,628)</u>	<u>US\$(22,033,056)</u>	<u>US\$ (17,209,997)</u>
Retained earnings	<u>US\$(481,830,985)</u>	<u>US\$(6,338,687)</u>	<u>US\$ 1,515,628</u>	<u>US\$ 2,805,604</u>	<u>US\$(483,848,440)</u>
Surplus from revaluation	<u>US\$(328,286,155)</u>	<u>US\$ _____</u>	<u>US\$ _____</u>	<u>US\$ 24,294,162</u>	<u>US\$(303,991,993)</u>
Account receivables	<u>US\$ 72,781,662</u>	<u>US\$ _____</u>	<u>US\$ _____</u>	<u>US\$(60,688,777)</u>	<u>US\$ 12,092,884</u>
Effect on comprehensive incomes:					
Financial expenses	<u>US\$ 6,926,106</u>	<u>US\$ _____</u>	<u>US\$ _____</u>	<u>US\$ 11,261,115</u>	<u>US\$ 18,187,221</u>
Other income - net	<u>US\$ 656,835</u>	<u>US\$ _____</u>	<u>US\$ _____</u>	<u>US\$ 940,333</u>	<u>US\$ 1,597,168</u>
Income tax	<u>US\$ _____</u>	<u>US\$ _____</u>	<u>US\$ _____</u>	<u>US\$ 46,835,031</u>	<u>US\$ 46,835,031</u>
Income tax deferred	<u>US\$ _____</u>	<u>US\$ _____</u>	<u>US\$ _____</u>	<u>US\$ (3,414,412)</u>	<u>US\$ (3,414,412)</u>

22. APPROVAL OF THE FINANCIAL STATEMENTS

The accompanying financial statements were approved by RECOPE's management on June 7, 2012.

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REFINADORA COSTARRICENSE DE PERTRÓLEO, S.A.

FINANCIAL RATIOS

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

1. FINANCIAL WORKING CAPITAL

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

	2011	2010
Current assets	US\$ 565,714,583	US\$ 399,690,861
Cash and cash equivalents	(121,804,330)	(126,008,348)
Current liabilities (does not include current portion)	<u>(387,165,607)</u>	<u>(149,956,209)</u>
Financial working capital	<u>US\$ 56,744,646</u>	<u>US\$ 123,726,304</u>

This index shows us that in 2011 the financial working capital decreased regarding the one of 2010 because RECOPE needed more financing with the oil suppliers for the purchase of inventories than it did in 2010.

2. LIQUIDITY RATIO

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

	2011	2010
Current assets	US\$565,714,583	US\$ 399,690,861
Current liabilities	<u>396,065,752</u>	<u>158,885,732</u>
Current assets/ Current liabilities	<u>142.83%</u>	<u>251.56%</u>

This ratio makes evident that RECOPE has less capacity to cover with its most liquid assets all its short term liabilities. The acid ratio is not calculated because in RECOPE's case, the inventory has a high turnover, and it does not distort the calculations, and it is the one giving content to the current assets.

3. TOTAL ASSET TURNOVERS

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

	2011	2010
Sales	US\$3,003,877,030	US\$2,498,486,321
Assets	<u>1,142,493,420</u>	<u>875,316,629</u>
Sales/assets	<u>2.63</u>	<u>2.85</u>

In 2011, for every colon invested in assets RECOPE generated ¢2,63, which represents an important improvement in relation to the indicator obtained in 2010. Convertibility of assets to sales was less efficient.

4. FIXED ASSETS TURNOVER

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

	2011	2010
Sales	US\$3,003,877,030	US\$2,498,486,321
Property, plant, vehicles and equipment, net	<u>527,880,929</u>	<u>464,864,679</u>
Sales/ property, plant, vehicles, and equipment - net	<u>5.69</u>	<u>5.37</u>

The result of the turnover in 2011 indicates that for each colon invested in fixed assets, RECOPE generated income for 5,65 colones, which represents a situation similar to the one presented in 2010.

5. DEBT RATIO

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

	2011	2010
Liabilities	US\$ 480,831,964	US\$251,890,208
Assets	<u>1,142,493,420</u>	<u>875,316,629</u>
Liabilities / assets	<u>42.09%</u>	<u>28.78%</u>

A deterioration has occurred in the ratio due to the increase in liabilities, such as the short-term notes payable and the deferred income. According to the debt ratio for 2011, 58% of the assets is owned by the equity investors (the State), while in 2010 the percentage was 72%.

6. DEBT RATIO (COST)

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

	2011	2010
Long term debt	US\$ 51,800,291	US\$ 60,788,569
Assets	<u>1,142,493,420</u>	<u>875,316,629</u>
Long term debt/assets	<u>4.53%</u>	<u>6.94%</u>

In 2011, the long term debt financed 4.54% of the total assets, and the remaining 96.46% is contributed by RECOPE, which reflects a decrease of 1.96 percent points in relation to the previous year.

7. PROFIT MARGIN ON SALES

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

	2011	2010
Net (loss) profit	US\$ 24,829,958	US\$ 64,830,702
Sales	<u>3,003,877,030</u>	<u>2,498,486,321</u>
Net (loss) profit/ sales	<u>0.83%</u>	<u>2.59%</u>

This indicator reflects a significant deterioration in regards to the 2010 period, where the profit percentage of the period in respect of sales is negative due to net losses that RECOPE has this year. A result close to zero or negative reflects the need for the Regulatory Authority to approve price increases to cover RECOPE's normal operations.

8. YIELD ON THE INVESTMENT

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

	2011	2010
Net (loss) profit	US\$ 24,829,958	US\$ 64,830,702
Assets	<u>1,142,493,420</u>	<u>875,316,629</u>
Net (loss) profit / assets	<u>2.17%</u>	<u>7.41%</u>

In 2011, a significant deterioration in this ratio has occurred in regards to 2010.

9. PROFIT MARGIN ON EQUITY

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

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

	2011	2010
Net (loss) profit	US\$ 24,829,958	US\$ 64,830,702
Stockholders' equity	<u>661,661,456</u>	<u>623,426,421</u>
Net (loss) profit /equity	<u>3.75%</u>	<u>10.40%</u>

In 2011 a significant deterioration has occurred in this ratio regarding 2010.

10. OPERATIONS / SALES EXPENSES

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

	2011	2010
Operating expenses	US\$ 163,790,453	US\$ 135,968,065
Sales	<u>3,003,877,030</u>	<u>2,498,486,321</u>
Net (loss) profit/ sales	<u>5.45%</u>	<u>5.44%</u>

This ratio has remained similar to the previous period, which is consistent due to the fact that most of these expenses do not have a direct and immediate relation to the sales activities; therefore, it is reasonable that they remain constant or with a lower growth.

11. COVERAGE OF EXPENSES

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

	2011	2010
Operating profit	US\$42,210,195	US\$115,842,126
Depreciations and amortizations	<u>26,793,476</u>	<u>24,081,685</u>
Total EBITDA	<u>US\$69,003,671</u>	<u>US\$139,923,811</u>
Financial expenses	<u>US\$ 3,139,898</u>	<u>US\$ 3,201,322</u>
EBITDA/financial expenses	<u>21.98</u>	<u>43.71</u>

This ratio makes evident that RECOPE has considerably decreased in 2011 its capacity to cover financial expenses of the long-term debt, in relation to 2010.

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