

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” or “the Company”), which comprise the statements of financial position as of December 31, 2015 and 2014 and the corresponding statements of profit or loss and other comprehensive income, changes in stockholders’ equity, and cash flows for the years then ended, and 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 accordance with the International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material statements, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the International Standards on Auditing and the regulations regarding the external audits of the entities supervised by the General Superintendence of Securities and the National Supervisory Board of the Financial System. 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.

Basis for the Qualified Opinion

1. As it is indicated in Note 7 to the accompanying financial statements as of December 31, 2015 and 2014, the Company has an investment in a joint venture for the sum of US\$45,514,377 and US\$45,017,129, respectively. As of such dates, RECOPE has not made an analysis regarding the existence of any impairment indications on these investments, which would allow determining if an impairment analysis and any adjustment recognition are needed. International Accounting Standard No.36: Impairment requires that such analysis on the existence of impairment indicators is made as of the date of each statement of financial position. Therefore, we are not aware if any adjustment is necessary regarding the possible impairment of the investment in the joint venture.
2. As of December 31, 2015 and 2014, the financial statements of RECOPE include an allowance for employees' legal benefits for US\$48,918,762 and US\$22,954,868, respectively, which was calculated based on an actuarial study made in 2013 and registered in installments during 2015 and 2014. RECOPE has not made an update of the actuarial calculation, as required by International Accounting Standard No.19 (IAS 19) "Employees' Benefits"; therefore, we are not aware if any adjustment on the allowance for employees' legal benefits is necessary. In addition, during the year ended December 31, 2015, RECOPE recognized expenses for US\$26.13 million related to such study, and the correct procedure would have been to charge the results from previous periods and not those of 2015. Consequently, the retained earnings as of December 31, 2014 and the operating expenses for the year ended December 31, 2015 are overvalued for the same amount.
3. As of December 31, 2014, since RECOPE calculated the depreciation of property, plant, and equipment based on a methodology other than the one indicated by International Accounting Standard 16 (IAS 16), keeping assets related to the refinery for US\$19.6 million for which no analysis on the existence of impairment indications was made, our audit opinion on the financial statements as of December 31, 2014 and for the year then ended has been modified. During 2015, RECOPE hired a technical study to correct the previous matter, recognizing a net effect of US\$69,859,238 in the initial retained earnings as of December 31, 2015. However, such study did not allow separating the effects for each period; thus, RECOPE did not restructure the financial statements as of December 31, 2014 and for the previous years, and it did not show a third statement of financial position, as required by the International Financial Reporting Standards, when an error on previous periods is corrected. Consequently, the financial statements as of December 31, 2014 and for the year then ended are affected by sums not determined by Management.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in paragraphs 1 to 3 of the Basis for Qualified the accompanying financial statements present fairly, in all material respects, the financial position of Refinadora Costarricense de Petr leo, S.A. as of December 31, 2015 and 2014, its financial performance, and its cash flows for the years then ended, in accordance with the International Financial Reporting Standards.

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

Rafael A. Castro Monge
Rafael A. Castro Monge - C.P.A. No.1795
Insurance Policy No.0116 FIG 7
Expires: September 30, 2016
Revenue law stamp for ¢1.000, Law No.6663

April 20, 2016



REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

(Expressed in United States Dollars)

	Notes	2015	2014
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	1c, 2	US\$ 68,221,871	US\$ 157,394,954
Accounts receivable	1d, 3	9,175,561	11,429,737
Advances to contractors	23	20,054,943	30,095,564
Inventories	1e.1f, 1w, 4	199,496,383	235,684,080
Prepaid expenses	5	<u>2,412,029</u>	<u>1,508,006</u>
Total current assets		299,360,787	436,112,341
LONG TERM ACCOUNTS RECEIVABLE	1d, 3	4,087,766	5,048,253
PROPERTY, PLANT, VEHICLES AND EQUIPMENT - Net	1g, 1h, 1i, 1j, 6	1,260,022,261	624,464,054
INVESTMENT IN JOINT VENTURE	1k, 7	45,514,377	45,017,129
OTHER ASSETS	8	<u>14,887,237</u>	<u>14,215,348</u>
TOTAL		<u>US\$1,623,872,428</u>	<u>US\$1,124,857,125</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Notes payable	11	US\$ 17,750,400	US\$ 88,980,647
Current portion of the long term debt	12	6,285,714	6,285,714
Accounts payable	9	100,717,602	141,883,527
Deferred income	1m	17,910,374	28,261,731
Accumulated expenses and other liabilities	10	10,524,241	8,967,843
Current portion of the income tax	1l, 14	<u> </u>	<u>4,904,683</u>
Total current liabilities		153,188,331	279,284,145
LONG TERM DEBT	12	21,029,602	25,285,714
LONG TERM BONDS PAYABLE	13	178,725,673	140,710,509
DEFERRED INCOME TAX	1l, 14	126,923,374	9,942,768
ALLOWANCE FOR EMPLOYEES' LEGAL BENEFITS	1n	<u>48,918,762</u>	<u>22,954,868</u>
Total liabilities		<u>528,785,742</u>	<u>478,178,004</u>

(Continues)

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

(Expressed in United States Dollars)

	Notes	2015	2014
STOCKHOLDERS' EQUITY:			
Capital stock	16	US\$ 370,515,185	US\$ 370,515,185
Legal reserve	1q	1,616,301	1,616,301
Surplus from revaluation	1s	688,204,375	292,278,110
Surplus from donation	1t, 17	34,808,316	34,808,316
Retained earnings		292,326,747	244,002,625
Foreign currency translation adjustment	1b	<u>(292,384,238)</u>	<u>(296,541,416)</u>
Total stockholders' equity		<u>1,095,086,686</u>	<u>646,679,121</u>
TOTAL		<u>US\$1,623,872,428</u>	<u>US\$1,124,857,125</u>

(Concluded)

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

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(Expressed in United States Dollars)

	Notes	2015	2014
SALES	1u	US\$ 2,314,487,304	US\$ 3,173,307,399
COST OF SALES	1v	<u>(2,104,114,062)</u>	<u>(2,908,992,988)</u>
GROSS PROFIT		210,373,242	264,314,411
OPERATING EXPENSES	1x, 19	<u>(210,584,984)</u>	<u>(196,573,007)</u>
OPERATING (LOSS) PROFIT		(211,742)	67,741,404
OTHER INCOME (EXPENSES):			
Sale of services		215,667	330,146
Financial expenses		(2,907,656)	(11,736,501)
Financial income		1,242,907	1,705,403
Penalties and interest for assessment notices	14	(1,098,674)	(5,367,089)
Other expenses - net		<u>(16,039,256)</u>	<u>(15,434,023)</u>
(LOSS) PROFIT BEFORE INCOME TAX		(18,798,754)	37,239,340
DEFERRED INCOME TAX	1l, 14	7,603,054	4,857,545
ASSESSMENT NOTICE	1l, 14	<u> </u>	<u>(9,850,488)</u>
NET (LOSS) PROFIT		(11,195,700)	32,246,397
OTHER COMPREHENSIVE (LOSS) INCOME:			
Foreign currency translation adjustment	1b	4,157,178	(48,731,685)
Increase of assets' revaluation	1s	509,105,718	
Deferred tax effect related to items that will not be subsequently reclassified to profits or loss		<u>(110,708,073)</u>	<u> </u>
COMPREHENSIVE LOSS OF THE YEAR		<u>US\$ 391,359,123</u>	<u>US\$ (16,485,288)</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, 2015 AND 2014

(Expressed in United States Dollars)

	Notes	Capital Stock	Legal Reserve	Surplus from Revaluation	Surplus from Donation	Retained Earnings	Foreign Currency Translation Adjustment	Total
BALANCES, DECEMBER 31, 2013		US\$ 350,058	US\$ 3,981	US\$297,411,154	US\$34,808,316	US\$ 578,400,631	US\$(247,809,731)	US\$ 663,164,409
Comprehensive income (loss) of the year						32,246,397	(48,731,685)	(16,485,288)
Capital increase	16	370,165,127				(370,165,127)		
Increase of legal reserve	1q		1,612,320			(1,612,320)		
Realization to retained earnings				(5,133,044)		5,133,044		
BALANCES, DECEMBER 31, 2014		370,515,185	1,616,301	292,278,110	34,808,316	244,002,625	(296,541,416)	646,679,121
Comprehensive income (loss) of the year				398,397,645		(11,195,700)	4,157,178	391,359,123
Transfer from surplus to retained earnings	1s			(2,471,380)		2,471,380		
Re-calculation of useful lives						69,859,238		69,859,238
Deferred tax						(12,810,796)		(12,810,796)
BALANCES, DECEMBER 31, 2015		<u>US\$370,515,185</u>	<u>US\$1,616,301</u>	<u>US\$688,204,375</u>	<u>US\$34,808,316</u>	<u>US\$ 292,326,747</u>	<u>US\$(292,384,238)</u>	<u>US\$1,095,086,686</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, 2015 AND 2014 (Expressed in United States Dollars)

	Notes	2015	2014
OPERATING ACTIVITIES			
Net profit (loss) of the year		US\$(11,195,700)	US\$ 32,246,397
Loss in the sale of assets	6	648,257	313,011
Assessment notice	14		9,850,488
Deferred tax	14	(7,603,054)	(4,857,545)
Effect from participation in joint venture	7	(127,741)	(223,084)
Interest expense		2,907,656	11,736,501
Depreciation and amortization	6, 8	32,712,047	35,229,146
Unrealized exchange rate differences		(1,450,443)	10,020,574
Changes in operating assets and liabilities:			
Accounts receivable		3,356,556	(902,150)
Advances to contractors		10,308,037	(469,900)
Inventories		38,197,772	90,879,627
Prepaid expenses		(893,413)	4,407,551
Accounts payable		(42,455,866)	(107,481,755)
Deferred income		(10,614,730)	(13,560,055)
Accumulated expenses and other liabilities		9,824,780	(2,174,587)
Employees' legal benefits		<u>25,852,700</u>	<u>8,858,898</u>
Cash provided by the operating activities		49,466,858	73,873,117
Tax paid		(4,959,679)	(18,284,187)
Interest paid		<u>(11,245,142)</u>	<u>(10,475,906)</u>
Net cash provided by the operating activities		<u>33,262,037</u>	<u>45,113,024</u>
INVESTMENT ACTIVITIES			
Additions of fixed assets	6	(85,707,649)	(91,406,469)
Disposals of fixed assets	6		(691,792)
Advances to joint venture			(1,628,320)
Other assets		<u>186,805</u>	<u>1,233,328</u>
Net cash used in the investment activities		<u>(85,520,844)</u>	<u>(92,493,253)</u>
FINANCING ACTIVITIES			
New loans		58,042,281	129,297,820
Debt amortization		<u>(96,323,757)</u>	<u>(63,361,656)</u>
Net cash used in the financing activities		<u>(38,281,476)</u>	<u>65,936,164</u>

(Continues)

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (Expressed in United States Dollars)

	2015	2014
NET VARIATION IN CASH AND CASH EQUIVALENTS	US\$(90,540,283)	US\$ 18,555,936
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	157,394,954	142,088,509
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	<u>1,367,200</u>	<u>(3,249,491)</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>US\$ 68,221,871</u>	<u>US\$157,394,954</u>

TRANSACTIONS THAT DO NOT AFFECT THE USE OF CASH:

1. As of December 31, 2015, an appraisal on lands, facilities, building, and heavy equipment and machinery had been registered, which originated an increase in these assets and surplus from revaluation for the sum of US\$572,140,980 (Note 6), generating as well a deferred tax liability of US\$110,708,073 (Note 14), reflected also in other comprehensive income. Such movements did not generate a cash disbursement for the Company.
2. According to Certification No.CERT-346-14, dated May 2, 2014, by the Secretary of the Governing Council, the capitalization of retained earnings for US\$370,165,127 to increase capital of Refinadora Costarricense de Petróleo to US\$370,515,185 was authorized (Note 16).
3. As of December 31, 2015 and 2014, RECOPE applied new doubtful accounts against the allowance for doubtful accounts for US\$55,333 and US\$14,160, respectively (Note 3), which did not generate cash outcome for the Company.

(Concluded)

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

REFINADORA COSTARRICENSE DE PETRÓLEO, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (Expressed in United States Dollars)

1. NATURE OF THE BUSINESS, PRESENTATION BASES AND SIGNIFICANT 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 notarial 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 (US\$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.

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

Statement of Compliance - The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS).

Presentation Basis - The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

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

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

- a. ***Currency and Transactions in Foreign Currency*** - Management has determined that the Costa Rican colon is RECOPE's functional currency. The transactions denominated in US dollars are registered at the exchange rates in force as of the date of the transaction; RECOPE's assets are registered at the purchasing exchange rate and liabilities at the selling exchange rate. Exchange rate differences originated from the liquidation of assets and obligations denominated in such currency, as well as the adjustment of balances as of closing date, are registered as part of RECOPE's results. As of December 31, 2015 and 2014, the exchange rate of the colón regarding the US dollar for companies of the non-banking public sector was ¢537,81 and ¢542,22 for selling transactions, respectively, and ¢537,27 and ¢541,68, for purchasing transactions, respectively.

As of the date of issue of the financial statements, exchange rate was ¢537,20.

- b. ***Currency Translation into U.S. Dollars*** - The Company's functional currency is the Costa Rican colón (¢). Accordingly, the local currency financial statements were translated into United States Dollars using the following basis: assets and liabilities were translated at the closing exchange rate, stockholder's equity was measured using the historical exchange rates prevailing when each transaction took place. Income and expense items were translated at the weighted average rate for the period. The effect of translation is charged to stockholder's equity in a separate item denominated Foreign 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. RECOPE does not include accounts receivable from clients because its sales are on cash. As of December 31, 2015 and 2014, the allowance for doubtful accounts is mainly composed by a balance of US\$695,511 and US\$744,731, respectively, receivable from Concessions National Board and other receivables.
- 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, and merchandise in transit is registered at cost according to the suppliers' invoice.

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

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

- Value of the invoice.
- Cost of maritime freight.
- Insurance cost.
- Payment of single fuel tax, according to Law No.8114.
- Payment of port services: JAPDEVA and independent inspectors.

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 No.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 1st, 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 No.8114), a single tax is instituted on fuel type - both domestically produced and imported fuel.

The taxable event - as set forth in Article No.1 of this Law - takes place on two occasions:

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

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

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 39272-H) published in official newspaper La Gaceta, Issue 211 as of October 30, 2015, effective from November 1st, 2015 to January 31st, 2016, provided for an adjustment of -0,78%. The tax broken down by product is as follows:

Fuel	Tax by Liter (¢)
91 Plus gasoline	233,50
Premium gasoline	244,50
Diesel	138,25
Asphalt	47,00
Asphalt emulsion	35,25
Bunker (gasoil)	22,75
G.L.P	47,00
Jet Fuel A1	139,75
Av Gas	233,50
Kerosene	66,75
Heavy diesel (gasoil)	45,50
Heavy naphta	33,50
Light naphta	33,75

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

- Fuel designated to supply commercial airlines and merchant ships or commercial passenger shipping lines, all providing international services.
- Fuels used by the National Fishing Fleet, for non-sports fishing, in accordance with Law No.7384.

- Product allocated for export.
 - Products sold to companies that enjoy the export free zone regime benefits.
 - Products sold to companies using the tax exemption benefit, under the specific legislation, in order to cover road construction service agreements.
- 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 lands, the Moín port complex, the facilities, buildings, and heavy equipment and machinery kept for using in the production or supply of goods and services, or for administrative purposes, are shown in the statement of financial position at their revalued amounts, calculating the fair value as of the date of revaluation, less the subsequent depreciation or accumulated impairment losses. Revaluations will take place at least every five years, in such way that the carrying amount does not materially differ from the one calculated by using fair values as of this date at the end of the reporting period. The last appraisal was prepared by a qualified expert in 2015. The appraisal was overall determined by using the Depreciated Replacement Cost Method, in accordance with the Going Concern criterion. The application of this criterion presupposes the existence of a permanent economic activity to which assets are incorporated, and it assumes: (1) that an abrupt interruption that neutralizes the going concern criterion will not take place, and (2) that the assets applied to the economic activity in normal conditions will generate sufficient income to absorb the amortization of such assets and other operating costs of the business.

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

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

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

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

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

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

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

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

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

- i. ***Depreciation*** - Depreciation on the revalued amounts and historical cost is charged to the results of the period. For Moín port complex, facilities, buildings, and heavy equipment and machinery, depreciation is charged in order to eliminate the cost or the valuation of the assets less their residual value on their useful lives, using the straight-line method. The estimated useful life, residual value, and depreciation method are reviewed at the end of each reporting period, and the effect of any change in the estimation is registered on a prospective basis. In the case of furniture and equipment, as well as vehicles, the depreciation of both historical and revaluated fixed assets is calculated using the straight-line method, taking useful life as a basis.

Depreciation expenses are distributed among the costing centers in which assets provide services.

The depreciation expense registration has been separated into assets registered at historical cost and expense of the revaluated assets.

- j. **Works in Process** - This item registers the works in process, which once completed, they are reclassified and become a part of property, plant, vehicles, and equipment. Loan costs directly attributed to the acquisition, construction, or production of ongoing fixed assets, which are assets that require a substantial period of time for their use, are added to the cost of these assets until they are ready for use.
- k. **Investment in Joint Ventures** - For RECOPE, there is no absolute control of the business interest; both companies have 50% of the participation; an agreement by the parties is needed for relevant decision making. Thus, the investment is recognized in the account denominated SORESCO, S.A., which RECOPE has registered under the equity method.
- l. **Income Tax** - It is determined according to the provisions established by the Income Tax Law No.7092 and Law No.7722 “Law on the Obligation of Government Institutions to Income Tax Payment.” Should any tax result from this calculation, it is charged to the results and credited to a liability account.

Deferred income tax is 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 Income** - 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** - According to the labor legislation in force in Costa Rica, an indemnification should be paid to employees dismissed without a just cause, retired or permanently disabled employees, and the family of deceased employees, for an amount equal to a month of salary for each year of continuous service for up to a limit of eight months.

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

According to Resolution of the Constitution Chamber No.2013011506, published in Judicial Bulletin No.195 of October 1, 2013, severance cannot exceed twenty months.

According to the official communication JD-471-2014 of December 4, 2014 and according to the agreement made by the Company's Board of Directors, which can be found in Article 6 of the Ordinary Session number 4836-42, held on Monday, December 1st, 2014, it was approved to register the accounting adjustment to the allowance for employees' legal benefits, and this is pointed out in the actuarial study made by CICAP and is also pointed out by the external auditors. The amount of the total adjustment that should be registered to the allowance for employees' legal benefits amounts to US\$33,816,000; however, the adjusted amount in 2014 was US\$7,803,000, since the balance had been adjusted as of December 31, 2015.

- o. **School Supplies Bonus and Vacation** - It is calculated in accordance with the decrees issued by the Ministry of Labor every time there is a salary increase, and it is paid in January according to existing regulations. For 2011, 8.19% of the monthly payroll was provisioned, according to D.E. No.36420-MTSS.

The provision for vacation is registered according to the analysis made by the Section of Compensations and Incentives of RECOPE's Human Resources Department.

- p. **Christmas Bonus** - RECOPE makes a monthly provision corresponding to payment of Christmas bonus to its employees in December, as established in the Code of Labor, Such provision corresponds to 8.33% per month.
- 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 No.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 No.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 net increase of value of the assets as a result of the revaluation and the appraisal made in 2015, less the annual transfers of surplus from revaluation against retained earnings, which amount corresponds to the difference between the depreciation of the revalued asset and the depreciation that had been practiced on the original cost of the asset, net of any corresponding deferred tax.
- 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.

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

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

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

These mechanisms are described in the following regulations:

- Law No.6588 August 13, 1981.
- Law No.7593 of the Regulatory Authority for Public Services.
- 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 by products. This adjustment does not affect the operating costs and expenses of the Company.

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

National Products/ Plant Price	Resolutions of ARESEP (¢/LT. Without tax)				
	RIE-109	RIE-106	RIE-101	RIE-096	RIE-092
Premium gasoline	258,770	258,770	259,410	260,750	332,810
Plus 91 gasoline	246,650	246,650	247,050	248,330	311,590
Diesel 0,005% S (Automotive 500)	254,090	254,090	261,590	262,950	255,680
Diesel 0,50% S (Thermal)	251,840	251,840	249,520	250,740	243,130
Kerosene	261,560	261,560	263,660	264,960	258,800
Bunker	131,710	131,710	138,030	138,810	142,190
IFO 380	162,620	162,620	177,540	178,410	210,120
Asphalts AC20/30 and PG 70	169,230	169,230	202,110	203,280	198,470
Heavy diesel (Gasoil)	207,520	207,520	209,360	210,400	207,440
Asphalt emulsion	126,510	126,510	145,560	146,290	144,110
G.L.P.	86,420	86,420	74,860	75,280	64,150
Av-Gas	430,370	430,370	435,630	438,080	510,880
Jet A-1	243,090	243,090	245,420	246,720	240,570
Light Naphta	224,710	224,710	226,760	227,870	225,540
Heavy Naphta	229,250	229,250	231,450	232,590	229,190

RIE-109-2015, Official notice N°91, Gaceta 216 of November 6, 2015. It includes margin K= 30,33%, all the products.

RIE-106-2015, Official notice 1 N°88, Gaceta 209 of October 28, 2015. It includes margin K= 30,33% all the products.

RIE-101-2015, Official notice N°82 Gaceta 204 of October 21, 2015. It includes margin K= 29,80% all the products.

RIE-096-2015, Official notice N°76, Gaceta 190 of September 30, 2015. It includes margin K= 30,43% all the products.

RIE-092-2015, Official notice 171 of September 2, 2015. It includes margin K= 27,28% all the products.

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

- 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, 2015 and 2014. RECOPE has not entered into any agreement whatsoever that involves derivative financial instruments, such as futures, option, and financial swaps.
- bb. **Adoption of New and Revised International Financial Reporting Standards (IFRS)-**

Amendments to IFRS and the New Interpretations that are Mandatorily in Effect This Year -

- *Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities* - The Company has applied the amendments to IFRS 10, IFRS 12, and IAS 27 *Investment Entities* for the first time this year. The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity, not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its separate financial statements, and significant amendments have been made to IFRS 12 and IAS 27 in order to introduce new disclosure requirements for the investment entities.
- *Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities* - The Company has applied the amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off and simultaneous realization and settlement.”

- *Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets* - The Company has applied the amendments to IAS 36 *Recoverable Amount Disclosures for Non - Financial Assets* for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal 1. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 *Fair Value Measurements*.
- *Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting* - The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.
- *IFRIC 21 Levies* - The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

IFRIC 21 was applied retrospectively. The application of this amendments did not have a material impact on the Company's financial statements.

The application of the amendments has had no impact on the disclosures or amounts recognized in the Company's financial statements.

New and Revised IFRSs in Issue but not yet Effective - The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Standard or Interpretation	Ref.	Effect
IFRS 9 - <i>Financial Instruments</i>	I	1 January, 2018
IFRS 15 - <i>Revenue from Contracts with Costumers</i>	II	1 January, 2018

(Continues)

Standard or Interpretation	Ref.	Effect
Amendments to IFRS 11 - <i>Accounting for Acquisitions of Interests in Joint Operations</i>	III	1 January, 2016
Amendments to IAS 1 - <i>Disclosure Initiative</i>	IV	1 January, 2016
Amendments to IAS 16 and IAS 38 - <i>Classification of Acceptable Methods of Depreciation and Amortization</i>	V	1 January, 2016

- I. *IFRS 9 - Financial Instruments* - IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (FVTOCI) measurement category for certain simple debt instruments.

Management does not anticipate that the application of the IFRS 9 in the future could have a material impact on the reported amounts regarding the financial assets and liabilities of the Company. However, it is not feasible to provide a reasonable estimation of the effect of IFRS 9 until the Company makes a detailed review.

- II. *IFRS 15 - Revenue from Contracts with Customers* - In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1 - Identify the contract(s) with a customer.

Step 2 - Identify the performance obligations in the contract.

Step 3 - Determine the transaction price.

Step 4 - Allocate the transaction price to the performance obligations in the contract.

Step 5 - Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company are in the process of evaluating the effects the application of IFRS 15 may have on amounts reported in respect of the Company’s revenue.

- III. *Amendments to IFRS 11 - Accounting for Acquisitions of Interests in Joint Operations* - The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 36 *Impairment of Assets* regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments to IFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The directors of the Company anticipate that the application of these amendments to IFRS 11 will have a material impact on the Company’s financial statements in future periods should these transactions arise.

- IV. *Amendments to IAS 1 - Disclosure Initiative* - The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to IAS 1 will have a material impact on the Company’s financial statements.

- V. *Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization* - The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- When the intangible asset is expressed as a measure of revenue; or
- When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Company uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Company's financial statements.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Company's financial statements.

2. CASH AND CASH EQUIVALENTS

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

	2015	2014
Cash on hand and due from banks	US\$53,331,778	US\$157,394,954
Cash equivalents:		
Certificate of deposit, in colones, with maturity on January 15, 2016 and annual yield of 3.21% per annum	<u>14,890,093</u>	<u> </u>
Total	<u>US\$68,221,871</u>	<u>US\$157,394,954</u>

3. ACCOUNTS RECEIVABLE

A detail of accounts receivable is the following:

	Note	2015	2014
Short term:			
Prepaid taxes		US\$ 4,006,835	US\$ 7,954,056
Clients		732,664	11,029
Employees		208,935	171,847
Government	15	3,645,990	1,818,588
Autonomous institutions	15	478,619	474,722
Others		<u>102,518</u>	<u>999,495</u>
Subtotal		<u>9,175,561</u>	<u>11,429,737</u>
Long term:			
Related parties	15	4,649,034	5,442,119
Others		<u>134,242</u>	<u>350,865</u>
Subtotal		4,783,276	5,792,984

(Continues)

	2015	2014
Allowance for doubtful accounts	US\$ (695,510)	US\$ (744,731)
Subtotal	<u>4,087,766</u>	<u>5,048,253</u>
Total	<u>US\$13,263,327</u>	<u>US\$16,477,990</u>

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

	2015	2014
Initial balance	US\$744,731	US\$818,926
Decrease	(55,333)	(14,160)
Foreign currency translation adjustment	<u>6,112</u>	<u>(60,035)</u>
Final balance	<u>US\$695,510</u>	<u>US\$744,731</u>

4. INVENTORIES

The inventory account is broken down as follows:

	2015	2014
Raw materials	US\$ 5,058,777	US\$ 12,368,966
Finished product	152,167,232	194,545,794
Semi-finished product	9,525,649	3,612,163
Inventory in transit	26,314,400	18,991,993
Material inventory	<u>6,787,233</u>	<u>6,575,676</u>
Subtotal	199,853,291	236,094,592
Allowance for obsolete inventory	<u>(356,908)</u>	<u>(410,512)</u>
Total	<u>US\$199,496,383</u>	<u>US\$235,684,080</u>

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

	2015	2014
Initial balance	US\$410,512	US\$ 1,842,070
Decreases	(56,974)	(1,296,517)
Foreign currency translation adjustment	<u>3,370</u>	<u>(135,041)</u>
Final balance	<u>US\$356,908</u>	<u>US\$ 410,512</u>

5. PREPAID EXPENSES

Prepaid expenses are detailed as follows:

	2015	2014
Insurance	US\$ 910,615	US\$ 648,088
Others	<u>1,501,414</u>	<u>859,918</u>
Total	<u>US\$2,412,029</u>	<u>US\$1,508,006</u>

6. PROPERTY, PLANT, VEHICLES AND EQUIPMENT

The detail of property, plant, vehicles and equipment as of December 31, 2015 is the following:

Description	Initial Balance	Additions	Disposals	Capitalizations	Adjustments and Reclassifications due to Technical Appraisal	Foreign Currency Translation Adjustment	Final Balance
Fixed assets at cost:							
Properties	US\$ 11,048,142				US\$ (15,423)	US\$ 90,685	US\$ 11,123,404
Moín Port complex	18,726,011		US\$ (161,716)		(273,112)	153,706	18,444,889
Facilities	309,670,270		(1,514,264)	US\$ 435,275	38,769,761	2,541,824	349,902,866
Building	34,034,854		(165,365)	1,865,211	23,042,047	279,363	59,056,110
Heavy machinery and equipment	97,403,416	US\$ 1,432,785	(394,433)	1,085,812	(69,125,112)	799,503	31,201,971
Furniture and equipment	46,548,043	1,741,053	(342,539)	1,056,506	6,771,984	382,074	56,157,121
Vehicles	11,280,597	587,407	(93,977)	40,248	3,675,833	92,593	15,582,701
Works in progress	200,703,924	81,946,404	(80,081)	(4,483,052)		1,647,411	279,734,606
Total at cost	<u>729,415,257</u>	<u>85,707,649</u>	<u>(2,752,375)</u>		<u>2,845,978</u>	<u>5,987,159</u>	<u>821,203,668</u>
Revaluated fixed assets:							
Properties	15,203,506				141,202,515	124,792	156,530,813
Moín Port complex	100,151,524				(76,103,807)	822,060	24,869,777
Facilities	186,736,702				119,931,120	1,532,765	308,200,587
Building	32,253,072				26,756,234	264,738	59,274,044
Plant machinery and equipment	7,989,991				15,210,184	65,583	23,265,758
Furniture and equipment	6,627,631				808,875	54,400	7,490,906
Vehicles	2,837,238				1,233,437	23,289	4,093,964
Revaluated total	<u>351,799,664</u>				<u>229,038,558</u>	<u>2,887,627</u>	<u>583,725,849</u>
Subtotal fixed assets	<u>1,081,214,921</u>	<u>85,707,649</u>	<u>(2,752,375)</u>		<u>231,884,536</u>	<u>8,874,786</u>	<u>1,404,929,517</u>
Depreciation at cost:							
Moín Port complex	(5,541,699)	(506,705)	132,359		3,051,347	(45,487)	(2,910,185)
Facilities	(125,182,605)	(12,969,576)	1,149,947		60,400,545	(1,027,519)	(77,629,208)
Building	(4,017,768)	(1,888,610)	90,755		(3,220,800)	(32,978)	(9,069,401)
Plant machinery and equipment	(17,358,430)	(1,447,568)	328,028		10,800,838	(142,481)	(7,819,613)
Furniture and equipment	(17,969,535)	(4,883,156)	298,861		(2,271,634)	(147,496)	(24,972,960)
Vehicles	(5,674,529)	(1,214,033)	83,982		(2,599,372)	(46,578)	(9,450,530)
Works in progress	(151,331)	(264,979)	20,186		132,882	(1,243)	(264,485)
Total accumulated depreciation of assets at cost	<u>(175,895,897)</u>	<u>(23,174,627)</u>	<u>2,104,118</u>		<u>66,293,806</u>	<u>(1,443,782)</u>	<u>(132,116,382)</u>
Revaluated depreciation:							
Moín Port complex	(86,513,721)	(2,320,478)			89,460,457	(710,118)	(83,860)
Facilities	(163,715,054)	(3,031,544)			166,565,767	(1,343,800)	(1,524,631)
Building	(14,773,093)	(804,636)			15,422,093	(121,260)	(276,896)
Plant machinery and equipment	(7,314,646)	(241,774)			7,479,744	(60,040)	(136,716)
Furniture and equipment	(5,973,434)	(869,377)				(49,031)	(6,891,842)
Vehicles	(2,565,022)	(1,290,854)				(21,053)	(3,876,929)
Total accumulated depreciation of revaluated assets	<u>(280,854,970)</u>	<u>(8,558,663)</u>			<u>278,928,061</u>	<u>(2,305,302)</u>	<u>(12,790,874)</u>
Total depreciation	<u>(456,750,867)</u>	<u>(31,733,290)</u>	<u>2,104,118</u>		<u>345,221,867</u>	<u>(3,749,084)</u>	<u>(144,907,256)</u>
Total	<u>US\$ 624,464,054</u>	<u>US\$ 53,974,359</u>	<u>US\$ (648,257)</u>	<u>US\$</u>	<u>US\$577,106,403</u>	<u>US\$ 5,125,702</u>	<u>US\$1,260,022,261</u>

The detail of property, plant, vehicles and equipment as of December 31, 2014 is the following:

Description	Initial Balance	Additions	Disposals	Capitalizations	Transferred	Foreign Currency Translation Adjustment	Final Balance
Fixed assets at cost:							
Properties	US\$ 11,995,578		US\$ (1,554)		US\$ (66,497)	US\$ (879,385)	US\$ 11,048,142
Moín Port complex	20,707,715		(115,046)		(348,596)	(1,518,062)	18,726,011
Facilities	314,899,913	US\$ 543,984	(205,140)	US\$ 17,712,980	(196,481)	(23,084,986)	309,670,270
Building	32,191,101			4,007,168	196,481	(2,359,896)	34,034,854
Heavy machinery and equipment	41,897,857	673,807	(38,756)	57,593,400	348,596	(3,071,488)	97,403,416
Furniture and equipment	36,975,192	2,748,989	(455,104)	9,989,579		(2,710,613)	46,548,043
Vehicles	10,785,734	1,237,543	(152,997)	201,007		(790,690)	11,280,597
Works in progress	<u>220,144,476</u>	<u>86,202,146</u>		<u>(89,504,134)</u>		<u>(16,138,564)</u>	<u>200,703,924</u>
Total at cost	<u>689,597,566</u>	<u>91,406,469</u>	<u>(968,597)</u>		<u>(66,497)</u>	<u>(50,553,684)</u>	<u>729,415,257</u>
Revaluated fixed assets:							
Properties	20,300,545		(190,164)		(3,418,663)	(1,488,212)	15,203,506
Moín Port complex	108,074,343					(7,922,819)	100,151,524
Facilities	201,971,614		(428,583)			(14,806,329)	186,736,702
Building	34,804,558					(2,551,486)	32,253,072
Plant machinery and equipment	8,655,273		(30,773)			(634,509)	7,989,991
Furniture and equipment	7,334,787		(169,451)			(537,705)	6,627,631
Vehicles	<u>3,245,253</u>		<u>(170,109)</u>			<u>(237,906)</u>	<u>2,837,238</u>
Revaluated total	<u>384,386,373</u>		<u>(989,080)</u>		<u>(3,418,663)</u>	<u>(28,178,966)</u>	<u>351,799,664</u>
Subtotal fixed assets	<u>1,073,983,939</u>	<u>91,406,469</u>	<u>(1,957,677)</u>		<u>(3,485,160)</u>	<u>(78,732,650)</u>	<u>1,081,214,921</u>
Depreciation at cost:							
Moín Port complex	(5,389,295)	(547,488)				395,084	(5,541,699)
Facilities	(113,697,741)	(19,983,243)	176,584	(2,922)	(10,346)	8,335,063	(125,182,605)
Building	(3,605,853)	(686,058)		(544)	10,346	264,341	(4,017,768)
Plant machinery and equipment	(13,336,490)	(4,555,793)	26,340	(483,761)	13,590	977,684	(17,358,430)
Furniture and equipment	(15,246,049)	(3,845,591)	331,569	(313,546)	(13,590)	1,117,672	(17,969,535)
Vehicles	(5,100,395)	(1,065,207)	135,277	(18,110)		373,906	(5,674,529)
Works in progress	<u>(699,074)</u>	<u>(509,751)</u>	<u>187,364</u>	<u>818,883</u>		<u>51,247</u>	<u>(151,331)</u>
Total accumulated depreciation of assets at cost	<u>(157,074,897)</u>	<u>(31,193,131)</u>	<u>857,134</u>			<u>11,514,997</u>	<u>(175,895,897)</u>
Revaluated depreciation:							
Moín Port complex	(90,484,991)	(2,662,091)				6,633,361	(86,513,721)
Facilities	(173,275,523)	(3,516,475)	374,294			12,702,650	(163,715,054)
Building	(15,235,363)	(654,619)				1,116,889	(14,773,093)
Plant machinery and equipment	(7,755,124)	(155,423)	27,380			568,521	(7,314,646)
Furniture and equipment	(6,396,751)	(204,945)	159,323			468,939	(5,973,434)
Vehicles	<u>(2,807,248)</u>	<u>(124,335)</u>	<u>160,765</u>			<u>205,796</u>	<u>(2,565,022)</u>
Total accumulated depreciation of revaluated assets	<u>(295,955,000)</u>	<u>(7,317,888)</u>	<u>721,762</u>			<u>21,696,156</u>	<u>(280,854,970)</u>
Total depreciation	<u>(453,029,897)</u>	<u>(38,511,019)</u>	<u>1,578,896</u>			<u>33,211,153</u>	<u>(456,750,867)</u>
Total	<u>US\$ 620,954,042</u>	<u>US\$ 52,895,450</u>	<u>US\$ (378,781)</u>	<u>US\$</u>	<u>US\$(3,485,160)</u>	<u>US\$(45,521,497)</u>	<u>US\$ 624,464,054</u>

During 2015, RECOPE conducted a technical appraisal that was performed by an independent qualified expert, which resulted in adjustments for US\$68,135,431 due to changes in the estimated useful lives that were registered in the retained earnings, and net increases of US\$577,106,403 in property, plant, and equipment, of US\$398,397,645 in surplus from revaluation, and of US\$110,708,073 in deferred income tax.

7. INVESTMENTS IN JOINT VENTURE

Investment in joint venture corresponds to a participation of 50% that RECOPE has in the stockholders' equity of Soresco, S.A. (Note 21.4).

The movement of year in the investment is the following:

	Note	2015	2014
Initial balance		US\$45,017,129	US\$48,337,626
Effect from participation from previous years		127,741	223,084
Effects from participation			
Foreign currency translation adjustment		<u>369,507</u>	<u>(3,543,581)</u>
Final balance	15	<u>US\$45,514,377</u>	<u>US\$45,017,129</u>

A detail of assets, liabilities, and results of Soresco, S.A. as of December 31, 2015 and 2014 in US dollars is the following:

	2015 (Non Audited)	2014 (Non Audited)
Assets:		
Current	US\$ 37,369,856	US\$ 40,686,126
Non current	<u>62,197,237</u>	<u>57,948,476</u>
Total assets	<u>US\$ 99,567,093</u>	<u>US\$ 98,634,602</u>
Liabilities:		
Current	<u>US\$ 3,298,444</u>	<u>US\$ 2,616,553</u>
Total liabilities	<u>US\$ 3,298,444</u>	<u>US\$ 2,616,553</u>
Stockholders' equity:		
Capital stock	US\$ 10,000	US\$ 10,000
Additional paid-in capital	100,000,000	100,000,000
Accumulated losses	<u>(3,741,351)</u>	<u>(3,991,951)</u>
Total stockholders' equity	<u>US\$ 96,268,649</u>	<u>US\$ 96,018,049</u>
Expenses:		
Operating expenses	US\$ (95,956)	US\$ (131,513)
Net financial income	<u>346,555</u>	<u>543,645</u>
Profit	<u>US\$ 250,599</u>	<u>US\$ 412,132</u>

As of December 31, 2015 and 2014, the additional paid in capital by RECOPE is US\$50,000,000 for both years.

8. OTHER ASSETS

Other assets are broken down as follows:

	2015	2014
Software licenses	US\$14,885,244	US\$13,739,669
Service stations	6,700,830	6,646,277
Security deposits	2,340,565	2,223,161
Idle assets	2,603,090	3,485,160
Others	<u>1,312,873</u>	<u>183</u>
Subtotal	27,842,602	26,094,450
Accumulated amortization of software	<u>(12,955,365)</u>	<u>(11,879,102)</u>
Total	<u>US\$14,887,237</u>	<u>US\$14,215,348</u>

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

Idle assets correspond to real property that RECOPE is not using and were transferred from property, plant, and equipment (Note 6).

The movement of the accumulated amortization of software is the following:

	2015	2014
Initial balance	US\$11,879,102	US\$ 9,277,341
Increases	978,757	3,281,873
Foreign currency translation adjustment	<u>97,506</u>	<u>(680,112)</u>
Final balance	<u>US\$12,955,365</u>	<u>US\$11,879,102</u>

9. ACCOUNTS PAYABLE

Accounts payable are broken down as follows:

	Note	2015	2014
Supplier of oils and byproducts		US\$ 64,235,256	US\$ 93,374,410
Law No.8114 Single Tax	15	31,651,063	42,794,006
Trade		1,601,456	1,870,524
Others		<u>3,229,827</u>	<u>3,844,587</u>
Total		<u>US\$100,717,602</u>	<u>US\$141,883,527</u>

10. ACCUMULATED EXPENSES AND OTHER LIABILITIES

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

	2015	2014
Provision for school supplies bonus	US\$ 4,670,744	US\$4,606,311
Provision for Christmas bonus	251,367	333,450
Provision for vacations	1,654,246	1,284,781
Accumulated interest	<u>3,947,884</u>	<u>2,743,301</u>
Total	<u>US\$10,524,241</u>	<u>US\$8,967,843</u>

11. NOTES PAYABLE

A detail of short-term notes payable is presented as follows:

	2015	2014
Banco Latinoamericano de Comercio Exterior, S.A., in dollars, interest rate of 1.11% (Libor rate at three months plus 1.05%) Maturity in January 12, 2015, secured through promissory note		US\$66,509,818
Scotiabank & Trust (Cayman) Ltd., in dollars, interest rate of 0.92% (1.19% on 2014) Maturity on January 2016 (February 2015 on 2014), secured through promissory note	<u>US\$17,750,400</u>	<u>22,470,829</u>
Total	<u>US\$17,750,400</u>	<u>US\$88,980,647</u>

12. LONG TERM DEBT

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

	Notes	2015	2014
Banco Scotiabank & Trust (Cayman) Ltd, in dollars, annual interest rate of 4.6%, (until January, 2016), Libor rate at six months plus 3.8%. Maturity on 2020, guarantee of the Government of Costa Rica	21.2	US\$19,285,714	US\$23,571,428
Corporación Andina de Fomento, in dollars, annual interest rate of 2.85% on 2015 and 2.36% on 2014 (Libor rate at six months plus 2%) maturity in 2018, guarantee of the government of Costa Rica	21.1	6,000,000	8,000,000

(Continues)

	Note	2015	2014
BNP Paribas, in dollars, interest rate of, Libor rate at six months plus 2.75%. Maturity on 2025, guarantee of the government of Costa Rica	21.3	<u>US\$ 2,029,602</u>	_____
Subtotal		27,315,316	US\$31,571,428
Less: Current portion of the long-term debt		<u>(6,285,714)</u>	<u>(6,285,714)</u>
Total		<u>US\$21,029,602</u>	<u>US\$25,285,714</u>

Scheduled maturities of long term debt as of December 31, 2015 and 2014 are the following:

Year	2015	2014
2015		US\$ 6,285,714
2016	US\$ 6,285,714	6,285,714
2017	6,285,714	6,285,714
2018	6,285,714	6,285,714
2019	4,285,714	6,285,714
2020 and on	<u>4,172,460</u>	<u>142,858</u>
Total	<u>US\$27,315,316</u>	<u>US\$31,571,428</u>

13. LONG-TERM BONDS PAYABLE

Long-term bonds payable as of December 31, 2015 and 2014 are described below:

	2015	2014
Series A1 bonds payable	US\$ 50,000,000	US\$ 50,000,000
Premium in placement	607,443	676,305
Series A2 bonds payable	50,000,000	50,000,000
Premium in placement	105,292	110,596
Series A4 bonds payable	40,000,000	40,000,000
Discount in placement	(76,391)	(76,392)
Series A5 bonds payable	37,187,854	
Premium in placement	<u>901,475</u>	_____
Total	<u>US\$178,725,673</u>	<u>US\$140,710,509</u>

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

Instrumento	Código ISIN	Serie Colocada	Monto Subastado	Calificación de Riesgo	Fecha de Emisión	Fecha de Vencimiento	Plazo de Emisión	Valor Facial	Valor Transado	Tipo de Tasa	Tasa Int. Bruta	Tasa Int. Neta	Rendimiento Ponderado
Bonos Estandarizados	CRRECPB0012	Serie A1	\$50.000.000	(1)	05/12/2012	05/12/2022	10 AÑOS	\$1.000	\$1.000	Fija	5,98%	(2)	5,299%
Bonos Estandarizados	CRRECPB0020	Serie A2 (3)	\$50.000.000	(1)	03/04/2013	03/04/2028	15 AÑOS	\$1.000	\$1.000	Fija	6,36%	(2)	5,83%
Bonos Estandarizados	CRRECPB0046	Serie A4 (3)	\$40.000.000	(1)	02/07/2014	02/07/2029	15 AÑOS	\$1.000	\$1.000	Fija	7,07%	(2)	6,50%
Bonos Estandarizados	CRRECPB0053	Serie A5 (3-4-5)	€20.000.000.000	(1)	24/03/2015	24/03/2025	10 AÑOS	€1.000.000	€1.000.000	Fija	11,96%	(2)	10,99%

Notas:

(1) AAA (cri) *FITCH Costa Rica*, AAA (slv) *FITCH El Salvador*, AAA *Pacific Credit Rating El Salvador*

(2) *Tasa de interés neta: Tasa bruta menos Impuesto sobre la Renta. (DGT-951-2012)*

(3) *Según Reglamento sobre Oferta Pública de Valores y oficio DCP-211-2013, RECOPE asignó la totalidad de la Serie A2.*

(4) *Corresponde a la segunda colocación de la emisión de la Serie A5, por un monto de €4.020.000.000 realizada el 25 de agosto 2015, complementaria a la primera colocación por €12.000.000.000 realizada el 24 de marzo de 2015.*

(5) *Corresponde a la tercera colocación de la emisión de la Serie A5, por un monto de €3.928.000.000 realizada el 23 de noviembre 2015, complementaria a la primera y segunda colocaciones por €16.020.000.000 realizadas el 24 de marzo de 2015 y 25 de agosto 2015.*

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

Risk rating AAA (slv) refers to securities issues or debt obligations with the highest credit quality, in which risk factors are virtually nonexistent. This rating was awarded by FITCH COSTA RICA, S.A.

Risk rating AAA (slv) with a stable perspective refers to securities issues or debt obligations with the highest credit quality, in which risk factors are virtually nonexistent. This rating was awarded by Pacific Credit Rating, S.A.

14. 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 No.7092. Regarding the income tax returns of the last two fiscal years (2013-2014), they were timely filed in accordance with the current regulations.

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

Tax Review for Fiscal Years 2012 and 2011 - On February 14, 2014, the Audit Sub directorate of the National Large Taxpayer Directorate sent the Communication to Conduct Tax Review No.1-10-005-14-065-011-03, in order to review income tax returns corresponding to fiscal years 2011 and 2012.

On April 24, 2014, the competent office held a hearing to inform about the results of the Tax Review. The assessments made are based on the rejection of the deduction of the investment reserve, and the assessment notice determined an additional tax amount for a total of US\$9,850,480, without including interest, in income tax return for 2011.

Using the powers granted by the current tax regulations and in order to request the Tax Administration to reconsider their decision, official communication GAF-0617-2014 was submitted, which contains the allegations to be analyzed by the competent office.

RECOPE accepted the terms of the tax assessment, as established in Minutes on Regularization Proposal No.1-10-005-028-371-03 of June 17, 2014, and it paid the principal amount, for the sum of US\$9,850,480.

In addition, the sum of US\$5,367,089 was paid on penalties and interest.

As to the results of 2012, the Tax Administration did not make any tax assessment for this period.

Tax Review for Fiscal Years 2009 and 2010 - On May 25, 2012, the Audit Sub directorate of the National Large Taxpayer Directorate sent the Communication to Conduct Tax Review No.1972000125794, aimed to verify the Income Tax returns of fiscal years 2009 and 2010.

On May 14, 2013, the competent office held a hearing to inform about the results of the Tax Review. The assessments made are based on the rejection of the deduction of the investment reserve and the assessment notice determined an additional tax amount for a total of US\$36,370,896 plus interest; according to the payment date this determination is as follows:

2009 Period	US\$ 7,233,975
2010 Period	<u>29,136,921</u>
Total	<u>US\$36,370,896</u>

RECOPE accepted the terms of the assessments made and rectified the additional tax amounts in accordance with instructions by RECOPE's Board of Directors as set forth in the agreement contained in Article No.4 of Ordinary Session No.4707-260 of April 24, 2013, as reported to the Finance and Administration Management through Official Letter JD-150-2013 of May 8, 2013, which was ratified by an agreement set forth in Article No.5 of Ordinary Session No.4711-264 of May 15, 2013, reported to this Management area through official letter JD-175-2013 of May 21, 2013.

To pay the assessed tax, a request to approve tax partial installment payments was filed with the Tax Administration in accordance with provisions contained in Article No.38 of the Code of Tax Standards and Procedures and Guideline DGT-R-006-2011, which was approved in document No.SRCST-FR-02-2013, which considers the initial payment of 50% of the amount of the assessed tax, plus interest of ¢6.871.496.034 (US\$13,675,435) as of the payment date (last day of July 2013). 50% of the remaining tax will be paid within a maximum term of twenty-four (24) months in equal installments of US\$751,789, plus the corresponding interest, as of August 2013 and until July 2015 (including both).

The debt was paid off during 2015.

A detail of the interest paid to the Tax Administration is as follows:

	2015	2014
Interest paid	<u>US\$1,098,669</u>	<u>US\$1,031,936</u>

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:

	2015	2014
Profit before income tax	US\$(11,195,700)	US\$ 37,239,340
Plus: Nondeductible expenses	42,939,778	21,678,184
Less: Other non-deductible	(49,997,609)	(64,076,616)
Less: Nontaxable income	<u>(7,667,315)</u>	<u>(856,612)</u>
Taxable (loss) gain	<u>US\$(25,920,846)</u>	<u>US\$ (6,015,704)</u>
Current income tax (30% on taxable gain)		
Assessment notice		US\$ (9,850,488)
Deferred tax	<u>US\$ 7,603,054</u>	<u>4,857,545</u>
Income tax of the period	<u>US\$ 7,603,054</u>	<u>US\$ (4,992,943)</u>

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

	2015	2014
Balance at the beginning	US\$ 6,886,466	US\$ 4,572,057
Translation adjustment	56,463	4,963,984
Severance benefit accrual	<u>7,732,700</u>	<u>(2,649,575)</u>
Balance at the end	<u>US\$14,675,629</u>	<u>US\$ 6,886,466</u>

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

	2015	2014
Balance at the beginning:	US\$ (16,829,234)	US\$(20,527,257)
Effect from technical appraisal recognized in other comprehensive income	(110,708,073)	
Effect from differences in depreciation rates and recognized in the equity	(13,771,403)	
Yearly effect from technical appraisal recognized in profit and loss	(152,300)	
Translation adjustment	(137,993)	5,741,724
Asset revaluation		
Deferred income tax on revaluated depreciation		<u>(2,043,701)</u>
Deferred income tax liability of the year	<u>US\$(141,599,003)</u>	<u>US\$(16,829,234)</u>
Deferred income tax of the year - net	<u>US\$(126,923,374)</u>	<u>US\$ (9,942,768)</u>

15. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Balances with related parties are broken down as follows:

	Notes	2015	2014
Investment in joint venture:			
Soresco, S.A.	7	<u>US\$45,514,377</u>	<u>US\$45,017,129</u>
Account receivable:			
Ministry of Financing	3	US\$ 3,645,990	US\$ 1,818,588
JAPDEVA	3	<u>478,619</u>	<u>474,722</u>
		<u>US\$ 4,124,609</u>	<u>US\$ 2,293,310</u>
Account receivable - long term:			
JAPDEVA		US\$ 4,082,302	US\$ 4,880,560
National Concession Board		<u>566,732</u>	<u>561,559</u>
Total	3	<u>US\$ 4,649,034</u>	<u>US\$ 5,442,119</u>
Accounts payable:			
Ministry of Financing	9	<u>US\$31,651,063</u>	<u>US\$42,794,006</u>
Total		<u>US\$31,651,063</u>	<u>US\$42,794,006</u>

The account receivable from JAPDEVA corresponds to a payment for using a tow truck, which generates an interest equal to the basic borrowing rate set by the Central Bank of Costa Rica (6.5% on 2015). This agreement expires on June 1, 2019.

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

The transactions with related parties are the following:

	2015	2014
Sales:		
Costa Rican Institute of Electricity	US\$11,512,735	US\$244,453,657
To the Ministries of the Government		
of Costa Rica	<u>4,698,032</u>	<u>6,058,889</u>
Total	<u>US\$16,210,767</u>	<u>US\$250,512,546</u>
Cost of sales:		
Costa Rican Institute of Electricity	US\$10,466,295	US\$224,092,369
To the Ministries of the government		
of Costa Rica	<u>4,271,008</u>	<u>5,554,226</u>
Total	<u>US\$14,737,303</u>	<u>US\$229,646,595</u>
Expenses:		
Seating fees to the Board of Directors	US\$ 34,127	US\$ 28,446
Salaries to directors and managers	<u>1,306,244</u>	<u>1,218,956</u>
Total	<u>US\$ 1,340,371</u>	<u>US\$ 1,247,402</u>

16. CAPITAL STOCK

As of December 31, 2015, RECOPE's capital stock amounts to US\$370,515,185 (¢200.103.000.000), represented by 30,000 common and nominative shares of ¢6.670.100 (US\$12,301.46) each.

According to what has been indicated in Certification No.CERT-346-14, issued on May 2, 2014 by the Secretary of the Board, the capitalization of retained earnings for ¢200.100.000.000 (US\$370,165,127) is authorized, in order to increase the capital of Refinadora Costarricense de Petróleo to ¢200.103.000.000 (US\$370,515,185).

17. SURPLUS FROM DONATION

As of December 31, 2015 and 2014 surplus from donation is broken down as follows:

Surplus donated by Allied Chemical Corp.	US\$ 3,223,159	US\$16,776,309
PetroCanada donation	25,544,836	16,423,891
AID donation (carbon exploration)	370,105	326,840
Debit remission - Government of The Netherlands	4,550,821	1,129,446
Castella pipe duct	<u>1,119,395</u>	<u>151,830</u>
Total	<u>US\$34,808,316</u>	<u>US\$34,808,316</u>

18. INVESTMENT RESERVE

Ruling No.125-2012-VI of the Contentious-Administrative and Civil Treasury Court defined the tax situation for RECOPE's Income Tax, thus ratifying the decision issued by the Administrative Treasury Court through Ruling No.TFA-504-2011-P and resolution No.DT10R-004-11 of the Tax Administration. These rulings ratified the binding requirements to be met by the investment reserve to be considered as deductible items for the calculation of the income tax as follows:

- To be authorized by ARESEP,
- To be created from an accounting point of view, registered, controlled, and adjusted (showing its actual level of use - implementation), and
- To be useful, necessary, and relevant to the service provision and the generation of taxable income.

The movement of the investment reserve is as follows:

	2015	2014
Initial balance		
Increases	US\$ 65,926,055	US\$ 176,530,161
Decreases	<u>(65,926,055)</u>	<u>(176,530,161)</u>
Final balance	<u>US\$</u>	<u>US\$</u>

19. OPERATING EXPENSES

Expenses by nature are detailed as follows:

	2015	2014
Personal services	US\$ 87,041,892	US\$ 83,124,020
Non personal services	44,239,788	43,785,441
Materials and supplies	14,741,260	15,783,282
Depreciations and amortizations	32,235,707	41,878,710
Applied expenses	(990,865)	(1,323,700)
Ordinary transfers	<u>33,317,202</u>	<u>13,325,254</u>
Total	<u>US\$210,584,984</u>	<u>US\$196,573,007</u>

Ordinary transfers include, among other, benefit, allowance and severance pay expenses. As of December 31, 2015, Management recognized an adjustment of US\$26.13 million for severance pay accrual expenses.

Applied expenses correspond to internal uses which are reclassified to the sales cost.

20. FINANCIAL INSTRUMENTS

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

20.1 SIGNIFICANT ACCOUNTING POLICIES

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

20.2 FINANCIAL INSTRUMENTS - CATEGORIES

Financial instruments are categorized as follows:

	2015	2014
Financial assets:		
Cash	US\$ 53,331,778	US\$157,394,954
At amortized cost:		
Cash equivalents - held to maturity	14,890,093	
Accounts receivable	9,256,492	8,518,511
Security deposits	<u>2,340,565</u>	<u>2,223,161</u>
Total assets	<u>US\$ 79,818,928</u>	<u>US\$168,136,626</u>
Financial liabilities:		
At amortized cost	<u>US\$324,508,991</u>	<u>US\$403,146,111</u>
Total liabilities	<u>US\$324,508,991</u>	<u>US\$403,146,111</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 No.6588 “RECOPE Incorporation Act” Only the Central Government is granted a sixty-day term. The remaining accounts receivable are assessed on a qualitative experience-based scale. Having balances receivable from related parties carries no risk, for no default problems have been detected over time.

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

	2015	2014
Assets:		
Cash and cash equivalents	US\$ 24,466,233	US\$ 64,959,849
Accounts receivable	<u>16,362,938</u>	<u>31,635,726</u>
Total assets	<u>40,829,171</u>	<u>96,595,575</u>
Liabilities:		
Accounts payable	(84,268,722)	(104,321,559)
Debt	<u>(185,702,060)</u>	<u>(257,129,653)</u>
Total liabilities	<u>(269,970,782)</u>	<u>(361,451,212)</u>
Net exposure	<u>US\$(229,141,611)</u>	<u>US\$(264,855,637)</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\$(229,141,611)</u>
Closing exchange rate	<u>537,81</u>
Exchange rate variation of 2%	<u>10,76</u>
Loss / Profits	<u>¢ (2,465,563,734)</u>

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

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

Expected recovery of financial assets as of December 31, 2015 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% - 6.5%	US\$68,221,871			US\$3,953,524	US\$72,175,395
Non-interest rate bearing instruments			US\$2,532,886	US\$2,635,840	2,474,807	7,643,533
Total		<u>US\$68,221,871</u>	<u>US\$2,532,886</u>	<u>US\$2,635,840</u>	<u>US\$6,428,331</u>	<u>US\$79,818,928</u>

Scheduled payments of financial liabilities as of December 31, 2015 are as follows:

Financial Liabilities	Weighted Average Interest Rate	1 - 3 Months	3 Months 1 Year	More than 1 Year	Total
Interest rate bearing obligations	3.78%	US\$ 17,750,400	US\$ 6,285,714	US\$199,755,275	US\$223,791,389
Non-interest rate bearing obligations		82,755,581	17,962,021		100,717,602
Total		<u>US\$100,505,981</u>	<u>US\$24,247,735</u>	<u>US\$199,755,275</u>	<u>US\$324,508,991</u>

Expected recovery of financial assets as of December 31, 2014 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 6.5%	US\$157,394,954			US\$4,702,814	US\$162,097,768
Non-interest rate bearing instruments		787,292	US\$2,293,310	US\$395,080	2,563,176	6,038,858
Total		<u>US\$158,182,246</u>	<u>US\$2,293,310</u>	<u>US\$395,080</u>	<u>US\$7,265,990</u>	<u>US\$168,136,626</u>

Scheduled payments of financial liabilities as of December 31, 2014 are as follows:

Financial Liabilities	1 - 3 Months	3 Months 1 Year	More than 1 Year	Total
Interest rate bearing obligations	US\$ 88,980,647	US\$ 6,285,714	US\$165,996,224	US\$261,262,585
Non-interest rate bearing obligations	136,168,415	5,715,111		141,883,526
Total	<u>US\$225,149,062</u>	<u>US\$12,000,825</u>	<u>US\$165,996,224</u>	<u>US\$403,146,111</u>

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

RECOPE issues bank bonds bearing interest at variable rates. Accordingly, it is subject to interest rate fluctuation. This risk is considered normal within RECOPE financing structure, for loans are arranged at market rates. Given net borrowing as of December 31, 2015. 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	<u>US\$27,369,444</u>	<u>US\$(273,694)</u>	<u>US\$(547,389)</u>
Decrease	<u>US\$27,369,444</u>	<u>US\$ 273,694</u>	<u>US\$ 547,389</u>

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

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

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

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

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

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

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

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

20.3 LEVERAGE RISK MANAGEMENT

In the normal course of operations, RECOPE is exposed to a variety of financial risks, which it tries to minimize through the application of risk management policies and procedures. These policies cover market risk, liquidity risk, exchange rate risk, and interest rate risk. In addition, RECOPE manages its capital structure 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:

	2015	2014
Notes payable and bank debt	US\$ 223,791,389	US\$ 142,649,542
Cash and cash equivalents	<u>(68,221,871)</u>	<u>(157,394,954)</u>
Net debt	<u>US\$ 155,569,518</u>	<u>US\$ (14,745,412)</u>
Stockholders' equity	<u>US\$1,095,086,686</u>	<u>US\$ 646,679,121</u>
Leverage index	<u>14.21%</u>	<u>(2.28%)</u>

20.4 FAIR VALUE OF THE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

- a. ***Cash, Cash Equivalents*** - Book value of these assets is approximate to their fair value due to their current nature.
- b. ***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** - Rates of the loan are agreed at market value, and they are adjustable so that they can remain always at fair value; therefore, their market value is approximate to their reasonable value.

21. AGREEMENTS

21.1 LOAN 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 installments 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% 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 than 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 CABEL.
- u. Grant best guarantees or higher privileges other than those granted to CAF to any other present or future creditor.

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

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

Amount - US\$30 million.

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

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

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

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

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

Positive obligations in accordance with Clause 8.1:

- a. Keep the assets in the same preservation and working conditions, except for ordinary impairment over time, so that businesses related to them can be always conducted.
- b. Comply with all the significant aspects related to any applicable laws, regulations, executive orders, resolutions, and taxes.
- c. Comply with the terms and conditions of any commitments, arrangements, and agreements to which it is a party or which affect its assets.
- d. Keep its corporate capacity in full force and effect to be able to operate.
- e. Notify the Bank in writing about any case of non-compliance or circumstances that, over time, can become a case of non-compliance.
- f. Notify the Bank about any litigation and court, administrative, or arbitration proceedings that might have an adverse impact on its business.
- g. File any and all tax returns and other taxes on a timely basis.
- h. Provide the Bank with the following information: annual audited financial statements and annual projected cash flows, which must be sent within one hundred twenty calendar days of the end of the fiscal year (December 31 according to the definition set forth in item 1.13), interim quarterly financial statements, which must be sent within thirty calendar days of the end of the fiscal year.
- i. Keep a debt/capitalization ratio not higher than 60%.
- j. Keep a coverage ratio for the debt service (EBITDA/ interest expenses + current portion of the long-run debt) not less than two times. EBITDA stands for Earnings before Interest, Taxes, Depreciation and Amortization, plus other non-cash expenses and the income tax.

- k. Non-compliance with Clause 10.1:
- Failure to pay the principal and interest at maturity.
 - In the event of non-compliance with the implementation of any other term, obligation, or condition contained in the loan agreement and this non-compliance is not corrected or removed within 30 calendar days of the occurrence date.
 - Use of loan funds for non-approved purposes.
 - In the event of a change that significantly and adversely affects the debtor's financial situation that prevents the compliance with the loan requirements in accordance with the terms agreed.
 - The failure to pay any applicable fees, rates, or taxes.

21.3 LOAN AGREEMENTS WITH BNP PARIBAS FORTIS SOCIÉTÉ GÉNÉRALE

On September 22, 2015, RECOPE and BN PARIBAS FORTIS SOCIETE GENERALE enter into a loan agreement for the amount of US\$19,000,000 (nineteen million dollars), legal tender of the United States of America, to build four spherical tanks for the storage of LPG (YT-7712, YT-7713, YT-7714, YT-7715) in the refinery of Moín, in regard to public tender N° 2011LN-00009-02.

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

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

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

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

Fees and Commissions -

- a. Commitment Fee: 1.10% per year on undrawn balance, starting on the date the loan agreement is signed and payable biannually.
- b. Structure Fee: 1.0% flat on the loan full amount, payable at once upon signing the loan agreement.
- c. Agency Fee: 0.645% flat on the loan full amount, payable to the Agent at once upon signing the loan agreement.
- d. CESCE Fee: 5.9% flat. CESCE will cover Banks for 99% of political and commercial risks on the loan principal plus accrued interest.

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

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

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

Special Obligations -

a. **Financial Definitions** -

- In this Clause 18 (Financial Covenants): “Certificate of Compliance” means a certificate mainly along the lines of the format provided in Exhibit 7 (Format of the Certificate of Compliance) or according to any other format agreed upon between the Borrower and the Agent.
- “Current Assets” means the total amount shown as current assets in the balance sheet of the Group (RECOPE) prepared pursuant to IFRS.
- “Current Liabilities” means the total amount shown as current liabilities in the balance sheet of the Group prepared pursuant to IFRS.
- “Current Ratio” (or Liquidity Ratio) means, in regard to any Relevant Period, the coefficient of Current Assets for that Relevant Period relative to the Current Liabilities for that same period.
- “EBITDA” (abbreviation of “Earnings before Interest, Taxes, Depreciation and Amortization,” that is, profits before Interest, Taxes, Depreciation and Amortization). It means, relative to the Group, for any period, the addition (determined without duplication) of: (a) the Operating Income for that period plus (b) depreciation and amortization to the extent that they are deducted to determine the Operating Income for said period.
- “Financial Charges” means the total amount of accrued interest, commissions, discounts, prepayment fees, hedge fees or charges and other financial payments relative to financial indebtedness, which must be paid by the Group in cash or capitalized within the twelve months following the date of calculation:

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

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

- “Total Net Debt” means, at any moment, the total amount of all the obligations of the Group in relation to Financial Indebtedness in that moment, but:
 - Including, in the case of Financial Leases only, their capitalized value; and
 - Deducting the total amount of the Group’s Investments in Cash and in Cash Equivalents at that moment and in a way that no amount is included or excluded more than once.

The Borrower must ensure that:

The Net Debt Coverage Ratio for any Relevant Period is not higher than 3.00:1.00.

The Current Ratio for any Relevant Period is not less than 1.20:1.00.

Data of the Net Debt Coverage Ratio and the Current Ratio for previous accounting periods must be provided with respect to the most recently ended Relevant Period by reference to each one of the financial statements submitted per Section (a) (i) of Clause 17.1 (Financial Statements) and to each Certificate of Compliance submitted per Clause 17.2 (Certificate of Compliance).

b. Breach of Contract -

Failure to pay

Illegal origin

Corrupt practices

Unlawfulness

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

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

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

21.4 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 to 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.

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

22. CONTINGENCIES

The information of important judicial proceedings provided by the Legal Department through DJU-0101-2016, with cut-off date at December 2015, is as follows:

Summary of Judicial Proceedings in Force as of December 31, 2015				
Contingent Liabilities – Lawsuits filed against RECOPE S.A.				
Proceeding	Quantity	Relevant Cases	Amount	Claimed Amount
Ordinary				
Contentious	34			¢24.290.462.747
		Yunta del Trapiche, S.A.	¢ 900.000.000	
		D.H.L. Aviation	1.362.336.304	
		Consorcio Arco, S.A.	1.615.093.446	
		Dragados Hidráulicos, S.A.	5.887.077.527	
		Saret de C.R	1.084.721.896	
		Compañía Agropecuaria de Limón, S.A.	2.957.242.644	
		Instituto Costarricense de Electricidad	5.612.616.512	
Labor	8			795.621.464
Injunction	2			22.000.000
Specialized in collection	<u>2</u>			<u>194.043.129</u>
Total	<u>46</u>		<u>¢19.419.088.329</u>	<u>¢25.302.127.340</u>

The amounts of the cases in dollars are updated at the selling exchange rate for the non-banking public sector of ¢537,81.

Summary of Judicial Proceedings in Force as of December 31, 2015				
Contingent Assets – Lawsuits filed by RECOPE S.A.				
Proceeding	Quantity	Relevant Cases	Amount	Claimed Amount
Ordinary Contentious	77			¢18.115.626.309
		Representaciones Globales, S.A.	¢ 6.284.218.850	
		Aguimasis Inmobiliaria, S.A.	900.000.000	
		Instituto Costarricense de Electricidad	10.008.000.000	
Specialized in collections	4			1.910.280
Criminal	<u>4</u>			<u>96.006.040</u>
Total	<u>85</u>		<u>¢17.192.218.850</u>	<u>¢18.213.542.629</u>

The amounts of the cases in dollars are updated at the purchase exchange rate for the non-banking public sector as of December 31, 2015, which corresponds to ¢537,27 per each US dollar.

According to the previous information, RECOPE faces a total of 110 lawsuits of which a total of 64 cases are of inestimable amount. Additionally, RECOPE as plaintiff, has filed a total of 101 lawsuits of which 16 are of inestimable amount.

In regard to the potential contingency deriving from the Costa Rican Social Security System (CCSS collection relative to the contribution established in Article 78 of the Worker Protection Act (Law 7983), per the percentages established in Executive Order No.37127-MTSS, published in Official Notice 71 to the official journal La Gaceta No.103 of May 29, 2012, the Company is awaiting for the resolution of the conflicts, which are being studied at judicial and constitutional courts, tending to the definition of the “suitable base for the calculation” of the above mentioned contribution, as indicated in official letter DJU-1573-2014, which is an extremely uncertain situation. In addition to that, through DJU-0960-2015, RECOPE’s Legal Department has indicated that this kind of contributions or taxes is not approved by ARESEP., therefore, they are not recovered through public prices or rates; thus, using the term “tax profit” seems to reflect reality better.

23. COMPARATIVE INFORMATION (RECLASSIFICATION)

For the purpose of comparing the financial statements as of December 31, 2015 and 2014, advances to contractors are shown within current assets as a separate account in the Statement of Financial Situation as of December 31, 2015 and 2014 for an amount of US\$20,054,943 and US\$30,095,564 respectively.

24. APPROVAL OF THE FINANCIAL STATEMENTS

The accompanying financial statements were approved by RECOPE’s management on April 20, 2016.

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REFINADORA COSTARRICENSE DE PETRÓLEO, 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.

	2015	2014
Current assets	US\$ 299,360,787	US\$ 436,112,341
Cash and cash equivalents	(68,221,871)	(157,394,954)
Current liabilities (does not include current portion)	<u>(146,902,617)</u>	<u>(272,998,431)</u>
Financial working capital	<u>US\$ 84,236,299</u>	<u>US\$ 5,718,956</u>

This ratio shows that throughout year 2015, the financial work capital increased in comparison to year 2014 since RECOPE required less financing from petroleum suppliers and financial entities for the purchase of inventories than in year 2014.

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:

	2015	2014
Current assets	US\$299,360,787	US\$436,112,341
Current liabilities	<u>153,188,331</u>	<u>279,284,145</u>
Current assets/ Current liabilities	<u>195.42%</u>	<u>156%</u>

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

3. TOTAL ASSET TURNOVERS

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

	2015	2014
Sales	US\$2,314,487,304	US\$3,173,307,399
Assets	<u>1,623,872,428</u>	<u>1,124,857,125</u>
Sales/assets	<u>1.42</u>	<u>2.82</u>

In 2015, for every dollar invested in assets, RECOPE generated 1.42 times in sales, which represents a decrease in the indicator obtained in 2014. The conversion from assets to sales was more 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:

	2015	2014
Sales	US\$2,314,487,304	US\$3,173,307,399
Property, plant, vehicles and equipment - net	<u>1,260,022,261</u>	<u>624,464,054</u>
Sales/ property, plant, vehicles and equipment - net	<u>1.84</u>	<u>5.08</u>

The result of the turnover in 2015 indicates that for every dollar invested in fixed assets, RECOPE generated 1.84 times in sales, which represents a decrease compared to the situation that occurred in 2014.

5. DEBT RATIO

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

	2015	2014
Liabilities	US\$ 528,785,742	US\$ 478,178,004
Assets	<u>1,623,872,428</u>	<u>1,124,857,125</u>
Liabilities / assets	<u>32.56%</u>	<u>42.51%</u>

This ratio shows improvement by the increase of property, facilities, and equipment as well as the decrease of documents payable. Per the debt ratio, for 2015, 67.44% of the assets is owned by equity investors (the State) while the percentage for 2014 was of 57.49%.

6. DEBT RATIO (COST)

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

	2015	2014
Long term debt	US\$ 206,040,989	US\$ 172,281,937
Assets	<u>1,623,872,428</u>	<u>1,124,857,125</u>
Long term debt/assets	<u>12.69%</u>	<u>15.31%</u>

In 2015, the long-term debt funded 12.69% of the total asset, and the remaining 87.31% was provided by RECOPE, which shows a 2.62 percentage point decrease compared to the previous year.

7. PROFIT MARGIN ON SALES

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

	2015	2014
Net (loss) profit	US\$ (11,195,700)	US\$ 32,246,397
Sales	<u>2,314,487,304</u>	<u>3,173,307,399</u>
Net (loss) profit/ sales	<u>(0.48%)</u>	<u>1.02%</u>

This indicator reflects a decrease in relation to year 2014 since RECOPE had net losses in 2015.

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.

	2015	2014
Net (loss) profit	US\$ (11,195,700)	US\$ 32,246,397
Assets	<u>1,623,872,428</u>	<u>1,124,857,125</u>
Net (loss) profit / assets	<u>(0.69%)</u>	<u>2.86%</u>

In 2015, there has been a significant improvement in this ratio when compared to 2014.

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.

	2015	2014
Net (loss) profit	US\$ (11,195,700)	US\$ 32,246,397
Stockholders' equity	<u>1,095,086,686</u>	<u>646,679,121</u>
Net (loss) profit /equity	<u>(1.02%)</u>	<u>4.98%</u>

In 2015, there has been an increase in this ratio when compared to 2014.

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.

	2015	2014
Operating expenses	US\$ 210,584,984	US\$ 196,573,007
Sales	<u>2,314,487,304</u>	<u>3,173,307,399</u>
Net (loss) profit/ sales	<u>9.09%</u>	<u>6.19%</u>

This ratio has increase a little when compared to the previous period, and this is a consistent behavior since, in the most part, these expenses do not have a direct or immediate relationship with the sales activity; therefore, it is reasonable that they show 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.

	2015	2014
Operating profit	US\$ (211,742)	US\$ 67,741,404
Depreciations and amortizations	<u>32,776,867</u>	<u>35,229,146</u>
Total EBITDA	<u>US\$32,565,125</u>	<u>US\$102,970,550</u>
Financial expenses	<u>US\$ 2,907,656</u>	<u>US\$ 11,736,501</u>
EBITDA/financial expenses	<u>11.20</u>	<u>8.77</u>

This ratio shows that RECOPE has somewhat improved its capacity to cover financial expenses of the long-term debt in comparison with year 2014.

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