

WATER FUND FOR LIMA AND CALLAO - AQUAFONDO

FINANCIAL AUDIT REPORT

FROM THE EXAM TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2021 AND 2020

WATER FUND FOR LIMA AND CALLAO (AQUAFONDO)

Financial Statements

As of december 31, 2021 and 2020

Along with the independent auditors' opinion

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PEN = Peruvian sol

USD = American dollar

Independent auditors' opinion

Messrs. Associates, President and Directors
from the Water Fund for Lima and Callao - Aquafondo

1. We have audited the accompanying financial statements of Water Fund for Lima y Callao (hereinafter Aquafondo); a non-profit private law association established in Peru, which comprise the statement of financial position as of December 31, 2021 and 2020, as well as the related statements of activities, changes in shareholders' equity and cash flows for the years completed, and the summary of significant accounting policies and other explanatory notes included in the accompanying notes 1 to 14 attached to such financial statements.

Accountability of the Management on Financial Statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Generally Accepted Accounting Principles in Peru, and for the internal control that Management concludes is necessary to allow the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's accountability

3. Our accountability is to express an opinion on these financial statements based on our audit. Our audit was carried out in accordance with the International Standards on Auditing approved for application in Peru by the Board of Deans of Associations of Public Accountants of Peru. Such 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.

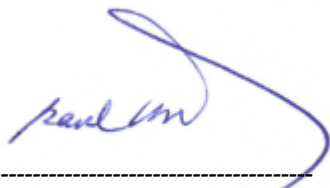
An audit involves performing procedures to obtain audit evidence about the balances and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, and include assessing the risk of material misstatement of the financial statements, whether due to fraud or error. In conducting this risk assessment, the auditor takes into consideration the relevant internal control to Aquafondo in the preparation and fair presentation of the financial statements in order to design audit procedures in accordance with the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Aquafondo's internal control. An audit also includes an evaluation of whether the accounting principles applied are appropriate and whether the accounting estimates made by Management are reasonable, as well as an evaluation of the general presentation of the financial statements.

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

Opinion

4. In our opinion, the attached financial statements present fairly, in all their significant aspects, the balance sheet of the Water Fund for Lima and Callao as of December 31, 2021 and 2020, as well as the results of its activities and cash flows for the year completed on that date, in accordance with Generally Accepted Accounting Principles in Peru.

Endorsed by:



Raúl Martínez Torres (Partner)
Certified Public Accountant
Registration No. 5410

Martínez, Rodríguez y Asociados S. Civil de R.L.
AGN International member firm

April 8, 2022
Lima, Peru

WATER FUND FOR LIMA AND CALLAO - AQUAFONDO

Balance Sheet

As of December 31, 2021 and 2020

Assets	As of December 31,		Liabilities and equity	As of December 31,	
	2021	2020		2021	2020
	PEN	PEN		PEN	PEN
Current assets			Current liabilities		
Funds received and available (note 4)	2,127,878	1,914,570	Trade accounts payable (note 8)	262	-
Other accounts receivable (note 5)	19,555	123,868	Other accounts payable (note 9)	65,586	81,032
Total current assets	2,147,433	2,038,438	Total current liabilities	65,848	81,032
			Total liabilities	65,848	81,032
Non-current assets			Shareholder's equity (note 10)		
Refundable tax credit (note 6)	164,615	134,960	Associates contributions	452,220	440,550
Net computer equipment (note 7)	30,499	10,963	Equity funds	1,396,120	1,454,571
Total non-current assets	195,114	145,923	Cumulative surplus	428,359	208,208
			Total equity	2,276,699	2,103,329
Total assets	2,342,547	2,184,361	Total liabilities and equity	2,342,547	2,184,361

The attached notes are part of the financial statements.

WATER FUND FOR LIMA AND CALLAO - AQUAFONDO

Statement of activities and Surplus (Shortage)

For the years completed as of December 31, 2021 and 2020

	2021	2020
	PEN	PEN
Income:		
Grants from associates in agreement	2,534,992	1,490,364
Services rendered	35,136	130,496
Financial income	31	146
Total	2,570,159	1,621,006
Expenses:		
Project performance and administration expenses (note 12)	(2,417,228)	(1,463,220)
Net profit (Loss) for change difference (note 3)	41,731	20,370
Total	(2,375,497)	(1,442,850)
Surplus (Shortage) of activities in the year	194,662	178,156

The attached notes are part of the financial statements.

WATER FUND FOR LIMA AND CALLAO - AQUAFONDO

Statement of changes in Shareholder's equity

For years completed as of December 31, 2021 and 2020

	Share Capital	Equity Funds	Accrued Surplus (Shortage)	Total
	PEN	PEN	PEN	PEN
Balance as of January 1, 2020	440,550	1,454,571	43,447	1,938,568
Surplus of the year	-	-	178,156	178,156
Adjustment of accrued profit and loss	-	-	(13,395)	(13,395)
Balance as of December 31, 2020	440,550	1,454,571	208,208	2,103,329
Surplus of the year	-	-	194,662	194,662
Aportes de asociados	61,380	-	-	61,380
Transfer of equity funds performance (note 10.2)	-	(58,451)	-	(58,451)
Adjustment from associates' withdrawal	(49,710)	-	-	(49,710)
Adjustment of accrued profit and loss	-	-	25,489	25,489
Balance as of December 31, 2021	452,220	1,396,120	428,359	2,276,699

The attached notes are part of the financial statements.

WATER FUND FOR LIMA AND CALLAO-AQUAFONDO

Cash flow statement

For the years completed as of December 31, 2021 and 2020

	2021 PEN	2020 PEN
Cash flow of the operation activities		
Surplus (Shortage) of the activities in the year	194,662	178,156
More (less) items which do not represent cash flow		
Depreciation	11,882	5,502
Provisions for doubtful accounts	-	4,298
Provisions and adjustments	(112,358)	(52,648)
Net variations of assets and liabilities of operation		
Other accounts receivable	104,313	127,986
Trade accounts receivable	262	(169)
Other accounts payable	(15,446)	22,928
Net cash provided by (used in) the operation activities	<u>183,315</u>	<u>286,053</u>
Cash flow of investing activities		
Computer equipment sales	-	-
Computer equipment purchase	(31,418)	(1,522)
Net cash provided by (used in) the investing activities	<u>(31,418)</u>	<u>(1,522)</u>
Cash flow of financing activities		
Associates contributions	61,380	-
Financial operations interests	31	146
Net cash provided by the investing activities	<u>61,411</u>	<u>146</u>
Net increase (Decrease) of cash and cash equivalent	<u>213,308</u>	<u>284,677</u>
Cash balance and cash equivalent at the beginning of the year	1,914,570	1,629,893
Cash balance and cash equivalent at the end of the year (note 4)	<u><u>2,127,878</u></u>	<u><u>1,914,570</u></u>

The attached notes to the financial statement are an integral part of this statement.

WATER FUND FOR LIMA AND CALLAO - AQUAFONDO

Notes to the financial statements

As of december 31, 2021 and 2020

1. Background, identification and institutional activity

1.1 Background

On March 7, 2011, various private companies and institutions signed the agreement that creates the "Fund for the conservation of watersheds and water resources of Lima and Callao - Aquafondo" providing resources and money for the development of Aquafondo and which includes the guidelines and Framework Principles for the administration of resources and projects. Said agreement establishes the main objective of the conservation of the basins and water resources of Lima and Callao. Said agreement establishes the main objective of the conservation of the basins and water resources of Lima and Callao.

The Convention has set the goal of promoting a new water culture, contributing to the solution of degradation problems in the basins of the Chillón, Rímac and Lurín rivers, especially their headwaters, through the development of projects financed with the income generated by the patrimonial fund and resources for direct allocation and that allow to protect and improve the availability and quality of the water resources of the three basins.

Founding members:

- Unión de Cervecerías Peruanas Backus y Johnston S.A.A.
- La Sociedad Peruana de Derecho Ambiental – SPDA (Peruvian Society for Environmental Law)
- Pontificia Universidad Católica Del Perú (Pontifical Catholic University of Peru)
- Fondo de las Américas del Perú (Peruvian Americas Fund)
- The Nature Conservancy – TNC
- Grupo Gea

1.2 Identification

WATER FUND FOR LIMA AND CALLAO (hereinafter Aquafondo), is a non-profit private law association incorporated on December 1, 2015, in the province of Lima, department of Lima-Peru. Aquafondo's legal domicile is located at Calle German Schreiber No. 276 - San Isidro, Lima, where it carries out its administrative operations.

1.3 Institutional activity

Aquafondo, according to its incorporation, has the social purpose of creating, promoting and disseminating relevant knowledge and information for the efficient and sustainable use of water resources in the basins of the Rímac, Chillón and Lurín rivers that flow into the Pacific Ocean, with the intention to forge a new culture of water use.

It also promotes the development of seminars, conferences and congresses at national and international level that allow the knowledge and better application of the latest world scientific advances in the field of efficient and sustainable use of water resources and create appropriate instruments for the management of water quality and availability of water in the aforementioned basins, based on scientific studies and put them at the service of the community, in order to contribute to reducing the levels of contamination of the water resources that supply Metropolitan Lima and to have a positive impact on the population health.

For the fulfillment of its purposes, Aquafondo may enter into all kinds of agreements, contracts, or other legal acts that it deems convenient for the administration and execution of educational and scientific programs and projects; assuming the respective costs, as well as being a recipient of international technical cooperation and/or economic contributions from natural and legal persons, nationals and/or from abroad, benefiting from the exceptions of the law for the payment of the obligations provided for the organizations of this nature.

As of December 31, 2021 and 2020, Aquafondo associated companies have been the following:

- Grupo Gea S.A.C.
- Sociedad Peruana de Derecho Ambiental (Peruvian Society of Environmental Law)
- Pontifical Catholic University of Peru
- Fundación Backus S.A.C.
- Americas Fund (*)
- Nestlé Perú S.A.
- Dalka S.A.C.
- The Nature Conservancy – TNC
- Hydro-Geo Consultores S.A.C. (Hydro-Geo Consultants S.A.C.)
- Mexichem Peru S.A.
- Enel Generación Perú S.A.A.

(*) As of December 31, 2020, Americas Fund has ceased to be an associate, the relationship is maintained for the monetary contribution granted.

1.4 Main programs and projects

Aquafondo has developed and promoted, among others, the following projects and social programs during the periods completed as of December 31, 2021 and 2020, which are carried out under lines of intervention and which are presented below:

(i) Management and conservation of water resources in Lima

The strategic objective is to promote more investment for the integral management of the water of the Lima basins and especially, for natural infrastructure projects. We prioritize actions for the conservation and restoration of natural infrastructure. We recognize, revalue and integrate ancestral knowledge, wisdom and techniques.

- Recovery and improvement of the ancestral water recharge infrastructure in the peasant communities of San Pedro de Casta.

- Adaptation to climate change for the communities of the Lima Basins.
- Adaptation of water resources management to climate change: development of management tools and sustainable financing mechanisms in three representative ecoregions of Peru.

(ii) Water governance

Strategic objective is to be spokespersons on issues of water security, also promoting participation, planning and agreement for the governance of water as a public good.

- Organization of the Workshop on Guidelines for the Elaboration of the Baseline of the Chillón, Rímac and Lurín Basin.
- Revision and Feedback of the Natural Infrastructure Plan of the Chillón, Rímac and Lurín Basins.

(iii) Participatory management and culture of water

Strategic objective is to strengthen the capacities of regional and local actors and peasant communities based on a new water culture.

- Programa Urbano de Cultura del Agua – PUCA (Urban Program of Water Culture)
- Support for the process of conformation of the council of water resources of Lima and Callao basins
- Reuse of treated wastewater for irrigation of green areas
- Promotion of the proper disposal of recycled household oil

1.5 Agreements and conventions for project execution

(i) Subgrant Agreement No. NASCA 00128/2017

Aquafondo and The Nature Conservancy, in July 2017, signed the Sub-donation for the execution of the project “Adaptation of water resources management to climate change: development of management tools and sustainable financing mechanisms in three representative ecoregions of Peru”.

As of December 31, 2021 and 2020 Aquafondo has received funds for € 599,946 and € 580,450, equivalent to PEN 2,179,314 and PEN 2,098,010, Aquafondo has disbursed for the project execution the amount of € 599,946 and € 571,357, equivalent to PEN 2,179,314 and PEN 2,063,657.

(ii) Cooperation Agreement No. NASCA 0095/2019

Aquafondo and The Nature Conservancy, in May 2019 signed the cooperation agreement to support the Partner in the strengthening of Aquafondo and the implementation in the field of watershed management activities that bring benefits in terms of “replenish”, for the execution of the project “Water funds and replenishment, with a funding of with a financing of PEN 150,000, with the final contribution of PEN 136,604.00, which as of December 31, 2020 is completed.

(iii) Cooperation Agreement No. PERU 00145/2021

Aquafondo and The Nature Conservancy, on May 23, 2021, signed a cooperation agreement with the purpose of supporting the Partner in the project "Rehabilitation and improvement of the Chucuwasi amuna in the rural community of San Pedro de Casta" with funding of PEN 284,825.

As of December 31, 2021, Aquafondo has received the total funds and has disbursed for the execution of the projects the amount of PEN 284,825, being that as of December 31 it is completed.

(iv) Aquafondo - Fundación Backus Agreement

Aquafondo and Fundación Backus, on April 1, 2020, signed the financing agreement for the execution of the project: Recovery and improvement of the ancestral infrastructure of artificial water recharge in the peasant community of San Pedro de Casta, province of Huarochirí, Lima Region.

The project contemplates the recovery and improvement of three amunas that are equivalent to a total of 4,101 km, in order to improve the distribution and infiltration of water in the micro-basin, as well as the stabilization of slopes, in addition to allowing the development of the vegetation cover in the spaces near the canal, product of the moistening of the soil. In this way, it finally contributes to water security through the increase in the availability of water resources for various activities such as irrigation, guaranteeing an increase in agricultural production in the area. The location of the project is in the district of San Pedro de Casta, province of Huarochirí and department of Lima. As of December 31, 2021 and 2020, Aquafondo has received funds for USD 360,560 and USD 300,560 equivalent to PEN 1,274,686 and PEN 1,055,866, Aquafondo has disbursed for the execution of the project the total funds.

Aquafondo and Fundación Backus, on April 1, 2021, signed the financing agreement for the execution of the project: Recovery of 8.1 km of amunas in San Pedro de Casta, being financed for this project the amount of USD 427 288. In 2021 has received the total amount committed, being equivalent in PEN 1,632,667.45. The totality of the funds received was invested.

(v) Contract between the Swiss Confederation, represented by the Federal Department of Foreign Affairs - Swiss Embassy-SDC

Aquafondo and SDC, on February 18, 2020, signed the Contract relating to the Concession of a contribution to the project "Updating and methodological expansion of the study of water risks, earthquake and vulnerability of the private sector in the field of peasant communities", with a contribution of PEN 17,125 as of December 31, 2020.

As of December 31, 2020 Aquafondo has received said funds for PEN 17,125.00 and has disbursed for the project execution in its entirety.

(vi) Contribution of Nestlé Peru

Aquafondo has received from Nestlé Perú, as of December 2020 and a contribution of PEN 17,500.00, for the study of "Water crisis, a silent threat for economic development" and as an extraordinary contribution for the project execution for Aquafondo. As of December 31, 2020 Aquafondo has received said funds and has fully disbursed them.

(vii) Agreement Aquafondo - CBC Peruana SAC

Aquafondo and CBC Peruana SAC, on March 26, 2021, signed the grant agreement for the achievement of the project for the recovery and sustainable use of water sources called "Recovery and improvement of ancestral infrastructure for artificial water recharge in the peasant community of San Pedro de Casta Province of Huarochiri", with a contribution of USD 20,000, equivalent to PEN 78,760, as of December 31, 2021, all funds have been executed. with a contribution of USD 20,000, equivalent to PEN 78,760, as of December 31, 2021, the total funds have been executed.

(viii) Agreement Aquafondo - Deutsche Gesellschaft für Internationale Zusammenarbeit - GIZ

Aquafondo and GIZ, on October 22, 2021, signed the grant agreement for the implementation of the "Productive project to promote water and food security through a bio-garden and guinea pig production in the community of San Pedro de Casta". The purpose of the grant is to promote FMA security through an integrated project at the community level in Peru. This general objective is defined by the following benchmarks:

- Creation of project facilities
- Rehabilitation of Qocha Marcahuasi
- Community completion and capacity building
- Business plan development and related capacity building activities,

with a contribution of € 63,206. As of December 31, 2021, only € 40,000 equivalent to PEN 171,243 has been received and PEN 88,526 has been executed; the balance of the contribution will be delivered in 2022.

Revenues (grants) received and expenditures (disbursements) executed on Aquafondo's projects and programs for the years completed as of December 31, 2021 and 2020 are presented below:

Granted funds received for projects	As of December 31	
	2021	2020
	PEN	PEN
Income:		
TNC-Subgrant Agreement No. NASCA 00128/2017	2,179,314	2,098,010
Fundación Backus	2,907,354	1,055,866
Embassy of Switzerland-Cosude	-	17,125
Nestlé Peru	-	17,500
TNC-Subgrant Agreement PERU 00145/2021	284,825	-
CBC Peruana	78,760	-
Deutsche Gesellschaft Internationale Zusammenarbeit - GIZ	171,243	-
Total	5,621,496	3,188,501

(-) Disbursements:

TNC-Subgrant Agreement No. NASCA 00128/2017	(2,179,314)	(2,063,657)
Fundación Backus	(2,514,737)	(1,055,866)
Embassy of Switzerland-Cosude	-	(17,125)
Nestlé Peru	-	(17,500)
TNC-Subgrant Agreement PERU 00145/2021	(284,825)	-
CBC Peruana	(78,760)	-
Deutsche Gesellschaft Internationale Zusammenarbeit - GIZ	(163,777)	-
Total	<u>(5,221,413)</u>	<u>(3,154,148)</u>
Net project grant funds received	<u>400,083</u>	<u>34,353</u>

Granted funds comprise the resources received by Aquafondo by virtue of agreements signed in order to allocate them to the execution of projects within the scope of action of Aquafondo.

1.6 Approval of financial statements

The financial statements as of and for the year completed on December 31, 2021, have been prepared in accordance with Generally Accepted Accounting Principles in Peru and will be presented to the Board of Directors of Aquafondo for approval of their issuance, and then submitted for consideration of the General Assembly of Associates that will be summoned within the terms established by Law.

1.7 Covid-19

Covid-19, an infectious disease caused by a new coronavirus, was declared a global pandemic by the World Health Organization (WHO) on March 11, 2020, and new variants have been identified during 2021. Measures to reduce the spread of this disease have had a significant impact on the global economy. On March 15, 2020 and through Supreme Decree No. 044-2020, the Peruvian government declared a nationwide state of emergency and mandatory social isolation, closing all businesses considered non-essential (the exceptions were the production and commercialization of food, pharmaceuticals, financial services and health).

In accordance with the provisions of the Peruvian Government, Aquafondo's activities were not very affected as a result of these measures. In that sense, it has maintained the development of its activities in the different programs it has been executing and has received grants from its associates normally. During February 2021, the Government initiated a vaccination program throughout Peru, with the aim of mitigating the risk of a higher rate of contagion, transmission of the virus and impact on the Peruvian economy.

Aquafondo's Management has been continuously monitoring the potential short, medium and long-term implications of Covid-19 on its financial statements based on the extension of the State of National Emergency established by the Peruvian Government. These measures will not have an impact on the continuity and development of Aquafondo's operations because its activity is within the group of permitted economic activities. As of December 31, 2021 and 2020, Aquafondo has not applied for any benefits (subsidies) granted by the Peruvian State during the state of emergency.

2. Summary of significant accounting principles and practices

2.1 Basis of preparation and presentation

Compliance statement.

Aquafondo's financial statements have been prepared in accordance with Peruvian Generally Accepted Accounting Principles (hereinafter GAAP), such principles include the International Financial Reporting Standards (IFRS), made official through resolutions issued by the Normative Council of Accounting (CNC) as of December 31, 2021 and 2020, respectively, as applicable to Aquafondo.

Accountability of the information.

The information contained in these financial statements is the accountability of the Aquafondo's Management, which expressly confirms that all the principles and criteria contemplated in the (GAAP) issued by the (CNC), in force at the end of each fiscal year, have been applied in their preparation.

Basis of measurement.

The attached financial statements arise from Aquafondo's accounting records and have been prepared on a historical cost basis.

Functional and presentation currency

The financial statements are presented in soles (PEN), which is Aquafondo's functional and presentation currency, except when a different monetary expression is indicated.

Use of estimates and judgments.

The preparation of financial statements in accordance with (GAAP) requires Aquafondo's Management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates. Relevant estimates and assumptions are regularly reviewed. Revisions to accounting estimates are recognized prospectively.

The main accounting estimates made by Aquafondo include: useful life assigned to the various equipment, net and estimate of doubtful accounts.

Aquafondo's Management has exercised its critical judgment when applying accounting policies in the preparation of the attached financial statements, as explained in the corresponding accounting policies.

2.2 Functional currency and foreign currency transactions

The functional currency is the currency of the primary economic environment where the entity operates. Aquafondo's Management has considered Sol (PEN) as its functional and presentation currency, since it reflects the nature of the economic events carried out by Aquafondo.

Operations in foreign currency are recorded in the functional currency, applying the exchange rate on the date of the transaction to the amounts in foreign currency. During the years 2021 and 2020, Aquafondo's disbursement operations in foreign currency are immaterial.

2.3 Financial instruments

Initial recognition and subsequent measurement.

Purchases or sales of financial assets that require the delivery of assets within the period generally established by regulation or market conditions are recorded on the transaction negotiation date; that is, the date on which Aquafondo commits to buy or sell the asset.

The classification of financial instruments on initial recognition depends on the purpose for which the financial instruments were acquired and its characteristics. All financial instruments are initially recognized at fair value plus the incremental costs related to the transaction that are directly attributed to the purchase or issuance of the instrument, except in the case of financial assets or financial liabilities carried at fair value with effect on profit or loss.

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when it has the legal right to offset them and Aquafondo's Management intends to cancel them on a net basis or to realize the asset and cancel the liability simultaneously.

At the date of the financial statements, Aquafondo classifies its financial instruments in the following categories defined in (IAS 39): (i) financial assets and liabilities at fair value with effect on results, (ii) loans and accounts receivable, (iii) financial liabilities at amortized cost, (iv) financial assets available for sale, and (v) financial assets held to maturity, as appropriate. Aquafondo's Management determines the classification of its financial instruments at the time of initial recognition.

As of December 31, 2021 and 2020, Aquafondo maintains financial assets and liabilities only in the categories of "Loans and accounts receivable" and "Financial liabilities at amortized cost". The most relevant aspects of each category applicable to Aquafondo are described below:

(i) Loans and accounts -receivable.

Aquafondo maintains in this category: cash and cash equivalents and various accounts receivable which are expressed at the value of the transaction, net of its provision for doubtful accounts when applicable. The funds received and available held in banks are not subject to a significant risk of changes in its value.

Accounts receivable are non-derivative financial assets whose collections are fixed or determinable, which are not traded in an active market, for which Aquafondo does not intend to sell them immediately or in the near future, and which do not have recovery risks other than their own. deterioration. After their initial recognition, accounts receivable are carried at amortized cost using the effective interest rate method, less the provision for impairment. Losses caused by impairment are recognized in the statement of activities and surplus. The provision for doubtful accounts is established if there is objective evidence

that Aquafondo will not be able to recover the amounts of the debts in accordance with the original agreed terms.

For this purpose, Aquafondo's Management periodically evaluates the need and/or sufficiency of said provision through the aging analysis of accounts receivable and the collectability statistics that Aquafondo maintains. The provision for doubtful accounts is recorded with a charge to income for the fiscal year in which its need is determined.

(ii) Financial liabilities at amortized cost.

As of December 31, 2021 and 2020, financial liabilities at amortized cost include the caption "Other accounts payable". Financial liabilities at amortized cost are recognized when Aquafondo is part of the contractual agreements of the instrument. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is calculated considering any discount and the costs that are an integral part of the effective interest rate. Financial liabilities are classified as short-term obligations unless Aquafondo has the irrevocable right to defer the agreement of the obligations for more than twelve months after the date of the balance sheet.

Derecognition of financial assets and liabilities.

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized when: (i) the rights to receive cash flows from the asset have ended; or (ii) Aquafondo has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay all of the cash flows received immediately to a third party under a transfer agreement and (iii) the Foundation has substantially transferred all the risks and rewards of the asset or, failing to transfer or retain substantially all the risks and rewards of the asset, it has transferred its control.

A financial liability is derecognized when the payment obligation is terminated, canceled or expired. When an existing financial liability is replaced by another of the same borrower under significantly different conditions, or the conditions are significantly modified, such replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability, recognizing the difference between both in the results of the period.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the balance sheet, when it has the legal right to offset them and Management intends to cancel them on a net basis or to realize the asset and cancel the liability simultaneously.

2.4 Funds received and available

They represent the funds received from donors that have not yet been used in the project execution during the period. These funds are in soles and American dollars, and are recognized when they are deposited into local Aquafondo bank accounts.

2.5 Other accounts receivable

Accounts receivable are stated at nominal value.

2.6 Net computer equipment

Computer equipment is recorded at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. The historical acquisition cost includes expenditures that are directly attributable to the acquisition or manufacture of the assets. Such cost includes the cost of replacing part of the computer equipment, including non-refundable purchase duties and taxes and any costs necessary to put the asset in operating condition.

Subsequent costs attributable to various equipment are capitalized only when it is probable that future economic benefits associated with the asset will flow to AquaFondo and the cost of these assets can be reasonably measured, otherwise they are expensed as incurred.

A component of computer equipment or any significant part initially recognized is derecognized when no future economic benefits are expected to be derived from its use or sale. Any gain or loss on derecognition of the asset (calculated as the difference between the net proceeds from the sale of the asset and its carrying amount) is included in the statement of income when the asset is derecognized.

The residual values, useful lives and depreciation methods of assets are reviewed at each reporting date and adjusted prospectively, if applicable, and are as follows:

Categories:	Years
Various equipment and computers	25
Furniture	10

2.7 Impairment of long-lived assets

AquaFondo reviews and evaluates the impairment of its long-lived assets when there are events or economic changes that indicate that the value of an asset may not be recoverable. An impairment loss is the amount by which the carrying amount of long-lived assets exceeds the higher of net sales price or value in use.

The net sales price is the amount that can be obtained on the sale of an asset in an open market, while the value in use is the present value of estimated future cash flows from the continued use of an asset and its disposal at the end of its useful life. An impairment loss recognized in prior years is reversed if there is a change in the estimates used when the loss was last recognized.

2.8 Trade accounts payable

Trade accounts payable are payment obligations for goods or services acquired from suppliers in the normal course of business. Trade accounts payable are classified as current liabilities if payment is due within one year or less, otherwise they are presented as non-current liabilities.

2.9 Provisions

Provisions are recognized only when Aquafondo has a present obligation (legal or constructive) as a result of a past event, it is probable that resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Provisions are reviewed each year and adjusted to reflect the best estimate at the date of the balance sheet. When the effect of the time value of money is significant, the amount of the provision is the present value of the expenses expected to be incurred to settle it.

2.10 Revenue and expense recognition

Income from grants received through Aquafondo is recorded when received; such income is based on the funds committed by Aquafondo to implement and develop projects and programs that are executed and carried out to contribute to water security in Lima and Callao.

On the other hand, grants received with the restriction that they be used for a specific purpose by Aquafondo are recognized as income to the extent that such grants are used for that specific purpose and executed in the period.

Grants are initially debited and credited to "funds received and available" and "grants received to be executed", respectively, in the balance sheet. Subsequently, as they are used, the grants received are affected to the statement of activities, in the same amounts at which they were executed.

Costs and expenses are recognized as they accrue, regardless of when they are paid, and are recorded in the periods to which they relate.

2.11 Contingent liabilities and assets

Contingent liabilities are not recognized in the financial statements, they are only disclosed in the notes to the financial statements. When the possibility of an outflow of resources to cover a contingent liability is remote, such disclosure is not required.

Contingent assets are not recognized in the financial statements, they are only disclosed in the notes to the financial statements when it is probable that an inflow of resources will occur.

Items previously treated as contingent liabilities will be recognized in the financial statements in the period in which a change in probabilities occurs, i.e., when it is determined that it is probable that an outflow of resources will be required to cover the aforementioned liability.

Items treated as contingent assets are recognized in the financial statements in the period in which it is determined that an inflow of resources is virtually certain to occur, respectively.

2.12 Reclassifications

Certain amounts in the asset and liability balances of the 2020 financial statements have been reclassified to make them comparable with the 2021 financial statements. The amount of reclassifications made is not significant in relation to the financial statements taken as a whole.

3. Financial risk management

Aquaafondo's activities expose it to a variety of financial risks: liquidity, credit, interest and foreign exchange risks. Aquaafondo's risk management program seeks to minimize potential adverse effects on its financial performance.

Aquaafondo's management is aware of the existing conditions, and based on its knowledge and experience controls risks, following the policies approved by the Board of Directors.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations to the expiration to a reasonable cost. Aquaafondo controls the required liquidity through an appropriate management of the expiration of assets and liabilities to match the income flow and future payments.

Credit risk

The credit risk is generated because of the failure of associates to comply with the payment of its obligations to Aquaafondo upon maturity. Management assesses the financial conditions of its associates as a part of the management process developed every year in order to reduce this risk.

Interest risk

The exposure of Aquaafondo to this risk is because of the changes in the interest rates in its financial liabilities. Aquaafondo holds liabilities subject to fixed interest rates, consequently, the Management does not expect to incur in loss for interest risk.

Exchange rate risk.

Aquaafondo is exposed to fluctuations in the foreign currency exchange rates prevailing in its financial position and cash flow. Management sets limits on exposure levels per currency.

Transactions in foreign currency are carried out at the exchange rate set by supply and demand in the National Financial System.

As of December 31, 2021, the weighted average exchange rate published by the Superintendency of Banking, Insurance and Private Pension Fund Management Company for US dollars transactions was U.S. dollars was PEN 3.975 for purchasing transactions and PEN 3.998 for selling transaction (PEN 3.618 for purchase and PEN 3.621 for sale in 2020).

The exchange (profit) difference generated in 2021 is presented in the net exchange difference in the statement of activities that was PEN 41,731. (The net exchange (profit) difference for 2020 reached PEN 20,370).

Credit quality of financial assets.

As of December 31, 2021 and 2020, the cash credit quality and cash equivalent are set forth as follow:

	As of December 31	
	2021	2020
	PEN	PEN
Banco de Crédito del Perú (A+)	2,123,210	1,906,662
Banco de la Nación (A)	4,668	7,908
Total	2,127,878	1,914,570

The classification of the foregoing chart shows high credit ratings. For banks located in Peru, the classifications are derived from credit rating agencies authorized by the Superintendency of Banking, Insurance and Private Pension Fund Management Company.

4. Funds received and available

This item includes:

	As of December 31	
	2021	2020
	PEN	PEN
Current accounts	731,029	1,883,382
Savings accounts	729	31,188
Time deposits	1,396,120	-
Total	2,127,878	1,914,570

Checking and saving accounts correspond to balances in local banks, in PEN and American dollars, and are freely available and do not generate interests.

As of December 31, 2021, time deposits correspond in local currency PEN 1,396,120, accruing interest at an effective annual rate of 0.40% with current maturity, which are recognized in "Financial income".

As of December 31, 2021, Aquafondo holds in current accounts of Banco de Crédito del Perú a balance of PEN 1,454,571 (capital: PEN 1,396,120, interest: PEN 58,450), corresponding to the Support to Capitalization of Aquafondo in the Framework of the Project with Global Environmental Facility (GEF) and Inter-American Development Bank (IDB). (See note 10.2).

5. Other accounts receivable

This item includes:

	As of December 31	
	2021	2020
	PEN	PEN
Subscriptions receivable from associates (*)	-	54,270
Memberships receivable from associates (**)	24,970	79,596
Rent security deposit	9,470	8,177
Claims to third parties	-	29,156
Other accounts receivable	8,989	3,321
(-) Reclassifications of obligations of associates	(23,874)	(50,652)
Total	19,555	123,868

Aquaafondo, at the date of the financial statements, has no subscriptions receivable belong to pending receivable documents of Universidad de Ingeniería y Tecnología (Technology and Engineering University) for USD 15,000. As of December 31, 2021 this Associate withdrew from Aquaafondo. (*)

Membership receivable to associates belongs to pending receivable documents for the years completed as of December 31, 2021 and 2020, to which correspond USD 6,000 and USD 22,000, respectively. (**)

According to Aquaafondo's Management, other trade accounts receivable as of December 31, 2021 and 2020 were subject to impairment, which caused reclassifications to recognize the obligations of associates in such dates.

6. Recoverable tax credit

As of December 31, 2021 and 2020, the balance of credits to recover belongs to the General Sales Tax equivalent to PEN 164,615 and PEN 134,960, respectively, which were generated because of the different activities related to projects and programs of Aquaafondo, which are compensated when future income is generated from the carry out of activities subject to taxation.

Within the Framework of the project "Adaptation of water resources management to climate change: development of management tools and sustainable financing mechanisms in three representative ecoregions of Peru".

Aquaafondo, at the date of the financial statements, as of December 31, 2021 and 2020, has requested the Peruvian International Cooperation Agency (APCI), issued the return certificate of General Sales Tax and IMP paid in the purchase of goods and services with the financing of foreign donations and International Technical Cooperation. The issuance of the certificate for PEN 3,370 and PEN 7,734, respectively was approved and this transfer in the National Superintendency of Customs and Tax Administration (SUNAT) was carried out.

7. Net computer equipment

The movement and balances ending as of December 31 has set forth as follows:

	Balance at 12.31.2020	Additions	Deductions	Balance at 12.31.2021
	PEN	PEN	PEN	PEN
<u>Cost:</u>				
Furniture	5,861	-	-	5,861
Computer equipment	19,660	28,029	-	47,689
Various equipment	-	3,389	-	3,389
	<u>25,521</u>	<u>31,418</u>	<u>-</u>	<u>56,939</u>
<u>(-) Accumulated depreciation:</u>				
Furniture	(815)	(586)	-	(1,401)
Computer equipment and others	(13,743)	(11,296)	-	(25,039)
	<u>(14,558)</u>	<u>(11,882)</u>	<u>-</u>	<u>(26,440)</u>
Net cost:	<u>10,963</u>			<u>30,499</u>

As of December 31, 2021 and 2020, based on the estimates made by the Aquafondo' Management on the results expected for next years, there are no signs that recoverable values of computer equipment to be less to its book values. Therefore, any impairment provision is not necessary to be established for these assets to the date of the balance sheet.

8. Trade accounts payable

Accounts payable originate mainly from services and goods received from suppliers related to Aquafondo's activities in regards to projects and programs executed, which help to contribute to water security of Lima and Callao and are mainly denominated in PEN, have current maturities, do not generate interests and no guarantees were granted for these obligations.

9. Other accounts payable

This item includes:

	As of December 31	
	2021	2020
	PEN	PEN
Taxes and contributions	9,982	9,471
Remuneration and social benefits payable	55,604	67,409
Various	-	4,152
Total	<u>65,586</u>	<u>81,032</u>

10. Institutional assets

10.1 Social contributions

Social contributions comprise of installments per year of the associates of Aquafondo that as of December 31, 2021 and 2020 have PEN 452,220 and PEN 440,545, respectively. During 2019, contributions from associates in cash for an amount of PEN 50,100 were made.

10.2 Endowment fund.

Endowment fund of Aquafondo corresponds to the transfer made on September 6, 2019, to the current account of Banco de Crédito del Perú, whose balance as of December 31, 2021 is PEN 1,396,120 (As of December 31, 2020, the amount was PEN 1,454,571 (capital: PEN 1,396,120, interest: PEN 58,450)); in reference to the Convention (Grant Agreement No. 5.1.11 SIDB 2014) entitled "Support to capitalization of Aquafondo in the framework of the project with global environmental facility (GEF) and Inter-American Development Bank (IDB)", pursuant to the notice issued on August 19, 2019 by The Nature Conservancy (TNC) organization to Americas Fund (FONDAM). (See note 4)

As of December 31, 2021 and 2020, such account balance has been temporarily registered in Aquafondo's equity because as of the date of the submission of the attached financial statements, they have not been approved in minutes by the governing bodies such as the General Assembly of Associates and the Board of Directors.

According to Aquafondo's Management, such endowment funds will ensure the stability in hard economic times or foresee extraordinary events and/or will serve as leverage and strengthening of Aquafondo's equity.

10.3 Cumulative surplus.

The assets of Aquafondo, in the event of dissolution and conclusion of the liquidation, if applicable and if there is a resulting net income, shall be transferred according to title VIII of its statute.

If the event that this is not possible, the respective Civil Division of the Superior Court will order its application for similar purposes in interest of the community, giving preference to the province where Aquafondo had its headquarter, in accordance with article 98 of the Civil Code.

11. Tax status

Aquafondo submitted the Annual Income Tax Return as of December 31, 2021 before the National Superintendency of Tax Administration (SUNAT), dated March 20, 2022.

(i) Aquafondo's Income Tax Regime.

Aquafondo is a third category income beneficiary. Therefore, all it requires is to be within the hypothesis of incidence of the tax regulation to be subject to tax, as per articles 14 and 28, subsections (e) and (f), respectively, of the Unique Ordered Text of the Income Tax Law (hereinafter referred to as ITL), approved

by Supreme Decree No. 179-2004-EF and its Regulation approved by Supreme Decree No. 122-94-EF and amendments.

By Administrative Resolution No. 0230050163688, dated November 15, 2016, Aquafondo was registered in the Income Tax Exempt Entities Registry thanks to the exemption of the tax established in the first subsection b) of article 19 of the ITL, modified by article 3 of Law No. 30404, published on December 30, 2015.

Dated February 25, 2020, by Administrative Resolution No. 0230050304055, Aquafondo renewed its qualification as a Donation Receiving Entity according to Ministerial Resolution No. 767-2008-EF/15, and supplemented by Superintendence Resolution No. 184-2012/SUNAT and procedure No. 39 of the Single Text of Administrative Procedure of the National Superintendency of Tax Administration-UTAP, approved by Supreme Decree No. 176-2013-EF. Such qualification is applicable for (3) years since February 25, 2020, protecting the capacity of control of the Tax Administration enshrined in article 62 of the Single Ordered Text of the Tax Code approved by Supreme Decree No. 133-2013-EF and amendments.

The capacity of control of the National Superintendency of Tax Administration (SUNAT), in accordance with the last paragraph of article 19 of the ITL provides that “the verification of non-compliance of some requirements for the exemption established in subsections a), b) and m) of this article will tax the incomes obtained by entities included in the aforementioned subsections, in the taxable year subject to control, resulting in application including, if applicable, the provision of the second paragraph of article 55 of the ITL. In the foregoing cases, the sanctions established in the Tax Code are applicable.”

(ii) Tax Regime of Aquafondo in the General Sales Tax:

The regulation established in the Single Ordered Text of the General Income Tax Law and Selective Consumption Tax (hereinafter referred to as IGV Law), to non-profit civil Associations is not to tax those transactions that are not business. In other words, those that results in third category income. In accordance with letter b) of article 2 of IGV Law, it establishes that the transfer of used goods made by individual or legal entities who do not carry out business activity constitutes a non-taxed concept, unless they are common in the performance of this type of operation, as established number 1 of article 4 of the Regulation of IGV Law.

12. Project administration and implementation costs

This item includes:

	As of December 31	
	2021	2020
	PEN	PEN
Staffing charges	563,033	588,218
Services provided by third parties	814,839	805,151
Tax expenses	76	622
Various management charges	1,027,398	63,728
Provisions for the year	11,882	5,501
Total	2,417,228	1,463,220

13. Contingencies

As of December 31, 2021 and 2020, no judgments from third parties exist against Aquafondo. In accordance with the Management and its Legal Advisors, there are no judgments or important claims pending to solve or any other contingency against Aquafondo in such date.

14. Events after the date of the financial statements

Through grant agreement 5.1.11 S IDB 2014-A dated March 9, 2022, Aquafondo and The Nature Conservancy (TNC), have entered into an agreement to formalize a grant of the amount, as well as related obligations and rights to financially support the capitalization of Aquafondo. This agreement is called "Instructions from the Contributor (TNC) for support to Aquafondo's Capitalization under the Project with the Global Environmental Facility (GEF) and the Inter-American Development Bank (IDB)".

As established in the agreement, the amount of the grant that Aquafondo has received is PEN 1,454,571 (Capital: PEN 1,396,120, interest: pen 58,451). This will be used to promote a new water culture, contributing to the solution of degradation problems in the basins of the Chillón, Rímac and Lurín rivers, especially their headwaters, through the development of projects financed with the granted resources and their yields, and thus protect and improve the availability and quality of water resources in the three basins. Aquafondo will exclusively use such grant to support or develop programs, activities and projects as described in the preceding paragraph. In this sense, Aquafondo must maintain the integrity of the capital (PEN 1'396,120), protecting it from variations caused by inflation or devaluation of the currency, without prejudice to the decrease that it may happen as a result of the risks inherent to the investment made, in order to generate the returns to be used.

The Board of Directors of Aquafondo may determine the investment policies governing the funds, including the decision to maintain investments in local or foreign currency, and with a reasonable level of risk tolerance that does not compromise the invested capital. The Nature Conservancy (TNC) and Inter-American Development Bank (IDB) may monitor and evaluate Aquafondo's activities, which may include visits by staff or agents, conferences with Aquafondo staff, and reviews of financial or other records related to activities that are financed with funds from this grant, in an effort to determine whether the activities carried out by Aquafondo meet the objectives of the grant.

Aquafondo's Management is not aware of any events other than the above that have occurred between January 1, 2020 and the date the financial statements were authorized for issue that would require recognition as adjustments to balances or additional disclosures.

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