

HENCORP (BARBADOS) SCC SRL

Financial Statements

December 31, 2016

HENCORP (BARBADOS) SCC SRL

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INDEPENDENT AUDITORS' REPORT

To the Member of Hencorp (Barbados) SCC SRL

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hencorp (Barbados) SCC SRL ("the Society"), which comprise the statement of financial position as at December 31, 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in Barbados, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



INDEPENDENT AUDITORS' REPORT (continued)

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

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

In preparing the financial statements, management is responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditors' responsibilities for the audit of the financial statements is located at the Institute of Chartered Accountants of Barbados' website at: <http://www.icab.bb/about-icab/auditing/>. This description forms part of our auditors' report.



INDEPENDENT AUDITORS' REPORT (continued)

Other Matter

This report is made solely to the Society's member, in accordance with Section 25 of the Societies with Restricted Liabilities Act of Barbados. Our audit work has been undertaken so that we might state to the Society's member those matters we are required to state to the member in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's member, for our audit work, for this report, or for the opinion we have formed.

A handwritten signature of the KPMG firm, written in dark ink. The letters 'KPMG' are written in a stylized, cursive-like font.

Chartered Accountants
Bridgetown, Barbados
August 31, 2017

HENCORP (BARBADOS) SCC SRL

Statement of Financial Position

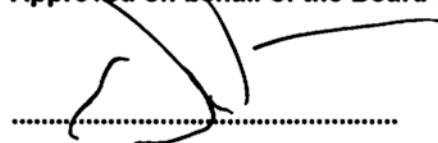
As at December 31, 2016

With figures for December 31, 2015

(Expressed in United States Dollars)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Assets			
Cash and cash equivalents		\$ 309,166	114,071
Investment	6	-	240,000
Accrued interest receivable from loans	7, 10	928,824	2,060,342
Loans receivable	7, 10	259,041,681	215,043,097
Loan receivable – other	6, 10	240,000	-
Prepaid expense		6,000	-
Miscellaneous receivable		<u>424</u>	<u>139</u>
Total Assets		\$ <u>260,526,095</u>	<u>217,457,649</u>
Liabilities and Member's Equity			
Liabilities			
Accrued interest payable on loans	8, 10	\$ 919,415	2,024,128
Loans payable	8, 10	<u>259,041,681</u>	<u>215,043,097</u>
Total Liabilities		<u>259,961,096</u>	<u>217,067,225</u>
Member's Equity			
Share capital	9	250,424	250,134
Retained earnings		<u>314,575</u>	<u>140,290</u>
Total Member's Equity		<u>564,999</u>	<u>390,424</u>
Total Liabilities and Member's Equity		\$ <u>260,526,095</u>	<u>217,457,649</u>

Approved on behalf of the Board of Managers:



Manager

Eduardo Alfaro

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

HENCORP (BARBADOS) SCC SRL

Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2016

With figures for the period from January 12, 2015 to December 31, 2015

(Expressed in United States Dollars)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Revenue			
Investment income	7, 10,11	\$ <u>16,984,672</u>	<u>9,122,250</u>
Total Revenue		<u>16,984,672</u>	<u>9,122,250</u>
Expenses			
Interest expense	8, 10	16,748,149	8,977,752
Bank charges		21,278	4,208
Professional fees		22,960	-
Consulting fees		<u>18,000</u>	<u>-</u>
Total Expenses		<u>16,810,387</u>	<u>8,981,960</u>
Income before income tax		174,285	140,290
Income tax	12	<u>-</u>	<u>-</u>
Net income being comprehensive income		\$ <u><u>174,285</u></u>	<u><u>140,290</u></u>

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

HENCORP (BARBADOS) SCC SRL

Statement of Changes in Member's Equity

For the year ended December 31, 2016

With figures for the period from January 12, 2015 to December 31, 2015

(Expressed in United States Dollars)

		<u>Share Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Issuance of quota during the period	\$	250,134	-	250,134
Total comprehensive income		<u>-</u>	<u>140,290</u>	<u>140,290</u>
Balance at December 31, 2015	\$	<u>250,134</u>	<u>140,290</u>	<u>390,424</u>
Balance at January 1, 2016	\$	250,134	140,290	390,424
Issuance of quota during the year		290	-	290
Total comprehensive income		<u>-</u>	<u>174,285</u>	<u>174,285</u>
Balance at December 31, 2016	\$	<u>250,424</u>	<u>314,575</u>	<u>564,999</u>

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

HENCORP (BARBADOS) SCC SRL

Statement of Cash Flows

For the year ended December 31, 2016

With figures for the period from January 12, 2015 to December 31, 2015

(Expressed in United States Dollars)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities			
Net income	\$	174,285	140,290
Adjustments to reconcile net income to net cash provided by operating activities:			
Interest income		(16,976,808)	(9,111,351)
Interest expense		16,748,149	8,977,752
Increase in prepaid expense		(6,000)	-
Increase in loan receivable - other		(240,000)	-
Increase in miscellaneous receivable		<u>(285)</u>	<u>(139)</u>
Net cash flows (used in) from operating activities		<u>(300,659)</u>	<u>6,552</u>
Cash Flows used in Investing Activities			
Increase in loans receivable		(43,998,584)	(215,043,097)
Interest received		18,108,326	7,051,009
Disposal (purchase) of investments		<u>240,000</u>	<u>(240,000)</u>
Net cash flows used in investing activities		<u>(25,650,258)</u>	<u>(208,232,088)</u>
Cash Flows from Financing Activities			
Proceeds from issuance of quota		290	250,134
Proceeds from loans payable		43,998,584	215,043,097
Interest paid		<u>(17,852,862)</u>	<u>(6,953,624)</u>
Net cash flows from financing activities		<u>26,146,012</u>	<u>208,339,607</u>
Net increase in cash and cash equivalents		195,095	114,071
Cash and cash equivalents, beginning of the year		<u>114,071</u>	<u>-</u>
Cash and cash equivalents, end of the year	\$	<u><u>309,166</u></u>	<u><u>114,071</u></u>

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

HENCORP (BARBADOS) SCC SRL

Notes to Financial Statements

December 31, 2016

(Expressed in United States Dollars)

1. Reporting Entity

Hencorp (Barbados) SCC SRL (the "Society") is licensed to operate as a domestic society engaging in holding, managing and financing of investments with non-residents under the Societies with Restricted Liabilities Act 1995. The Society is a wholly owned subsidiary of Hencorp Panama Sociedad de Responsabilidad Limitada ("Hencorp Panama"), a limited liability company in Panama. The ultimate beneficiaries of the Society are the shareholders of Hencorp, Inc. and FHH, Corp., both corporations in the United States of America. Subsequent to year end, the shares owned by Hencorp, Inc. were transferred to Luvi Corporation, S. De R.L, a limited liability company in Panama.

The Society is authorized to create segregated cells for the purpose of segregating the assets related to the holders of each segregated cell in each cell from the holder of the common quotas and the other cells, and from the general and non-cellular assets of the Society. As at December 31, 2016, 424 (2015: 134) segregated cells have been created.

Currently, the Society is engaged in the provision of services related to managing and financing of investments in structured loans to related parties, which in turn, lend to corporations mainly in Latin America.

Its principal place of business is in St. Michael, Barbados.

2. Basis of Preparation

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These annual financial statements were authorized for issue by the Society's Board of Managers on August 31, 2017.

Basis of Measurement

The financial statements have been prepared on a historical cost basis and presented in United States dollars, which is the Society's functional currency.

The financial statements represent the combined activity of the core and segregated cells.

Use of Estimates

The preparation of the financial statements requires management to use estimates and assumptions that affect the carrying amounts of assets and liabilities, comprehensive income and related disclosures. If actual results differ from the estimates the impact would be recorded in future periods.

HENCORP (BARBADOS) SCC SRL

Notes to Financial Statements

December 31, 2016

(Expressed in United States Dollars)

2. Basis of Preparation (continued)

Use of Estimates (continued)

The Society has established detailed policies and control procedures that are intended to ensure these judgments are well controlled, independently reviewed and consistently applied from period to period. Management believes that the estimates of the value of the Society's assets and liabilities are appropriate.

Translation of Foreign Currencies

Foreign currency amounts are translated into United States dollars as follows:

Monetary assets and liabilities as well as non-monetary assets and liabilities measured at fair value that are denominated in foreign currencies are translated into United States dollars at the exchange rate in effect at the reporting date. Non-monetary assets and liabilities are translated into United States dollars using historical rates. Revenues and expenses denominated in foreign currencies are translated using the average exchange rate for the period. Resulting exchange gains and losses are recorded in the Statement of Profit or Loss and Other Comprehensive Income.

3. Significant Accounting Policies

The Society applied the following accounting policies in these financial statements.

a) Cash and Cash Equivalents

Cash and cash equivalents include liquid instruments with a purchased maturity of three months or less.

b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market and that the Society does not intend to sell immediately or in the near term.

Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

c) Investment Income

Investment income comprises dividend income and interest from loans.

(i) Dividend Income

Dividend income is recognized when the right to receive payment is established.

HENCORP (BARBADOS) SCC SRL

Notes to Financial Statements

December 31, 2016

(Expressed in United States Dollars)

3. Significant Accounting Policies (continued)

c) Investment Income (continued)

(ii) Interest Income

Interest income is recognized in Statement of Profit or Loss and Other Comprehensive Income using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective interest rate, the Society estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transactions costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial instrument.

d) Financial Liabilities

Financial liabilities are measured at amortized cost. Financial liabilities are comprised of loans payable and accrued interest expenses.

Interest on loans payable is recognized using the effective interest method.

e) Investment

Investment in shares of an entity under common control is stated at cost less provision for any impairment loss.

f) Impairment

The Society assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

HENCORP (BARBADOS) SCC SRL

Notes to Financial Statements

December 31, 2016

(Expressed in United States Dollars)

3. Significant Accounting Policies (continued)

f) Impairment (continued)

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the Statement of Profit or Loss and Other Comprehensive Income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Society may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the Statement of Profit or Loss and Other Comprehensive Income.

g) Income Tax

The Society reports its provision for corporate income taxes in its Statement of Profit or Loss and Other Comprehensive Income based upon transactions recorded in its financial statements regardless of when they are recognised for income tax purposes.

The net deferred income tax liabilities or assets, is the cumulative amount of tax applicable to temporary differences between the accounting and tax values of the Society's assets and liabilities. Deferred income tax assets and liabilities are measured at the tax rates expected to apply when these differences reverse. Changes in deferred income tax assets and liabilities related to a change in tax rates are recorded in income in the period the tax rate change becomes substantively enacted.

The Society's profits are subject to income tax at decreasing rates of 2.5% to 0.25% depending on the level of such profits.

h) Related Parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

HENCORP (BARBADOS) SCC SRL

Notes to Financial Statements

December 31, 2016

(Expressed in United States Dollars)

3. Significant Accounting Policies (continued)

i) Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Society has access at that date. The fair value of a liability reflects its non-performance risk.

The Society uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates, credit risks, etc.) and inputs that are derived from or corroborated by observable market data.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

Non-market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Valuation techniques are used to the extent that observable inputs are not available. These inputs are developed based on the best information available, which might include the investment manager's own data.

HENCORP (BARBADOS) SCC SRL

Notes to Financial Statements

December 31, 2016

(Expressed in United States Dollars)

3. Significant Accounting Policies (continued)

j) New and Revised Standards and Interpretations

Revenue

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15") which replaces the existing standards for revenue recognition. The new standard establishes a framework for the recognition and measurement of revenues generated from contracts with customers, except for items such as financial instruments, insurance contracts and leases. The new standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenues and cash flows arising from transactions with customers. The IASB deferred the effective date of IFRS 15 to the Society's fiscal year beginning January 1, 2018. The Society does not expect that the adoption of this new standard will have a significant impact on the financial statements.

Financial Instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments ("IFRS 9") which addresses classification and measurement, impairment and hedge accounting.

The new standard requires assets to be classified based on the Society's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial assets will be measured at amortised cost, fair value through profit and loss or fair value through other comprehensive income. The classification and measurement of liabilities remains generally unchanged with the exception of liabilities recorded at fair value through profit and loss. For these liabilities, fair value changes attributable to changes in the Society's credit risk are generally presented in other comprehensive income.

IFRS 9 introduces a new single impairment model for financial assets. The new model based on expected credit losses and will result in credit losses being recognized regardless of whether a loss event has occurred. The expected credit loss model will apply to most financial instruments not measured at fair value.

IFRS 9 also introduces a new hedge accounting model that expands the scope of eligible hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge de-designation.

The Society participates in an enterprise-wide executive steering committee to oversee the adoption of IFRS 9. The project is on track and the Society is currently evaluating the impact of the adoption which is effective January 1, 2018.

HENCORP (BARBADOS) SCC SRL

Notes to Financial Statements

December 31, 2016

(Expressed in United States Dollars)

4. Risk Management Framework

The Society's governance framework outlines the parameters within which risk is managed to ensure compliance with relevant laws and regulations, to ensure that safe and sound business decisions are made, and to ensure that a framework is in place so that risk activities throughout the Society are understood, quantified, documented, monitored and mitigated.

The internal control system is designed and operated to provide reasonable assurance that information is reliable for decision making and reporting, that assets are safeguarded against unauthorized use or disposition, and applicable laws and regulations are complied with.

5. Financial Instruments Risk Management

(a) Credit Risk

Credit risk is the risk of financial loss resulting from the failure of debtors to make payments of interest and/or principal when due. The Society only lends to related parties which mitigate its credit risk.

The Society is exposed to credit-related losses in the event of non-payment on its loans with related party and related accrued interest receivable. The Society's maximum credit exposure is equivalent to the carrying value of the financial instruments on the Statement of Financial Position.

As at reporting date, the ageing of loans and receivables was as follows.

	<u>2016</u>	<u>2015</u>
Neither past due nor impaired	\$ <u>260,210,929</u>	<u>217,103,578</u>

(b) Interest Rate Risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. The Society actively controls its interest rate exposure by managing re-pricing risk between assets and liabilities.

The Society maintains a positive interest rate spread of .10% between interest rates earned on loans receivable and interest rates on loans payable. Therefore, any change in interest rates, either downward or upward, will not affect net income.

HENCORP (BARBADOS) SCC SRL

Notes to Financial Statements

December 31, 2016

(Expressed in United States Dollars)

5. Financial Instruments Risk Management (continued)

(c) Liquidity Risk

Liquidity risk is the risk that the Society will not have access to cash to meet its financial commitments as they fall due. The Society's policy is to ensure there are always funds available to honor all current and future cash flow commitments.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments.

December 31, 2016

December 31, 2010

		Contractual Cash Flows			
		Carrying Amount	Up to 1 year	1 year and over	Total
Liabilities					
Accrued interest payable	\$	919,415	919,415	-	919,415
Loans payable		<u>259,041,681</u>	<u>74,452,288</u>	<u>237,118,363</u>	<u>311,570,651</u>
	\$	<u>259,961,096</u>	<u>75,371,703</u>	<u>237,118,363</u>	<u>312,490,066</u>

December 31, 2015

December 31, 2010

		Contractual Cash Flows			
		Carrying Amount	Up to 1 year	1 year and over	Total
Liabilities					
Accrued interest payable	\$	2,024,128	2,024,128	-	2,024,128
Loans payable		<u>215,043,097</u>	<u>37,758,920</u>	<u>241,229,165</u>	<u>278,988,085</u>
	\$	<u>217,067,225</u>	<u>39,783,048</u>	<u>241,229,165</u>	<u>281,012,213</u>

HENCORP (BARBADOS) SCC SRL

Notes to Financial Statements

December 31, 2016

(Expressed in United States Dollars)

6. Investment

In 2015, the Society purchased 240 units, representing 1.6% interest in the non-voting Class A preference shares of Hencorp Loan Fund, S.A., a company registered in Panama. Hencorp Loan Fund, S.A. operates a fixed income generating Fund, which invests primarily in short term loans to Central American borrowers, and distributes its interest revenue as dividend to investors. As at December 31, 2015, the Society holds an investment with a carrying value of \$240,000. The total value of the Class A preference shares issued by Hencorp Loan Fund, S.A. as at that date was \$15,000,000.

In 2016, the Society sold its shares in Hencorp Loan Fund, S.A. to Hencorp Becstone Capital, L.C. ("Hencorp Becstone"), a related company. The proceeds were used by the Society to purchase a participation loan from Hencorp Becstone amounting to \$240,000.

HENCORP (BARBADOS) SCC SRL

Notes to Financial Statements

December 31, 2016

(Expressed in United States Dollars)

7. Loans Receivable

The Society issued various interest-bearing loans to Hencorp Europe, S.L.U. ("Hencorp Europe"), a company domiciled in Madrid, Spain. The loan principal balances will be repaid at maturity.

Loans receivable is comprised of:

	<u>2016</u>	<u>2015</u>
Various secured short-term loans (maturity less than one year) with interest due monthly	\$ 73,002,024	37,063,000
Various secured long-term loans (maturity greater than one year) with interest due monthly	123,039,657	114,980,097
Various secured long-term loans (maturity greater than one year) with interest due quarterly	<u>63,000,000</u>	<u>63,000,000</u>
	\$ <u>259,041,681</u>	<u>215,043,097</u>

Long-term loans, with maturities in excess of one year, have maturity dates through December 2026 (2015: August 2025).

The loans earn interest at rates ranging from 2.59% to 10.61% (2015: 2.59% to 10.61%) per annum. During the period, the Society earned interest of \$16,969,728 (2015: \$9,111,351) from the loans issued to Hencorp Europe. Interest receivable from these loans as at December 31, 2016 was \$928,824 (2015: \$2,060,342).

Hencorp Europe lent the loans to external borrowers. Loans held at year end, consisted of loans receivable from external borrowers located in the following countries:

	<u>2016</u>	<u>2015</u>
Colombia	\$ 1,500,000	-
Ecuador	11,000,000	30,000,000
Costa Rica	<u>246,541,681</u>	<u>185,043,097</u>
	\$ <u>259,041,681</u>	<u>215,043,097</u>

In order to ensure the repayment of the loan principal and interest to the Society, the parties entered into Pledge Agreements, whereby Hencorp Europe pledged as collateral for the loans, the various promissory notes it received from its external borrowers. The loan collateral consists of the principal and interest receivable from the external borrowers.

No provision for impairment has been made to any of the loans as at December 31, 2016 and 2015.

HENCORP (BARBADOS) SCC SRL

Notes to Financial Statements

December 31, 2016

(Expressed in United States Dollars)

8. Loans Payable

The Society obtained various loans from its parent company, Hencorp Panama. Each loan was assigned to a segregated cell and secured by the assets of the segregated cell.

Loans payable as at December 31, 2016 consisted of the following:

	<u>2016</u>	<u>2015</u>
Various secured short-term loans (maturity less than one year) with interest due monthly	\$ 73,002,024	37,063,000
Various secured long-term loans (maturity greater than one year) with interest due monthly	123,039,657	114,980,097
Various secured long-term loans (maturity greater than one year) with interest due quarterly	<u>63,000,000</u>	<u>63,000,000</u>
	\$ <u>259,041,681</u>	<u>215,043,097</u>

Long-term loans, with maturities in excess of one year, have maturity dates through December 2026 (2015: August 2025).

The loans bear interest ranging from 2.49% to 10.51% (2015: 2.49% to 10.51%) per annum. During the period, the Society incurred interest expense amounting to \$16,748,149 (2015:\$8,977,752) from the loans. Interest payable from the loans as at December 31, 2016 was \$919,415 (2015: \$2,024,128).

HENCORP (BARBADOS) SCC SRL

Notes to Financial Statements

December 31, 2016

(Expressed in United States Dollars)

9. Share Capital

Authorized:

The Society is authorized to issue an unlimited number of quotas of one class designated as common quotas and an unlimited number of quotas of a class designated as Class A preference cell quotas, issuable in series. The unlimited Class A preference cell quotas may be issued in respect of each segregated cell created by the issuance of cell quotas.

Issued and fully paid:

		<u>2016</u>	<u>2015</u>
Common Quotas – 100 quotas (2015: 100 quotas)	\$	250,000	250,000
Class A Preference Cell Quotas – 424 quotas (2015: 134 quotas)		<u>424</u>	<u>134</u>
	\$	<u>250,424</u>	<u>250,134</u>

During the period, the segregated cells of the Society issued 290 (2015: 134) Class A Preference Cell Quotas at \$1.00 per quota.

The common quotas and cell quotas were issued to Hencorp Panama. The parent company is entitled to receive dividends as declared from time to time.

10. Related Party Transactions

The following transactions and balances with related parties are included in these financial statements.

		<u>2016</u>	<u>2015</u>
Loans receivable (note 7)	\$	259,041,681	215,043,097
Accrued interest receivable (note 7)		928,824	2,060,342
Interest income on loan receivables (note 7)		16,969,728	9,111,351
Participation loan receivable from Hencorp Becstone (note 6)		240,000	-
Interest income on participation loan to Hencorp Becstone (note 11)		7,080	-
Loans payable (note 8)		259,041,681	215,043,097
Accrued interest expense (note 8)		919,415	2,024,128
Interest expense on loans payable (note 8)		16,748,149	8,977,752
Dividend income (note 11)		7,864	10,899

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11. Investment Income

Investment income is comprised of:

	<u>2016</u>	<u>2015</u>
Interest income on loans to Hencorp Europe	\$ 16,969,728	9,111,351
Interest income on participation loan to Hencorp Becstone	7,080	-
Dividend income	<u>7,864</u>	<u>10,899</u>
	\$ <u>16,984,672</u>	<u>9,122,250</u>

12. Taxation

The tax charge comprises:

	<u>2016</u>	<u>2015</u>
Current taxation	\$ <u>-</u>	<u>-</u>

The following is a reconciliation of income taxes calculated at the applicable tax rate with tax expense:

	<u>2016</u>	<u>2015</u>
Income before taxation	\$ <u>174,285</u>	<u>140,290</u>
Tax calculated at 2.5%	4,357	3,507
Effect of utilization of tax losses	(32,645)	-
Deferred taxes not recognized	<u>28,288</u>	<u>(3,507)</u>
Tax charge	\$ <u>-</u>	<u>-</u>

As at December 31, 2016, the Society did not recognize deferred tax liability in respect of the following deductible temporary difference:

	<u>2016</u>	<u>2015</u>
Interest receivable	\$ <u>(928,824)</u>	<u>(2,060,342)</u>
Deferred tax liability not recognized	\$ <u>(23,221)</u>	<u>(51,509)</u>

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12. Taxation (continued)

The Society has unutilized tax loss of \$614,250 (2015: \$1,920,052) available to be carried forward and applied against future taxable income. The tax losses and expiry dates are as follows:

<u>Income Year</u>	<u>Opening Balance</u>	<u>Utilized Losses</u>	<u>Incurred Losses</u>	<u>Ending Balance</u>	<u>Expiry Date</u>
2015 \$	-	-	1,920,052	1,920,052	2022
2016 \$	1,920,052	(1,305,802)	-	614,250	2022

The potential tax benefit of these losses is \$15,357 (2015: \$48,002) at the current rate of tax. The deferred tax asset associated with these tax losses has not been booked in the financial statements since it is uncertain that there will be sufficient taxable income against which the losses can be utilized.

The tax losses have not yet been agreed with the Commissioner of the Barbados Revenue Authority but are not in dispute.