

FRONTERA GENERATION HOLDINGS LLC AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2020

Unaudited

FRONTERA GENERATION HOLDINGS LLC AND SUBSIDIARIES
(A Delaware Limited Liability Company)
Consolidated Balance Sheets
(In thousands)

Assets	September 30, 2020	December 31, 2019
Cash	\$ 12,197	\$ 11,753
Restricted cash	9,076	10,765
Accounts receivable – trade	5,275	7,839
Other receivables	1,647	2,448
Deposits	692	1,227
Fuel inventory	327	356
Prepaid expenses and other current assets	2,572	11,102
Total current assets	31,786	45,490
Property, plant, and equipment, net	220,887	224,964
Spare parts inventory	7,655	22,475
Intangible assets, net	106,142	118,879
Other noncurrent asset	15,339	8,036
Total assets	\$ 381,809	\$ 419,844
Liabilities and Member's Equity		
Current portion of long-term debt	\$ 755,497	\$ 1,935
Accounts payable and other accrued liabilities	14,690	8,471
Accrued interest and fees	8,199	2,029
Derivative instruments, interest rate swaps short term	7,740	—
Total current liabilities	786,126	12,435
Long-term debt	—	739,498
Deferred income taxes	3,897	4,642
Derivative instruments, interest rate swaps long term	5,391	11,227
Other noncurrent liabilities	21,302	126
Total liabilities	816,716	767,928
Member's equity	(434,907)	(348,084)
Total liabilities and member's equity	\$ 381,809	\$ 419,844

FRONTERA GENERATION HOLDINGS LLC AND SUBSIDIARIES

(A Delaware Limited Liability Company)

Consolidated Statements of Operations and Comprehensive (Loss) Income

(In thousands)

	<u>Three Months Ended</u> <u>September 30, 2020</u>	<u>Three Months Ended</u> <u>September 30, 2019</u>	<u>Nine Months Ended</u> <u>September 30, 2020</u>	<u>Nine Months Ended</u> <u>September 30, 2019</u>
Operating revenue	\$ 27,601	\$ 69,165	\$ 64,758	\$ 165,542
Operating expenses	21,716	37,158	83,275	94,809
General and administration expenses	3,110	1,489	5,824	3,164
Depreciation and amortization	<u>7,241</u>	<u>7,036</u>	<u>21,736</u>	<u>21,022</u>
Total operating expenses	<u>32,067</u>	<u>45,683</u>	<u>110,835</u>	<u>118,995</u>
Operating (loss) income	(4,466)	23,482	(46,077)	46,547
Interest expense, net	11,931	15,283	43,255	52,644
Other (expense) income	<u>2</u>	<u>—</u>	<u>3</u>	<u>3</u>
(Loss) Income before income taxes	(16,395)	8,199	(89,329)	(6,094)
Income tax expense	<u>9</u>	<u>—</u>	<u>19</u>	<u>1</u>
Net (loss) income	(16,404)	8,199	(89,348)	(6,095)
Unrealized gain (loss) on foreign currency translation	<u>566</u>	<u>(743)</u>	<u>(475)</u>	<u>(1,424)</u>
Comprehensive (loss) income	\$ <u><u>(15,838)</u></u>	\$ <u><u>7,456</u></u>	\$ <u><u>(89,823)</u></u>	\$ <u><u>(7,518)</u></u>

FRONTERA GENERATION HOLDINGS LLC AND SUBSIDIARIES

(A Delaware Limited Liability Company)
Consolidated Statements of Changes in Member's Equity
(In thousands)

	Member's equity	Retained earnings	Accumulated other comprehensive loss	Member's equity
Balance, December 31, 2019	\$ (463,822)	\$ 118,638	\$ (2,900)	\$ (348,084)
Net loss	—	(52,231)	—	(52,231)
Comprehensive loss:				
Unrealized loss on foreign currency translation	—	—	(1,044)	(1,044)
Total comprehensive loss				(53,275)
Balance, March 31, 2020	<u>(463,822)</u>	<u>66,407</u>	<u>(3,944)</u>	<u>(401,359)</u>
Net loss	—	(20,713)	—	(20,713)
Comprehensive loss:				
Unrealized income on foreign currency translation	—	—	3	3
Total comprehensive loss				(20,710)
Balance, June 30, 2020	<u>\$ (463,822)</u>	<u>\$ 45,694</u>	<u>\$ (3,941)</u>	<u>\$ (422,069)</u>
Capital injection	3,000	—	—	3,000
Net loss	—	(16,404)	—	(16,404)
Comprehensive loss:				
Unrealized income on foreign currency translation	—	—	566	566
Total comprehensive loss				\$ (15,838)
Balance, September 30, 2020	<u>\$ (460,822)</u>	<u>\$ 29,290</u>	<u>\$ (3,375)</u>	<u>\$ (434,907)</u>

FRONTERA GENERATION HOLDINGS LLC AND SUBSIDIARIES

(A Delaware Limited Liability Company)

Consolidated Statements of Cash Flows

(In thousands)

	<u>Nine Months Ended September 30, 2020</u>	<u>Nine Months Ended September 30, 2019</u>
Operating activities:		
Net loss	\$ (89,348)	(6,095)
Adjustments to reconcile net loss to cash provided by:		
operating activities:		
Depreciation	8,999	8,285
Amortization of goodwill and other intangible assets	12,737	12,737
Amortization of debt discount	429	429
Amortization of deferred financing costs	2,387	2,387
Net fair value changes related to derivatives	1,904	8,806
Cumulative translation adjustment	(475)	(1,425)
Deferred income taxes	(745)	(402)
Changes in operating assets and liabilities:		
Accounts receivable – trade	2,564	(5,593)
Accounts receivable – other	801	1,372
Deposits & cash collateralized letters of credit	535	485
Fuel inventory	29	261
Prepaid expenses and other current assets	6,763	(3,123)
Spare parts inventory	10,412	(42)
Other noncurrent asset	(1,610)	—
Accounts payable and other accrued liabilities	2,141	3,008
Accrued interest and fees	6,170	—
Payable to Lonestar Generation LLC	21,176	—
Net cash (used in) provided by operating activities	<u>(15,131)</u>	<u>21,092</u>
Investing activities:		
Capital expenditures	<u>(362)</u>	<u>(2,342)</u>
Net cash used in investing activities	<u>(362)</u>	<u>(2,342)</u>
Financing activities:		
Contribution from member	3,000	—
Payments of long-term debt	(3,752)	(9,814)
Net proceeds from revolving credit facility	15,000	—
Net cash provided by (used in) financing activities	<u>14,248</u>	<u>(9,814)</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	(1,245)	8,936
Cash, cash equivalents and restricted cash, beginning of year	22,518	22,153
Cash, cash equivalents and restricted cash, end of period	\$ <u>21,273</u>	<u>31,089</u>
Supplemental cash flow disclosures:		
Cash paid for interest and fees	\$ 30,892	40,533

FRONTERA GENERATION HOLDINGS LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2020

(1) Basis of Presentation

The COVID-19 pandemic has developed rapidly in 2020. The resulting impact of the virus on electricity demand in Mexico, and therefore power prices, has negatively affected the reporting period results of Frontera Generation Holdings LLC (“FGH”) and Subsidiaries (the “Group”). The impact of the virus contributed to a 63% decline in energy revenues for the first nine months of 2020 compared with the first nine months of 2019.

These developments resulted in an operating loss of \$46.1 million and an operating cash outflow of \$15.1 million for the nine months ending September 30, 2020. The Group’s revolving credit facility is fully drawn as of September 30, 2020, inclusive of letters of credit posted.

In response to these matters, the Group has implemented cost savings initiatives and entered into a Forbearance Agreement (the “Forbearance Agreement”) with certain FGH Lenders (the “FGH Lenders”) for non-payment of interest on the FGH Term Loan on October 20, 2020. The Group is working closely with the FGH Lenders and other advisors on a long-term plan for the business in an effort to keep the business operating as a going concern. However, there is significant doubt upon the Group’s ability to continue as a going concern and, therefore, whether the Group will realize assets and settle liabilities in the ordinary course of business at the amounts recorded in the financial statements.

Although it is not certain that these efforts will be successful, management is taking steps to mitigate the uncertainty and has therefore prepared the financial reporting on a going concern basis.

(2) Subsequent Events

On October 20, 2020, Frontera Generation Holdings LLC entered into the Forbearance Agreement with the FGH Lenders under the Credit Agreement, dated May 2, 2018. The Forbearance Agreement states that FGH Lenders will not exercise rights and remedies through November 26, 2020 as a result of the Event of Default for non-payment of interest on October 20, 2020 or certain other Event of Defaults that may occur prior to November 26, 2020.