

Free Translation

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group,
S.A.)

Financial Statements

For March 31, 2011 and December 31, 2010

Elektra Noreste, S.A.
(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Financial Statements March 31, 2011 and December 31, 2010

| Table of Contents | Page |
|---------------------------------|-------------|
| Management Report | 1 |
| Financial Statements: | |
| Balance Sheets | 2 |
| Statements of Income | 3 |
| Statements of changes in equity | 4 |
| Statements of cash flows | 5 - 6 |
| Notes to financial statements | 7 - 22 |

Elektra Noreste, S.A.



Management Responsibility for the Financial Reporting

The management of Elektra Noreste, S.A. is responsible for the information and representations in the Company's financial statements. The Company prepares the financial statements in accordance with accounting principles generally accepted in the United States of America, based upon available facts and circumstances and management best estimates and judgments of known conditions.

The Company maintains an accounting system and related system of internal controls designed to provide reasonable assurance to Elektra's management regarding the preparation of reliable financial statements and that the financial records are accurate and Company's assets are protected. The Company's staff of internal auditors conducts periodic reviews to maintain effectiveness of internal control procedures, corrective actions are taken to address control deficiencies and other opportunities for improving the system as they are identified.

Based on our knowledge, the financial statements as of March 31, 2011 fairly present in all material respects the financial condition, results of operations and cash flows for the Company as of, and for the periods presented.

Javier Pariente
Executive Vice President &
General Manager

Eric Morales
Chief Financial Officer
C.P.A. #1769

May 30, 2011
Panama, Republic of Panama

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Balance Sheets (unaudited)

March 31, 2011 and December 31, 2010

(Expressed in United States dollar)

| Assets | Notes | 2011 | 2010 | Liabilities and shareholders' equity | Notes | 2011 | 2010 |
|------------------------------------|--------------|----------------|----------------|---|--------------|----------------|----------------|
| Current assets: | | | | Current liabilities | | | |
| Cash | | \$ 3,389,014 | \$ 21,984,499 | Accounts payable: | | | |
| Accounts receivable: | | | | Generation and transmission | | \$ 62,692,550 | \$ 56,137,544 |
| Trade and other, net | 3 | 71,724,363 | 58,168,380 | Suppliers | | 9,175,893 | 11,049,741 |
| Fuel component adjustment | 2m, 6 | 7,690,351 | - | Construction contracts | | 8,954,323 | 8,500,845 |
| Accounts receivable, net | | 79,414,714 | 58,168,380 | Fuel component adjustment | 2m, 6 | - | 1,903,649 |
| Inventory | | 4,481,461 | 5,630,085 | Income tax payable | | - | 10,221,045 |
| Prepaid income tax | | 698,418 | - | Deferred income tax | 4 | 1,499,078 | - |
| Deferred income tax | 4 | - | 1,586,742 | Customer deposits | | 938,958 | 825,323 |
| Other current assets | | 763,154 | 522,034 | Withholdings taxes | | 222,302 | 334,172 |
| Total current assets | | 88,746,761 | 87,891,740 | Total accounts payable | | 83,483,104 | 88,972,319 |
| Property, plant and equipment, net | | 259,335,340 | 258,026,592 | Short-term debt | 5 | 3,500,000 | - |
| Other assets: | | | | Interests payable on debt | | 1,750,833 | 3,653,246 |
| Debt issuance costs | | 2,403,037 | 2,443,999 | Accrued expenses | | 1,338,095 | 1,789,901 |
| Severance fund | | 1,609,763 | 1,525,092 | Total current liabilities | | 90,072,032 | 94,415,466 |
| Security deposit on facilities | | 99,520 | 104,820 | Long-term debt | 5 | 119,313,250 | 119,302,154 |
| Intangible, net | | 5,717,100 | 5,743,114 | Customer deposits and other liabilities: | | | |
| Tools and spare parts | | 715,910 | 739,608 | Deferred income tax | 4 | 2,507,145 | 2,755,575 |
| Total other assets | | 10,545,330 | 10,556,633 | Customer deposits | | 5,802,720 | 5,867,000 |
| Total assets | | \$ 358,627,431 | \$ 356,474,965 | Reserves for contingencies | 7 | 166,110 | 173,110 |
| | | | | Other accrued liabilities | | 2,320,987 | 2,360,903 |
| | | | | Total liabilities | | 220,182,244 | 224,874,208 |
| | | | | Shareholders' equity: | | | |
| | | | | Common stock authorized, issued and outstanding: 50,000,000 | | | |
| | | | | shares without par value; 160,031 held in treasury | | 106,098,875 | 106,098,875 |
| | | | | Retained earnings | | 32,346,312 | 25,501,882 |
| | | | | Total stockholders' equity | | 138,445,187 | 131,600,757 |
| | | | | Total liabilities and stockholders' equity | | \$ 358,627,431 | \$ 356,474,965 |

See accompanying notes to financial statements.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Income Statement (unaudited)

For the three months ended on March 31, 2011 and 2010

(Expressed in United States dollar)

| | Notes | Quarter ended on March 31 | |
|---|-------|--------------------------------------|---------------------|
| | | 2011 | 2010 |
| Revenues: | | | |
| Energy sales | | \$ 103,519,045 | \$ 110,751,076 |
| Other revenues | | <u>2,457,515</u> | <u>2,024,050</u> |
| Total revenues | | <u>105,976,560</u> | <u>112,775,126</u> |
| Purchase of energy and transmission charges, net | 6 | <u>82,229,130</u> | <u>89,557,124</u> |
| Gross distribution margin | | <u>23,747,430</u> | <u>23,218,002</u> |
| Operating expenses | | | |
| Labor and other personnel | | 2,329,290 | 2,040,050 |
| Severance expenses | | 61,150 | 211,601 |
| Provision for doubtful accounts, net | | 244,329 | 190,423 |
| Repair and maintenance | | 614,818 | 598,406 |
| Professional services | | 3,271,428 | 3,083,363 |
| Depreciation and amortization | | 3,746,376 | 3,612,143 |
| Management fee | | - | 217,486 |
| Administrative and others | | 2,035,848 | 1,803,735 |
| (Gain) loss on disposal of fixed assets | | <u>(20,613)</u> | <u>4,872</u> |
| Total operating expenses | | <u>12,282,626</u> | <u>11,762,079</u> |
| Operating income | | <u>11,464,804</u> | <u>11,455,923</u> |
| Other income (expenses): | | | |
| Other income | | 42,639 | 92,964 |
| Interest income | | 260,753 | 196,048 |
| Interest expense | | <u>(2,089,879)</u> | <u>(2,279,569)</u> |
| Total other expenses | | <u>(1,786,487)</u> | <u>(1,990,557)</u> |
| Income before income taxes | | <u>9,678,317</u> | <u>9,465,366</u> |
| Income taxes: | 4 | | |
| Current | | (4,451) | 6,053,990 |
| Deferred expense (benefit) | | <u>2,837,389</u> | <u>(3,198,210)</u> |
| Total income taxes | | <u>2,832,938</u> | <u>2,855,780</u> |
| Net income | | <u>\$ 6,845,379</u> | <u>\$ 6,609,586</u> |

See accompanying notes to financial statements.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Statements of Changes in Equity (unaudited)**For the three months ended on March 31, 2011 and 2010**

(Expressed in United States dollar)

| | Common Stock | Treasury Stock | Retained Earnings | Total Equity |
|---------------------------------------|-------------------------|---------------------------|------------------------------|-------------------------|
| Balance as of January 1, 2010 | \$ 106,642,962 | \$ -544,087 | \$ 25,789,653 | \$ 131,888,528 |
| Net income | - | - | 6,609,586 | 6,609,586 |
| Dividends declared | - | - | (5,294,672) | (5,294,672) |
| Accredited complementary dividend tax | <u>-</u> | <u>-</u> | <u>202,243</u> | <u>202,243</u> |
| Balance as of March 31, 2010 | 106,642,962 | (544,087) | 27,306,810 | 133,405,685 |
| Balance as of December 31, 2010 | 106,642,962 | (544,087) | 25,501,882 | 131,600,757 |
| Net income | - | - | 6,845,379 | 6,845,379 |
| Complementary tax | <u>-</u> | <u>-</u> | <u>(949)</u> | <u>(949)</u> |
| Balance as of March 31, 2011 | <u>\$ 106,642,962</u> | <u>\$ -544,087</u> | <u>\$ 32,346,312</u> | <u>\$ 138,445,187</u> |

See accompanying notes to financial statements.

Elektra Noreste, S.A.

(51% property of Panama Distribution Group, S.A.)

Statement of Cash Flows (unaudited)**For the three months ended on March 31, 2011 and 2010**

(Expressed in United States dollar)

| | March 31, 2011 | March 31, 2010 |
|---|---------------------------|---------------------------|
| Cash flows for operating activities: | | |
| Net income | \$ 6,845,379 | \$ 6,609,586 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,746,376 | 3,612,143 |
| (Gain) loss on disposal of fixed asset | (20,613) | 4,872 |
| Provision for doubtful accounts, net | 244,329 | 190,423 |
| Discount amortization of senior notes | 11,096 | 10,289 |
| Amortization of debt issuance costs | 40,962 | 37,954 |
| Provision for severance payments net of contribution to severance fund | (35,919) | (57,041) |
| Deferred income tax | 2,837,390 | (3,198,209) |
| Fuel component adjustment | (9,594,000) | 10,927,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (13,800,312) | (18,089,164) |
| Inventory | 1,148,625 | (67,849) |
| Other assets | (233,156) | (182,439) |
| Trade accounts payable and other liabilities | 2,662,376 | (7,847,216) |
| Income tax | (10,919,463) | 6,053,991 |
| Seniority premium | <u>(19,109)</u> | <u>(17,769)</u> |
| Net cash used in operating activities | <u>(17,086,039)</u> | <u>(2,013,429)</u> |
| Cash flows from investing activities: | | |
| Capital expenditures | (5,088,897) | (4,839,549) |
| Proceeds of sale of fixed asset | <u>80,400</u> | <u>63,213</u> |
| Net cash used in investing activities | <u>(5,008,497)</u> | <u>(4,776,336)</u> |

(Continued)

Elektra Noreste, S.A.

(51% property of Panama Distribution Group, S.A.)

Statement of Cash Flows (unaudited)**For the three months ended on March 31, 2011 and 2010**

(Expressed in United States dollar)

| | March 31, 2011 | March 31, 2010 |
|--|---------------------------|---------------------------|
| Cash flows from financing activities: | | |
| Proceeds from short-term debt | 15,750,000 | 55,360,000 |
| Short-term debt repayment | (12,250,000) | (48,360,000) |
| Complementary dividend tax | (949) | 202,243 |
| Dividends paid | <u>-</u> | <u>(5,294,672)</u> |
| Net cash provided by financing activities | <u>3,499,051</u> | <u>1,907,571</u> |
| Cash and cash equivalents: | | |
| Net decrease in cash | (18,595,485) | (4,882,194) |
| Beginning of periods | <u>21,984,499</u> | <u>5,912,571</u> |
| End of period | <u>\$ 3,389,014</u> | <u>\$ 1,030,377</u> |
| Supplemental disclosure of cash flows information: | | |
| Interests, net of capitalizations | <u>\$ 3,945,620</u> | <u>\$ 4,078,639</u> |
| Income taxes | <u>\$ 10,915,012</u> | <u>\$ -</u> |

(Concluded)

See accompanying notes to financial statements.

Elektra Noreste, S.A.

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Notes to the Financial Statements

For the three months ended March 31, 2011 and 2010

1. Nature of Business and Basis of Presentation

Nature of the business

Elektra Noreste, S.A. (the “Company”) is a corporation formed as the result of the privatization of the Institute for Hydraulic Resources and Electricity (Instituto de Recursos Hidráulicos y Electrificación (“IRHE”) in Spanish). The Company was incorporated by means of Public Deed No.143, dated January 19, 1998 and began operations in January 1998. The authorized capital stock of the Company consists of fifty million common shares without par value. At present, Panama Distribution Group, S.A. (“PDG”) owns 51% of the authorized, issued and outstanding of common stock of the Company, while the State of Panama and former employees of IRHE own 48.25% and 0.43%, respectively. The remaining amount of shares is held as treasury stock.

The activities of the Company include the purchase of energy in blocks and its transportation through the distribution network to customers. The Company performs voltage transformation, delivers of the power to end consumers, and performs meter reading, billing and collections. The Company is also responsible for installing, operating and maintaining public lighting in the concession zone (as defined in the following paragraph), according to the lighting levels and criteria established by the Public Utilities Authority (Autoridad Nacional de los Servicios Públicos – (“ASEP”) in Spanish). Additionally, the Company is authorized to perform power generation activities up to a limit of 15% of the maximum demand and energy in the concession zone.

According to the concession contract described in Note 7, the Company has exclusivity for the distribution and commercialization of electric power to customers located in the geographical areas of: Panama East, Colon, Panama Bay, the Comarca of Kuna Yala and Darien. In regards to “large customers”, defined by Law 6, dated February 3, 1997, as customers with a maximum demand greater than 100 KW per site that have the option to purchase energy directly from other agents of the electric market, the Company has exclusivity for only the distribution of electricity.

Basis of Presentation

The financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America (“US GAAP”).

The financial statements have been prepared on the historical cost basis.

2. Significant Accounting Policies

A summary of the significant accounting policies used in the preparation of the accompanying financial statements, follows:

- a. *Cash and Cash Equivalents*** – All highly liquid investments with original maturities of three months or less are classified as cash equivalents.
- b. *Accounts Receivable*** - Accounts receivable are recorded in the invoiced amount and bear interests on past due amounts. The interest is recognized up until customer account is closed or terminated, which occurred approximately 60 days after service has been suspended.

It is the Company’s policy to review outstanding accounts receivable on a monthly basis and adjust the corresponding allowance for doubtful accounts.

Elektra Noreste, S.A.

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Notes to the Financial Statements

For the three months ended March 31, 2011 and 2010

The Company establishes a provision for losses if it is determined that amounts may not be collectible. The Company estimates the allowance based on the length of the time the receivables are past due, conditions affecting its customers, and historical experience. Account balances are written off all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

- c. Fuel Component Adjustment** – The regulated system under which the Company operates provides that any excess or deficiency between the estimated energy cost included in the tariff and the actual cost incurred by the Company be included as a compensation adjustment to be recovered from or refunded to customers in the next tariff charges semi annual adjustment. Any excess in energy cost charged to customers is accrued in the accounts payable on the balance sheet and leads to a reduction in the next tariff charges adjustment. Conversely, any deficit in energy cost charged to customers is accrued in the account receivable on the balance sheet and leads to an increase in the next tariff charges adjustments to be recovered from customers.
- d. Inventory** - Inventory consists primarily of materials and supplies for the Company's consumption. Tools and spare parts are considered part of the inventory but are classified as non-current assets. Inventory is accounted for at the lower of cost or market. Cost is determined using the average cost method.
- e. Property, Plant and Equipment** – Upon the Company's formation, the IRHE transferred a portion of its productive assets stated at historical cost net of the associated accumulated depreciation. New asset acquisitions and constructions in progress are recorded at their original cost which includes: material, contractor costs, construction overhead and financing costs. The Company reports property, plant and equipment in the balance sheet, net of accumulated depreciation.

Costs associated to improvements made to property, plant and equipment are capitalized as well as major disbursements for renewals. Costs associated with repairs and minor replacements are expensed as incurred. Major maintenance costs that do not extend the useful life by improving the conditions of the asset to the state it held when it was originally purchased are also expensed. The Company also capitalizes interests during construction in accordance with the Accounting Standards Codification (“ASC”) No. 835, “Interests”, issued by the Financial Accounting Standard Board (“FASB”).

Long-lived assets are reviewed for impairment whenever events or changes occur if circumstances indicate the carrying amount of an asset may not be recoverable through operations, in accordance with ASC 360, “Property, Plant and Equipment” (ASC 360-10-35) “Impairment or Disposal of Long-Lived Assets”. If the carrying amount of the asset exceeds the expected undiscounted future cash flows generated by the asset or group of assets, an impairment loss is recognized and the asset is written down to its fair value. Fair value can be determined by the use of quoted market prices, appraisals or other valuation techniques, such as expected discounted future cash flows. Management's judgment is involved in both deciding whether testing for recoverability is necessary and estimating undiscounted cash flow. As of March 31, 2011 and 2010, no impairments of long-lived assets were identified.

Elektra Noreste, S.A.

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Notes to the Financial Statements

For the three months ended March 31, 2011 and 2010

Gains or losses on property, plant and equipment are recognized when the asset are retired or otherwise disposed of. The difference between the net book value of the property and any proceeds received for the property is recorded as a gain or loss in the Statements of Income.

Depreciation and amortization are calculated under the straight-line method taking as the basis the estimated useful life of the assets. The estimated useful life applicable for each asset category is presented below:

| | Estimated Useful Life (in years) |
|-------------------------------------|---|
| Poles, towers and accessories | 30 |
| Electric transformers | 30 |
| Underground conductors and ducts | 30 |
| Overhead conductors and accessories | 25 |
| Substation equipment | 30 |
| Consumer meters | 20 to 30 |
| Buildings and improvements | 35 |
| Public lighting equipment | 25 |
| Transportation equipment | 8 |
| Communications equipment | 8 to 25 |
| Office furniture and equipment | 5 to 20 |

f. Debt Issuance Costs - The Company defers all costs related to the issuing of long-term debt. These costs include commission costs and other legal costs such as registration and stamp costs. Debt issuance costs are amortized over the term of the debt instrument using the effective interest method.

g. Purchased Energy and Transmission Charge – The Company records the annual cost of purchased energy obtained under long-term and short-term contracts in the Statements of Income. These contracts are considered executory in nature, since they do not convey to the Company the right to use the related property, plant or equipment. The Company also engages in short-term hourly purchases in the wholesale market, which is administered by the National Dispatch Center (Centro Nacional de Despacho (“CND”) in Spanish).

The Company also pays a regulated tariff to Empresa de Transmisión Eléctrica, S.A. (“ETESA”), a company wholly owned by the Panamanian State, a regulated rate for the connection and use of the transmission system. ETESA is responsible for expanding and improving the transmission system, to comply with the demand growth requirements and system stability. The current transmission rate is in force until June 30, 2013, the rate will afterwards be reviewed by ETESA and ASEP for the next four-year period.

h. Income Taxes - Income taxes are accounted for under the asset-liability method as prescribed by ASC 740, “Income Taxes”. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years where it is

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Notes to the Financial Statements

For the three months ended March 31, 2011 and 2010

expected that those temporary differences are recovered or settled. The effect on the deferred tax asset and liabilities resulting from a change in the tax rate is recognized in the Statement of Income in the period that includes the enactment date.

- i. ***Customer Deposits*** - The Company requires customers to provide cash deposits as guarantee of payment of energy consumed, in accordance with the regulation set forth by the ASEP. The ASEP has issued resolutions AN-411-Elec (November 16, 2006) amended by resolution AN-3473-Elec (May 7, 2010), which establish that, in those cases where the customer has a good payment history, that is to say that the customer has not been in arrears in the payments more than three times in a twelve-month period, the deposit must be returned.
- j. ***Contingencies*** - In the normal course of business, the Company is subject to regulatory actions, processes and claims related to environmental issues, taxes or other legal matters. The Company establishes accounting reserves for potential contingencies when these are considered likely and may be reasonably estimated. For more information, see Note 7.
- k. ***Seniority Premium and Seniority Fund*** - In accordance to the Panamanian Labor Code, upon termination of all undefined time contract, regardless the cause, the employee is entitled to a seniority premium at the rate of one week's salary for every year of work, from the beginning of the work relation. The seniority premium represents 1.92% of total salaries paid.

Law 44 of 1995 introduced reforms to the Panamanian Labor Code by requiring all employers to make a cash contribution to a severance fund that would cover the payment to employees of a seniority premium and severance for unjustified dismissal. The Company maintains a trust fund through an authorized entity, Progreso, S.A., which acts as trustee to secure the severance fund liability. This trust fund is reported in the Balance Sheets under "Severance fund".

- l. ***Related Parties*** - As a result of the restructuring of the electric power sector in Panama, three distribution companies, four generating companies and one transmission company were formed. The State of Panama retained approximately fifty one percent (51%) share in the hydraulic generating companies and forty nine percent (49%) in the thermoelectric generating companies and distribution companies and, one hundred percent (100%) of the transmission company. The State of Panama retained 48.25% of the Company's shares and former IRHE employees own 0.43%.

In the normal course of business, the Company purchases electricity from the generation and distribution companies, sells energy to governmental institutions and makes payments to the transmission company. The company recognizes these transactions as transactions made with related parties.

- m. ***Utility Regulation*** - The Company is subject to regulation by ASEP. This Entity is in charge of regulating and establishing the final rates the Company charges to its customers. The Company maintains its accounts in accordance with the Uniform System of Accounts established by ASEP for electric utilities companies.

The Company is subject to what is established in ASC 980 "Regulated Operations". Regulatory assets represent probable future revenues associated to certain costs that are expected to be recovered from the customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts expected to be credited to customers through the ratemaking process.

Elektra Noreste, S.A.

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Notes to the Financial Statements

For the three months ended March 31, 2011 and 2010

Regulated assets and liabilities presented in the Company's Balance Sheet on March 31, 2011 and December 31, 2010, are related to the following:

| | 2011 | 2010 | Note |
|---|----------------------------|------------------------------|--------------|
| Fuel component adjustment – asset (liability) | \$ 7,690,351 | \$ (1,903,649) | (See Note 6) |
| Deferred income tax (liability) asset | <u>(2,307,105)</u> | <u>571,095</u> | (See Note 4) |
| | <u>\$ 5,383,246</u> | <u>\$ (1,332,554)</u> | |

In the event that a part of the Company's operations does not have to continue applying the provisions of ASC 980, the Company would require writing off the regulated assets and liabilities that specifically will not be recovered through the rate. Additionally, the Company would require determining if there is any impairment of the other assets including property, plant and equipment, which, if there is any impairment, must be adjusted to their market value.

n. Revenues Recognition

Energy Sales

The Company recognizes revenues coming from energy sales, when the energy is delivered to and consumed by the customers. The Company bills customers based on the meters readings, which is carried out on a systematic basis throughout the month. The rate used to bill customers includes energy cost and distribution component. The energy cost component operates as a "pass-through" for the energy purchased and transmission charges; while the distribution component is set by ASEP to allow distribution companies to recover operating costs, maintenance costs, administration and commercialization, depreciation, standard energy loss and, likewise, to obtain a reasonable return for the investment made. The energy cost component is adjusted to reflect fluctuations in the cost of energy every month through the fuel clause and in a comprehensive manner every six months through the biannual rate adjustment; while the distribution components are adjusted based on the consumer price index.

The Company recognizes as revenue the yet unbilled sale of energy consumed by the customers. It is recorded as unbilled supplied power as part of the accounts receivable customers in the Balance Sheet, which is calculated based on the real daily average of energy sold to the Company customers.

Other revenues

The Company recognizes connection and reconnection charges, pole rental, wheeling charges when the service is provided. These charges are presented as other operating income in the Statement of Income.

o. Use of estimates – The preparation of the financial statements in accordance with the US GAAP requires management to make estimates and assumptions that affect the amounts reported under assets, liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements and the amounts reported as revenues and expenses during the reported period. Estimates and assumptions used are based on the assessment made by the administration of the relevant facts and circumstances. Actual results may differ from these estimates. The most relevant estimates include, but are not limited to, the estimated useful lives for depreciation and amortization, estimates for bad debts, future cash flow estimates associated with the impairment of assets, contingency losses, recovery or reimbursement of the fuel component adjustment and unbilled revenue.

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Notes to the Financial Statements

For the three months ended March 31, 2011 and 2010

- p. ***Intangibles*** – The Company's intangible assets consist in software licenses, which are recorded at historical cost. The Company amortizes its intangible assets using the straight-line method and with an estimated useful life of up to 15-years. Intangible assets are reviewed annually to determine if there is any adverse condition or if there has been any change of circumstances that requires a change in the remaining useful life.
- q. ***Concentration of Credit Risk*** – The Company is exclusively devoted to the distribution and commercialization of electric power to customers located in its concession zone. The Company does not believe there is a significant loss risk as a consequence of credit concentration, given that a large number of the portfolio customers are dispersed geographically. Also, the Company considers that its potential credit risk is adequately covered by the allowance for doubtful accounts.
- r. ***Environmental Matters*** - The Company is subject to a series of laws and regulations related to the environment, health and safety. In July 1998, the Panamanian Government enacted a Law creating an institution for the protection of the environment (Autoridad Nacional del Ambiente – (“ANAM”) in Spanish) and established new environmental protection rules that have an effect of the Company's operations. The failure by the Company to comply with the applicable environmental protection standards, laws and regulations may result in having to make additional investments, or may adversely affect the financial results.

Provisions for topics related to the environment are recorded when it is likely that there is an incurred obligation and the amount cannot be reasonably estimated based on the regulation in force.

Recorded provisions are periodically adjusted as the result of new appraisals and remediation efforts or as the result of the availability additional technical and legal information.

Environmental-protection costs are capitalized if the property's useful life is extended, increases its capacity and mitigates or prevents contamination that could be generated by future operations. Environmental pollution treatment and cleanup costs are charged to expenses.

- s. ***Application of Recent Accounting Pronouncements*** – The Company adopted or will adopt the recent accounting standards listed below, if applicable, according to their respective effective date.

In January 2010, FASB issued the Accounting Standards Update (“ASU”) No. 2010-06 - Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements”. This update requires disclosures on: (1) significant transfers in and out of Level 1 and Level 2 of the fair value hierarchy and (2) fair value measurement inputs and valuation techniques. Also, ASU 2010-06 requires disaggregated presentation, in the reconciliation, of the activity whose fair value measurement uses significant unobservable inputs (Level 3), starting on the first quarter of 2011. The adoption of this update has had no impact on the Company's Financial Statements.

In February 2010, FASB issued Accounting Standards Update (“ASU”) No. 2010-09 “Subsequent Events (Topic 855) – Amendments to Certain Recognition and Disclosure Requirements”. This update does not change in a significant manner accounting of subsequent events but it does eliminate the requirement for SEC filing Companies to disclose the date through which said events are evaluated and the basis for choosing that day. The adoption of this update has had no impact on the Company's Financial Statements.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to the Financial Statements For the three months ended March 31, 2011 and 2010

3. Accounts Receivable - Customers

Accounts receivable - customers on March 31, 2011 and December 31, 2010 are presented below:

| | March 31, 2011 | December 31, 2010 |
|-----------------------------------|---------------------------|------------------------------|
| Customers | \$ 45,374,577 | \$ 43,484,564 |
| Government and municipal entities | <u>8,964,398</u> | <u>7,662,017</u> |
| | 54,338,975 | 51,146,581 |
| Unbilled revenue | 8,154,905 | 7,802,620 |
| Government subsidy | <u>15,164,961</u> | <u>3,794,450</u> |
| Others | <u>2,790,004</u> | <u>3,833,619</u> |
| | 80,448,845 | 66,577,270 |
| Allowance for doubtful accounts | <u>(8,724,482)</u> | <u>(8,408,890)</u> |
| | \$ 71,724,363 | \$ 58,168,380 |
| Total | | |

At December 31, 2010, the Company charged off against allowance for doubtful accounts the amount of US\$1,761,816. As of March 31, 2011, the Company has not made any write off against the allowance for doubtful accounts. For the quarter ended on March 31, 2011 and 2010 the Company recovered from previous write-off balances the amount of US\$71,263 and US\$81,304, respectively.

4. Income tax

The provision for income tax is determined based on book income before income taxes, adjusted for non-taxable income and non-deductible expenses, if any. The statutory income tax rate is 30%. Deferred income tax is recognized by the effects of all temporary differences between the book and tax basis of assets and liabilities. A valuation reserve is recorded to reduce the value of deferred tax assets when it is more likely than not that tax benefits will not be totally realized.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to the Financial Statements **For the three months ended March 31, 2011 and 2010**

The difference between the provision for income tax for the periods ended on March 31, 2011 and 2010, and the tax calculated using the statutory enacted corporate tax rate of de 30% for income before income tax reported in the financial statements is attributable to the following:

| | March 31, 2011 | March 31, 2010 |
|---|---------------------------|---------------------------|
| Income tax: | | |
| Calculation at the statutory interest rate | \$ 2,903,495 | \$ 2,839,610 |
| Difference in the previous year's income tax | (4,451) | - |
| Decrease in income tax due to non-taxable income | (76,607) | (11,722) |
| Increase in income tax due to non-deductible expenses | <u>10,501</u> | <u>27,892</u> |
| Total income tax | <u>\$ 2,832,938</u> | <u>\$ 2,855,780</u> |

Deferred income tax assets and liabilities recognized on temporary differences that will be reversed in future periods, are as follows:

| | March 31, 2011 | December 31, 2010 |
|---|---------------------------|------------------------------|
| Current deferred income tax assets (liability): | | |
| Provision for doubtful accounts | \$ 570,811 | \$ 758,740 |
| Fuel component adjustment | - <u>237,216</u> | 571,095 <u>256,907</u> |
| Total deferred income tax assets | <u>808,027</u> | 1,586,742 |
| Current liability - Fuel component adjustment | <u>(2,307,105)</u> | - |
| Current deferred income tax (liability) assets, net | <u>\$ (1,499,078)</u> | <u>\$ 1,586,742</u> |

| | March 31, 2011 | December 31, 2010 |
|--|---------------------------|------------------------------|
| Non-current deferred income tax asset: | | |
| Provision for contingencies | \$ 49,833 | \$ 51,933 |
| Others | <u>232,855</u> | - |
| Total deferred income tax asset, non-current | <u>282,688</u> | 51,933 |
| Non-current deferred income tax liability | | |
| Severance fund | (167,579) | (151,070) |
| Depreciation expense | <u>(2,622,254)</u> | <u>(2,656,438)</u> |
| Non-current deferred income tax liabilities, net | <u>\$ (2,507,145)</u> | <u>\$ (2,755,575)</u> |

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to the Financial Statements

For the three months ended March 31, 2011 and 2010

According to the regulations, income tax returns of Companies in the Republic of Panama are subject to review by the tax authorities for the last three years. Years starting on 2008 are subject to examination by tax authorities although no tax examination is currently scheduled or in process. Years prior to 2008 are considered as closed periods.

Companies are also subject to review by tax authorities for compliance with stamp tax regulations.

According to the ASC 740, "Income Taxes", it is required that the Company recognizes the effects of tax positions on the Financial Statements if they meet the "more likely than not" constraint. When assessing the items related to this constraint, the Company must assess if each tax position can be maintained on the basis of only its technical merits in the event of an examination by the tax authority. The interpretation requires the Company to establish liabilities to reflect the portion of these positions that may not be determined as "more likely than not" if realized upon the last instance of final liquidation. The same are referred to as tax benefits liabilities not recognized under ASC 740. When adopting this interpretation, the Company identified and assessed uncertain tax positions and concluded that there are no uncertain tax positions that require being recognized in the Financial Statements. The administration expects that tax authorities will allow these positions if examined; and has a high level of confidence in the technical merits of these positions. Consequently, the administration expects that the total amount of the tax position be finally realized in the Financial Statements.

Tax credit for investments

During 2001, the Company recorded a tax credit for investment for the sum of US\$13,673,745, which was granted by the Panamanian State in accordance with an incentives law that promoted investments in infrastructures to expand the electric power distribution grid. The tax credit may be applied as a decrease of up to 25% on the income tax caused in the fiscal period, until 100% of the fiscal credit is consumed. The Company has been using this tax credit throughout the years and on December 31, 2008 the totality of the same was used up.

Due to the tax benefit received, the Company is not allowed to recognize as deductible the depreciation expense corresponding to the investment in infrastructure for the sum of US\$13,673,745, whose tax effect in the upcoming years is US\$4,102,123 (US\$13,673,745 x 30%).

5. Debt

Short-term debt

The Company has available revolving credit lines with The Bank of Nova Scotia, Banco General, S. A., HSBC Bank (Panama), S.A., Banco Panamá, S.A. and Banco Nacional de Panamá with an aggregated credit line as of March 31, 2011 and December 31, 2010 of US\$102,500,000, with annual interest rates ranging between one (1) to six (6) months LIBOR plus a margin between 2.00% to 3.75%. These unsecured credit facilities are available with a maximum term of up to one year. Floor rates margins between 3.00% and 3.85% exist for all the revolving agreements. The Company uses these credit facilities according to working capital needs or other needs. As of March 31, 2011, the Company maintains obligations for credit facilities with Banco General, S.A. for the sum of US\$3,500,000. As of December 31, de 2010 there were no balances owed.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to the Financial Statements

For the three months ended March 31, 2011 and 2010

Long-term debt

Long-term debts, as of March 31, 2011 and December 31, 2010, are detailed below:

| | March 2011 | December 2010 |
|-------------------------|-----------------------|--------------------------|
| Long-term Notes: | | |
| Senior Notes | \$ 100,000,000 | \$ 100,000,000 |
| Corporate Bonds | 20,000,000 | 20,000,000 |
| Less: | | |
| Senior notes discount | <u>(686,750)</u> | <u>(697,846)</u> |
| Total Long-term debt | <u>\$ 119,313,250</u> | <u>\$ 119,302,154</u> |

The Company has notes payable under a senior debt agreement (“Senior Notes”) for a total of US\$100,000,000 which is recorded at US\$99,313,250, net of US\$686,750 unamortized discounts as of March 31, 2011. The notes have a fixed interest of 7.6%, payable biannually, with maturity in 2021. Payment to capital is made upon maturity. The notes are not secured and are not subordinated. The Company may redeem the notes, partially or totally, at any time before their maturity as long as it meets certain conditions that include the payment of a premium. The obligations include debt coverage indicators and other provisions

On October 20, 2008, in a public offering, the Company submitted a US\$40,000,000 aggregated principal amount of unsecured and unsubordinated corporate bonds (“Bonds”) due October 20, 2018. On said date, US\$20,000,000 were subscribed and issued with Banco General, S.A., corresponding to said bonds. The Bonds have a “pari passu” order of priority with other Company unsecured and unsubordinated obligations. The Bonds will accrue a three-month LIBOR interest rate plus 2.375% annually, payable on a quarterly basis. Payment to capital is made on the maturity date. The product of the Bonds offering was used for current and future capital investments and for general corporate purposes. The Bonds are subject to additional terms and conditions subject to this transaction. Obligations include debt coverage indicators and other provisions. The Company may redeem the Bonds, partially or completely, on the third anniversary from the date of the offering.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to the Financial Statements

For the three months ended March 31, 2011 and 2010

6. Purchase of Energy and Transmission Charges, Net

The Company recorded purchase of energy and transmission charges as detailed below:

| | Three months ended March 31 | |
|--|--|-------------------|
| | 2011 | 2010 |
| Purchase of energy | \$ 89,386,613 | \$ 76,900,960 |
| Transmission charges | 2,436,517 | 1,729,164 |
| Fuel component adjustment | (9,594,000) | 10,927,000 |
| Total purchase of energy and transmission charges, net | \$ 82,229,130 | \$ 89,557,124 |

Fuel component adjustment

Changes derived from the increase and/or decrease on the recovery of these energy costs are reflected under energy purchased and transmission charges, net item in the Statement of Income. The accumulated amount receivable/payable is presented in the fuel component adjustment account in the balance sheet until this amount is billed or reimbursed to customers. The fuel component adjustment includes six months with the actual fuel price information, plus six months with estimated fuel price information.

For the last several years, the fuel component adjustment has not been fully passed through to distribution company customers in the form of a tariff increase. The amount not billed to customers has been subsidized by the State of Panama. As of March 31, 2011 and December 31, 2010, the account receivable for the subsidy was for US\$15,164,961 and US\$3,794,450, respectively, see Note 3.

At March 31, 2011, the Company shows in its Balance Sheet a net receivable balance of US\$7,690,351 (payable of US\$1,903,649 as of December 31, 2010) under the fuel component account as consequence of the accumulated variations resulting between the energy cost considered for the electric tariff for 2010 and the first three months of 2011 on the actual cost of energy purchased. The balance is comprised of payables of US\$3,795,000 corresponding to the variations resulting from January to June 2010 to be reimbursed to customers in what remains of the first half of 2011; receivables of US\$3,298,000 corresponding to the variations resulting from July to December 2010, which will be recovered from the customers in the second half of 2011; and receivable of US\$8,187,351 corresponding to the variations resulting from the January to March 2011 that will be partially recovered during 2011 and first semester 2012.

7. Commitments and Contingencies

As a result of issues arising in the ordinary course of business, the Company is or can be involved in tax and regulatory proceedings in several courts, regulatory commissions and government agencies. It is expected that the final outcome of these proceedings will not have an important effect in the Company's financial standing or operations results. As of March 31, 2011 and December 31, 2010, the Company has total reserves for loss contingencies the sum of US\$166,110 and US\$173,110 respectively, to cover possible losses that may happen due to third-party claims. The most representative cases are shown below:

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to the Financial Statements

For the three months ended March 31, 2011 and 2010

Litigations

The ASEP through Resolution JD-5863 of February 17, 2006, approved title IV of the distribution and commercialization regime from July 2006 to June 2010, which contains a provision in its article number 22, requiring that excess earnings considered above the reasonable margins of the company's "maximum allowed income" at the end of the July 2006 – June 2010 tariff period will cause an adjustment by reducing the approved maximum allowed income to be applied in the July 2010 – June 2014 period. However and even though the procedure to calculate and adjust an unreasonable excess has not yet been defined and established by ASEP, the Company's management position is that as of March 31, 2011 there are no contingency losses to be recorded in the Financial Statements as consequence of this resolution. This conclusion is based on: i) a final outcome of the appeal, still in process, against this article at the Supreme Court of Justice filed by another power distribution company; ii) in case the regulatory entity approves a resolution to adjust any unreasonable excess, the Company has the right to appeal to the Supreme Court of Justice, which is an independent body and is the last instance that will decide on this matter in particular; iii) there is no written nor approved procedure to calculate and adjust what could be considered by the regulator as an unreasonable excess, therefore, calculation would be highly subjective. In spite of the above, Resolution AN-3574-Elec dated June 25, 2010, whereby the "maximum allowed income" is approved for the July 2010-June 2014 tariff period, contains no adjustments related to the previous rate period (July 2006 to June 2010).

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to the Financial Statements

For the three months ended March 31, 2011 and 2010

Commitments

As of March 31, 2011, the Company had signed the required associated power contracts and the terms of long-term capacity purchases with the following generating Companies:

| <u>Company</u> | <u>MW</u> | <u>Beginning</u> | <u>End</u> |
|-------------------------------------|------------------|-------------------------|--------------------|
| AES Panamá - Estí | 49 | November 20, 2003 | November 19, 2013 |
| Inversiones y Desarrollo Balboa | 24.9 | August 4, 2008 | December 31, 2011 |
| Enel Fortuna | 80/120 | January 1, 2009 | December 31, 2018 |
| Térmica del Caribe | 2.85 | March 1, 2009 | June 30, 2014 |
| Generadora del Atlántico | 30 | June 1, 2009 | June 30, 2014 |
| Energía y Servicios de Panamá, S.A. | 0.96 | July 1, 2009 | June 30, 2014 |
| Enel Fortuna | 31.25; 39.87 | January 1, 2010 | December 31, 2011 |
| Pedregal Power Co. | 13; 12.66 | January 1, 2010 | December 31, 2011 |
| Autoridad del Canal de Panamá | 12 | January 1, 2010 | December 31, 2011 |
| Bahía Las Minas | 108 | January 1, 2010 | December 31, 2018 |
| Panam Generating | 20 | January 1, 2010 | December 31, 2019 |
| Sistema de Generación, S.A. | según demanda | July 1, 2010 | June 30, 2020 |
| Paso Ancho Hidro-Power | 4 | October 5, 2010 | October 4, 2018 |
| Autoridad del Canal de Panamá | 27 | January 1, 2011 | December 31, 2011 |
| Autoridad del Canal de Panamá | 16.2 | January 1, 2011 | December 31, 2011 |
| Térmica del Caribe | 22.5 | January 1, 2011 | December 31, 2018 |
| Panam Generating | 60 | January 1, 2011 | December 31, 2020 |
| AES Panamá | 39 | January 1, 2012 | December 31, 2012 |
| AES Panamá | 23 | January 1, 2013 | December 31, 2021 |
| Energía y Servicios de Panamá, S.A. | 1.49; 1.15; 9.31 | January 1, 2012 | Diciembre 31, 2014 |
| Enel Fortuna | 1.2; 0.92; 7.5 | January 1, 2012 | December 31, 2014 |
| Generadora del Atlántico | 0.5; 0.38; 3.12 | January 1, 2012 | December 31, 2014 |
| Autoridad del Canal de Panamá | 3.6; 2.77; 22.5 | January 1, 2012 | December 31, 2014 |
| Enel Fortuna | 120 | January 1, 2013 | December 31, 2018 |
| Enel Fortuna | 8.05 | January 1, 2013 | December 31, 2022 |
| AES Panamá | 9.43 | January 1, 2013 | December 31, 2022 |
| Hidro Caisan | 5.092 | January 1, 2013 | December 31, 2022 |
| Electron Investment | 10.35 | January 1, 2013 | December 31, 2022 |
| Alternegy | 18.4 | January 1, 2013 | December 31, 2022 |
| Bontex | 4.6 | January 1, 2013 | December 31, 2022 |
| Bahía Las Minas | 108 | January 1, 2019 | December 31, 2023 |

In accordance with the 1997 Electricity Law, the Company enters into long-term power purchase agreements with generation companies that cover most of its regulated customers' contributions to the total peak customer demand of electricity and work towards limiting any associated energy costs. Historically, the Company contracts annually for approximately 98% to 79% of its total energy requirements via purchase agreements on the contract market. For the periods ended March 31, 2011 and December 31, 2010, the Company purchased approximately 100% and 98% respectively, of its total energy requirements via power purchase agreements on the contract market. These purchase agreements include both a fixed charge based on energy capacity requirements and a variable charge based on fuel cost. Based on changes in the Electricity Law, as of August 2009 the Transmission Company (ETESA) is the responsible in preparing the bid processes for energy purchase on behalf the distribution companies. Offers are received, evaluated and awarded by ETESA and then assigned to each distribution company based on their requirements. Distribution companies are obligated to signed contracts based on said awarded offers.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to the Financial Statements

For the three months ended March 31, 2011 and 2010

The Company has several unconditional long-term contractual obligations, related to the power capacity purchase. The incremental payment amounts required for such obligations are shown below:

| Year | Payment obligations |
|--------------|----------------------------|
| 2011 | \$ 69,032,093 |
| 2012 | 77,596,195 |
| 2013 | 91,693,375 |
| 2014 | 90,080,093 |
| Thereafter | <u>597,954,178</u> |
| Total | \$ 926,355,934 |

As of March 31, 2011 and 2010 the Company made expenditures for US\$23,010,698 and US\$21,497,577 respectively, in unconditional long-term contracts, recorded under Purchase of energy and transmission charges, net on the Statements of Income.

The Company and the Workers' Union negotiate every four years a Labor Collective Agreement. These Agreements do not maintain or consider material commitments additional to those established in the labor laws. The new Collective Agreement is in effect as of February 2008.

Operating lease

The Company signed an irrevocable operating lease agreement for seven years for the use of the offices and operating facilities. As of March 31, 2011, minimum lease payments required for this irrevocable lease that begin or are maintained for a period greater than one year are:

| Year | Payment obligations |
|--------------|----------------------------|
| 2011 | \$ 375,528 |
| 2012 | 512,376 |
| 2013 | 527,748 |
| 2014 | <u>177,641</u> |
| Total | \$ 1,593,293 |

As of March 31, 2011 and 2010, total rent expense were US\$438,556 and US\$396,016 respectively.

Guarantees

The Company has provided limited guarantees to the generating Companies with the purpose of providing credit assurance and performance obligations under the power purchase agreements. These guarantees are not recognized on the balance sheet, because the Company considers that it is in the position to comply with what is established in the contracts and, therefore, it is not likely that the guarantees will be required. The secured amounts are limited in function of the power capacity and associated power consumption estimated for one month, and has been established for a twelve-month period with automatic renewals, as long as the power purchase agreement is in force. The aggregated

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to the Financial Statements

For the three months ended March 31, 2011 and 2010

amount of the compliance guarantees totals the sum of US\$33,114,795. Also, the Company has issued a warranty in favor of ASEP for the sum of US\$8,000,000 in compliance with Clause 53 of the Concession Contract.

The Company has several standby letters of credit for the sum of US\$2,205,914 in favor of ETESA, as guarantee of the payment for the costs of transmission and energy exchange market.

Concession contract

The Company has exclusive rights to install, own and operate an energy distribution grid and supply energy to end consumers with the exception of large consumers, currently defined as those with a peak demand on a site-by-site basis of over 100kW. Large consumers can choose to buy energy directly from the generators or in the spot market.

The Company's Concession Contract has a fifteen-year life and expires in October 2013. One year before to the expiration of the concession period, the ASEP will hold a competitive tender offer for the sale of 51% ownership share currently held by Panama Distribution Group, S.A., which has the right to establish the asking price for the bid (making its own offer) and will only be required to sell its shares if there is a higher bid, in which case, Panama Distribution Group, S.A. will have the right to withhold the product of the sale. If there is no higher bid, Panama Distribution Group, S.A. would keep its concession for fifteen additional years, subject to the same renewal process without the requirement to make any payment to the Panamanian Government.

The Concession Contract establishes provisions related to the Concessionaire's obligations in service supply issues, the non separation of the majority shares package, it is obliged to periodically supply technical and financial information to ASEP, compliance with technical quality standards, (quality standards, measurement standards and operation regulations of the CND), and payment of ASEP's control, supervision and monitoring tariff, which may not be passed through to the users through the tariff.

8. Fair value of financial instruments

The estimated fair value of the financial instruments as of March 31, 2011 and December 31, 2010 are based on the information available on the date of the balance sheets. The Company has no knowledge of any factor that significantly affects the estimated fair values of financial assets and liabilities such as cash, trade receivables, severance funds, accounts payable, short-term and long-term debt, and customers' deposits. The Company uses the following methods and assumptions to estimate the financial instruments fair value disclosures:

Trade receivable, accounts payable, short-term debt and customers' deposits

The accumulated amount approaches the fair value due to the short maturity of these instruments.

Long-term debt

The fair value of long-term debt with variable interest rates approaches its accumulated value. For fixed-rate long-term debt, the fair value has been determined using discounted cash flow analysis with the available market information. These estimates are subjective in nature and involve uncertainties; consequently, actual results may be different from the estimates made.

Elektra Noreste, S.A.

(a 51% owned subsidiary of Panama Distribution Group, S.A.)

Notes to the Financial Statements

For the three months ended March 31, 2011 and 2010

The fair value of the financial instruments is detailed below:

| | 2011 | | 2010 | |
|----------------|----------------------------|-----------------------|----------------------------|-----------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Long-term debt | \$ 119,313,250 | \$ 138,000,000 | \$ 119,302,154 | \$ 138,910,000 |

9. Subsequent events

The Company evaluated all events and transactions that took place after the balance sheet date, May 30, 2011, date in which the Financial Statements were issued and determined that no additional disclosures are required.