

Environmental and Labor Issues:

Environmental Classification: The Project is classified as a Category A according to the IIC's Environmental and Social Sustainability Policy because it could result in potentially significant and diverse environmental impacts. During the environmental and social appraisal ("E&S Appraisal") of the project, the following main issues are being assessed: (1) compliance with local legislation; (2) water resource management; (3) sustainable natural resource management; (4) wastewater/water quality; (5) labor and working conditions; and (6) social issues, including community health and safety.

Environmental Compliance: HVM was granted separate environmental licenses for the San Matías and El Molino projects in August and September of 2012, respectively, by La Corporación Autónoma Regional de las Cuencas de Los Ríos Negro y Nare (CORNARE). In June, 2013, CORNARE accepted requests by HVM to cede both of these licenses to the project company—PCHS Los Molinos S.A.S. E.S.P. ("Los Molinos" or the "Company"). As part of the E&S Appraisal, IIC will ensure that the Project has obtained any other licenses or updates which may be required due to any alterations of project designs that may have occurred since the time when the original licenses were requested.

In March of 2014, PCH San Matias presented its first semiannual Environmental Compliance Report (ICA) to CORNARE, which documents compliance with the Project's Environmental Management Plans (EMPs). The ICA states that the project is in compliance with over 99% of the goals established in the programs that comprise the EMP. The first ICA for PCH El Molino is scheduled to be presented to CORNARE in June of 2014.

Currently Los Molinos contracts a third party to manage the implementation of the EMPs and the occupational health and safety procedures for the Project. This contractor reports to the Chief Operating Officer of Los Molinos. The Company is now in the process of creating an internal management position to oversee environmental, social, health and safety matters from within Los Molinos.

Water Resource Management: A baseline assessment of hydrologic resources and aquatic ecology was conducted to evaluate potential project impacts and to establish the ecological flow—a requirement of the environmental licenses. The ecological flow determination was based on a method developed by Grecco (2005) and applied previously to other projects in the region. The method takes into consideration ten criteria, including the length of the river subject to the reduction in flow, the river's water quality (physical, chemical and biological), competing uses of the river (such as fishing), the river's potential to be used for fluvial transport or migration of fish, and the extent to which the landscape of the affected part of the river will change. None of the species of aquatic flora or fauna found during the assessment was determined to be endangered or endemic, and none of the six species of fish sampled from the river is migratory. In addition, the portion of the river affected by the Project is not used for fluvial transport and local communities reportedly do not consume fish from the river. Average minimum monthly flow data were factored with the scores for the above-mentioned variables to determine the minimum ecological flow values. These resulting values vary depending on the month of the year, from 3.9% to 13.1% of the multiannual mean stream flow. The minimum ecological flow values to be used for the Project have been reviewed and approved by CORNARE. The methodology and results are being further reviewed by the IIC as part of the E&S Appraisal to ensure compliance with the IIC Environmental and Social Sustainability Policy.

Natural Resource Management: The Project will be located in an area characterized by a patchwork of farm fields and small patches of secondary growth forest, interspersed with small

remnants of primary forest. Given that the Project does not entail the construction of reservoirs, and that access to the project areas will take place largely via existing roads, impacts to natural terrestrial habitats are not expected to be significant. Unavoidable impacts to forested areas, including the cutting of 8.6 hectares of mostly secondary forest, will be compensated for through the purchase and conservation of 106 contiguous hectares of forested lands in the Project's direct area of influence. This "biological corridor" will also serve to mitigate potential project-related impacts to species of local flora and fauna that are of conservation importance. These species include three which are endemic to northwestern Colombia: the primate *Saguinus leucopus* (Silvery-brown Tamarin), which is considered endangered by the IUCN Red List; the bird *Capito hypoleucus* (Whitemantled Barbet), considered Vulnerable by the IUCN Red List; and the frog *Pristimantis penelopus* (Rana de Ingleses Negras y Amarillas), also considered Vulnerable by the IUCN Red List.

In addition to creating a biological corridor, the Project will carry out both aquatic and terrestrial survey and monitoring programs to better understand the composition of the flora and fauna of the area, which is currently understudied by the scientific community. As part of the E&S Appraisal, IIC will ensure that these mitigation and compensation measures are designed in such a way as to ensure compliance with the Environmental and Social Sustainability Policy's requirements regarding protection of biodiversity and ecosystem services.

Wastewater/Water Quality: Soil erosion and runoff into local waterways due to vegetation removal and earthmoving will be minimized using standard good practice techniques. These include silt traps and properly constructed drainage structures, as well as though the immediate seeding of exposed slopes with fast-growing and deep-rooted herbaceous vegetation. During construction and operation, sanitary and industrial wastewater will be discharged to properly designed treatment plants. Sediment flushing from behind the hydroelectric intake structures will be restricted to periods of high flow, to mitigate effects on downstream water quality.

Solid Waste Management: Excavated material from tunneling will be used for project works (e.g., road surfacing) to the maximum extent possible, minimizing the need for material deposit sites. Deposit sites that will be needed will be managed according to the specifications found in the Project's Environmental Management Plan (EMPs). All construction-related and sanitary waste will be handled in accordance with applicable local regulations as specified in the EMP, and under the supervision of a full-time environmental engineer contracted by the Company.

Community Health, Safety and Security: Los Molinos has developed emergency response plans to protect downstream communities in the event of situations in which the intake gates may need to be closed unexpectedly. The Company is also implementing a series of measures to minimize other risks to the health and safety of the local communities, particularly risks to pedestrians related to the transport of construction materials to and from the construction sites. For example, transport equipment operators will be required to adhere to a driver safety program developed by the Company. Local communities will be notified of potential traffic safety risks, and residents along transport routes will be given a point of contact through which to relay any concerns or grievances. Active project work sites, and potentially hazardous permanent works (e.g., intake structures), will be protected from public access with warning signs and fencing to the extent possible in order to discourage and prevent unauthorized access.

Social Issues: Representatives from Los Molinos and from the EPC contractor (HMV) have been in constant contact with the local communities and their representatives since the initial project design phase. Stakeholder engagement and social outreach, including programs to inform local residents about potential project related impacts and benefits, have been high priorities from the outset. The Company has placed a strong emphasis on developing and maintaining positive relations with local communities, and on ensuring that the Project provides direct benefits to these communities. The

Company fully appreciates that this work is particularly important given the Project's location in an area only just starting to recover from years of guerilla and paramilitary activity and war-related population displacements, and still suffering from extremely high rates of poverty.

As a condition of its environmental license, and in accordance with national law, the Project is required to invest no less than 1% of the total project investment (excluding electromechanical equipment) in actions and works aimed at the recovery, preservation, and conservation of the San Matías River basin. In order to determine the best use of these resources and to ensure that the benefits truly accrue to local populations, Los Molinos is conducting regular meetings with representative community members to discuss and choose options in a bottom-up manner.

Occupational Health and Safety: Los Molinos contractually requires that subcontractors develop detailed health and safety policies and procedures that meet the Company's own health and safety policies and procedures. These policies and procedures are being reviewed as part of the E&S appraisal for conformance with good international practice. A full-time health and safety officer from HVM is on site during working hours to ensure compliance with the EPC contractor's own policies and procedures.

Labor Issues: As part of the E&S Appraisal of the Project, the IIC will review the Company's internal labor policy and practices to ensure that they are in compliance with Colombian labor law and international labor-related treaties to which Colombia is a party.

Monitoring and Reporting: The Company's monitoring procedures for environmental matters are described in the EMPs, and compliance is detailed in the semiannual ICAs to CORNARE as described above. The Company will submit semiannual reports to the IIC summarizing the implementation of its environmental, social, and health and safety programs.