

According to the IIC Environmental and Social Sustainability Policy, this is a Category B project: potential environmental and social risks and impacts are limited to the project site, largely reversible, and can be mitigated via measures that are readily available and feasible to implement in the context of the operation. The main environmental and social issues associated with this project relate to public consultation; biodiversity and natural resource management; occupational health and safety and labor management; community health and safety; and land acquisition. The Project consists of (i) the construction of a new run-of-river hydropower plant on the Upano River between the community of 9 de Octubre and the community of Zuñac, in the province of Morona Santiago; and (ii) the construction of a 230-kV electrical transmission line, 85 kilometers in length, from a new Normandía electrical substation to the existing San Bartolo electrical substation. Under normal flow conditions, the hydropower plant will divert 23.1 cubic meters per second (m³/s) of flow from the river channel through 8.4 kilometers of pipes paralleling the river to the location of the powerhouse. A series of turbines in the powerhouse will convert the flow into electricity. The Project will also entail the construction of three short access routes: one to the intake structure, one to the powerhouse, and one to a temporary bridge in between these two structures. The latter two access roads have already been completed. The section of the Upano river in the Project area parallels a highway, facilitating access and making it unnecessary to construct long access roads. There are no residential dwellings in the direct Project area. The land directly affected by the construction and operation of the hydropower plant was previously used almost exclusively for grazing cattle.

Environmental and Regulatory Framework The Project was awarded an environmental license from the Agencia de Regulación y Control de Electricidad (ARCONEL) on July 15, 2015. The license takes into account the following antecedents: (1) on December 15, 2014 the Project was awarded a certificate of “no intersection” from the Ministry of Environment (MAE), indicating that the Project does not intersect with the National System of Protected Areas, Forests and Protected Vegetation, and State Forest Patrimony; (2) on December 18, 2014, Hidrowarm presented to CONELEC (the predecessor of ARCONEL) an updated Environmental Impact Assessment (EIA) for the Project, including the complete length of the transmission line between the three substations involved (Normandia, Abanico, San Bartolo); (3) On January 28, 2015, ARCONEL requested that Hidrowarm present a separate EIA for the section of the 230-kV transmission line between the Abanico Substation and the San Bartolo Substation; (4) on March 4, 2015 ARCONEL provided Hidrowarm with its observations regarding the draft EIA for the transmission line and authorized the company to proceed with the social participation process; and (5) on July 14, 2015, ARCONEL approved the EIA for the transmission line spanning from Abanico to San Bartolo. The license stipulates that Hidrowarm must strictly comply with the Project’s EIA and environmental management plans, and that the company is entirely responsible for the activities carried out by its subcontractors. The IIC subjected the Project to a due diligence review, with the assistance of an international environmental consulting firm, to ensure that the Project’s EIA, management plans, and public consultation activities complied with the IIC Environmental and Social Sustainability Policy. Hidrowarm subsequently agreed with the IIC to the terms of an Environmental and Social Action Plan (ESAP) to address gaps encountered during the review.

Public Consultation In order to receive the environmental license for the Project, and in compliance with the procedures mandated by ARCONEL, Hidrowarm conducted separate public consultation processes for the hydropower plant and for the transmission line. Each process included the following: two public information meetings; the operation of three public information centers for 15 days; and three open town hall meetings. Each process was facilitated by a government-appointed facilitator. In addition, the company arranged a visit for local community members to a nearby hydropower facility already in operation. Hidrowarm’s social specialist visits the project area on a very regular basis and is well known to, and easily approachable by the local community members. Informal and formal meetings, beyond those required by ARCONEL, between Project staff and local residents are a common occurrence.

Biodiversity and Natural Resources Management As confirmed by the Ministry of Environment, the Project is not located within a protected area. Lands to be directly impacted by the Project have

already been heavily converted by agricultural activities. Sangay National Park is located, at its closest point, at least three kilometers from the Project. Indirect impacts to the Park from the Project, from induced settlement in the Project area and from the provision of a new, permanent river crossing, are unlikely (given the distance and steep terrain), but possible. Hidrowarm has agreed to explore, in collaboration with the IIC and the local branch of the Ministry of Environment, feasible options for mitigating this potential risk. The Project is located on the Upano River at elevations of between 1,580 and 1,800 meters. This elevation is believed to be at or above the altitudinal limits of any migratory fish species occupying the basin. Indeed, fish baseline studies conducted to date have only found a single individual migratory fish in the project area. These fish baseline studies, together with consultation with ichthyologists familiar with the region, suggest that the affected river reach does not harbor rare, endemic, or endangered fish species. Interviews with local residents indicate that fish from project area is rarely consumed by the local population. As part of the ESAP for the Project, Hidrowarm has committed to systematically poll local residents to confirm this preliminary finding. The company has also committed to continue sampling the river, during both dry and wet seasons, to ensure that the company's understanding of the baseline biodiversity conditions is accurate and complete, so that future monitoring and management can be effective. The primary measure that Hidrowarm will implement to mitigate potential impacts to aquatic biodiversity will be the maintenance of an environmental flow regime. The regime proposed by Hidrowarm and permitted by the relevant Ecuadorian authorities contemplates minimum flows in the diverted reach (i.e., the approximately 8.4 kilometers between the intake and the powerhouse) ranging from 2.16 m³/s in the dry season to 4.12 m³/s in the wet season. These flows will be naturally augmented along the length of the reach by a series of tributaries entering the river from both sides. Hidrowarm developed this environmental flow regime using the Instream Flow Incremental Methodology (IFIM), together with the Physical Habitat Simulation Model (PHABSIM). As further fish studies provide more detailed information regarding ecological requirements of native fish species in the project area, Hidrowarm, with the assistance of internationally recognized experts, will reapply IFIM and PHABSIM to confirm that the currently proposed environmental flow regime is adequate to maintain sufficient habitat for native fish species to continue to thrive. Hidrowarm has agreed as part of its ESAP to develop and implement compensation measures acceptable to the IIC for any aquatic impacts which cannot be feasibly mitigated. Options for such measures are currently being analyzed. Occupational Health and Safety and Labor Management Hidrowarm has prepared an Occupational Health and Safety Management Plan. At the request of the IIC, Hidrowarm is developing a Contractor Management Plan which will contain the procedures to ensure that (1) subcontractors comply with Ecuadorian labor laws and IFC Performance Standard 2, and that (2) contracts contain clauses that effectively compel subcontractors to comply with Hidrowarm's Occupational Health and Safety Plan, as well as with its environmental management plan. In compliance with the ESAP, the company is in the process of developing a Worker Grievance Mechanism. Also at the request of the IIC, Hidrowarm will develop and implement a policy on the quality and management of workforce accommodation and the provision of basic services for workers, in line with the requirements of IFC Performance Standard 2. The company will also implement a Hazardous Materials Management Program and an Emergency Response Plan, both developed to international standards. Community Health and Safety As part of the Project's ESAP, Hidrowarm is developing a Traffic Management Plan to minimize risk 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, and the Project will conduct outreach activities in local communities to ensure that the population is sensitive to traffic-related risks. 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. The previously mentioned Emergency Response Plan will also encompass Project-related emergencies that could affect local communities. At the request of the IIC, Hidrowarm is developing and will soon implement a

community grievance mechanism. Land Acquisition All land required for the construction of the hydropower plant has been purchased from local residents at fair market prices through voluntary negotiations between the company and the landowners. Interviews and a review of transaction records conducted by the IIC indicate that all sellers were either left with sufficient remaining land so as not to experience a negative livelihood impact from the land sale, or compensated sufficiently to be able to purchase other productive lands. Random interviews during the IIC due diligence visit to the site confirmed that local residents have overwhelmingly positive perceptions of the Project and of the land acquisition processes. Hidrowarm, at the request of the IIC, is preparing a plan detailing the methods to be used to negotiate and secure the right of way for the transmission line. Monitoring and Reporting Hidrowarm's monitoring procedures are described in the Project's environmental management plan. The Company will submit an annual report to the IIC summarizing the results of the implementation of these procedures. The Company will also submit regular reports on the fulfillment of the requirements included in the IIC's ESAP for the Project, to ensure continuous compliance with the IIC Environmental and Social Sustainability Policy.