



(Free translation from the original issued in Spanish)

GALAPAGOS LIFE FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2023

INDEX

Independent auditors report

Statement of financial position

Statement of Income and Expenses

Statement of changes in the equity fund

Cash flow statement

Explanatory notes to the financial statements



(Free translation from the original issued in Spanish)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors

Galapagos Life Fund

Quito, April 11, 2025

Opinion

We have audited the accompanying financial statements of Galapagos Life Fund ("the Foundation"), which comprise the statement of financial position as of December 31, 2023, and the related statements of income and expenses, changes in equity fund and cash flows for the year then ended, and the related notes to the financial statements, which comprise a summary of material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Galapagos Life Fund as of December 31, 2023, the performance of its operations and its cash flows for the year then ended in accordance with IFRS SME Accounting Standards issued by the International Accounting Standards Board (IASB).

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are described below in the section *"Auditor's Responsibilities for the Audit of the Financial Statements"*.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

We are independent of Galapagos Life Fund in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Ecuador. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and regulations.

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Galapagos Life Fund
Quito, April 11, 2025

Another matter

As explained in Note 1, the Foundation was incorporated on May 5, 2023 in Delaware as a non-profit, non-stock corporation and registered to operate in Ecuador on November 16, 2023. For this reason, these are the first audited financial statements of the Foundation. Our opinion is not qualified by this matter.

Responsibility of the Foundation's Management for the Financial Statements

Management of Galapagos Life Fund is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS SME Accounting Standards issued by the International Accounting Standards Board (IASB) and for such internal control as 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 Foundation's ability to continue as a going concern, disclosing, as appropriate, going concern matters and using the going concern basis of accounting, unless Management either intends to liquidate the company or to cease operations, or there is no more realistic alternative to closing its operations.

The Foundation's officers are responsible for overseeing the Foundation's financial reporting process.

Auditor's responsibility in connection with the audit of the financial statements

The objectives of our audit 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 audit report that includes our opinion. Reasonable assurance is a high degree of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Material misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably influence the economic decisions that users make based on the financial statements.

As part of an audit conducted in accordance with International Standards on Auditing, we apply professional judgment and maintain an attitude of professional skepticism throughout the audit. Also as part of our audit:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than for a material misstatement due to error because fraud may involve collusion, misrepresentation, deliberate omissions, intentional misstatements, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.



Galapagos Life Fund
Quito, April 11, 2025

- We assessed the appropriateness of the accounting policies applied and the reasonableness of accounting estimates, as well as the related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to express a modified opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those responsible for the entity's Management regarding, among other matters, the scope and timing of the planned audit and significant audit findings, as well as any significant deficiencies in internal control that we identify during the course of the audit.

PRICEWATERHOUSE COOPERS
Registration Number in the Superintendency
of Companies, Securities and Insurance: 011

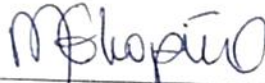
Nancy Frias
Nancy Frias
Partner
Professional License No.: 17-5166

GALAPAGOS LIFE FUND

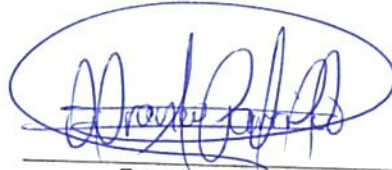
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2023
(Expressed in U.S. dollars)

<u>ASSETS</u>	<u>Note</u>	<u>2023</u>
Current assets		
Accounts receivable from related companies	6	2,054,983
Other assets	7	51,407
Total current assets		<u>2,106,390</u>
Non-current assets		
Accounts receivable from related companies	6	6,619,404
Computer equipment		1,088
Total non-current assets		<u>6,620,492</u>
Total assets		<u>8,726,882</u>

The accompanying notes are an integral part of the financial statements.



Monica Calvopina
Executive Director



Francisco Carrillo
Accountant

GALAPAGOS LIFE FUND

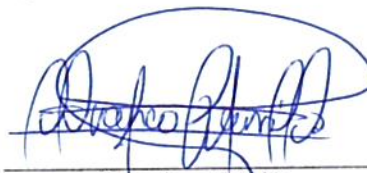
**STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2023**
(Expressed in U.S. dollars)

	<u>Note</u>	<u>2023</u>
<u>LIABILITIES AND EQUITY</u>		
Current liabilities		
Accounts payable to suppliers	8	82,962
Deferred income	9	<u>2,011,798</u>
Total current liabilities		<u>2,094,760</u>
Non-current liabilities		
Deferred income	9	<u>6,581,250</u>
Total non-current liabilities		<u>6,581,250</u>
Total liabilities		<u>8,676,010</u>
Equity fund		
Surplus	10	<u>50,872</u>
Total equity		<u>50,872</u>
Total liabilities and equity		<u>8,726,882</u>

The accompanying notes are an integral part of the financial statements.



Monica Calvopina
Executive Director



Francisco Camillo
Accountant

GALAPAGOS LIFE FUND

**STATEMENT OF INCOME AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023**
Expressed in U.S. dollars)

	<u>Note</u>	<u>2023</u>
Donation income	11	181,952
Administrative expenses	12	(171,730)
Other financial income, net	13	40,650
Net surplus for the year		<u><u>50,872</u></u>

The accompanying notes are an integral part of the financial statements.



Monica Calvopina
Executive Director



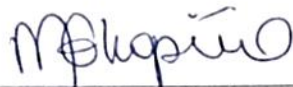
Francisco Carrillo
Accountant

GALAPAGOS LIFE FUND

**STATEMENT OF CHANGES IN THE EQUITY FUND
FOR THE YEAR ENDED DECEMBER 31, 2023**
(Expressed in U.S. dollars)

	Net surplus for the year	Total
Balance as of January 1, 2023	-	-
Net surplus for the year	50,873	50,873
Balance as of December 31, 2023	50,873	50,873

The accompanying notes are an integral part of the financial statements.



Monica Calvopina
Executive Director



Francisco Carrillo
Accountant

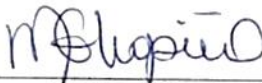
GALAPAGOS LIFE FUND

**CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2023**
(Expressed in U.S. dollars)

	<u>Note</u>	<u>2023</u>
Operating Activities		
Surplus for the year		50,872
Adjustments for:		
Depreciation of property, machinery and equipment	12	85
Other assets (1)		(72,927)
Accounts payable to suppliers, net (1)		23,143
Net cash flows provided by operating activities		<u>1,173</u>
Investing activities:		
Computer equipment additions (1)		(1,173)
Net cash used in investing activities		<u>(1,173)</u>
Cash and cash equivalents:		
Cash at beginning of year:		-
Cash at end of year:		<u>-</u>

- (1) Disbursements made directly from the New York bank account held by Galapagos Life Fund (Delaware).

The accompanying notes are an integral part of the financial statements.



Monica Calvopina
Executive Director



Francisco Carrillo
Accountant

(Free translation from the original issued in Spanish)

GALAPAGOS LIFE FUND

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Expressed in U.S. dollars)

1. GENERAL INFORMATION

1.1 Incorporation and operations

The Government of Ecuador formally declared the creation of the Brotherhood Marine Reserve in January 2022 through Presidential Decree 319. The new reserve included the expansion of 60,000 km² of marine protection to waters surrounding the Galapagos Islands, creating the first open water marine reserve in the country. The Hermandad Marine Reserve was formally established in March 2022 through Ministerial Agreement 2022-019 to integrate it as a new protected area under Ecuadorian regulations; an important area at the local, national and regional level due to its strategic location and connectivity.

In establishing the Hermandad Marine Reserve, the importance of having a financial mechanism in place to ensure the implementation and effective Management of this new marine reserve and the existing Galapagos Marine Reserve was identified. After working with strategic partners and government institutions, the Government of Ecuador, with the support of the U.S. A. Development Finance Corporation (DFC), the Inter-American Development Bank (IDB), Credit Suisse, Oceans Finance Company B.V. (OFC), the Pew Bertarelli Ocean Legacy and Aqua Blue investments, the Ecuadorian Government closed the largest debt convertibility deal of its kind in history.

Prior to the debt swap, the Ecuadorian government owed bondholders US\$2.725 billion in principal and interest payments, with a principal face value of US\$1.629 billion. GPS Blue purchased these bonds for US\$656 million, via a one week tender offer, which was financed via the issuance of US\$656 million of private bonds called "Bonos para la Conservación Marina de Galapagos" (Bonds for Galapagos Marine Conservation).

GPS Blue then exchanged the \$1.629 billion in bonds it purchased with the Ecuadorian government for a new loan of US\$656 million and an additional US\$323 million of principal which was converted into a funding commitment (which is the source of the funds provided via Conservation Funding Agreement to the Galapagos Life Fund from GPS Blue).

In the exchange, GPS Blue wrote off US\$624 million of principal of the bonds purchased, which resulted in additional savings of US\$502 million of interest savings, for a total of US\$1.126 billion in debt relief for the Government of Ecuador.

GPS Blue Financing Company (GPS Blue) signed a Conservation Funding Agreement with the Galapagos Life Fund to provide US\$323 million for the conservation of the Galapagos Marine Reserve over 18.5 years.

The Galapagos Life Fund was established as a non-profit, non-stock company in Delaware (USA) on May 5, 2023 and is registered to operate in Ecuador. Financial close of the transaction occurred on May 9, 2023.

For the donation of the US\$ 323 million committed by GPS Blue Financing Company (GPS Blue), GPS Blue

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GALAPAGOS LIFE FUND

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023

(Expressed in U.S. dollars)

signed a Conservation Financing Agreement with Oceans Finance company B.V. and created an Investment Fund in the United States from which it will send the committed money to the NGO Galapagos Life Fund, an average of US\$ 17.45 million per year for 18.5 years, of which the Galapagos Life Fund will allocate US\$ 12 million to projects aimed at conserving the reserve and US\$ 6 million will be restricted in the Investment Fund and can only be used at the end of the agreement, i.e., starting in year 19.

In the first years, the programming of the funds to be delivered to the Foundation is less than initially established in the Financing Agreement and most of them are destined for the constitution of the restricted fund, due to the fact that the Foundation, being a new entity and being in a period of structuring the technical team necessary for the execution of projects, it is estimated that the projects executed will be limited during its first years. Therefore, Annexes A and B of the same agreement establish the following payment schedule:

Year	<u>Project management</u>	<u>Endowment</u>	<u>Total donations</u>
2023	2,193,750	6,581,250	8,775,000
2024	6,579,000	10,966,500	17,545,500
2025	9,644,796	7,891,614	17,536,410
2026	10,954,344	6,572,794	17,527,138
2027	11,386,493	6,131,188	17,517,681
2028	11,817,802	5,690,233	17,508,035
2029	12,248,737	5,249,459	17,498,196
2030	12,678,789	4,809,370	17,488,159
2031	13,108,442	4,369,481	17,477,923
2032	13,100,611	4,366,870	17,467,481
2033	13,092,623	4,364,208	17,456,831
2034	13,084,475	4,361,492	17,445,967
2035	13,076,165	4,358,722	17,434,887
2036	13,067,688	4,355,896	17,423,584
2037	13,059,042	4,353,014	17,412,056
2038	13,050,222	4,350,074	17,400,296
2039	13,041,227	4,347,076	17,388,303
2040	13,900,855	3,475,214	17,376,069
2041	13,890,872	3,472,717	17,363,589
	<u>222,975,933</u>	<u>100,067,172</u>	<u>323,043,105</u>

Galapagos Life Fund receives these funds from GPS Blue via a Conservation Finance Agreement. Of note, there are not two separate entities, just one entity which was incorporated in Delaware and has registered to operate in Ecuador.

During the first year of operation of the Foundation in Ecuador, such funds remain as a receivable from the Galapagos Life Fund (Delaware), see notes 6 and 9.

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GALAPAGOS LIFE FUND

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Expressed in U.S. dollars)

1.2 Approval of financial statements

These financial statements have been approved by the Executive Director on January 24, 2025 and will be submitted to the Board of Directors for final approval.

1.3 Economic situation of the country

The economy, in general, continues its slow recovery after the pandemic, the Russian invasion of Ukraine, the Israeli-Palestinian conflicts, the internal security problems, the energy crisis and the deficit in the State budget, have revealed structural weaknesses such as dependence on oil exports, deficiencies in the energy matrix, limited access to capital markets, among others.

According to the results of the national accounts published by the Central Bank of Ecuador, the Ecuadorian economy presented an increase in its economy of 1.4% for the year 2023, produced mainly by the growth of Government Final Consumption Expenditure of approximately 6.4%, Household Final Consumption Expenditure of 4.3% and Gross Fixed Capital Formation of 3.8%.

The main actions implemented by the State to overcome this situation were: the implementation of an action plan in response to the "El Niño" phenomenon, the establishment of several trade agreements, the rehabilitation of road sections, the prioritization of investment and public spending, the increase of foreign investment through public-private partnerships with tax benefits, reforms in the areas of public procurement, among others. Additionally, Ecuador has a new government which is implementing plans that include improving security, immediate improvements in the tax collection system and urgent economic measures that are expected to generate additional resources for the state and reduce the fiscal deficit.

These situations have not had an impact on the Foundation because it began operations by the end of 2023 with donations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are described below. These policies have been designed in accordance with IFRS for SMEs in effect as of December 31, 2023 and applied uniformly to all years presented in these financial statements.

2.1 Basis of preparation of financial statements

These financial statements of the Foundation have been prepared in accordance with International Financial Reporting Standards for Small and Medium-Sized Enterprises issued by the IASB (International Accounting Standard Board) as of December 31, 2023, which have been adopted in Ecuador and represent the full, explicit and unreserved adoption of the aforementioned international standards.

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GALAPAGOS LIFE FUND

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Expressed in U.S. dollars)

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in accordance with IFRS for SMEs requires the use of accounting estimates. It also requires Management to exercise judgment in the process of applying the Foundation's accounting policies. Note 3 discloses the areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the preparation of the financial statements. Due to the subjectivity inherent in this accounting process, actual results may differ from amounts estimated by Management.

2.2 Support module for the IFRS for SMEs Standard

The IFRS Foundation has completed the set of 35 stand-alone modules created to assist those who are creating or using financial statements prepared in accordance with the IFRS Standard for Small and Medium-Sized Enterprises (SMEs).

Each module covers a section of the International Financial Reporting Standards for Small and Medium Enterprises (IFRS for SMEs) and includes:

- **Requirements:** the full text of the section of International Financial Reporting Standards for Small and Medium-Sized Enterprises reproduced with added notes and examples. The notes and examples are designed to illustrate how to apply the requirements.
- **Significant estimates and other judgments:** a discussion of significant estimates and other judgments that are likely to be made in accounting for transactions and events in applying the section of International Financial Reporting Standards for Small and Medium-Sized Enterprises.
- **Comparison with the full IFRS:** a summary of the main differences between the section of the International Financial Reporting Standards for Small and Medium-Sized Enterprises and the corresponding Standard of the full IFRS.
- **Test your knowledge:** multiple-choice questions designed to test your knowledge of the requirements of the International Financial Reporting Standards for Small and Medium-Sized Enterprises section.
- **Put your knowledge into practice:** case studies, with solutions, designed to develop your ability to apply the sections of the International Financial Reporting Standards for Small and Medium Enterprises.

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GALAPAGOS LIFE FUND

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Expressed in U.S. dollars)

Comprehensive review of International Financial Reporting Standards for Small and Medium-Sized Companies

The IFRS Foundation Board began the 2019 comprehensive review of International Financial Reporting Standards for Small and Medium-Sized Enterprises.

The first phase of the review will involve the development of a request for information (RFI). The objective of the review is to obtain views on whether and how to align the IFRS for SMEs with new and amended IFRS Standards.

In June 2023, the proposed amendments to the IFRS for SMEs related to the International Tax Reform - Pillar 2 Model Rules were published.

2.3 Transactions in foreign currencies

a) Functional and presentation currency

Items in the Foundation's financial statements are expressed in the currency of the primary economic environment in which the entity operates (functional currency). The financial statements are expressed in U.S. dollars, which is the functional and presentation currency of the Foundation. Unless otherwise indicated, the figures included in the accompanying financial statements are expressed in U.S. dollars.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Gains and losses on foreign currency differences resulting from the settlement of these transactions and from the translation at closing exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income and expense. However, they are not material.

2.4 Financial assets and liabilities

a) Financial Assets:

Financial assets are classified in the following category: "Accounts receivable from related companies".

The classification depends on the nature and purpose of the financial assets and is determined initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized at the date of the transaction. Regular purchases or sales are all those purchases

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GALAPAGOS LIFE FUND

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Expressed in U.S. dollars)

or sales of financial assets that require the delivery of assets within the time frame established by a regulation or market agreement.

Effective interest rate method

The effective interest rate method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the discount rate that exactly matches the estimated cash flows receivable or payable (including commission, basis points of interest paid or received, transaction costs and other premiums or discounts that are included in the calculation of the effective interest rate) over the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount at initial recognition.

Income is recognized based on the effective interest rate.

Accounts receivable from related companies:

Accounts receivable from related companies correspond to endowment funds received in accordance with the payment schedules established in the Conservation Financing Agreement do not accrue interest and are recorded at their nominal value, which is equivalent to their amortized cost.

b) Financial liabilities:

Financial liabilities are classified as current liabilities unless the Foundation has an unconditional right to defer payment of the obligation for at least 12 months after the statement of financial position date, the Foundation maintains liabilities within the category of other financial liabilities and correspond mainly to:

Accounts payable to suppliers

These are payment obligations acquired for goods or services purchased from local and foreign suppliers in the normal course of business. They are recognized at their nominal value, which is equivalent to their amortized cost, since they do not accrue interest and are payable within 30 days.

Derecognition of financial assets and liabilities

A financial asset is eliminated when the rights to receive cash flows from the asset expire or if the Foundation transfers the asset to a third party without substantially all the risks and rewards of the

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GALAPAGOS LIFE FUND

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Expressed in U.S. dollars)

asset. A liability is eliminated when the Foundation's obligations specified in the contract have been settled.

2.4 Impairment of financial assets

The Foundation assesses at the end of each reporting period whether there is objective evidence of impairment of a financial asset or group of financial assets. The Foundation establishes an allowance for impairment losses on its accounts receivable when there is objective evidence that it will not be able to collect all amounts due according to the original terms of the receivables. The existence of significant financial difficulties on the part of the debtor, the likelihood that the debtor will enter bankruptcy or financial reorganization, and the failure or delinquency of payments are considered indicators that the accounts receivable is impaired.

2.5 Clearing of financial instruments

Financial assets and liabilities are offset and presented at the corresponding net value in the statement of financial position if:

- There is currently a legally enforceable right to offset recognized securities under a written agreement between the parties.
- The intention is to settle them at net value or to realize the assets and settle the liabilities simultaneously.

2.6 Other assets

Correspond mainly to payments made in advance for goods and services to be received at a later date. The Foundation transfers these amounts to income upon receipt of the goods or services.

2.7 Computer equipment

Computer equipment is recorded at cost, less accumulated depreciation and impairment losses, if any. Cost includes expenditures directly attributable to the acquisition or construction of the asset.

Depreciation of computer equipment is calculated on a straight-line basis based on the estimated useful lives of the equipment, or of those significant identifiable components that have different useful lives. The estimated useful lives and residual values of fixed assets are reviewed, and adjusted if necessary, at each balance sheet date. Depreciation of assets is charged to income for the year.

The estimated useful life of the computer equipment 3 years.

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GALAPAGOS LIFE FUND

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Expressed in U.S. dollars)

2.8 Taxes

Due to the nature of its operations, the Foundation is subject to the following taxes:

Value Added Tax (VAT): This tax is levied on the value of the transfer of advertising services.

Tax on the Exit of Foreign Currency (ISD): This tax is levied on the transfer, remittance or transfer of foreign currency abroad. The current ISD rate is 3.5%.

These taxes are accounted for on an accrual basis.

The Foundation, being a non-profit organization under private law, its income, to the Internal Tax Regime Law, is exempt from income tax, provided that its assets and income are used for its specific purposes and only to the extent that it is directly invested in them.

In addition, any surplus must be invested in its specific purposes until the end of the following fiscal year, therefore, the Foundation does not have the obligation to generate income tax payable and deferred income tax.

As a non-profit entity, the Foundation is exempt from paying income tax, in accordance with current legal provisions. However, it must comply with its obligation as withholding agent of such tax in the case of employees under a dependency relationship and the application of purchase settlements for the nationalization of an expense incurred abroad.

2.9 Deferred income

Corresponds to the recognition of funds established in the Conservation Financing Agreement as follows:

Project Management. - Corresponds to disbursements associated with day-to-day accounts, including operating costs and expenses. In addition to funds allocated to finance marine conservation projects in the Galapagos Islands.

Endowment. - Corresponds to the disbursements destined to finance the activities of the fund after the conclusion of the Conservation Financing Agreement, which has a term of 18.5 years (See note 1). This endowment must be managed by an independent, internationally established and recognized investment manager.

In addition, this endowment has a restriction of use with respect to past, present or future disbursements that will be held in escrow by a securities intermediary (New York Mellon Bank) until such time as the Conditions set forth in the Conservation Financing Agreement have been satisfied.

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GALAPAGOS LIFE FUND

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Expressed in U.S. dollars)

2.10 Surplus for the year

The Foundation's surplus comes from the amount of contributions that exceed the Foundation's expenses. In the event of a deficit, the Foundation is compensated with the surplus of previous years and/or requests a budgetary addition, if applicable. In accordance with the provisions of the Internal Tax Law and its regulations, such results are subject to reinvestment and not to distribution in order to remain exempt from income tax.

2.11 Revenue recognition

The Foundation maintains income from disbursements established in the Financing Agreement which are earmarked for operating costs and expenses, in addition to the marine conservation projects in the Galapagos Islands. They are recorded as deferred income and are recognized as income for the year as they are used in the execution of the various projects or to assume operating costs and expenses.

2.12 Expenses

Expenses are recognized on an accrual basis or when incurred. An expense is recognized immediately when the expenditure incurred does not produce future economic benefits.

3. ACCOUNTING ESTIMATES AND CRITICAL JUDGMENTS

Critical estimates and judgments are evaluated on an ongoing basis. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the foundation and are believed to be reasonable under the circumstances.

The areas involving accounting estimates or critical judgments are:

- impairment of financial and non-financial assets
- useful life of computer equipment

The preparation of financial statements requires Management to make estimates and use assumptions that affect the amounts included in these financial statements and related notes. The accounting estimates and critical judgments used by the Foundation are based on historical experience, changes in the industry and information provided by qualified outside sources. However, actual results could differ from those estimates under certain conditions.

Material accounting estimates and policies are defined as those that are important to properly reflect the financial position and results of the Foundation and/or those that require a high degree of Management

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GALAPAGOS LIFE FUND

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Expressed in U.S. dollars)

judgment.

The main estimation and application of professional judgment are related to the following concept:

- Computer equipment: Determination of useful lives, residual value and impairment are assessed at the close of each year.

4. RISK MANAGEMENT

4.1 Financial risk factors

Due to the nature of its activities, the Foundation is not exposed to credit, interest rate, liquidity, and exchange rate risks. As a non-profit entity created for social purposes, the Foundation receives its contributions from GPS Blue via a Conservation Funding Agreement, which are held in the Galapagos Life Fund accounts in the Bank of New York Mellon. The risk management process is critical to fulfill the social purpose for which the Foundation was created and each person within the Foundation is responsible for the risk exposures related to their responsibilities.

Risk management is controlled by the Board of Directors following established policies and procedures in order to minimize any significant impact. The financial risks to which the Foundation is exposed are presented below.

a) Market risk

The Foundation is not exposed to this risk since the funds for the operation are guaranteed by the Financing Agreement; additionally, such funds are safeguarded in a Trust Fund that accrues variable interest.

The credit ratings of the financial institution in which Galapagos Life Fund (Delaware) holds the mutual fund are as follows

Foreign Banks (*)

Banco New York Mellon

**Rating
2023**

AA-

(*) Data obtained from the Fitch Rating website

(Free translation from the original issued in Spanish)

GALAPAGOS LIFE FUND

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023

(Expressed in U.S. dollars)

b) Interest rate risk

Interest rate risk is the risk of fluctuation in the fair value of future cash flows of a financial instrument due to changes in market interest rates. The Foundation has no major exposure to the risk of changes in market interest rates because it has no financial obligations, the method of financing is through grants established under a Financing Agreement, see note 1.

c) Credit risk

The Foundation, due to the social purpose for which it was created, does not maintain accounts receivable from clients; on the other hand, the Foundation executes social and environmental care projects in various projects, the funds that these require to execute the activities approved as part of the subscription of the cooperation agreements, these funds are subject to verification and review by the Board of Directors of the Foundation in order to verify the correct use of the same.

Consequently, there are no concentrations of credit risk as of December 31, 2023.

d) Liquidity risks

Liquidity risk is the risk that the Foundation will be unable to meet its payment obligations related to financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence would be a failure to meet its obligations to third parties.

4.2 Capital risk management

The Foundation's objectives in managing capital are to safeguard its ability to continue as a going concern for the purpose of generating surplus and to maintain an optimal capital structure to reduce the cost of capital.

The Foundation monitors its capital on the basis of the leverage ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including accounts payable to suppliers and other payables) less cash. Total capital is calculated as equity plus net debt.

The leverage ratios as of December 31, 2023 were as follows:

	<u>2023</u>
Accounts payable to suppliers	104,482
Net debt	104,482
Total shareholders' equity	50,872
Total equity	155,354
Leverage ratio	67%

(Free translation from the original issued in Spanish)

GALAPAGOS LIFE FUND

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Expressed in U.S. dollars)

Considering its operations, the Foundation receives contributions directly from its related Galapagos Life Fund, which means that it has no need for third-party financing.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

The carrying amounts of each category of financial instruments at year-end are presented below:

	<u>2023</u>	
	<u>Current</u>	<u>Non-current</u>
Financial assets measured at amortized cost		
Accounts receivable from related companies	2,054,983	6,619,404
Total financial assets	<u>2,054,983</u>	<u>6,619,404</u>
Financial liabilities measured at amortized cost		
Accounts payable to suppliers	104,482	-
Total financial liabilities	<u>104,482</u>	<u>-</u>

Fair value of financial instruments

Given the characteristics of the financial instruments, their carrying value corresponds or approximates their fair value, due to the short-term nature of these instruments. In the case of the long-term account receivable, its fair value is equivalent to its carrying value since it corresponds to an account in the name of Galapagos Life Fund, at the Bank of New York Mellon.

6. ACCOUNTS RECEIVABLE FROM RELATED COMPANIES

The following is a summary of the main transactions carried out during the year 2023 with related companies, as follows:

			<u>2023</u>
<u>Company</u>	<u>Relationship</u>	<u>Transaction</u>	
Galapagos Life Fund (Delaware)	Related	Donations (1)	2,054,983
Galapagos Life Fund (Delaware)	Related	Endowment (2)	6,619,404
			<u>8,674,387</u>

(Free translation from the original issued in Spanish)

GALAPAGOS LIFE FUND

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023

(Expressed in U.S. dollars)

- (1) Corresponds to donations released and placed in the Investment Fund at the New York Mellon Bank of New York which is safeguarded by the Galapagos Life Fund (Delaware) and delivered in accordance with the payment schedule established in the Conservation Financing Agreement for the Management of environmental projects in the Galapagos Islands. See notes 1 and 9.
- (2) Corresponds to donations released and placed in the Investment Fund at the New York Mellon Bank of New York that is safeguarded by Galapagos Life Fund (Delaware) delivered in accordance with the payment schedule established in the Conservation Financing Agreement intended for the management of environmental projects in the Galapagos Islands starting in year 19 once the Investment Agreement is finalized. These donations are invested in a diverse portfolio managed by New York Mellon Bank in accordance with the contract signed on February 8, 2024 with the objective of achieving an aggregate return from capital appreciation and principal and interest income. See notes 1 and 9.

7. OTHER ASSETS

As of December 31, 2023, other assets consisted of the following:

	<u>2023</u>
Advances to suppliers (1)	42,633
Insurance paid in advance	<u>8,774</u>
	<u><u>51,407</u></u>

- (1) Corresponds mainly to banking services from Banco New York Mellon for US\$29,778 and legal services to Bustamante Fabara for US\$12,413.
- (2) Corresponds to the value delivered under a lease agreement for offices located in the Galapagos Islands, with a term of three years.

(Free translation from the original issued in Spanish)

GALAPAGOS LIFE FUND

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**
(Expressed in U.S. dollars)

8. ACCOUNTS PAYABLE TO SUPPLIERS

As of December 31, 2023, suppliers consisted of the following:

	<u>2023</u>
Foreign suppliers (1)	80,000
Local suppliers	<u>2,962</u>
	<u><u>82,962</u></u>

(1) Corresponds to legal expenses with Baker McKenzie for US\$70,000 and Perkins Coie for US\$10,000.

9. DEFERRED REVENUES

As of December 31, 2023, deferred income consisted of the following:

	<u>2023</u>
Project Management (1)	2,011,798
Endowment (2)	<u>6,581,250</u>
	<u><u>8,593,048</u></u>

Corresponds to funds disbursed by GPS Blue through the issuance of bonds in the international market ("Galapagos Marine Conservation Bonds") to cover costs, operating expenses and financing of projects designed to support and promote the maintenance, growth and security of the natural capital of the Galapagos Islands and its marine ecosystems. Its composition is as follows:

- (1) Disbursements to be used in the short term.
- (2) Disbursements to be used in the long term, after year 18.5 in accordance with Financing Agreement, See note 1.

These disbursements remain as accounts receivable from Galapagos Life Fund (Delaware), see Note 6.

(Free translation from the original issued in Spanish)

GALAPAGOS LIFE FUND

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**
(Expressed in U.S. dollars)

10. EQUITY FUND

Includes the surplus for the year 2023. The surplus generated at the end of each year can be freely used in the following periods according to the investment plan and projects carried out by the Foundation and approved by the Board of Directors of the Galapagos Life Fund.

11. INCOME FROM DONATIONS

Composition:

	<u>2023</u>
Project management (1)	<u><u>181,952</u></u>

(1) Corresponds to disbursements used to cover costs, operating and Management expenses for the year.

12. EXPENSES BY NATURE

	<u>2023</u>
Professional fees (1)	138,216
Food	2,463
Rent	1,850
Depreciation	85
Other expenses (2)	<u>29,116</u>
	<u><u>171,730</u></u>

(1) Corresponds mainly to legal expenses of Baker McKenzie for US\$70,000, representation expenses to the executive director for US\$17,455 and management plan and presentation expenses of NLA International Ltd for US\$37,977.

(2) Corresponds mainly to translation services expenses of US\$25,504.

(Free translation from the original issued in Spanish)

GALAPAGOS LIFE FUND

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023 (Expressed in U.S. dollars)

13. OTHER FINANCIAL INCOME, NET

Composition:

	<u>2023</u>
<u>Financial Income</u>	
Interest earned (1)	50,872
<u>Financial Expenses</u>	
Bank services	<u>(10,222)</u>
	<u>40,650</u>

- (1) Corresponds to bank interest generated by maintaining disbursements received in the accounts of the Bank of New York Mellon. See note. 9

14. MAIN AGREEMENTS

Foreign Company Support Agreement: entered into between GPS Blue Financing Designated Activity Company as secured lender, Oceans Finance Company B.V. as Project Manager, and United States International Development Finance Corporation as underwriter. The purpose of this agreement is to ensure that the activities, operations and assets comply with each of the applicable environmental, health and safety, and social performance laws.

Conservation Financing Agreement: entered into between GPS Blue Financing Designated Activity Company as secured lender, Oceans Finance Company B. as founding member and New York Mellon Bank as securities intermediary. The objective of this agreement is that the Management of any funds received will be exclusively for the marine conservation project in the Galapagos Islands. This agreement defines two types of funds, as follows:

Account funding: corresponds to the funds that will be used to finance daily operations, as well as all projects designed to support and promote the maintenance, growth and security of the natural capital of the Galapagos Islands and its marine ecosystems.

Endowment account funding: corresponds to funds that will be invested capitalized for 18.5 years and will be used to continue activities designed to support and promote the maintenance, growth and security of the natural capital of the Galapagos Islands and their marine ecosystems. These funds will be held in the custody of an international financial institution of recognized prestige.

(Free translation from the original issued in Spanish)

GALAPAGOS LIFE FUND

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023

(Expressed in U.S. dollars)

Basic Operating Agreement: entered into between the Ministry of Foreign Affairs and Human Mobility and the Galapagos Life Fund Ecuador to establish the Fund's guidelines for the development of its programs, projects and cooperation activities with the participation of public and/or private sector entities.

In addition to supporting and promoting the maintenance, growth and security of the natural capital of the Galapagos Islands and its marine ecosystems, by providing grants or funding to organizational projects, government agencies and other entities for environmental and social development projects, including biodiversity, economic, sustainability and climate change aspects.

Investment Management Agreement: New York Mellon Bank shall provide the Galapagos Life Fund with discretionary investment Management services and provide certain monthly reporting services on investment performance analysis.

Legal services agreement: entered into between Baker & McKenzie LLP and Galapagos Life Fund for the purpose of representing the fund in connection with Management level matters, incorporation and formation of the fund in the United States and Ecuador for a total fee of US\$ 245,000 for a term of 4 years. The fee will be paid US\$70,000 in each of the years 2023, 2024 and 2025 and US\$35,000 in the year 2026.

15. SUBSEQUENT EVENTS

Between December 31, 2023 and the date of issuance of these financial statements, no events occurred that, in the opinion of the Foundation's Management, could have a material effect on the financial statements or require disclosure.

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