



Orazul Energy Perú S.A. and Subsidiaries

Unaudited Condensed Consolidated Interim Financial Statements

September 30, 2021

**(Including Independent Auditors' Report on Review of
Condensed Consolidated Interim Financial Statements)**

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholders and Board of Directors Orazul Energy Perú S.A and Subsidiaries

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Orazul Energy Perú S.A. and Subsidiaries as of September 30, 2021, the condensed consolidated statements of profit or loss and other comprehensive income for the nine and three-month periods ended as at September 30, 2021, the condensed consolidated statements of changes in equity and cash flows for the nine-month period then ended, and notes to the condensed consolidated interim financial statements (the condensed consolidated interim financial statements). Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at and for the nine and three-month periods ended September 30, 2021 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Lima, Peru

November 4, 2021

Countersigned by:

Caipo y Asociados

Ronald J. Villalobos (Partner)

Peruvian Public Accountant*

Registration N° 60262

Orazul Energy Perú S.A. and Subsidiaries

Unaudited Condensed Consolidated Interim Financial
Statements

September 30, 2021

Contents	Page
Unaudited Condensed Consolidated Statement of Financial Position	1
Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	2
Unaudited Condensed Consolidated Statement of Changes in Equity	3
Unaudited Condensed Consolidated Statement of Cash Flows	4
Notes to the Unaudited Condensed Consolidated Interim Financial Statements	5 - 30

Orazul Energy Perú S.A. and Subsidiaries

Unaudited Condensed Consolidated Statement of Financial Position

As of September 30, 2021 (Unaudited) and December 31, 2020

<i>In thousands of U.S. dollars</i>	<i>Note</i>	September 30, 2021	December 31, 2020
Assets			
Current assets			
Cash	4	15,487	153,445
Trade receivables	5	12,913	24,642
Other receivables	6	135	2,811
Income tax receivable	7	2,281	2,315
Account receivables from related parties	21	114	419
Inventories	8	1,304	5,629
Prepaid expenses		1,086	312
Assets held for sale	3.C	58,969	-
Total current assets		92,289	189,573
Non-current assets			
Property, plant and equipment – energy Generation	9		
Property, plant and equipment		208,505	268,254
Right-of-use assets		300	892
Gas investments	10	-	64,397
Intangible assets and goodwill	11	494,096	512,747
Deferred income tax assets		167,792	38,112
Other receivables	6	6	388
Prepaid expenses		107	375
Total non-current assets		870,806	885,165
Total assets		963,095	1,074,738

<i>In thousands of U.S. dollars</i>	<i>Note</i>	September 30, 2021	December 31, 2020
Liabilities			
Current liabilities			
Trade payables	12	4,584	9,095
Other payables	13	11,744	16,417
Income tax payable	7	-	1,585
Lease liabilities	14	147	312
Account payables to related parties	21	-	766
Liabilities directly associated with the assets held for sale	3.C	17,173	-
Total current liabilities		33,648	28,175
Non-current liabilities			
Debentures	15	399,554	542,396
Lease liabilities	14	184	634
Account payables to related parties	21	21,712	22,710
Deferred income tax liabilities		-	9,794
Asset retirement obligation	16	8,747	22,141
Other liabilities		399	496
Total non-current liabilities		430,596	598,171
Total liabilities		464,244	626,346
Equity			
Share capital	18	385,036	196,086
Additional capital		8,857	8,857
Other reserves		5,675	5,675
Legal reserves		29,675	21,941
Retained earnings		69,582	215,794
Equity attributable to owners of the Company		498,825	448,353
Non-controlling interest		26	39
Total equity		498,851	448,392
Total liabilities and equity		963,095	1,074,738

The notes on pages 5 to 30 are an integral part of these unaudited condensed consolidated interim financial statements.

Orazul Energy Perú S.A. and Subsidiaries

Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the nine-month and three-month periods ended September 30, 2021 and 2020

<i>In thousands of U.S. dollars</i>	<i>Note</i>	Nine-month periods ended September 30		Three-month periods ended September 30	
		2021	2020 (*)	2021	2020 (*)
Revenues of energy generation	19	64,122	60,916	20,324	20,250
Costs of sales of energy generation		(14,537)	(11,726)	(6,088)	(4,538)
Depreciation	9 y 10	(9,959)	(10,138)	(3,266)	(3,357)
Gross profit		39,626	39,052	10,970	12,355
Administrative expenses		(2,906)	(3,495)	(978)	(1,100)
Other income		1,019	474	299	195
Other expenses		(156)	(310)	(65)	(36)
Operating profit		37,583	35,721	10,226	11,414
Finance income		210	295	177	123
Finance costs		(32,185)	(28,545)	(15,187)	(9,439)
Net foreign exchange difference		(1,257)	(810)	(717)	(297)
Finance cost, net		(33,232)	(29,060)	(15,727)	(9,613)
Profit (loss) before income tax		4,351	6,661	(5,501)	1,801
Income tax expense (income)	20	129,675	114,913	132,770	105,836
Profit from continuing operations		134,026	121,574	127,269	107,637
Discontinued operations					
(Loss) profit from discontinued operations, net of tax	3	(83,567)	125,726	(86,152)	119,225
Profit for the period		50,459	247,300	41,117	226,862
Total comprehensive income for the period		50,459	247,300	41,117	226,862
Attributable to					
Controlling shareholders		50,472	247,304	41,120	226,862
Non-controlling interest		(13)	(4)	(3)	-
Total comprehensive income for the period		50,459	247,300	41,117	226,862

(*) Comparative information has been re-presented due to a discontinued operation. See note 3.

The notes on pages 5 to 30 are an integral part of these unaudited condensed consolidated interim financial statements.

Orazul Energy Perú S.A. and Subsidiaries

Unaudited Condensed Consolidated Statement of Changes in Equity

For the nine-month period ended September 30, 2021 and 2020

	Attributable to Owners of the Company						Total equity attributable to owners of the Company	Non-controlling interests	Total equity
	Number of shares (note 18)	Share capital (note 18)	Additional capital	Hedging reserves	Retained earnings	Legal reserves			
<i>In thousands of U.S. dollars</i>									
Balance as of January 1, 2020	651,224,289	196,086	8,857	6,438	(11,844)	-	199,537	45	199,582
Hedging reserves	-	-	-	(432)	-	-	(432)	-	(432)
Comprehensive income for the period									
Profit for the period	-	-	-	-	247,304	-	247,304	(4)	247,300
Total comprehensive income for the period	-	-	-	-	247,304	-	247,304	(4)	247,300
Other reserves	-	-	-	-	(20,668)	20,668	-	-	-
Total transactions with owners of the Company	-	-	-	-	(20,668)	20,668	-	-	-
Balance as of September 30, 2020	651,224,289	196,086	8,857	6,006	214,792	20,668	446,409	41	446,450
Balance as of January 1, 2021	651,224,289	196,086	8,857	5,675	215,794	21,941	448,353	39	448,392
Capitalization of retained earnings	690,801,200	188,950	-	-	(188,950)	-	-	-	-
Comprehensive income for the period									
Profit for the period	-	-	-	-	50,472	-	50,472	(13)	50,459
Total comprehensive income for the period	-	-	-	-	50,472	-	50,472	(13)	50,459
Legal reserves	-	-	-	-	(7,734)	7,734	-	-	-
Total transactions with owners of the Company	-	-	-	-	(7,734)	7,734	-	-	-
Balance as of September 30, 2021	1,342,025,489	385,036	8,857	5,675	69,582	29,675	498,825	26	498,851

The notes on pages 5 to 30 are an integral part of these unaudited condensed consolidated interim financial statements.

Orazul Energy Perú S.A. and Subsidiaries

Unaudited Condensed Consolidated Statement of Cash Flows

For the nine-month period ended September 30, 2021 and 2020

<i>In thousands of U.S. dollars</i>	<i>Note</i>	Nine-month periods ended September 30	
		2021	2020
Cash flows from operating activities			
Collections of energy generation and transmission		120,665	109,743
Collections of hydrocarbons		4,956	6,758
Payment to suppliers		(54,465)	(55,407)
Payment of royalties		(4,676)	(2,633)
Payment to employees		(63)	(579)
Payment of contributions and others		(1,341)	(2,636)
Collections of interest		149	423
Cash generated from operating activities		65,225	55,669
Income tax paid		(5,510)	(5,483)
Net cash from operating activities		59,715	50,186
Cash flows from investing activities			
Disposal of discontinued operation, net of cash disposed of	3.B	-	151,420
Acquisition of property, plant, and equipment		(5,927)	(4,607)
Acquisition of intangibles		(7,086)	(5,745)
Net cash (used in) from investing activities		(13,013)	141,068
Cash flows from financing activities			
Payments of notes	15(c)	(145,314)	-
Payment to related entities		(1,002)	(39,000)
Interest paid		(23,789)	(15,469)
Payment of lease liabilities from operating contracts		(340)	(299)
Payment of withholding tax derived from interest		(1,966)	(2,092)
Net cash used in financing activities		(172,411)	(56,860)
Net decrease in cash and cash equivalents		(125,709)	134,394
Cash and cash equivalents at 1 January		153,445	41,160
Effects exchange rate fluctuations on cash held		(2,447)	(1,073)
Cash and cash equivalents at 30 September		25,289	174,481
Included in cash and cash equivalents per statement of financial position		15,487	-
Included as assets held for sale	3.C	9,802	-

The notes on pages 5 to 30 are an integral part of these unaudited condensed consolidated interim financial statements.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

1. Background and Business Activity

Orazul Energy Perú S.A. (hereinafter, "the Company", "OEP" or "Orazul") is a subsidiary of Orazul Energía (UK) Holdings Ltd. which owns 99.99% of voting shares which are representative of its issued capital stock.

As part of a reorganization plan within the Group, the Company executed the following transactions:

- On August 2, 2017, the Company acquired an additional 12.76% of OEG from Orazul Energía (España) Holding S.L. (which previously acquired the interest of Duke Energy Corporation in 2016) for the total amount of US\$ 126,000 thousand, increasing its ownership to 99.99%.
- On August 16, 2017, the Company merged by absorption with Orazul Energy Egenor S. en C. por A., which was one of its main subsidiaries in Peru.
- During 2017 and 2018, the Group executed its plan to sell the operating businesses located in Central America (Guatemala and El Salvador) and Chile respectively.

On August 24, 2020, the Company and Orazul Energía (UK) Holdings Ltd. sold its transmission business in Peru, represented by 100% ownership in OEG, owner of 99.99% of the shares of Etenorte S.R.L. and Eteselva S.R.L., to Interconexión Eléctrica - ISA Peru. The total consideration after working capital adjustments amounted to US\$ 158,254 thousand. (see note 3).

In the first half of 2021, Nautilus Energy Holdings LLC through the Company received an indication of interest for the gas to power business in Peru, which included the thermal power generation and hydrocarbon businesses.

In that context, in line with its aspiration of generating value through portfolio optimization, the Inkia Group decided to initiate a sale process of the gas to power business. The sale process contemplated selling 100% of Orazul Energy Group II S.A.C (hereinafter, "OEG II"), including its indirect interest in its subsidiaries, Aguaytía Energy del Perú S.R.L. and Termoselva S.R.L.

The sale of these companies is not expected to have any impact on the normal operation of the hydro power business. Sale process concluded on October 1, 2021 (see note 23).

As of September 30, 2021, the businesses in Peru are related to hydro and thermal power generation, natural gas production and processing assets through diverse companies (subsidiaries). These consolidated financial statements comprise the Company and its subsidiaries in Peru (hereinafter, "the Group").

The Group business main activity is the generation and commercialization of electrical energy. The Group has a total capacity of 568MW as follows:

Plant	Company	Source used to operate power station	Capacity (MW)	Location
Central Térmica Aguaytía	Termoselva	Natural gas	192	Aguaytía, Ucayali
Cañón del Pato	Orazul Energy Peru	Hydropower	266	Huallanca, Ancash
Carhuaquero	Orazul Energy Peru	Hydropower	110	LLacma, Cajamarca
			568	

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

The Subsidiaries

As of September 30, 2021 and December 31, 2020, the subsidiary and the percentage of interest owned by the Company are detailed below:

	Direct equity interest (Percentage)	
	2021	2020
Holding		
OEG II	99.99	99.99

In addition, OEG II have the following subsidiaries:

	Indirect equity interest (Percentage)	
	2021	2020
OEG II subsidiaries		
Holdings		
Orazul Energy Hidrocarburos S.A.	99.98	99.98
Operational		
Aguaytía Energy del Perú S.R.L.	99.98	99.98
Termoselva S.R.L.	99.98	99.98

Orazul Energy Group II S.A.C. (hereinafter, "OEG II")

OEG II is engaged in (directly or through or in association with third parties) investing in and holding securities, including, but not limited to, shares representing the capital of other companies.

Orazul Energy Hidrocarburos S.A. (hereinafter, "OEH")

OEH is engaged in (directly or through or in association with third parties) investing in and holding securities, including, but not limited to, shares representing the capital of other companies.

Aguaytía Energy del Peru S.R.L. (hereinafter, "Aguaytía")

Aguaytía owns a natural gas field located in the central rainforest of Perú (concession Block 31-C), from which obtains dry natural gas and natural gas liquids. Gas liquids are processed at the Fractioning Plant which produces liquefied petroleum gas (LPG) and natural gasoline. Dry natural gas is used by its subsidiary, Termoselva S.R.L., for the generation of electrical energy. Natural gasoline is sold to Perenco Peru Petroleum Limited Sucursal del Perú ("Perenco"). LPG is sold to wholesalers and distributors, which perform their activities in the central rainforest and highlands of the country.

Aguaytía's License Contract extension

On July 1, 2020, Aguaytía and Perupetro S.A. (hereinafter, "Perupetro") signed an addendum of the License Contract for the Exploitation of Hydrocarbons – Block 31C. Among other topics, it was stated that once completed (a) and (b) detailed below, the Contract Extension would be granted for ten (10) additional years, until March 2034:

- (a) Perform an exploration program including the reprocessing of seismic data, with an investment of US\$ 0.7 million. to be executed at least before July 2022.
- (b) Perform 150 km of 2D seismic or 95km2 of 3D seismic for a total investment of US\$ 7.5 million to be executed at least before July 2023.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(c) Additionally, the following commitments:

- Supply up to 2 million ft³ /day of natural gas for the gas massification of Ucayali.
- Environmental protection: Aguaytía will be responsible for the preparation and execution of the abandonment plan according to applicable regulation.
- If it is determined that exploration and development opportunities are feasible technically and economically, according to the Company's standards and returns expectations, the Company is committed to drill an exploratory well.

Termoselva S.R.L. (hereinafter, "Termoselva")

This subsidiary main activity is power generation and commercialization. Termoselva operates its thermoelectric power plant in Ucayali exclusively with dry natural gas provided by Aguaytía and sell power to regulated and free customers in the Peruvian territory that are part of the National Interconnected Electrical System (SEIN, for its acronym in Spanish) in which Termoselva participates.

Amounts of the financial statements of the Subsidiaries

Summary of the financial statements of the Subsidiaries as of September 30, 2021, and December 31, 2020, prepared under International Financial Reporting Standards (IFRS), before elimination for consolidation purposes, are presented below:

<i>In thousands of U.S. dollars</i>	September 30, 2021	December 31, 2020
Subsidiaries		
Aguaytía del Perú S.R.L.		
Total assets	133,652	138,020
Total liabilities	(19,505)	(17,364)
Equity	114,147	120,656
Profit for the period	348	8,967
Termoselva S.R.L.		
Total assets	64,023	78,099
Total liabilities	(8,841)	(12,543)
Equity	55,182	65,556
Profit for the period	4,884	10,433
Orazul Energy Hidrocarburos S.A.		
Total assets	108,814	112,720
Total liabilities	(698)	(912)
Equity	108,116	111,808
Profit for the period	6,758	13,421
Orazul Energy Group II S.A.		
Total assets	105,847	109,503
Total liabilities	(58)	(43)
Equity	105,789	109,460
Profit for the period	6,718	12,559

Changes in the Company's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries were recorded as equity transactions. The carrying amounts of the Company's interests and non- controlling interests were adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non- controlling interests were adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to such subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as fair value on initial recognition for subsequent accounting, when applicable, and cost on initial recognition of an investment in an associate or a joint venture.

A. COVID-19 impact

In March 2020, the World Health Organization declared the spread of the coronavirus or COVID-19 as a global pandemic. In response, the Peruvian government ordered certain measures to contain pandemic leading to partial lockdowns of economic activities with restriction of the mobility of people and the suspension of work activities, among others. The Group's operations required to remain open for business at the highest level to provide the vital electrical service for the country. Therefore, in general, the pandemic had not significant effects on the Group's financial position, financial performance, and cash flows as of and for the year 2020 and the third quarter of the year of 2021.

As of September 30, 2021, the Group's Management has maintained measures adopted since 2020 related to security, continuity of operations and financial risk management, such as:

Operational

The Group developed contingency plans to face this emergency and ensures its full implementation. Such plans include:

- Implementation of personnel rotation plans in line with applicable travel restrictions and labor law.
- Secure supply of all necessary equipment and supplies to allow the work of operating teams in our plants.
- Ensure the mechanisms are implemented to communicate timely and effectively all instructions to be followed during this emergency.
- Home-office for employees and directives wherever activities allow it and curfews and mobility restrictions apply.
- Mechanisms to secure adequate and safe transport of personnel and supplies to and from operating facilities, minimizing use of public transport.
- Periodic health-monitoring systems wherever employees are operating.
- All contingency procedures are being shared with contractors performing essential tasks, ensuring their adequate compliance.

The Group is also coordinating to ensure adequate cash management during the current situation. Two factors to maintain financially the continuity of business is debt management and liquidity. The following is a brief description of the status:

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Debt Management

The Group's total debt of US\$ 405 million corresponds to long-term notes that only requires interest payments in the next years. Debt service amounts are secured by significant cash flow from our operations.

The Group is current on each debt instrument and meets all its financial obligations and expects to maintain such compliance throughout the current period.

Liquidity

During this period, the Group is managing its cash in a conservative manner and has been taking several measures to protect liquidity and to maintain continuity of business, as well as to be prepared for any unplanned disruptions. Over the next months, the Group will continue monitoring closely the evolution of its cash flow and to be extremely cautious with its liquidity.

The Group ensures timely payment of local obligations: suppliers, contractors, providers of services, etc. It is critical to maintain working capital flow of our suppliers and level of service.

The Group will continue to be proactive and attentive to the evolution of the market by keeping a close and systematic communication with all financial stakeholders. The Group will periodically inform the evolution of the operations, debt management and liquidity as matters progress.

Finally, the Group will continue to provide electrical service to all of its customers while maintaining safe its employees and service personnel.

2. Basis for the Preparation of Financial Statements

A. Basis of accounting

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the Group's last annual financial statements as at and for the year ended December 31, 2020 (last annual financial statements) and with the following policies:

Non-current assets and disposal groups held for sale or distribution

Non-current assets (or group of assets and liabilities for disposal) are classified as held for sale or distribution if it is highly probable that they will be recovered primarily through a sale transaction or a distribution to the owners and not through continuing use. This applies also to when the Companies is obligated to a sale plan that involves losing control over a subsidiary, whether or not the Companies will retain any post-sale non-controlling interest in the subsidiary.

Immediately before classification as held for sale or distribution, the assets (components of a disposal group) are re-measured in accordance with the Companies' accounting policies. Thereafter, the assets (or components of a disposal group) are measured at the lower of their carrying amount and fair value less cost to sell.

The impairment losses that should be recognized in the Disposal group should be attributed applying the following hierarchy: (1) impacting goodwill and (2) impacting non-current assets that are in the measurement scope of IFRS 5 in a pro rata way. Impairment losses recognized on initial classification as held for sale, and subsequent gains or losses on re-measurement, are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Cash flow's discontinued operation - Presentation

The Group's presentation policy of Cash flow's discontinued operation is to prepare a statement of cash flows that includes an analysis of all cash flows in total: i.e., including both continuing and discontinued operations; and disclose the amounts related to discontinued operations by operating, investing and financing activities in the notes. In addition, cash flows attributable to operating, investing and financing activities of discontinued operations can be presented separately in the statement of cash flows.

The condensed consolidated statement of financial position as of September 30, 2021 has been derived from the Group's last annual audited consolidated financial statements. These condensed consolidated interim financial statements do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (IFRS). However, selected explanatory notes have been included to explain events and transactions that are significant to an understanding of the changes in the financial position and the performance of the Group since the last annual financial statements.

These condensed consolidated interim financial statements were approved by the Group Management on October 30, 2021.

B. Use of estimates and judgements

The preparation of these condensed consolidated interim financial statements requires Management to make judgments, estimates and assumptions that affect the application of Group's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

C. Measurement of fair values

Some of the Group's accounting policies and disclosures require the measurement of fair value of financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of their fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values included in note 17 – Financial Instruments.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

D. Reclassifications

During 2021, and with the purpose of making the financial information comparable with the balances of the financial statements as of September 30, 2021, and in accordance with corporate policies, the Company's Management made certain reclassifications in the presentation of the Statement of Cash Flows, comparative figures as of September 30, 2020. Management considers that the reclassifications made, do not imply changes in the decisions made based on them.

E. Changes in significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the financial statements as at and for the year ended December 31, 2020.

We have not identified new standards applicable since January 1, 2021.

3. Discontinued Operations and Disposal group Held for Sale

Orazul Energy Group II S.A.C.

In the first half of 2021, Nautilus Energy Holdings LLC through the Company received an indication of interest for the gas to power business in Peru, which included the thermal power generation and hydrocarbon business.

In that context, in line with its aspiration of generating value through portfolio optimization, on June 25, 2021, the Company announced its decision to initiate a sale process of its indirect interest in the thermal power generation and hydrocarbon businesses in Peru (Termoselva and Aguaytía).

On September 30, 2021, Shareholders approved the sale of OEG II for a total consideration of US\$ 41.8 million through the Company's general meeting of shareholders. OEG II, a subsidiary of OEP, has the direct participation on Orazul Energy Hidrocarburos S.A. and indirect participation on Aguaytía Energy de Peru S.R.L. and Termoselva S.R.L.

On October 1, 2021, Orazul Energy Perú S.A. signed a Stock Purchase Agreement with Nautilus Partners III Perú S.A.C., a special purpose vehicle of Nautilus Energy Partners LLC, to sell the gas to power business in Peru, for a total consideration of US\$ 41.8 million. The sale included the Company's indirect ownership in the thermal power generation and hydrocarbon companies, Termoselva and Aguaytía, the total amount was paid on October 4, 2021. The sale was compliant with the requirements of the Company's notes indenture and all requirements for related party transactions.

On October 29, 2021, the Company announced the commencement of a cash tender offer (the "Tender Offer") for up to an amount of its outstanding Senior Notes that would not result in the aggregate purchase price exceeding US\$ 41.8 million (the "Maximum Tender Amount").

The Total Consideration per US\$ 1,000 principal amount of Notes payable to holders who validly tender their Notes on or prior to November 12, 2021 (the Early Tender Date) is US\$ 1,007.50. The Total Consideration payable under the Tender Offer include an Early Tender Payment of US\$ 50 for each US\$ 1,000 principal amount of Notes. Holders who validly tender (and do not validly withdraw) their Notes after the Early Tender Date on or prior to the Expiration Date (as defined below), and whose Notes are accepted for purchase, will be eligible to receive the Tender Offer Consideration, which is equal to the total consideration less the Early Tender Payment. The Tender Offer is scheduled to expire on November 29, 2021 (the "Expiration Date").

The Tender Offer is subject to certain customary conditions but is not contingent upon the tender of any minimum principal amount of Notes. Subject to applicable law, Orazul may amend, modify or terminate the Tender Offer at any time in its sole discretion.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

The Tender Offer constitutes an asset sale offer pursuant to the requirements of the indenture governing the Notes, in connection with Orazul's sale in October 2021 of its indirect ownership in the thermal power generation and hydrocarbon businesses, Termoselva S.R.L. and Aguaytía Energy del Perú S.R.L.

The subsidiary OEG II was classified as held-for-sale since September 30, 2021.

The comparative audited consolidated statement of profit or loss and other comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

Orazul Energy Group S.A.C.

On March 10, 2020, Orazul Energy Peru S.A. and Orazul Energía (UK) Holdings LTD signed a purchase agreement with Interconexión Eléctrica - ISA Peru, to sell its 100% ownership in Orazul Energy Group S.A.C. ("OEG"). OEG was a subsidiary of the Company, domiciled in Peru and the owner of 99.99% of the shares of Etenorte S.R.L. and Eteselva S.R.L. The closing of the sale agreement was subject to the approval from Peruvian authorities.

On August 11, 2020, INDECOPI, the Peruvian antitrust authority, approved the acquisition by Interconexión Eléctrica - ISA Peru without any conditions.

On August 24, 2020, the Company sold its 100% ownership of OEG to Interconexión Eléctrica - ISA Peru for US\$ 158,254 thousand total consideration after working capital adjustments.

OEG was classified as held-for-sale since March 1, 2020, as the 10-day results were not considered material for consolidated purposes.

OEG was not previously classified as held-for-sale or as discontinued operation. The comparative audited consolidated statement of profit or loss and other comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

A. Results of discontinued operation

As of September 30, 2021 and 2020, the discontinued operations comprise the results of OEG II and OEG Subsidiaries:

OEG II

<i>In thousands of U.S. dollars</i>	Nine-month period ended 30 September	
	2021	2020
Revenue	38,023	37,628
Cost of sales (excluding depreciation and amortization)	(17,933)	(14,229)
Depreciation and amortization	(10,563)	(9,649)
Impairment loss	(117,249)	-
General, selling and administrative expenses	(2,093)	(1,889)
Other, net	149	116
Finance cost, net	(1,148)	(490)
(Loss) profit before income tax and discontinued operations	(110,814)	11,487
Income tax income (expense)	27,718	(4,628)
(Loss) profit from discontinued operations, net of tax	(83,096)	6,859
Transaction costs	(471)	-
(Loss) profit from discontinued operations	(83,567)	6,859

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

- (a) As of September 30, 2021 and 2020, part of the revenues from the energy services came from sales made to the Company for US\$ 217 and US\$ 2,999, respectively.

OEG

	Eight-month period ended August 24, 2020
<i>In thousands of U.S. dollars</i>	
Revenues from transmission	5,919
Costs of sales of transmission	(616)
Depreciation	(978)
Administrative expenses	(238)
Other income, net	58
Finance cost, net	(136)
Results from operating activities	4,009
Income tax	(2,071)
Profit from discontinued operations, net of tax	1,938
Consideration received	158,463
Net assets of disposal group	(38,646)
Transaction costs	(2,888)
Profit from discontinued operations, net of tax	118,867

As of August 24, 2020, part of the revenues from the transmission services came from sales made to the Company and Termoselva for US\$ 2,016.

B. Cash flow from discontinued operation

	OEG II Nine-month period ended September 30,2021	OEG Eight-month period ended August 24,2020
<i>In thousands of U.S. dollars</i>		
For the period		
Opening balance	9,015	-
Net cash provided by operating activities	9,220	7,043
Net cash used (provided) in investing activities	(8,226)	151,420
Net cash used in financing activities	(207)	-
Cash for disposed of	-	(7,043)
Net cash flow from discontinued operations	9,802	151,420

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

C. Effect of disposal on the financial position of the Group

	OEG II	OEG
	September 30,	August 24,
<i>In thousands of U.S. dollars</i>	2021	2020
Cash	9,802	7,043
Trade receivables	6,934	817
Other receivables	2,154	31
Income tax receivable	2,698	207
Inventories	5,501	407
Intercompany receivables	436	-
Other assets	1,213	235
Property, plant and equipment, net (a)	10,766	34,313
Intangible assets, net (a)	-	-
Deferred income tax assets	19,465	133
Assets held for sale	58,969	43,186
Operating leasing	531	-
Trade payables	2,971	86
Other payables	793	116
Income tax payable	20	713
Deferred income	-	177
Asset retirement obligation	12,858	-
Deferred income tax liabilities	-	3,448
Liabilities held for sale	17,173	4,540
Net assets of disposal group held for sale	41,796	38,646
Consideration received, satisfied in cash	-	155,367
Cash from discontinued operations	-	(7,043)
Net cash inflows	-	148,324

- (a) As of September 30, 2021, the Company recorded an impairment loss of US\$ 117,249 thousand writing down the carrying amount of the disposal group to its fair value less costs to sell. It was included in discontinued operations in the condensed consolidated statement of profit or loss and OCI.

4. Cash

Comprises the following:

	September 30,	December 31,
<i>In thousands of U.S. dollars</i>	2021	2020
Checking accounts (a)	15,483	153,437
Petty cash	4	8
	15,487	153,445

- (a) The Group holds checking accounts in different financial entities. As of September 30, 2021, and December 31, 2020, the balance of this account includes mainly current account deposit in foreign and local currency.

The credit quality that safeguards the Group's bank deposits have the same evaluation as compared to December 31, 2020.

5. Trade Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	September 30, 2021	December 31, 2020
Non-regulated customers	3,604	6,804
Regulated customers	8,847	15,681
COES (a)	595	2,207
Other	-	19,243
Subtotal (b)	13,046	43,935
Less-allowance for doubtful accounts (c)	(133)	(19,293)
	12,913	24,642

Trade receivables are denominated in U.S. dollars (non-regulated customers) and soles (COES and regulated customers). They have current maturity and do not generate interest, except in the case of payment delays. Balance of trade receivables as of September 30, 2021, corresponds mainly to 8 non-regulated, 9 regulated customers (6 non-regulated, 5 regulated customers and 2 hydrocarbon customer as of December 31, 2020). The receivables are considered to be held whiting a held to collect business model consisted with the Group continuing recognition of the receivable.

The average credit period granted to customers of the Group ranges between 7 and 30 days. Once the terms indicated above expire, overdue balances accrue interests. The interest rate is determined by the annual average of the lending and borrowing rates of the foreign and local currency. As of September 30, 2021, the annual average interest rates for the Group are 5.93% and 3.23% for local and foreign currency, respectively (7.23% and 3.58% as of December 31, 2020, for local and foreign currency, respectively).

- (a) The Committee of Economic Operation of the National Interconnected System (COES) as the system operator acts as a clearing house and settles the payments for power generation companies. As of September 30, 2021, this amount includes US\$ 175 thousand for related parties (US\$ 532 thousand as of December 31, 2020) (note 21).
- (b) The aging of trade receivables is the following:

<i>In thousands of U.S. dollars</i>	September 30, 2021	December 31, 2020
Unexpired	12,738	19,288
Less than 30 days	169	1,723
31 to 90 days	-	2,153
91 to 180 days	8	-
181 to 360 days	45	1,478
More than 361 days (b)	86	19,293
	13,046	43,935

The aging of account receivables and the status of customers are constantly monitored to ensure the appropriateness of the estimate in the consolidated financial statements. As a result, Management considers that the impairment estimate of accounts receivables covers sufficiently the risk of loss of doubtful accounts as of September 30, 2021, and December 31, 2020.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

- (c) As of December 31, 2020, past due trade receivables (over 360 days) are mainly related to Aguaytia and correspond to the non-collectability of the invoices issued to Maple Gas Corporation del Perú, a former customer of natural gasoline (note 6(a)). Natural gasoline was sold to Maple Gas Corporation until July 14, 2017. Currently, Natural Gasoline is sold to Perenco Peru Petroleum Limited Sucursal del Perú ("Perenco") without any non-collectability issues. As of September 30, 2021, this balance was reclassified as Discontinued Operations and Assets Held for Sale (see note 3).

6. Other Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	September 30, 2021	December 31, 2020
Current portion		
Guarantee deposits (a)	-	1,291
Work for taxes mechanisms	-	1,291
Other receivables	135	229
	135	2,811
Non-current portion		
Credit on temporary taxes on net assets – ITAN	6	388
	6	388
	141	3,199

- (a) In 2019, the subsidiary Aguaytia, granted a guarantee deposit in favor of legal adviser in U.S. in connection to the recovery procedure to Maple Gas Corporation del Peru S.R.L. This guarantee deposit will be used to satisfy any liability or claims, expense, cost, damage and legal expenses that may be incurred during the recovery process, it is renewed annually by evaluation of the Management and can be recovered within the terms established in the contract in case it is not decided to continue with the collection process.

7. Income Tax Receivable and Payable

Comprises the following:

<i>In thousands of U.S. dollars</i>	September 30, 2021	December 31, 2020
Income tax receivable (a)	2,281	2,315
Income tax payable	-	1,585

- (a) It corresponds to the current income tax, which will be consumed or paid during the year 2021.

8. Inventories

Comprises the following:

<i>In thousands of U.S. dollars</i>	September 30, 2021	December 31, 2020
Supplies and spare parts	1,298	5,802
Fuel to sale	-	71
Fuel and lubricants	29	93
	1,327	5,966
Impairment (a)	(23)	(337)
	1,304	5,629

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

- (a) The impairment of inventories was determined based on internal technical reports. Management believes that this estimate covers the obsolescence risk appropriately as of September 30, 2021, and December 31, 2020.

9. Property, Plant and Equipment

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	September 30, 2021	December 31, 2020
Cost			
Beginning balance		682,630	844,302
Additions			
Asset retirement cost		(554)	3,521
Building and construction		25	4
Machinery and equipment		88	20
Spare parts		13	-
Sundry equipment		342	30
Vehicles		269	1,197
Furniture and fixture		44	-
Work in progress		947	1,160
Total additions		1,174	5,932
Transfers			
Building and construction		125	287
Machinery and equipment		(328)	1,631
Vehicles		-	(60)
Furniture and fixture		-	(1)
Spare parts		367	77
Sundry equipment		(10)	573
Work in progress		(154)	(2,507)
Total transfers		-	-
Disposals			
Building and construction		-	(10,600)
Machinery and equipment		(49)	(4,526)
Vehicles		(381)	(426)
Furniture and fixture		-	(230)
Sundry equipment		(13)	(2,721)
Total disposals		(443)	(18,503)
Reclassification to assets held for sale	3.C	(123,321)	(149,101)
Ending balance		560,040	682,630
Accumulated depreciation			
Beginning balance		(413,484)	(527,069)
Additions			
Building and construction		(4,148)	(5,611)
Vehicles		(326)	(186)
Machinery and equipment		(8,775)	(11,446)
Asset retirement obligation		(180)	(149)
Spare parts		(37)	-
Sundry equipment		(557)	(1,005)
Furniture and fixture		(5)	(13)
Total additions		(14,028)	(18,410)

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

<i>In thousands of U.S. dollars</i>	<i>Note</i>	September 30, 2021	December 31, 2020
Disposals			
Building and construction		-	9,979
Machinery and equipment		49	4,152
Vehicles		381	344
Furniture and fixture		-	424
Sundry equipment		12	2,308
Total retirement		442	17,207
Transfers			
Machinery and equipment		259	-
Spare parts		(269)	-
Sundry equipment		10	-
Total transfers		-	-
Reclassification to assets held for sale	<i>3.C</i>	75,835	114,788
Ending balance		(351,235)	(413,484)
Net cost at the beginning of the period		269,146	317,233
Net cost of the end of the period		208,805	269,146

- (a) Property, plant and equipment includes right-of-use assets for US\$ 300 thousand as of September 30, 2021 (US\$ 892 thousand as of December 31, 2020):

<i>In thousands of U.S. dollars</i>	<i>Note</i>	September 30, 2021	December 31, 2020
Cost			
Beginning balance		1,192	3,460
Additions			
Vehicles (e)	<i>14</i>	217	1,197
Total additions		217	1,197
Retirements			
Buildings and other constructions		-	(3,036)
Vehicles		-	(302)
Sandy equipment		-	(127)
Total retirements		-	(3,465)
Reclassification to assets held for sale	<i>3.C</i>	(863)	-
Ending balance		546	1,192
Accumulated depreciation			
Beginning balance		(300)	(3,373)
Additions			
Vehicles		(304)	(387)
Total additions		(304)	(387)
Retirements			
Buildings and other constructions		-	3,036
Vehicles		-	297
Sandy equipment		-	127
Total retirements		-	3,460
Reclassification to assets held for sale	<i>3.C</i>	358	-
Ending balance		(246)	(300)
Net cost at the beginning of the period		892	87
Net cost of the end of the period		300	892

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

- (b) Distribution of depreciation was as follows:

<i>In thousands of U.S. dollars</i>	Nine-month period ended September 30		Three-month period ended September 30	
	2021	2020	2021	2020
Cost of sale of electrical energy	9,959	10,138	3,266	3,357
Administrative and selling expenses	302	309	97	102
Total continued operation	10,261	10,447	3,363	3,459
Total discontinued operations	3,767	2,311	1,256	733
	14,028	12,758	4,619	4,192

- (c) As of September 30, 2021, and December 31, 2020, the Company has insured all plants' assets for property damage under its Property Damage Business Interruption (PDBI) policy. In Management's opinion, this insurance policy is consistent with the international industry practice and the risk of possible losses for claims considered in the insurance policies is reasonable, taking into consideration the Company's types of assets.
- (d) In January 2021, the Company signed a 2-years contract with a Company for an operational leasing for renting of a barge. In January 2020, the Company signed a 4-year contract with a renting company for an operational leasing for its vehicles.
- (e) As of September 30, 2021 and December 31, 2020, the Company do not have guarantees related to the acquisition of property, plant and equipment.
- (f) As of September 30, 2021 and December 31, 2020, in Management's opinion, there were no impairment indicators on the value of property, plant and equipment.

10. Gas Investments

Comprises the following:

<i>In Thousands of U.S. dollars</i>	<i>Nota</i>	September 30, 2021	December 31, 2020
Cost			
Beginning balance		176,478	171,692
Additions			
Gas and fractionation plant		113	-
Asset retirement		(137)	1,057
Spare Parts		35	-
Vehicles		-	82
Furniture and fixture		18	-
Sundry equipment		92	80
Work in progress		4,453	3,669
Total additions		4,574	4,888
Transfer			
Gas and fractionation plant		(5)	2,275
Vehicles		-	(8)
Spare parts		291	-
Furniture and fixture		-	18
Sundry equipment		-	263
Work in progress		(286)	(2,548)
Total transfer		-	-
Disposals			
Furniture and fixture		-	(45)
Sundry equipment		-	(57)
Total disposals		-	(102)
Reclassification to assets held for sale	<i>3.C</i>	(181,052)	-
Ending balance		-	176,478

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

<i>In Thousands of U.S. dollars</i>	<i>Nota</i>	September 30, 2021	December 31, 2020
Accumulated depreciation			
Beginning balance		(112,081)	(103,568)
Additions			
Gas and fractionation plant		(5,176)	(7,602)
Spare parts		(3)	-
Vehicles		(21)	(13)
Furniture and fixture		(12)	(25)
Sundry equipment		(197)	(153)
Asset retirement obligation		(696)	(809)
Total additions		(6,105)	(8,602)
Disposals			
Furniture and fixture		-	34
Sundry equipment		-	55
Total disposals		-	89
Reclassification to assets held for sale	<i>3.C</i>	118,186	-
Ending balance		-	(112,081)
Net cost at the beginning of the period		64,397	68,124
Net cost of the end of the period		-	64,397

- (a) As September 30, 2021, work in progress mainly includes: Workover for US\$ 2,619 thousand, detection system for US\$ 766 thousand, extension of the concession for US\$ 481 thousand, erosion control for US\$ 140 thousand and others minors of US\$ 447 thousands (during 2020 work in progress mainly includes erosion control for US\$ 288 thousand, major maintenance of moto compressor for US\$ 234 thousand and Internal corrosion control system for US\$ 175 thousand).
- (b) As of September 30, 2021 and December 31, 2020, the Company do not have guarantees related to the acquisition of gas investments.

11. Intangible Assets and Goodwill

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Nota</i>	September 30, 2021	December 31, 2020
Cost			
Beginning balance		518,088	515,280
Additions			
Other rights (c)		(55)	7,599
Software		49	31
Total addition		(6)	7,630
Retirement			
Software		(1,239)	(4,822)
Total retirement		(1,239)	(4,822)
Reclassification to assets held for sale	<i>3.C</i>	(22,032)	-
Ending balance		494,811	518,088
Accumulated depreciation			
Beginning balance		(5,341)	(9,124)
Additions			
Software		(291)	(118)
Electric and hydrocarbon concessions (b)		(691)	(921)
Total addition		(982)	(1,039)

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

<i>In thousands of U.S. dollars</i>	<i>Nota</i>	September 30, 2021	December 31, 2020
Retirement			
Software		1,239	4,822
Total retirement		1,239	4,822
Reclassification to assets held for sale	3.C	4,369	-
Ending balance		(715)	(5,341)
Net cost at the beginning of the period		512,747	506,156
Net cost of the end of the period		494,096	512,747

- (a) The goodwill corresponds to (i) the excess of the net fair value of assets and liabilities identified during the acquisition of the Peruvian operating business on December 20, 2016, for US\$ 344,924 thousand, net of the deferred income tax liabilities arising from intangible assets acquired; and (ii) the adjustment of fair value of fixed assets for US\$ 50,532 thousand.
- (b) The electric and hydrocarbon concessions correspond to intangible assets identified at the acquisition date on December 20, 2016. The useful life of electric concessions is indefinite, and a remaining useful life of 10 years has been determined for hydrocarbon concession. As of September 30, 2021, and December 31, 2020, Management estimates are not required to establish reserves for the possible impairment of its intangible assets with an indefinite life.
- (c) Other rights correspond to the agreements signed between Orazul and Termoselva with regulated costumers, by which regulated costumers grant an option to sign addendums to the original public tender of certain PPAs, extending the contract term, modifying the contracted capacity and associated energy and maintaining the current fixed prices with framework of the Supreme Decree 022-2018 EM (note 13).

Management analysis indicated there were no impairment indicators on the value of the intangibles as of September 30, 2021 and December 31, 2020.

12. Trade Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	September 30, 2021	December 31, 2020
Energy purchases and transmission tolls	3,173	4,301
Other purchases	1,411	4,794
	4,584	9,095

Trade account payables are mainly denominated in U.S. dollars, have current maturities, do not accrue interests, and do not have specific guarantees.

13. Other Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Nota</i>	September 30, 2021	December 31, 2020
Interest payables-debentures		9,611	5,328
Option agreements	11(c)	554	8,529
Value-Added Tax		514	1,048
Other taxes		814	1,133
Rural electricity contribution		154	283
Various accruals and other account payables		97	96
		11,744	16,417

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

14. Lease Liabilities

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	September 30, 2021	December 31, 2020
Opening balance		946	93
Additions (a)	9(e)	217	1,197
Payments		(340)	(392)
Unwind of discount		40	48
Liabilities held for sale	3.C	(532)	-
		331	946

- (a) In September 30, 2021, and December 31, 2020, correspond to a 4-year contract with a renting company for an operational lease for the Group's vehicles signed in January 2020.
- (b) The lease liability is distributed as follows:

<i>In thousands of U.S. dollars</i>	September 30, 2021	December 31, 2020
Current portion		
Lease liabilities	147	312
Subtotal	147	312
Non-current portion		
Lease liabilities	184	634
Subtotal	184	634
Total	331	946

15. Debentures

Comprises the following:

<i>In thousands of U.S. dollars</i>	September 30, 2021	December 31, 2020
Senior notes		
Proceeds from issuance of Orazul Energy Perú 2027 notes (a)	404,686	550,000
Transaction costs	(5,132)	(7,604)
	399,554	542,396

- (a) In April 2017, the Company (originally Orazul Energy Egenor S. en C. por A., later merged into the Company, on August 16, 2017) issued, in the international capital market, US\$ 550,000 thousand under Rule 144A/Reg S. The Notes obtained the risk rating "BB", assigned by the international risk-rating agencies Fitch Ratings and Standard & Poor's. Notes interests are payable biannually with final maturity in April 2027 with a coupon rate of 5.625%.
- (b) On June 25, 2021, the Company announced the commencement of a cash tender offer (the "Tender Offer") for up to an amount of its outstanding Senior Notes that would not result in the aggregate purchase price exceeding US\$ 150,400 thousand (the Maximum Tender Amount).

On August 12, 2021, the Company announced the final tender results for its Tender Offer. The Company informed that a total of US\$ 362.5 million aggregate principal amount of the Notes was validly tendered. Since the aggregate principal amount of the Notes validly tendered resulted in an aggregate purchase price that exceeded the Maximum Tender Amount of US\$ 150.4 million, the Company accepted for purchase US\$ 145.3 million aggregate principal amount of the Notes, using a proration factor of approximately 40.1%.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

The Total Consideration for the Notes validly tendered and accepted pursuant to the Tender Offer was US\$ 1,035 per US\$ 1,000 principal amount of Notes. In addition to the Total Consideration, holders received accrued and unpaid interest on all Notes tendered and accepted for payment in the Tender Offer from the last interest payment date up to, but not including, August 13, 2021 (the "Settlement Date").

The Tender Offer constituted an asset sale offer pursuant to the requirements of the indenture governing the Notes, in connection with Company's sale in August 2020 of its indirect ownership in the transmission business companies, Etenorte S.R.L. and Eteselva S.R.L.

After the Tender Offer was completed, our Notes amounted to US\$ 404,686 thousand.

A. Terms and debt repayment schedule

The terms and conditions are as follows:

	Nominal annual			Fair value		Carrying amount	
<i>In thousands of U.S. dollars</i>	interest rate	Currency	Maturity	2021	2020	2021	2020
Debentures							
Orazul 2027 Notes	5.625%	US\$	April -2027	404,686	550,000	399,554	542,396

The table below presents the payment schedule of the non-current portion of the long-term debt as of September 30, 2021:

<i>In thousands of U.S. dollars</i>	
2024 and thereafter	404,686
	404,686

B. Financial obligations and covenants

The conditions of the notes as of September 30, 2021, are the same disclosed in the annual consolidated financial statements of the Company as of December 31, 2020.

16. Asset Retirement Obligation

Comprises the following:

<i>In thousands of U.S. dollars</i>	Note	September 30, 2021	December 31, 2020
Balance as of January 1		22,141	17,224
Additions		(691)	4,578
Unwind of discount		162	342
Liabilities held for sale	3.C	(12,858)	-
Other		(7)	(3)
Ending balance		8,747	22,141

The provision for decommissioning liabilities corresponds to Aguaytia plant, hydroelectric power plants Cañon del Pato and Carhuaquero (Orazul) and thermoelectric power plant in Ucayali (Termoselva). It has been determined considering all costs necessary to dismantle and rehabilitate the land where the station is currently located. The future value, considering inflation amounts to US\$ 32,368 thousand, has been discounted using an annual risk-free rate ranging from 0.36% to 1.37%.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

17. Financial Instruments
A. Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

	Carrying amount			Fair value
	Current	Non-current		
	Amortized cost	Other financial liabilities	Other financial liabilities	Level 2
<i>In thousands of U.S. dollars</i>				
As of September 30, 2021				
Financial assets not measured at fair value				
Cash and cash equivalents	15,487	-	-	-
Trade receivables	12,921	-	-	-
Other receivables (*)	135	-	-	-
Financial liabilities not measured at fair value				
Trade payable	-	(4,584)	-	-
Other payable (*)	-	(10,416)	-	-
Intercompany payables	-	-	(21,712)	-
Debentures	-	-	(399,554)	(409,542)
Lease liabilities	-	(147)	(184)	-
	28,543	(15,147)	(421,450)	(409,542)
As of December 31, 2020				
Financial assets not measured at fair value				
Cash and cash equivalents	153,445	-	-	-
Trade receivables	24,642	-	-	-
Other receivables (*)	1,520	-	-	-
Intercompany receivables	419	-	-	-
Financial liabilities not measured at fair value				
Trade payable	-	(9,095)	-	-
Other payable (*)	-	(13,953)	-	-
Intercompany payables	-	(766)	(22,710)	-
Debentures	-	-	(542,396)	(579,568)
Lease liabilities	-	(312)	(634)	-
	180,026	(24,126)	(565,740)	(579,568)

(*) It does not include tax assets, tax liabilities, employee benefits and advances.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

B. Fair value measurements**Valuation techniques and significant unobservable inputs**

The following table shows the valuation techniques used in the determination of fair values of financial instruments – Level 2 as of September 30, 2021, and December 31, 2020:

Financial instruments not measured at fair value

Type	Valuation techniques	Key unobservable data	Interrelationship between key unobservable inputs and fair value
Loans from banks, debentures and others	Discounted cash flows using current market interest rate	Not applicable	Not applicable

18. Equity**Share capital**

Comprises the following:

<i>In thousands of U.S. dollars</i>	September 30, 2021	December 31, 2020
Orazul Energia (UK) Holdings Ltd.	384,982	196,066
Others	54	20
	385,036	196,086

On February 24, 2021, the Company capitalized the retained earnings of the 2020 period for US\$ 188,950 thousand and issued additional shares for 690,801,200 with a nominal value of S/ 1.00 per share.

As of September 30, 2021, issued capital stock is represented by 1,342,025,489 common shares with a fair value of S/ 1.00 per share, duly authorized, issued and paid.

Shareholders	Number of shares	%
Orazul Energia (UK) Holdings Ltd.	1,341,835,923	99.99
Others	189,566	0.01
	1,342,025,489	100.00

As of December 31, 2020, issued capital stock was represented by 651,224,289 common shares with a fair value of S/ 1.00 per share, duly authorized, issued and paid.

Shareholders	Number of shares	%
Orazul Energia (UK) Holdings Ltd.	651,132,301	99.99
Others	91,988	0.01
	651,224,289	100.00

Legal reserve

According to the Companies Act, the Company is required to allocate at least 10% of its annual net income to a legal reserve after deducting accumulated losses. This allocation is required until the reserve equals 20% of paid-in capital. In the absence of non-distributed earnings or freely available reserves, the legal reserve must be applied to offset but it must be replaced with the earnings of the subsequent years. This reserve can also be capitalized but its subsequent replenishment is equally mandatory.

There were no dividends declared and paid as of September 30, 2021 and December 31, 2020.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

19. Revenue

Comprises the following:

	Nine-month period ended September 30		Three-month period ended September 30	
<i>In thousands of U.S. dollars</i>	2021	2020	2021	2020
Sale of electrical energy				
Sale of energy and capacity				
Energy	42,649	41,337	14,679	14,632
Capacity	13,353	13,226	4,332	4,369
COES (regulated clients)				
Energy	4,636	3,382	315	331
Capacity	3,280	2,712	971	894
Other	204	259	27	24
	64,122	60,916	20,324	20,250

The estimated revenue pending of invoicing for the nine-month period ended September 30, 2021, amounts to US\$ 9,307 thousand (US\$ 8,951 thousand for the nine-month period ended September 30, 2020).

20. Tax Issues

The income tax rate for legal entities domiciled in Peru shall be determined by applying the rate of 29.5% on their net income.

Legal entities domiciled in Peru are subject to an additional rate of 5% on any amount that may be considered as indirect income provision, including amounts charged to expenses and unreported income; that is, expenses which may have benefited shareholders, interest holders, among others; other expenses not related to the business; expenses of shareholders, interest holders, among others, which are assumed by the legal entity.

The estimated average effective annual tax rate used for the nine-month period ended September 30, 2021 is 2,980% (1,725% for the nine-month period ended September 30, 2020). The change in the effective tax rate for the nine-month period ended September 30, 2021 correspond mainly to the impact of exchange difference in local currency and the difference in bases for the cost of the investment.

The subsidiary Aguaytía due to its Legal Stability Agreement, has an income tax rate of 30%.

As of September 30, 2021 and December 31, 2020, the Group have balances for credits and debits with the tax administration as follow:

<i>In thousands of U.S. dollars</i>	September 30, 2021	December 31, 2020
Income tax receivable	2,281	2,315
Income tax payable	-	1,585

21. Related Party Transactions**A. Parent companies and ultimate parent Company**

The Company's main shareholder is Orazul Energia (UK) Holdings Ltd, which belongs to the group of subsidiaries owned by ISQ Global Infrastructure Fund I & II (Delaware and Cayman exempted limited partnership), ultimate parent of the Group.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

B. Transactions with key management**i. Loans to directors**

As of September 30, 2021, there are no loans to directors (no loans to directors as of December 31, 2020).

ii. Key management compensation

As of September 30, 2021, there are no compensation to key management personnel (no compensation to key management as of September 30, 2020).

iii. Transactions with key management personnel

During the nine-month period ended September 30, 2021, there were no transactions between the Company and key management, other than those in (ii) (no transactions between the Company and key management during the nine-month period ended September 30, 2020, other than those in (ii)).

C. Other related entities transactions

In 2021 and 2020, the Group performed the following significant transactions with related parties, during the normal course of operations:

		Transaction value	
		Nine-month period ended	
		September 30	
<i>In thousands of U.S. dollars</i>	Transaction type	2021	2020
Kallpa Generación S.A. (a)	Management service and O&M	(4,718)	(5,125)
Samay I S.A.	COES	(1,168)	(1,119)
Kallpa Generación S.A.	COES	(1,291)	2,791
Eléctrica Cobee-Sucursal	Services	-	40
Orazul Energía Partners LLC (b)	Fair value	(3)	(2,424)
		(7,180)	(5,837)

		Outstanding balances	
		September 30,	December 31,
		2021	2020
<i>In thousands of U.S. dollars</i>	Transaction type		
Account receivables			
Kallpa Generación S.A.	COES	175	532
Kallpa Generación S.A.	Management service and O&M	114	360
Eléctrica Cobee-Sucursal	Services	-	59
		289	951
Account payables			
Kallpa Generación S.A.	COES	(28)	(55)
Samay I S.A.	COES	(127)	(275)
Kallpa Generación S.A.	Management service and O&M	-	(766)
		(155)	(1,096)
Other payables			
Orazul Energía Partners LLC (b)	Loan	(21,712)	(22,710)
		(21,712)	(22,710)
		(21,578)	(22,855)

The outstanding balances with related parties have current maturity and do not accrue interest. None of these balances are guaranteed.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

- (a) The Group and Kallpa Generación S.A. entered into a Management Service and Operational Service Agreement, which can be renewed under the express consent of the parties each year.
- (b) On December 20, 2016, Orazul Energía Partners LLC, granted a subordinated loan in favor of the Company for an aggregate amount of US\$ 255,950 thousand to fund the acquisition of Orazul Energy Group Shares. The loan accrued annual interest rate of 6% until final maturity on December 20, 2026.

On July 4, 2017, Orazul Energía Partners LLC assigned a portion of the subordinated loan in the amount of US\$ 127,950 thousand to Orazul Energía (UK) Holdings Ltd. On the same date, Orazul Energía (UK) Holdings Ltd. approved the capitalization of such debt and increased the capital stock issued of the Company. As of December 31, 2018, the updated interest was US\$ 22,652 thousand.

On January 2019, Orazul Energy Partners LLC modified the subordinated loan rate from 6% to 0%, without modifying the terms of maturity and payment. As a result of this change, the liability was reduced, and equity increased by US\$ 9,132 thousand net of a deferred tax of US\$ 2,694 thousand, generating a net effect of US\$ 6,438 thousand. In 2020, the Company paid a total of US\$ 64,000 thousand that generated an increase in equity of US\$ 1,082 thousand, net of deferred tax of US\$ 319, generating a net effect of US\$ 763 thousand.

As mentioned, in May, September, November and December 2020, the Company paid US\$ 19,000 thousand, US\$ 20,000 thousand, US\$ 20,000 thousand and US\$ 5,000 thousand respectively. As a result of these payments, the fair value loan was adjusted (In July, September, October and December 2019, the Company paid US\$ 20,000 thousand, US\$ 885 thousand, US\$ 10,000 thousand and US\$ 33,000 thousand respectively). As a result of these payments, the fair value of the loan was adjusted.

In February 2021, the Company paid US\$ 1,000 thousand corresponding to the balance of interest accrued until December 2018. The balance for the interest accrued amounts to US\$ 21,652 thousand.

22. Contingencies

As of September 30, 2021, the main contingencies of the Company are described as follow:

Orazul Energy Perú

(a) Labor claims

The Company is involved in several labor claims, mostly related to vacations, job reinstatement, compensation for damages (including moral damages) and profit sharing, for which, after being evaluated individually, as of September 30, 2021, The Company recorded a provision equivalent to US\$ 399 thousand for labor claims considered probable of losing.

In Management's opinion, based on its external legal advisors, it has been estimated that the Company could have to pay up to an equivalent amount of US\$ 711 thousand for labor claims that are not more likely than not that the Company will pay.

(b) Temporary Tax on Net Assets

Temporary tax on net assets return from 2013 was reviewed by the Tax Administration in 2014, which issued determination and fine resolutions for US\$ 207 thousand plus interests in May 2015. In July 2015, the Company filed a claim against the Tax Administration; and in April 2016, the Tax Administration declared the claim filed by the Company as groundless. In May 2016, the Company filed an appeal before the Tax Court, which has been resolved against Orazul in September 2019. In November 2019, the Company decided to pay the amount of US\$ 428 thousand (US\$ 285 thousand as ITAN and US\$ 143 thousand as fine, included interests). In December 2019, the Company filed the corresponding judicial action. The Judicial Court held a hearing on July 15, 2021 and in the same date the Company submitted an additional document in order to reinforce the arguments exposed in the claim. To date, the file is pending judgment.

In the opinion of Management and our legal advisors, there are legal and factual arguments that lead us to consider that is not more likely than not to be successful.

Termoselva

(a) Income Tax 2011

In April 2014, as a result of the tax audit 2011, the Tax Administration issued its determination and fine resolutions, because it did not consider, as a deductible expense for corporate income tax purposes, the payments made by Termoselva based on an extrajudicial agreement in favor of 88 Aguaytia Group workers, considering this payment as a company's liberality. During 2014 and 2015, Termoselva presented its corresponding claim and appeal. In July 2019, the Tax Court resolved accept the deductibility of the payment made to 28 Termoselva workers and ordered the Tax Administration to issue a new statement, which to date has not been done. In November 2019, Termoselva decided to file an appeal with the Judiciary which is currently ongoing.

Hearing was initially programmed for November 4, 2020 but it was postponed for April 22, 2021. On September 22, 2020, Termoselva submitted a request to reschedule this hearing and finally hearing was held on December 11, 2020. In April 2021, the Judicial Court held a new hearing for May 13, 2021. On May 16, 2021, the court orders that the judicial file be left in office for sentencing. The case is pending to be solved.

The updated contingency is US\$ 824 thousand.

In the opinion of Management and our legal advisors, there are legal and factual arguments that lead us to consider that is not more likely than not that Termoselva will pay.

(b) Advanced Payments 2012

In August 2015, Termoselva was notified of different resolutions related to the corporate income tax prepayments 2012.

The mentioned resolutions were issued because of referential omissions in the prepayments of the periods March to December 2012, considering the observations contained in Resolutions of the corporate income tax 2011, although it is being questioned by an appeal followed in the Judicial Court.

In September 2015, Termoselva filed its complaint before the Tax Administration which was declared as groundless. In March 2016, Termoselva appealed before the Tax Court, who resolved to revoke the resolution appealed, ordering the Tax Administration to be subject to the ruling of the Tax Court regarding the 2011 Income Tax, and based on this, to issue a new pronouncement. The case is pending to be solved.

The updated contingency is US\$ 152 thousand.

In the opinion of Management and our legal advisors, there are legal and factual arguments that lead us to consider that is not more likely than not that Termoselva will pay.

Aguaytía

(a) Judicial challenge filed against the OSINERGMIN

On April 9, 2012, Aguaytía initiated a court proceeding seeking judicial review of the Resolution No. 175-2011-OS/TASTEM-S2 issued by the OSINERGMIN, which determined the administrative responsibility of Aguaytía for having infringed the regulatory framework related to the implementation of the Supervisory Control and Data Acquisition System ("SCADA") and to pay a fine of US\$ 7,156 thousand plus interests.

On July 14, 2016, the claim was dismissed because, in opinion of the judge, Aguaytía did not prove that the SCADA system had been installed. This decision was appealed on July 21, 2016 arguing that the decision: i) affected our due process right of defense; (ii) diverted from the criteria previously established by other judicial entity; (iii) was based on facts not invoked or proven by the parties; and (iv) was not duly motivated in violation of Aguaytía's right of due process.

On July 21, 2017, the first instance decision was revoked and on July 31, 2017 OSINERGMIN filed an extraordinary appeal which is currently under revision by the Supreme Court.

On June 15, 2021, the oral report was held before the Supreme Court.

On August 12, 2021, the Supreme Court published its decision that declares the appeal of OSINERGMIN unfounded, confirming the favorable result for Aguaytía.

Supreme Court will send the file to the first instance judge for its execution.

23. Subsequent Events

On October 1, 2021, Orazul Energy Perú S.A. signed a Stock Purchase Agreement with Nautilus Partners III Perú S.A.C., a special purpose vehicle of Nautilus Energy Partners LLC, to sell the gas to power business in Peru, for a total consideration of US\$ 41.8 million. The sale included the Company's indirect ownership in the thermal power generation and hydrocarbon companies, Termoselva and Aguaytía. The total amount was paid on October 04, 2021. The sale was compliant with the requirements of the Company's notes indenture and all requirements for related party transactions.

On October 29, 2021, the Company announced the commencement of a cash tender offer (the "Tender Offer") for up to an amount of its outstanding Senior Notes that would not result in the aggregate purchase price exceeding US\$ 41.8 million (the "Maximum Tender Amount").

The Total Consideration per US\$ 1,000 principal amount of Notes payable to holders who validly tender their Notes on or prior to November 12, 2021 (the Early Tender Date) is US\$ 1,007.50. The Total Consideration payable under the Tender Offer include an Early Tender Payment of US\$ 50 for each US\$ 1,000 principal amount of Notes. Holders who validly tender (and do not validly withdraw) their Notes after the Early Tender Date on or prior to the Expiration Date (as defined below), and whose Notes are accepted for purchase, will be eligible to receive the Tender Offer Consideration, which is equal to the Total Consideration less the Early Tender Payment. The Tender Offer is scheduled to expire on November 29, 2021 (the "Expiration Date").

The Tender Offer is subject to certain customary conditions but is not contingent upon the tender of any minimum principal amount of Notes. Subject to applicable law, Orazul may amend, modify or terminate the Tender Offer at any time in its sole discretion.

The Tender Offer constitutes an asset sale offer pursuant to the requirements of the indenture governing the Notes, in connection with Orazul's sale in October 2021 of its indirect ownership in the thermal power generation and hydrocarbon businesses, Termoselva S.R.L. and Aguaytía Energy del Perú S.R.L., to Nautilus Energy Partners III S.A.C., a special purpose vehicle of Nautilus Energy Partners LLC.