Translation of financial statements and independent auditor's report originally issued in Spanish - See Note 26 to the consolidated financial statements

**Fossal S.A.A. and Subsidiary**

Consolidated financial statements as of December 31, 2021 and 2020 together with the Independent Auditors' Report

Building a better working world

# Translation of financial statements and independent auditor's report originally issued in Spanish - See Note 26 to the consolidated financial statements

## Fossal S.A.A. and Subsidiary

# Consolidated financial statements as of December 31, 2021 and 2020 together with the Independent Auditors' Report

Contents

# Translation of financial statements and independent auditor's report originally issued in Spanish - See Note 26 to the consolidated financial statements

## Independent Auditors' Report

To the Board of Directors and Shareholders of Fossal S.A.A. and Subsidiary

We have audited the accompanying consolidated financial statements of Fossal S.A.A. and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2021 and 2020 and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years then ended, and a summary of significant accounting policies and other explanatory information.

*Management's responsibility for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

*Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Auditing Standards approved for its application in Peru by the Board of Deans of Peruvian Public Accountants Associations. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

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## Independent Auditors' Report (continued)

accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of Fossal S.A.A. and Subsidiary as of December 31, 2021 and 2020 and its financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Lima, Peru
February 25, 2022

Signed by:

Tanaka, Valdivia & Asoc.

Oscar Mere
C.P.C.C. Register No.39990

Translation of financial statements and independent auditor's report originally issued in Spanish - See Note 26 to the consolidated financial statements

## Fossal S.A.A. and Subsidiary

# Consolidated statement of financial position

As of December 31, 2021 and 2020

| | Note | 2021 S/(000) | 2020 S/(000) |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 6 | 10,429 | 11,068 |
| Other receivables | 7 | 96 | 74 |
| Prepayments | | 29 | 43 |
| **Total current assets** | | 10,554 | 11,185 |
| **Non-current assets** | | | |
| Value-added tax credit | 7 | 215 | 158 |
| Income tax prepayments | | 84 | 1,341 |
| **Total non-current assets** | | 299 | 1,499 |
| **Total assets** | | 10,853 | 12,684 |
| **Liabilities and equity** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 13 | 1,805 | 2,362 |
| Lease liabilities | 11 | 24 | 20 |
| **Total current liabilities** | | 1,829 | 2,382 |
| **Non-current liabilities** | | | |
| Provisions | 14 | 3,328 | - |
| Lease liabilities | 11 | 51 | 68 |
| **Total non-current liabilities** | | 3,379 | 68 |
| **Total liabilities** | | 5,208 | 2,450 |
| **Equity** | 15 | | |
| Capital stock | | 26,982 | 107,594 |
| Investment shares | | 2,564 | 10,224 |
| Additional paid-in capital | | - | 116,346 |
| Legal reserve | | - | 36,957 |
| Accumulated losses | | (23,901) | (262,075) |
| **Equity attributable to equity holders of the parent** | | 5,645 | 9,046 |
| Non-controlling interests | | - | 1,188 |
| **Total equity** | | 5,645 | 10,234 |
| **Total liabilities and equity** | | 10,853 | 12,684 |

The accompanying notes are an integral part of these consolidated financial statements.

## Fossal S.A.A. and Subsidiary

# Consolidated statement of comprehensive income

For the years ended December 31, 2021 and 2020

| | Note | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|---|
| **Operating expenses** | | | |
| Impairment of investment acquired from non-controlling interest | 1 | (14,247) | - |
| Plant closure provision | 14 | (3,328) | - |
| Provision for impairment | 1.1 | (1,890) | (307,235) |
| Administrative expenses | 16 | (6,483) | (4,054) |
| Other operating incomes (expenses), net | 18 | 36 | (7,258) |
| **Total operating expenses, net** | | (25,912) | (318,547) |
| **Operating loss** | | (25,912) | (318,547) |
| | | | |
| **Other income (expenses)** | | | |
| Finance income | | 17 | 91 |
| Finance costs | | (47) | (13) |
| Gain from exchange difference, net | 5 | 196 | 22 |
| **Total other income, net** | | 166 | 100 |
| **Loss before income tax** | | (25,746) | (318,447) |
| Income tax expense | 12 | - | (20) |
| **Net Loss** | | (25,746) | (318,467) |
| | | | |
| Other comprehensive income | | - | - |
| **Total comprehensive income** | | (25,746) | (318,467) |
| | | | |
| **Attributable to:** | | | |
| Equity holders of the parent | | (23,901) | (222,917) |
| Non-controlling interests | | (1,845) | (95,550) |
| | | (25,746) | (318,467) |
| **Loss per share** | 20 | | |
| Basic and diluted loss for the year attributable to equity holders of common shares and investment shares of Fossal S.A.A. (S/ per share) | | (0.63) | (1.89) |

The accompanying notes are an integral part of these consolidated financial statements.

**Fossal S.A.A. and Subsidiary**

## Consolidated statement of changes in equity

For the year ended December 31, 2021 and 2020

| | Attributable to equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Capital stock S/(000) | Investment shares S/(000) | Additional paid-in capital S/(000) | Legal reserve S/(000) | Accumulated losses S/(000) | Total S/(000) | Non-controlling interests S/(000) | Total S/(000) |
| **Balance as of January 1, 2020** | 107,594 | 10,224 | 118,569 | 36,957 | (39,158) | 234,186 | 94,515 | 328,701 |
| Net Loss | - | - | - | - | (222,917) | (222,917) | (95,550) | (318,467) |
| **Total comprehensive income** | - | - | - | - | (222,917) | (222,917) | (95,550) | (318,467) |
| Other adjustments to non-controlling interest, note 15 (e) | - | - | (2,222) | - | - | (2,222) | 2,222 | - |
| Other | - | - | (1) | - | - | (1) | 1 | - |
| **Balance as of December 31, 2020** | 107,594 | 10,224 | 116,346 | 36,957 | (262,075) | 9,046 | 1,188 | 10,234 |
| Loss for the year | - | - | - | - | (23,901) | (23,901) | (1,845) | (25,746) |
| **Total comprehensive income** | - | - | - | - | (23,901) | (23,901) | (1,845) | (25,746) |
| Capital contributions, note 15 (a) | 18,721 | - | - | - | - | 18,721 | - | 18,721 |
| Purchase of investment shares, note 15 (b) | - | 1,779 | - | - | - | 1,779 | - | 1,779 |
| Other adjustments to non-controlling interest, note 15(e) | - | - | - | - | - | - | 657 | 657 |
| Application of accumulated losses, note 15(c) and (d) | - | - | (116,346) | (36,957) | 153,303 | - | - | - |
| Capitalization of losses, note 15(a) and (b) | (99,333) | (9,439) | - | - | 108,772 | - | - | - |
| **Balance as of December 31, 2021** | 26,982 | 2,564 | - | - | (23,901) | 5,645 | - | 5,645 |

The accompanying notes are an integral part of these consolidated financial statements.

Translation of financial statements and independent auditor's report originally issued in Spanish - See Note 26 to the consolidated financial statements

## Fossal S.A.A. and Subsidiary

# Consolidated statement of cash flows

For the year ended December 31, 2021 and 2020

| | Note | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|---|
| **Operating activities** | | | |
| Loss before income tax | | (25,746) | (318,447) |
| **Non-cash adjustments to reconcile loss before income tax to net cash flows** | | | |
| Impairment of investment acquired from non-controlling interest | 1 | 14,247 | - |
| Estimated provision for plant closure | 14 | 3,328 | - |
| Provision for impairment | 1.1 | 1,890 | 307,235 |
| Derecognition of access rights and easement | 10 (c) | - | 4,402 |
| Depreciation and amortization | 9, 10 and 11 | - | 4,351 |
| Finance costs | | 47 | 13 |
| Finance income | | (17) | (91) |
| Net gain on disposal of property, plant and equipment | 18 | (268) | (80) |
| Other operating, net | | 667 | 11 |
| | | | |
| **Working capital adjustments** | | | |
| Decrease in other receivables | | 813 | 3,325 |
| Decrease in prepayments | | 14 | 65 |
| Increase in inventories | | (1,464) | (1,266) |
| Decrease in trade and other payables | | (595) | (181) |
| | | (7,084) | (663) |
| Interests received | | 11 | 146 |
| Income tax paid | | (51) | (1,198) |
| **Net cash flows used in operating activities** | | (7,124) | (1,715) |
| | | | |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | - | (1,084) |
| Proceeds from sale of property, plant and equipment | | 266 | 280 |
| Purchase of non-controlling shares | | (14,247) | - |
| **Net cash flows used in investing activities** | | (13,981) | (804) |

# Consolidated statement of cash flows (continued)

| | Note | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|---|
| **Financing activities** | | | |
| Contribution of controlling interests | 15(a) | 18,591 | - |
| Contribution of non-controlling interests | 15(a) | 130 | - |
| Loan received from related parties | 19 (c) | 17,121 | - |
| Sale of investment shares to related parties | 15 (b) | 1,779 | - |
| Lease payments | 11 | (32) | (21) |
| Payment of loans obtained from related parties | 19 (c) | (17,121) | - |
| **Net cash flows provided by (used in) financing activities** | | 20,468 | (21) |
| Net decrease in cash and cash equivalents | | (637) | (2,540) |
| Net foreign exchange difference | | (2) | (2) |
| **Cash and cash equivalents as of January 1** | 6 | 11,068 | 13,610 |
| **Cash and cash equivalents as of December 31** | 6 | 10,429 | 11,068 |
| **Transactions with no effect in cash flows:** | | | |
| Unrealized exchange difference related to monetary transactions | | 2 | 2 |

The accompanying notes are an integral part of these consolidated financial statements.

## Fossal S.A.A. and Subsidiary

# Notes to the consolidated financial statements

As of December 31, 2021 and 2020

1. **Corporate information**

Fossal S.A.A. (hereinafter "the Company") was incorporated in August 8, 2016 and, under the Peruvian General Corporation Law, is an open stock corporation with publicly traded shares, whose shares are registered in the securities registry of the Stock Exchange of Lima (BVL). The Company is a subsidiary of Inversiones ASPI S.A. (ASPI, hereinafter "the Principal"), an entity that held 50.01 percent of the Company’s common shares as of December 31, 2020. As part of an application, offset loss and capital increase process carried out between March and November 2021, see note 15, the Principal holds 84.21 percent of the Company's common shares as of December 31, 2021. The Company’s registered address is Calle La Colonia No.150, Urbanización El Vivero, Santiago de Surco, Lima, Peru.

The Company’s main activity is to keep the investment in the subsidiary Fosfatos del Pacífico S.A. (hereinafter “the Subsidiary”), a company that holds the right of use a non-metallic mining concession in Bayóvar (Region of Piura), which contains phosphoric rock, diatomite and other minerals.

On August 31, 2021, the Company purchased from Mitsubishi Corporation the 30 percent of the Subsidiary’s common shares in exchange for a payment of approximately US$3,477,000 equivalent to S/14,247,000, as a consequence of the transaction, the Company holds the 100 percent of the Subsidiary’s common shares as of December 31, 2021.

As a result of impairment of the phosphates project, see note 1.1, the payment made for this acquisition resulted in a loss, that is presented in the caption “impairment of investment acquired from non-controlling interest” of the consolidated statement of comprehensive income of the year 2021.

The issuance of the consolidated financial statements of the Company and its subsidiary for the year ended December 31, 2021 was authorized by the Company’s Board of Directors on February 25, 2022. The consolidated financial statements as of December 31, 2020 and for the year ended that date were approved by the General Shareholders’ Meeting on March 23, 2021.

As of December 31, 2021 and 2020, the consolidated financial statements include the financial statements of the Company and its subsidiary.

Fosfatos del Pacífico S.A., have a mining concession to extract diatomite, is mainly engaged in the exploration of phosphoric rock deposits (hereinafter “the Phosphates project”) and the production of diatomite in the northern region of Peru. On December 29, 2011, the Subsidiary signed a commercial agreement "Off-take agreement" with Mitsubishi. On April 29, 2021, the Subsidiary signed a termination agreement (“off-take agreement termination payment”) that terminated the obligation to purchase future phosphate rock. As of 31 December 2021, said obligation has been canceled and represented a disbursement of US$700,000 for its Subsidiary, see note 16.

The table presented below shows the summary of the main captions of the audited financial statements of the Subsidiary as of December 31, 2021 and 2020, which is based on amounts before intercompany transaction eliminations:

| | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|
| **Statement of financial position** | | |
| **Assets** | | |
| Cash and cash equivalents | 8,854 | 4,928 |
| Income tax prepayments | 33 | 1,288 |
| Other | 124 | 116 |
| **Total assets** | 9,011 | 6,332 |
| **Liabilities and equity** | | |
| **Liabilities** | | |
| Trade and other payables | 1,778 | 2,291 |
| Lease liabilities | 75 | 88 |
| Provisions | 3,328 | - |
| **Net Equity** | | |
| Capital stock | 410,143 | 399,643 |
| Additional paid-in capital | 40,215 | 40,215 |
| Accumulated losses | (446,528) | (435,905) |
| **Total liabilities and equity** | 9,011 | 6,332 |
| **Statement of comprehensive income** | | |
| Administrative expenses | (6,151) | (3,847) |
| Plant closure provision | (3,328) | - |
| Provision of impairment | (1,890) | (307,235) |
| Other operating incomes (expenses), net | 693 | (7,258) |
| Total other incomes (expenses), net | 53 | (160) |
| **Net Loss** | (10,623) | (318,500) |
| **Statement of cash flows** | | |
| Net cash flows used in operating activities | (6,801) | (1,332) |
| Net cash flows provided by (used in) investing activities | 266 | (804) |
| Net cash flows from financing activities | 10,468 | 4,175 |
| **Net increase in cash** | 3,933 | 2,039 |

1.1. Impairment of the phosphates project -

On December 30, 2020, the Board of Directors of the subsidiary Fosfatos del Pacífico S.A. approved the recognition of an accounting provision for the total impairment of the Phosphates Project assets, due to : i) the Environmental Impact Study (EIA) of the project for the exploitation of phosphate rock expired in September 2021 and its renewal will take longer than the remained period of its validity and ii) international prices in effect at that date of phosphate rock with the characteristics of the Subsidiary's deposit in effect at that date are lower than the estimated sale prices that guaranteed the profitability originally expected, so it would not be profitable to carry out such project in the short or medium term.

Consequently, as of December 31, 2020 the consolidated financial statements of the Company and its subsidiary include a debit to expenses due to impairment on the assets of this project, as shown below:

| | S/(000) |
|---|---|
| Assets - | |
| Value-added tax Credit, note 7 | (55,196) |
| Inventories, note 8 | (4,549) |
| Property, plant and equipment, note 9 | (190,419) |
| Exploration and evaluation, note 10 | (29,709) |
| Right-of-use assets, note 11 | (80) |
| Deferred income tax asset, note 12 | (27,282) |
| **Total impairment** | (307,235) |
| Attributable to - | |
| Equity holders of the parent | (215,065) |
| Non-controlling interests | (92,170) |
| | (307,235) |

As of result of the Subsidiary's operations in the year 2021 inventories have been generated for S/1,464,000 and general sales taxes for S/426,000 which are fully devalued as of December 31, 2021.

1.2. Accumulated losses and management plans

As of December 31, 2020, the Company and its subsidiary accumulated losses amount to S/23,901,000 and operating losses amount to S/25,912,000 ( S/262,075,000 y S/318,547,000 as of December 31, 2020). In this sense, the Company's net equity has been reduced to less than one third of the subscribed and paid capital stock; which, in accordance with the provisions of subsection 4 of article No. 407 of the General Law of Companies, is ground for dissolution unless the losses are compensated or the capital stock is increased in a sufficient amount. In order to ensure the continuity of its operations, the Principal has committed to continue providing the necessary financial support so the Company and its subsidiary can continue with its operations and fulfill its obligations to third parties. The financial statements as of December 31, 2021 and 2020 have been prepared assuming the continuity of the operation of Company and its subsidiary as going concern and do not include adjustments and reclassifications that may arise in the event that the Company is unable to continue with their operations. During the year 2021, the Company has applied and offset accumulated losses against various equity accounts, such as capital stock, investment shares, additional paid-in capital and other reserves, and has received contributions from shareholders in order to improve its equity position, see note 15. The Management still evaluating the actions to be taken, among which are applying losses against the corresponding equity accounts, in order to regularize the situation of the Company and its subsidiary.

1.3. COVID 19 -

COVID-19, an infectious disease caused by a new virus, was declared a world-wide pandemic by the World Health Organization ("WHO") on 11 March 2020.The measures to slow the spread of COVID-19 have had a significant impact on the global economy.

On March 15, 2020, the Peruvian government declared a nationwide state of emergency, effectively shutting down all business considered non-essential (with exception of food production and commercialization, pharmaceuticals and health). The subsidiary Fosfatos del Pacífico S.A. it is currently in the pre-operational stage; however, since that date, it paralyzed its activities until the Government allowed us to restart them on July 8, 2020.

During 2021, a large part of the Peruvian population has been immunized with various types of vaccines, this measure has allowed the economic reactivation to continue and the reduction of positive cases. Given the presence of the Omicron variant, the Peruvian Government has established a series of measures to prevent the spread of this variant.

On January 21, 2022, the Government has decided to extend the nationwide state of emergency for 180 calendar days from March 2, 2022 to August 29, 2022 in order to continue with prevention, control and health care actions for the protection of the country population.

The Subsidiary has not been materially affected by the stoppage of activities indicated by the Government, since it currently extracts a minimum amount of diatomite in order to comply with a contract signed with two third parties, see note 21. Regarding credit risk, there has been no impact due to COVID-19 since the balances kept in bank accounts are deposited in first-rate financial institutions. Regarding financing, there has been no impact due to COVID-19 because the operations of the Company and its subsidiary have been settled with available cash balances and it has not required access to additional financing sources during 2021.

We continue to monitor the evolution of the situation and the guidance of national and international authorities, as events beyond our control may arise that require us to adjust our work plan. A new outbreak or further spread of COVID-19 and the consequent measures to limit the spread of the disease that could be taken by the Government, would affect our ability to carry out our activities in the usual way and may adversely affect the results of operations and financial situation.

## 2. Significant accounting policies

2.1 Basis of preparation -

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Soles and all values are rounded to the nearest thousand (S/000), except when otherwise indicated.

The consolidated financial statements of the Company and its subsidiary provide comparative information in respect of the previous period. There are certain standards and amendments applied for the first time by the Company and its subsidiary during 2021 that did not require the restatement of previous financial statements, as explained in note 2.3.16.

2.2 Basis of consolidation -

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as of December 31, 2021 and 2020. Control is achieved when the Company and its subsidiary are exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if it has: (i) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee), (ii) exposure, or rights, to variable returns from its involvement with the investee, and (iii) the ability to use its power over the investee to affect its returns.

The Company and its subsidiary reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begin when the Company and its subsidiary obtain control over the subsidiary and ceases when the Company and its subsidiary loss control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company and its subsidiary gain control until the date the Company cease to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Company and its subsidiary and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies into line with the Company and its subsidiary's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company and its subsidiary are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.3 Summary of significant accounting policies -

2.3.1 Cash and cash equivalents -

Cash and cash equivalents presented in the statements of cash flows comprise cash at banks and on hand and short-term deposits with original maturity of three months or less.

2.3.2 Financial instruments-initial recognition and subsequent measurement –

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets -

Initial recognition and measurement -

Financial assets are classified, at initial recognition, as measured at amortized cost, fair value through other comprehensive income (OCI) or fair value through profit or loss.

Subsequent measurement -

For purposes of subsequent measurement, financial assets are classified into the following categories:

- Financial assets at amortized cost (debt instruments).
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments).
- Financial assets designated at fair value through OCI with not recycling of cumulative gains and losses upon derecognition (equity instruments).
- Financial assets at fair value through profit or loss.

The classification depends on the business model of the Company and its subsidiary and the contractual terms of the cash flows.

The Company and its subsidiary's financial assets include cash and cash equivalent and other receivables and have been classified in the category of financial assets at amortized cost.

*Financial assets at amortized cost (debt instruments)* -

The Company and its subsidiary measure financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to collect contractual cash flows and not sale or trade it, and if,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in the consolidated statement of comprehensive income when the asset is derecognized, modified or impaired.

Financial assets are not reclassified after their initial recognition, except if the Company and its subsidiary change its business model for its management.

Derecognition –

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the consolidated statement of financial position) when:

(i) The rights to receive cash flows from the asset have expired, or

(ii) The Company and its subsidiary have transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company and its subsidiary have transferred substantially all the risks and rewards of the asset, or (b) the Company and its subsidiary have neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company and its subsidiary have transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company and its subsidiary continue to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company and its subsidiary also recognize an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company and its subsidiary have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company and its subsidiary could be required to repay.

(ii) Impairment of financial assets -

The Company and its subsidiary recognize an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company and its subsidiary expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

(iii) Financial liabilities -

Initial recognition and measurement -

Financial liabilities are classified at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables carried at amortized costs, net of directly attributable transaction costs.

After their initial recognition, trade and other payables are subsequently measured at amortized cost using the effective interest rate (EIR) method. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of comprehensive income.

This category include trade and other payables and lease liabilities.

Derecognition -
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amount is recognized in the consolidated statement of comprehensive income.

(iv) Offsetting of financial instruments -
Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

(v) Fair value accounting hierarchy -
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value accounting hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Company and its subsidiary determine whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.3.3 Foreign currencies -

The functional and presentation currency for the consolidated financial statements of the Company and its subsidiary are soles, which is also the functional currency for its Subsidiary.

*Transactions and balances*

Transactions in foreign currencies are initially recorded at their respective functional currency spot rates at the date the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

2.3.4 Inventories -

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

*Supplies and Raw materials*

- Purchase cost determined using the weighted average method.

*Extracted diatomite*

- Cost of direct materials and supplies, services provided by third parties, direct labor, excluding borrowing costs and exchange currency differences.

*Inventory in transit*

- Purchase cost.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and the estimated costs necessary to make the sale.

As of December 31, 2021, the Company and its subsidiary have recorded a provision for impairment in inventories related to the Phosphates project, as explained in note 1.1.

2.3.5 Leases –

The Company and its subsidiary assessed at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company and its subsidiary as a lessee:
The Company and its subsidiary apply a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company and its subsidiary recognize lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right of use assets

The Company and its subsidiary recognize right-of-use assets at the commencement date of the lease (the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, unless the ownership of the leased asset transfers to the Company and its subsidiary at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The leased assets correspond to motorized vehicles whose useful life is 5 years.

The right-of-use assets are subject to impairment assessment. Refer to accounting policies in section 2.3.11.

As of December 31, 2020, the Company and its subsidiary have recorded a provision for impairment in their right-in-use asset, as explained in note 1.1.

ii) Lease liabilities

At the commencement date of the lease, the Company and its subsidiary recognize lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company and its subsidiary use its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the assessment of an option to purchase the underlying asset, a change in the amounts expected to be paid under residual value guarantee or changes to future payments resulting from a change in an index or rate used to determine such lease payments.

The lease liabilities of the Company and its subsidiary are included in the caption "Lease liabilities" in the consolidated statement of financial position.

iii) Short-term leases and leases of low-value assets

The Company and its subsidiary apply the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Payments for short-term leases and low-value assets are recognized as expenses on a straight-line basis over the term of the lease.

2.3.6. Property, plant and equipment -

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Company and its subsidiary recognize such parts as individual assets with specific useful lives and depreciated them separately based on their specific useful lives. All other repair and maintenance costs are recognized in the consolidated statement of comprehensive income as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgments, estimates and assumptions, see note 3.

Depreciation of assets is determined using the straight-line method over the estimated useful lives of such assets as follows:

| | Years |
|---|---|
| Buildings and other constructions | 30 |
| Machinery, equipment and related supplies | Between 10 and 40 |
| Furniture and accessories | 10 |
| Transportation units | Between 5 and 10 |
| Computer equipment and tools | Between 4 and 10 |

The assets' residual value, useful lives and methods of depreciation are reviewed at each reporting period, and adjusted prospectively if appropriate.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income when the asset is derecognized.

As of December 31, 2020, the Company and its subsidiary have recorded a provision for impairment in property, plant and equipment related to the Phosphates project, as explained in note 1.1.

2.3.7 Mining concessions -

Mining concessions correspond to the exploration rights in areas of interest acquired. Mining concessions are stated at cost, net of accumulated amortization and/or accumulated impairment losses, if any, and are presented within the "property, plant and equipment" caption of consolidated statement of financial position. Those mining concessions are amortized starting from the production phase following the units-of-production method based on proved reserves to which they relate. The unit-of-production rate for the amortization of mining concessions takes into account expenditures incurred to the date of the calculation. In the event the Company and its subsidiary abandon the concession, the costs associated are written-off in the consolidated statement of comprehensive income.

As of December 31, 2021 and 2020, no amortization under units-of-production method was determined since the mining concessions of the Company and its subsidiary are not yet on production phase.

As of December 31, 2020, the Company and its subsidiary have recorded a provision for impairment in the mining concessions related to the Phosphates project, as explained in note 1.1.

2.3.8 Quarry development costs and stripping costs -

Quarry *development costs* -

Quarry development costs incurred are stated at cost and are the next step in development of quarries after exploration and evaluation stage. Quarry development costs are, upon commencement of the production phase, presented net of accumulated amortization and/or accumulated impairment losses, if any, and are presented within the property, plant and equipment caption. The amortization is calculated using the straight-line method based on useful live of the quarry to which relate. Expenditures that increase significantly the economic life of the quarry under exploitation are capitalized.

*Stripping costs* -

Stripping costs incurred in the development of a mine before production commences are capitalized as part of mine development costs and subsequently amortized it's the life on a units-of-production basis, using the proved reserves.

Stripping costs incurred subsequently during the production phase of its operation are recorded as part of cost of production.

2.3.9 Intangible assets -

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in the consolidated statement of comprehensive income in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

The intangible assets with finite useful lives are amortized in an average term of ten years. The Company and its subsidiary have not intangible assets with indefinite life.

Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognized.

Exploration and evaluation assets -

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

- Researching and analyzing historical exploration data.
- Gathering exploration data through geophysical studies.
- Exploratory drilling and sampling.
- Determining and examining the volume and grade of the resource.
- Surveying transportation and infrastructure requirements.
- Conducting market and finance studies.

License costs paid in connection with a right to explore in an existing exploration area are capitalized and amortized over the term of the license.

Once the legal right to explore has been acquired, exploration and evaluation costs are charged to the consolidated statement of comprehensive income, unless management concludes that a future economic benefit is more likely than not to be realized, in which case such costs are capitalized. These costs include directly attributable employee remuneration, materials and fuel used, surveying costs, drilling costs and payments made to contractors.

In evaluating if costs meet the criteria to be capitalized, several different sources of information are used, including the nature of the assets, extension of the explored area and results of sampling, among others. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

Exploration and evaluation costs are capitalized when the exploration and evaluation activity is within an area of interest for which it is expected that the costs will be recouped by future exploitation and active and significant operations in relation to the area are continuing or planned for the future.

The main estimates and assumptions the Company and its subsidiary use to determine whether is likely that future exploitation will result in future economic benefits include: expected operational costs, committed capital expenditures, expected mineral prices and mineral resources found. For this purpose, the future economic benefit of the project can reasonably be regarded as assured when mine-site exploration is being conducted to confirm resources, mine-site exploration is being conducted to convert resources to reserves or when the Company and its subsidiary are conducting a feasibility study, based on supporting geological information.

As the capitalized exploration and evaluation costs asset is not available for use, it is not amortized. These exploration costs are transferred to mine development assets once the work completed to date supports the future development of the property and such development receives appropriate approvals. In this phase, the exploration costs are amortized in accordance with the estimated useful life of the mining property from the time the commercial exploitation of the reserves begins. All capitalized exploration and evaluation costs are monitored for indications of impairment. Where a potential impairment is indicated, assessment is performed for each area of interest in conjunction with the group of operating assets (representing a cash generating unit) to which the exploration is attributed.

Exploration areas in which resources have been discovered but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of resources exist or to ensure that additional exploration work are under way or planned. To the extent that capitalized expenditure is no longer expected to be recovered it is charged to the consolidated statement of comprehensive income. The Company and its subsidiary assess at each reporting date whether there is an indication that an exploration and evaluation assets may be impaired. The following facts and circumstances are considered in this assessment:

(i) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.

(ii) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.

(iii) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.

(iv) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

As of December 31, 2020, the Company and its subsidiary have recorded a provision for impairment in mining exploration and evaluation costs related to the Phosphates project, as explained in note 1.1.

2.3.10 Ore reserve and resource estimates -

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Company and its subsidiary's mining properties and concessions. The Company and its subsidiary estimate its ore reserves and mineral resources, based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, provision for rehabilitation and depreciation and amortization charges.

2.3.11 Impairment of non-financial assets –

The Company and its subsidiary assess, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company and its subsidiary estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset of CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company and its subsidiary support its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company and its subsidiary's CGUs to which the individual assets are allocated.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset.

In addition, an assessment is made at each reporting date to determine whether there is any indication that previously recognized impairment losses may no longer exist or have decreased. If such indication exists, the Company and its subsidiary estimate the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income.

Exploration and evaluation assets are tested for impairment annually to determinate if there is indication of impairment, either individually or at the cash-generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2.3.12 Provisions -

*General -*

Provisions are recognized when the Company and its subsidiary have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company and its subsidiary expect some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as finance cost in the consolidated statement of comprehensive income.

*Mine rehabilitation provision -*

The Company and its subsidiary record the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. Mine rehabilitation costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at a current risk free. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of comprehensive income as a finance cost. The estimated future costs of mine rehabilitation are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

As of December 31, 2021 and 2020, the Company and its subsidiary have no obligations for rehabilitation, since the project is not yet on operating phase.

*Environmental expenditures and liabilities -*

Environmental expenditures that relate to current or future revenues are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed.

Liabilities for environmental costs are recognized when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure.

As of December 31, 2021, the Subsidiary has recorded a provision for definitive plant closure.

2.3.13 Employees benefits -

The Company and its subsidiary have short-term obligations for employee benefits including salaries, severance contributions, legal bonuses, performance bonuses and profit sharing. These obligations are monthly recorded on an accrual basis.

2.3.14 Revenue recognition -

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company and its subsidiary have concluded that it is principal in its sales agreements because it controls the goods or services before transferring them to the customer.

The following specific recognition criteria must also be met before revenue is recognized:

*Sales of goods -*

Revenue from sale of goods is recognized at the point in the time when control of the asset is transferred to the costume, generally on delivery of the goods.

*Interest income -*

For all financial instruments measured at amortized cost and interest-bearing financial assets, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the consolidated statement of comprehensive income.

2.3.15 Taxes -

*Current income tax -*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in Peru, where the Company and its subsidiary operate and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred tax -*

Deferred tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in subsidiaries, where deferred assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax related to items recognized outside profit or loss is recognized outside the consolidated statement of comprehensive income. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

As of December 31, 2020, the Company and its subsidiary have recorded a provision for impairment related to the Phosphates project, consequently, it has written off the deferred income tax asset, as explained in note 1.1.

*Mining royalties -*

Mining royalties are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is based on taxable net income, rather than based on quantity produced or as a percentage of revenue, after adjustment for temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described above for income tax. Obligations arising from royalty arrangements that do not satisfy these criteria are recognized as current provisions and included in results of the year.

2.3.16 New amended standards and interpretations -

The Company and its subsidiary applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Company and its subsidiary have not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

*Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the consolidated financial statements of the Company and its subsidiary.

*Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16*

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Company and its subsidiary has not received Covid-19-related rent concessions.

### 3. Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Company and its subsidiary based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company and its subsidiary. Such changes are reflected in the assumptions when they occur. The most significant estimate considered by the Company's Management in relation to the consolidated financial statements refers to the evaluation of the impairment of long-lived assets, see notes 2.3.2, 2.3.11 and notes 9 and 10.

### 4. Standards issued but not yet effective

The standards and interpretations relevant to the Company and its subsidiary, but not yet effective, up to the date of issuance of the financial statements are disclosed below. The Company and its subsidiary intend to adopt these standards, if applicable, when they become effective:

*Amendments to IAS 1: Classification of Liabilities as Current or Non-current*

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company and its subsidiary are currently evaluating the impact the modifications will have on current practice.

*Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16*
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

This amendment has not had a material impact on the Company and its subsidiary.
Onerous contracts - Costs of fulfilling a contract - Amendments to IAS 37
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity should include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". Costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs are not directly related to a contract and are excluded unless they are explicitly charged to the counterparty under the contract.

The amendments are effective for annual periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all of its obligations at the beginning of the annual period in which it first applies the amendments.

This amendment has not had a material impact on the Company and its subsidiary.

*IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities*
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company and its subsidiary will apply, if they had, the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

*Definition of Accounting Estimates - Amendments to IAS 8*

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Company and its subsidiary.

*Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2*

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The amendments are not expected to have a material impact on the Company and its subsidiary.

## 5. Transactions in foreign currency

Transactions in foreign currency take place at the open-market exchange rates published by the Superintendence of Banks, Insurance and Pension Funds Administration. As of December 31, 2021, the exchange rates for transactions in United States dollars, published by this institution, were S/3.975 for purchase and S/3.998 for sale (S/3.618 for purchase and S/3.624 for sale as of December 31, 2020).

As of December 31, 2021 and 2020, the Company and its subsidiary had the following assets and liabilities in United States dollars:

| | 2021<br>US$(000) | 2020<br>US$(000) |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 253 | 115 |
| Other receivables | 8 | 8 |
| | 261 | 123 |
| **Liabilities** | | |
| Trade and other payables | (32) | (28) |
| | (32) | (28) |
| **Net monetary position** | 229 | 95 |

As of December 31, 2021, and 2020, the Company and its subsidiary had no derivative financial instruments in effect to hedge its exchange risk, nor had carried out transactions with derivative financial instruments for trading purposes.

During 2021, the net gain originated from exchange difference was approximately S/196,000 (net gain of approximately S/22,000 in 2020) and is presented in the caption "Gain from exchange difference, net" of the consolidated statement of comprehensive income.

## 6. Cash and cash equivalents

(a) This caption was made up as follows:

| | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|
| Cash at banks (b) | 4,129 | 2,068 |
| Short-term deposits (c) | 6,300 | 9,000 |
| | 10,429 | 11,068 |

(b) Cash at banks is denominated in local and foreign currencies, is deposited in local banks and is freely available. This demand deposits interest yield is based on daily bank deposit rates.

(c) The short-term deposits are held in local banks, are freely available and earn interest at the respective short-term deposits market rates. These short-term deposits have original maturities of less than three months since inception and were collected in January 2021 and 2022, respectively.

**7. Other receivables and value-added tax credit**

(a) This caption was made up as follows:

| | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|
| **Current** | | |
| Interests receivable | 1 | - |
| Accounts receivable from Parent company, note 19 | 37 | - |
| Other | 58 | 74 |
| **Financial assets classified as other receivables** | 96 | 74 |
| **Tax credit for General Sales Tax - IGV (b) and (c)** | 215 | 158 |

(b) According to Peruvian current tax rules, the Company and its subsidiary have the right to compensate this value-added tax credit against the value-added tax to be generated from the future sales. This kind of tax credit never expires.

(c) In December 2020, the Subsidiary recorded an impairment in the value-added tax credit accumulated for S/55,196,000, see note 1.1.
As of result of the Subsidiary's operations in the year 2021 general sales taxes have been generated for S/426,000 which are fully devalued as of December 31, 2021, see note 1.1.

## 8. Inventories, net

(a) This caption is made up as follows:

| | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|
| Goods and finished products | 759 | 748 |
| Work in progress | 6,586 | 5,239 |
| Supplies | 1,051 | 1,002 |
| Raw material | 510 | 453 |
| | 8,906 | 7,442 |
| Less - Provision for inventory impairment | (2,893) | (2,893) |
| Allowance for impairment of assets (c) | (6,013) | (4,549) |
| **Total inventories, net** | - | - |

(b) In December 2020, the Subsidiary recorded an impairment of the value of inventories for S/4,549,000, see note 1.1.
As of result of the Subsidiary's operations in the year 2021 inventories have been generated for S/1,464,000 which are fully devalued as of December 31, 2021.

(c) The movement in the estimate for obsolescence and impairment of inventories is presented below:

| | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|
| **Opening balance** | (7,442) | (2,893) |
| Additions allowance for impairment | (1,464) | (4,549) |
| **Final balance** | (8,906) | (7,442) |

## 9. Property, plant and equipment

(a) The composition and movement in this caption as of the date of the consolidated statement of financial position is presented below:

| | Mining concessions S/(000) | Preparation and development costs S/(000) | Buildings and other construction S/(000) | Machinery, equipment and related spare parts S/(000) | Furniture and accessories S/(000) | Transportation units S/(000) | Computer equipment and tools S/(000) | Works in progress and units in transit S/(000) | Total S/(000) |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| As of January 1, 2020 | 400 | 91,786 | 20,525 | 66,370 | 688 | 256 | 2,598 | 29,218 | 211,841 |
| Additions | - | 53 | - | - | - | - | 1 | 894 | 948 |
| Sales/retirements | - | - | - | (76) | - | (175) | - | - | (251) |
| As of December 31, 2020 | 400 | 91,839 | 20,525 | 66,294 | 688 | 81 | 2,599 | 30,112 | 212,538 |
| Sales/retirements | - | - | (1,508) | (4,545) | (7) | - | (87) | - | (6,147) |
| As of December 31, 2021 | 400 | 91,839 | 19,017 | 61,749 | 681 | 81 | 2,512 | 30,112 | 206,391 |
| **Accumulated depreciation** | | | | | | | | | |
| As of January 1, 2020 | - | - | 2,663 | 12,880 | 439 | 223 | 2,064 | - | 18,269 |
| Additions, notes 16 and 18 | - | - | 685 | 3,104 | 64 | 7 | 187 | - | 4,047 |
| Sales/retirements | - | - | - | (32) | - | (165) | - | - | (197) |
| As of December 31, 2020 | - | - | 3,348 | 15,952 | 503 | 65 | 2,251 | - | 22,119 |
| Sales/retirements | - | - | (290) | (1,501) | (6) | - | (80) | - | (1,877) |
| As of December 31, 2021 | - | - | 3,058 | 14,451 | 497 | 65 | 2,171 | - | 20,242 |
| **Allowance for impairment of assets (c)** | | | | | | | | | |
| As of December 31, 2020 | (400) | (91,839) | (17,177) | (50,342) | (185) | (16) | (348) | (30,112) | (190,419) |
| Sales/retirements | - | - | 1,218 | 3,044 | 1 | - | 7 | - | 4,270 |
| As of December 31, 2021 | (400) | (91,839) | (15,959) | (47,298) | (184) | (16) | (341) | (30,112) | (186,149) |
| **Net Book Value** | | | | | | | | | |
| As of December 31, 2020 | - | - | - | - | - | - | - | - | - |
| As of December 31, 2021 | - | - | - | - | - | - | - | - | - |

(b) As of December 31, 2021 and 2020, there are no assets pledged as collateral or mortgage, or acquired under leasing contracts.

(c) In December 2020, the Subsidiary recognized an allowance for impairment in its property, plant and equipment was recognized for S/190,419,000 as explained in note 1.1.

## 10. Intangibles assets, net

(a) The composition and movement of this caption as of the date of the consolidated statement of financial position is presented below:

| | Exploration and evaluation costs S/(000) | Access rights and easement S/(000) | Total S/(000) |
|---|---|---|---|
| **Cost** | | | |
| **As of January 1, 2020** | 27,177 | 7,987 | 35,164 |
| Retirements (b) | - | (4,914) | (4,914) |
| **As of December 31, 2020** | 27,177 | 3,073 | 30,250 |
| **As of December 31, 2021** | 27,177 | 3,073 | 30,250 |
| **Accumulated amortization** | | | |
| **As of January 1, 2020** | - | 766 | 766 |
| Additions, note 16 | - | 284 | 284 |
| Sales and retirements (b) | - | (509) | (509) |
| **As of December 31, 2020** | - | 541 | 541 |
| **As of December 31, 2021** | - | 541 | 541 |
| **Allowance for impairment of assets (c)** | | | |
| **As of December 31, 2020** | (27,177) | (2,532) | (29,709) |
| **As of December 31, 2021** | (27,177) | (2,532) | (29,709) |
| **Net book value** | | | |
| **As of December 31, 2020** | - | - | - |
| **As of December 31, 2021** | - | - | - |

(b) In September 2020, the Subsidiary write off the payment made for the right of access and easement for the use of a road for the Phosphates project for an amount of S/4,402,000, because the related contract was terminated, see note 21.

(c) As of December 31, 2020, Management has evaluated the conditions of the projects related to the costs of exploration and mining evaluation and rights of access and easement, and has recognized an impairment estimate for S/29,709,000, as explained in the note 1.1.

## 11. Leases

The Subsidiary has leasing contracts with third parties, mainly a contract for the lease of trucks for a term of 5 years.

Below is the movement of right-of-use assets recognized by the Subsidiary:

| | Vehicles S/(000) |
|---|---|
| **Cost -** | |
| **Balance as of January 1, 2020** | - |
| Additions | 100 |
| **Balance as of December 31, 2020** | 100 |
| **Balance as of December 31, 2021** | **100** |
| **Accumulated depreciation -** | |
| **Balance as of January 1, 2020** | - |
| Additions, note 16 | 20 |
| **Balance as of December 31, 2020** | 20 |
| **Balance as of December 31, 2021** | 20 |
| Allowance for impairment of assets (a) | |
| **Balance as of December 31, 2020** | (80) |
| **Balance as of December 31, 2021** | (80) |
| **Net book value** | |
| **As of December 31, 2020** | - |
| **As of December 31, 2021** | - |

(a) As of December 31, 2020, the Subsidiary recognized an estimate for impairment in the right-of-use asset for S/80,000, as explained in note 1.1.

The following shows the movement of the lease liability recognized by the Subsidiary:

| | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|
| **Balance as of January 1** | 88 | - |
| Additions | - | 100 |
| Financial interest expenses | 5 | 5 |
| Dues payments | (32) | (21) |
| Other | 14 | 4 |
| **Balance as of December 31** | 75 | 88 |
| **Maturity** | | |
| Current part | 24 | 20 |
| Non-current part | 51 | 68 |
| **Balance as of December 31** | 75 | 88 |

The future cash disbursements in relation to lease liabilities have been disclosed in note 23.

## 12. Deferred income tax asset

As of December 31, 2020, an accumulated deferred income tax asset impairment of S/27,282,000 was recorded, as explained in note 1.1.

As of December 31, 2021 and 2020, the tax loss of the subsidiary amounts to S/133,432,000 and S/122,871,000, respectively. The subsidiary has chosen system B as its tax loss carry forward system, in said system the Company and its subsidiary can apply their tax losses up to 50 percent of taxable profit, calculated since the subsequent year to the year when the tax loss was generated, the balance that is not offset can be applied to taxable income in future years each year with no expiration date.

The Company and its subsidiary compensate assets and liabilities if and only if they have an enforceable legal right to offset current tax assets with current tax liabilities, and if deferred assets and deferred liabilities are related to taxes on profits taxed by the same Tax Authority.

The reconciliation of the effective rate of the income tax for the years 2021 and 2020 is presented below:

| | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|
| Loss before income tax | (25,746) | (318,447) |
| At statutory income tax rate of 29.5% | 7,595 | 93,942 |
| **Permanent differences** | | |
| Impairment of investment acquired from non-controlling interest | (4,397) | - |
| Provision for plant closure | (982) | - |
| Off take agreement paid | (848) | - |
| Allowance for impairment of assets | (557) | (90,634) |
| Derecognition of access rights and easement | - | (1,299) |
| Non-deductible expenses, net | (811) | (2,029) |
| **Income tax** | - | (20) |

## 13. Trade and other payables

This caption is made up as follows:

| | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|
| Accounts payable to affiliate, note 19(b) | 1,051 | 1,320 |
| Trade payables | 538 | 890 |
| Guarantee deposits | 80 | 70 |
| Remuneration payable | 41 | 20 |
| Taxes payable | 31 | 29 |
| Other accounts payable | 64 | 33 |
| | 1,805 | 2,362 |

Trade accounts payable result from the purchases of fixed assets and supplies and mainly correspond to invoices payable to suppliers that normally due between 30 and 90 days. The other payable accounts are non-interest bearing and have an average are due of 3 months. For explanations of the liquidity risk management processes, refer to note 23.

**14. Provisions**

As of December 31, 2021, the Subsidiary registered a provision amounting to S/3,328,000for the definitive closure of its Diatomite Brick Manufacturing Plant located in Sechura.

The Subsidiary recorded the provision based on studies performed by external specialists, considering the applicable environmental standards in force and believes that this provision is sufficient to comply with such standards. Management plans to incur a significant portion of this obligation in the medium term.

**15. Equity**

(a) Capital stock -

As of December 31, 2021, the capital stock is represented by 26,982,255 common shares (107,594,030 as of December 31, 2020) fully subscribed and paid respectively, with a nominal value of one Peruvian Sol per share, which are listed in the Lima Stock Exchange. All the shares have equal rights and prerogatives.

On March 23, 2021, the General Shareholders's Meeting agreed the application of losses corresponding to fiscal year 2020 (S/222,917,000) and accumulated losses (S/39,158,000); which reduced the capital stock by approximately S/ 99,333,000 and the number of shares by 99,332,791, see note 1.2.

On September 13, 2021, the General Shareholders' Meeting began the increase in capital stock up to the amount of approximately S/18,721,000 and to create up to 18,721,016 common shares with a nominal value of S/1 each, for subscription purposes. and payment by the shareholders in proportion to their participation in the capital. As of December 31, these contributions were fully paid, see note 1.

(b) Investment shares -

Investment shares do not have voting rights nor participate in shareholder's meetings but do participate in the distribution of dividends. Investment shares confer its holders the right to participate in dividends distributed according to their nominal value, in the same manner as common shares.

Investment shares also confer its holders the right to:

(i) maintain the current proportion of the investment shares in the case of capital increase by new contributions;
(ii) increase the number of investment shares upon capitalization of retained earnings, revaluation surplus or other reserves that do not represent cash contributions;
(iii) participate in the distribution of the assets resulting from liquidation of the Company in the same manner as common shares; and,

(iv) redeem the investment shares in case of a merger and/or change of business activity of the Company.

As of December 31, 2021, the Company has 2,564,017 investment shares subscribed (10,224,230 as of December 31, 2020) and fully paid, with a nominal value of one Peruvian Sol per share.

On March 23, 2021, the General Shareholders's Meeting agreed the application of losses corresponding to fiscal year 2020 (S/222,917,000) and accumulated losses (S/39,158,000); which approximately reduced the investment shares account by S/ 9,439,000 and the number of investment shares by 9,439,197, see note 1.2.

On September 13, 2021, the General Shareholders' Meeting held the increase in the investment shares account up to the amount of approximately S/1,779,000 and to create up to 1,778,984 investment shares with a nominal value of S/1 each, at effects of its subscription and payment by the shareholders in proportion to their participation in the capital. As of December 31, 2021, these investment shares were fully paid.

(c) Additional capital -

The additional capital item comes from the receipt of an equity block in the execution of a spin-off project carried out in 2017.

On December 30, 2020, The General Shareholders's Meeting agreed an additional capital contribution of S/7,407,000, through the capitalization of the Company's debt plus the total interest accrued. All these contributions would not generate a change in the participation percentages of the current shareholding structure, during 2020 was recognized as a charge to additional capital contributions for S/2,222,000 and a credit to non-controlling interest resulting from the effect of the non-reciprocal capital contributions made by the Company in favor of its subsidiary.

On March 23, 2021, the General Shareholders's Meeting agreed the application of losses corresponding to fiscal year 2020 (S/222,917,000) and accumulated losses (S/39,158,000); of which approximately S/ 116,346,000 was applied, against the additional capital item, leaving the item with no balance as of December 31, 2021, see note 1.2.

(d) Legal reserve -

Provisions of the Peruvian General Corporation Law require that a minimum of 10% of the distributable earnings for each period, after deducting the income tax, be transferred to a legal reserve until such is equal to 20% of the capital stock. This legal reserve can offset losses or can be capitalized, and in both cases there is the obligation to replenish it.

On March 23, 2021, the General Shareholders's Meeting agreed the application of losses corresponding to fiscal year 2020 (S/222,917,000) and accumulated losses (S/39,158,000); of which approximately S/ 36,957,000 was applied, against the legal reserve item, leaving the item with no balance as of December 31, 2021, see note 1.2.

(e) Contributions of non-controlling interest –
On August 31, 2021, the Company purchased from Mitsubishi Corporation the 30 percent of the Subsidiary's common shares in exchange for a payment of approximately US$3,477,000 equivalent to S/14,247,000, as a consequence of the transaction, the Company holds the 100 percent of the Subsidiary's common shares as of December 31, 2021.

At the General Shareholders' Meeting of the subsidiary Fosfatos del Pacífico S.A. held on December 30, 2020, an additional capital contribution was agreed for an amount of S/7,407,000, through the capitalization of the Company's debt. All these contributions would not generate a change in the participation percentages of the current shareholding structure.

The effect of the difference between the capital contributions and the participation acquired by each shareholder amounted to S/2,222,000 and was recognized as a charge to additional capital contributions and a credit to non-controlling interest.

## 16. Administrative expenses

This caption is made up as follows:

| | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|
| Off take agreement paid, note 1 | 2,874 | - |
| Royalties, note 21 | 965 | 859 |
| Third-party services | 754 | 723 |
| Right of validity | 679 | 75 |
| Personnel expenses, note 17(b) | 435 | 4 |
| Taxes | 354 | 341 |
| Services from affiliate, note 19 | 244 | 789 |
| Depreciation, note 9 | - | 683 |
| Amortization, note 10 | - | 284 |
| Depreciation of assets for rights in use, note 11 | - | 20 |
| Other operative expenses | 178 | 276 |
| | 6,483 | 4,054 |

## 17. Personnel expenses

(a) Employee benefits expenses are made up as follow::

| | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|
| Wages and salaries | 281 | 3 |
| Social contributions | 68 | - |
| Legal bonuses | 56 | 1 |
| Vacations | 24 | - |
| Other | 6 | - |
| **Total** | 435 | 4 |

(b) Employee benefits expenses are allocated as follows:

| | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|
| Administrative expenses, note 16 | 435 | 4 |
| | 435 | 4 |

## 18. Other operating incomes (expenses), net

This caption is made up as follows:

| | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|
| Derecognition of access rights and easement, note 10 | - | (4,402) |
| Depreciation of machinery and equipment, note 9 | - | (3,364) |
| Sale supply | 277 | 368 |
| Net gain on disposal of property, plant and equipment | 268 | 80 |
| Other | (509) | 60 |
| | 36 | (7,258) |

## 19. Related party disclosure

(a) Transactions with related entities –

During the years 2021 and 2020, the Company and its subsidiary carried out the following transactions with its affiliates:

| | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|
| **Income** | | |
| Distribuidora Norte Pacasmayo S.R.L. | | |
| Sales of paint | 55 | 152 |
| Sales of assets | 14 | - |
| Cementos Pacasmayo S.A.A. | | |
| Sales of assets | 2 | 56 |
| **Expenses** | | |
| Cementos Pacasmayo S.A.A. | | |
| Fees for management and administrative services (*), note 16 | 207 | 746 |
| Office lease, note 16 | 37 | 43 |
| Interest on loan to related party (c) | 41 | - |
| **Other transactions** | | |
| Capital contribution of the Principal, note 15 (a) | 18,591 | - |
| Sale of equity instrument to Cementos Pacasmayo S.A.A., note 15 (b) | 1,779 | - |
| Related party concession loan (c) | 17,121 | - |
| Loan paid to related party (c) | (17,121) | - |

(*) The Management of the Company and its subsidiary are in charge of Cementos Pacasmayo S.A.A. under a General Management and Provision of Services agreement. The Company and its subsidiary do not pay Management with post-employment benefits, contract termination, neither stock-based payments.

(b) As a result of these transactions, the Company and its subsidiary had the following rights and obligations as of December 31, 2021 and 2020:

| | Accounts receivable | | Trade payables | |
|---|---|---|---|---|
| | 2021<br>S/(000) | 2020<br>S/(000) | 2021<br>S/(000) | 2020<br>S/(000) |
| Cementos Pacasmayo S.A.A. | 27 | - | 1,051 | 1,320 |
| Distribuidora Norte Pacasmayo S.R.L. | 10 | - | - | - |
| | 37 | - | 1,051 | 1,320 |

In Management´s opinion, accounts payable and receivable classified as current as of December 31, 2021, will be paid during 2022.

(c) Loans received from Cementos Pacasmato S.A.A.:
In August 2021, the Company and its subsidiary obtained two loans from Cementos Pacasmayo S.A.A. for approximately US$ 3,477,000 and US$ 700,000 equivalents to approximately S/14,252,000 and S/ 2,869,000 respectively; which have short-term maturities and accrue interest at an effective annual rate of 1.6 per
hundred. As of December 31, 2021, these loans generated financial expenses of S/41,000 and have been fully paid.

## 20. Loss per share (LPS)

Basic loss per share amounts are calculated by dividing the net loss of the year by the weighted average number of common and investment shares, outstanding during the year.

Below is the calculation of basic loss per share:

| | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|
| **Numerator** | | |
| Net loss attributable to ordinary equity holders of the Parent | (23,901) | (222,917) |
| **Denominator** | | |
| Weighted average number of common and investment shares (thousands of shares) | 37,823 | 117,818 |
| **Basic and diluted loss for common and investment shares** | (0.63) | (1.89) |

The Company and its subsidiary have no dilutive potential ordinary shares as of December 31, 2021 and 2020.

There have been no other transactions involving common shares and investment shares between the reporting date and the date of the authorization of these consolidated financial statements.

## 21. Commitments and contingencies

Rights of access and easement -
In November 2017, the subsidiary Fosfatos del Pacífico S.A. signed a twenty-year agreement with a third party for the rights of access and easement for the use of a highway and surrounding areas necessary for the Phosphates project. In September 2020, the Subsidiary decided to terminate said contract.

**Other commitments**

Since November 2013, the subsidiary Fosfato del Pacífico S.A. has a five-year natural gas supply agreement for its diatomite brick plant, which billings are determined considering consumption of natural gas and other market variables. Also, the volumes are subject to take or pay clauses that establish minimum levels of natural gas consumption. From September 2016, this contract remained suspended.

**Mining royalty**

*Peruvian government*

According with the Royalty Mining Law in force since October 1, 2011, the royalty for the exploitation of metallic and nonmetallic resources is payable on a quarterly basis in an amount equal to the greater of: (i) an amount determined in accordance with a statutory scale of rates based on operating profit margin that is applied to the quarterly operating profit, adjusted by certain items, and (ii) 1% of net sales, in each case during the applicable quarter. These amounts are estimated based on the financial statements of the Company and its subsidiary, prepared in accordance with IFRS. Mining royalty payments will be deductible for income tax purposes in the fiscal year in which such payments are made.

*Third parties*

The Subsidiary signed a mining concession transfer contract with two thirds where the Bayóvar 9 concession is located, which contains diatomite and phosphoric rock and diatomite. As part of the agreements of said contract, the subsidiary is required to pay an equivalent amount to US$1.5 to each third party, for each ton of diatomite extracted. The annual royalty may not be less than the equivalent to 40,000 metric tons during the first and second year of production and 80,000 metric tons since the third year of production. During 2021, the expense for this concept amounted to S/965,000 (for the year 2020 the expense was S/859,000) and has been recognized in the caption "Administrative expenses" of the consolidated statement of comprehensive income, see note 16.

**Tax situation**

The Company and its subsidiary are subject to Peruvian tax law. As of December 31, 2021 and 2020, the income tax rate is 29.5 percent of the taxable profit.

For purposes of determining income tax, transfer pricing transactions with related companies and companies resident in territories with low or no taxation, must be supported with documentation and information on the valuation methods used and the criteria considered for determination. Based on the analysis of operations of the Company and its subsidiary, Management and its legal advisors believe that as a result of the application of these standards will not result in significant contingencies for the Company and its subsidiary as of December 31, 2021 and 2020.

The tax authority has the power to review and, if applicable, correct the income tax calculated by each individual company in the four years after the year of filing the tax return.

The statements of income tax and Value added tax corresponding to the years indicated in the attached table are subject to review by the tax authorities :

| | Years open to review by Tax Authority | |
|---|---|---|
| **Entity** | **Income tax** | **Value-added tax** |
| Fossal S.A.A. | 2017-2021 | Dec. 2016-2021 |
| Fosfatos del Pacífico S.A. | 2017-2021 | Dec. 2016-2021 |

Due to possible interpretations that the tax authority may give to legislation in effect, it is not possible to determine whether or not any of the tax audits will result in increased liabilities for the Company and its subsidiary. For that reason, tax or surcharge that could arise from future tax audits would be applied to the income of the period in which it is determined. However, in management's opinion and legal advisors, any possible additional payment of taxes would not have a material effect on the consolidated financial statements as of December 31, 2021 and 2020.

**Environmental matters**

The Company and its subsidiary exploration and exploitation activities are subject to environmental protection standards.

*Safety and security management -*

Law No. 28271 regulates environmental liabilities in mining activities, this Law has the objectives of ruling the identification of mining activity's environmental liabilities and the funding of the affected areas remediation. According to said law, an environmental liability corresponds to the impact caused in the environment by abandoned or inactive mining operations.

In compliance with the above mentioned laws, the Company and its subsidiary have obtained the following approved environmental instruments:

- Environmental Impact Assessment (EIA) for the quarry of diatomite and the diatomite brick manufacturing plant - Concession "Bayovar 9" approved during 2010 by Official Letter No. 06981-2010/PRODUCE/DVMYPE-I/DGI-DAAI.
- Mine Closure Plan for the Diatomite Quarry, R.D. N° 203-2019-PRODUCE/ DVMYPE-I/DIGGAM.
- Definitive Total Detailed Closure Plan of the "Transmission Line at 22.9 Kv S.E. Constant – S.E. Bayóvar" approved during 2021 by resolution R.D. No. 00318-2021-PRODUCE/DGAAMI.
- Definitive Total Detailed Closure Plan of the "Diatomite Brick Manufacturing Plant" approved during 2021 by resolution R.D. No. 00639-2021-PRODUCE/DGAAMI.
- Modification of the Mine Closure Plan of the "Diatomite Quarry" approved during 2021 by resolution R.D. No. 00326-2021-PRODUCE/DGAAMI.
- Modification of the Environmental Impact Study (MEIA) for its Diatomite Quarry during and Diatomite Brick Manufacturing Plant - Bayóvar 9 concession approved in 2021 by resolution R.D. No. 00081-2021-PRODUCE/DGAAMI.

During 2021 and 2020, no costs were incurred for the implementation of safety and environmental measures.

**22. Material partly-owned subsidiary**

The financial information of the Subsidiary that has material non-controlling interests is detailed below:

(a) Portion of equity held by non-controlling interests:

| Entity | Country of incorporation and operation | 2021 | 2020 |
|---|---|---|---|
| Fosfatos del Pacífico S.A. | Perú | - | 30% |

(b) Accumulated balances of material non-controlling interest:

| | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|
| Fosfatos del Pacífico S.A. | - | 1,188 |

(c) Profit for the year attributed to non-controlling interests:

| | 2021<br>S/(000) | 2020<br>S/(000) |
|---|---|---|
| Fosfatos del Pacífico S.A. | (1,845) | (95,550) |

(d) The summarized financial information of the subsidiary with material non-controlling interests is detailed in note 1.

**23. Financial risk management, objectives and policies**

The Company and its subsidiary's main financial liabilities, include trade payables and other payables. The main purpose of these financial liabilities is to finance the Company and its subsidiary's operations. The Company and its subsidiary's main financial assets include cash and cash equivalents and other receivables.

The Company and its subsidiary are exposed to market risk, credit risk and liquidity risk. Management oversees the management of these risks supported by the Financial Management Area, which advises on said risks and on the most appropriate corporate financial risk management framework. The Financial Management Area provides assurance to the Company's Management and its subsidiary that the financial risk activities are regulated by appropriate corporate policies and procedures and that these financial risks are identified, measured and managed in accordance with the policies and objectives established.

Management reviews and approves the policies to manage risks, which are summarized below.

**Market risk -**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk (such as equity price risk and commodity risk). Financial instruments affected by market risk are deposits on banks included in the caption "cash and cash equivalents" and other receivables.

As of December 31, 2021 and 2020, the Company and its subsidiary are not subject to market price risk considering that they do not maintain contracts related to raw materials or equity instruments.

Sensitivity analyzes includes in the following sections are related to the consolidated situation as of December 31, 2021 and 2020.

*Interest rate risk -*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument fluctuate due to changes in market interest rates.

As of December 31, 2021 and 2020, the Company and its subsidiary do not present long-term financial instruments or at variable rates; consequently, Management has assessed that it is not relevant to carry out a sensitivity analysis in the face of changes in interest rates.

*Exchange rate risk -*

The exchange rate risk is the risk that the fair value or future cash flows of a financial instrument fluctuate due to changes in foreign currency exchange rates. The exposure of the Company and its subsidiary to the risk of exchange rates is related to its position in foreign currency; however, it does not hold significant assets or liabilities in foreign currency.

*Sensitivity to exchange rates*

The following table demonstrates the sensitivity on the loss before income tax to a reasonably possible change in the US dollar exchange rate, with all other variables held constant.

| | 2021 | 2020 |
|---|---|---|
| **Change of rate US$** | **Effect on loss before income tax** | **Effect on loss before income tax** |
| % | S/(000) | S/(000) |
| 5 | 46 | 17 |
| 10 | 92 | 34 |
| -5 | (46) | (17) |
| -10 | (92) | (34) |

**Credit risk -**

Credit risk is the risk that a counterparty does not fulfill its obligations assumed in a financial instrument or commercial contract and that this results in a financial loss. The Company and its subsidiary are exposed to credit risk for its deposits in banks included in the "Cash and cash equivalents" caption and for its various accounts receivable.

The credit risk of balances in banks and financial institutions is managed by the treasury department in accordance with the corporate policy of the Company and its subsidiary. The fund investments are made only with approved first level counterparts in Peru. The maximum exposure of the Company and its subsidiary to credit risk for the components of cash deposits included in the "cash and cash equivalent" caption and the various accounts receivable are the book balances detailed in notes 6 and 7, respectively.

**Liquidity risk -**

The Company and its subsidiary monitor its risk of shortage of funds using a recurring liquidity planning tool.

The objective of the Company and its subsidiary are to maintain a balance between the continuity of the cash and the funding of its operations, for this it depends on the cash it maintains and; in the future, it will depend on new contributions or financing from its shareholders.

The Company's Management considers that in case of greater allocation of cash flows to its subsidiary is required, it has the capacity to obtain bank funding considering the economic group to which the Company and its subsidiary belongs.

The table below summarizes the maturity profile of the Company and its subsidiary's financial liabilities based on contractual undiscounted payments:

| | On demand<br>S/(000) | Less than 3 months<br>S/(000) | 3 to 12 months<br>S/(000) | More than 1 year<br>S/(000) | Total<br>S/(000) |
|---|---|---|---|---|---|
| **As of December 31, 2021** | | | | | |
| Accounts payable (trade and non-trade) | 1,051 | 723 | - | - | 1,774 |
| Lease liabilities | - | 6 | 18 | 51 | 75 |

| | On demand<br>S/(000) | Less than 3 months<br>S/(000) | 3 to 12 months<br>S/(000) | More than 1 year<br>S/(000) | Total<br>S/(000) |
|---|---|---|---|---|---|
| **As of December 31, 2020** | | | | | |
| Accounts payable (trade and non-trade) | 1,320 | 1,013 | - | - | 2,333 |
| Lease liabilities | - | 5 | 15 | 68 | 88 |

**Capital management -**

For the purpose of the Company and its subsidiary's equity management includes capital stock, investment shares, additional paid-in capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Company and its subsidiary's capital management is to maximize the shareholders' value.

The Company and its subsidiary manage its capital structure and adjust it in light of changes in economic conditions.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2021 and 2020.

## 24. Financial assets and financial liabilities

(a) Financial assets and liabilities -

Financial assets -

Financial assets are held until maturity and generate fixed interest income. The carrying amount may be affected by changes in the credit risk of the counterparties.

Financial liabilities -

All financial liabilities are classified in the category of loans and borrowings and carried at amortized cost.

(b) Fair values -

The management considers that the fair value of its financial assets and liabilities approximates their carrying amounts due to the short-term maturities of these instruments.

(c) Fair value hierarchy -

At December 31, 2021 and 2020, the Company and its subsidiary have no financial assets and liabilities measured at fair value or whose fair values are disclosed.

## 25. Segment information

The Company and its subsidiary have only one operating segment corresponding to the Phosphates mining project, the information on assets, liabilities and results for this business unit are those reported in the consolidated financial statements of the Company and its subsidiary as of December 31, 2020.

Management monitors the profit before income tax of each business unit separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit before income tax and is measured consistently with profit before income tax in the consolidated financial statements of comprehensive income.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

**Geographic information**

All revenues are from Peruvian clients.

As of December 31, 2021 and 2020, all non-current assets are located in Peru.

## 26. Explanation added for English language translation

The accompanying consolidated financial statements were originally issued in Spanish, in the case of discrepancy with the English language version, the Spanish language version prevails.

COLEGIO DE
CONTADORES PÚBLICOS
DE LIMA

# CONSTANCIA DE HABILITACIÓN

El Decana y el Director Secretario del Colegio de Contadores Públicos de Lima, que suscriben, declaran que, en base a los registros de la institución, se ha verificado que

**TANAKA VALDIVIA & ASOCIADOS S. CIVIL DE R.L**
**SOCIEDAD: S0761**

Se encuentra, HABIL, para el ejercicio de las funciones profesionales que le faculta la Ley Nº 13253 y su modificación Ley Nº 28951 y conforme al Estatuto y Reglamento Interno de este Colegio; en fe de lo cual y a solicitud de parte, se le extiende la presente constancia para los efectos y usos que estime conveniente. Esta constancia tiene vigencia hasta el 30 de ABRIL del 2022.

**Lima, 02 de AGOSTO de 2021.**

CPC. GUILLERMINA ZAVALA PAUCAR
DECANA

CPC. GLADYS MILAGROS BAZAN ESPINOZA
DIRECTORA SECRETARIA

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