Translation of financial statements and independent auditor's report originally issued in Spanish - See Note 25 to the consolidated financial statements

Fossal S.A.A. and Subsidiary

Consolidated financial statements as of December 31, 2022 and 2021 together with the Independent Auditors' Report

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Fossal S.A.A. and Subsidiary

Consolidated financial statements as of December 31, 2022 and 2021 together with the Independent Auditors' Report

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Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of Fossal S.A.A. and Subsidiary (the Group), which comprise the consolidated statement of financial position as of December 31, 2022, and the consolidated statement of comprehensive loss, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2022 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standard Board (IASB).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) approved for its application in Peru by the Board of Deans of Peruvian Public Accounting Associations. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Peru, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Miembro de Ernst & Young Global

Independent Auditors' Report (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Other information

Management is responsible for the other information. Other information consists of the information included in the Annual Report as of December 31, 2022, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement in this Annual Report as of December 31, 2022, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Translation of financial statements and independent auditor's report originally issued in Spanish - See Note 25 to the consolidated financial statements

Independent Auditors' Report (continued)

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

Independent Auditors' Report (continued)

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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Translation of financial statements and independent auditor's report originally issued in Spanish - See Note 25 to the consolidated financial statements

Independent Auditors' Report (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Lima, Peru
February 24, 2023

Tanaka, Valdivia & Asociados

Signed by:

Manuel Arribas Zevallos
C.P.C. Register N° 45897

Translation of financial statements and independent auditor's report originally issued in Spanish - See Note 25 to the consolidated financial statements

Fossal S.A.A. and Subsidiary

Consolidated statement of financial position

As of December 31, 2022 and 2021

	Note	2022 S/(000)	2021 S/(000)
Assets			
Current assets			
Cash and cash equivalents	6	11,209	10,429
Other receivables	7	570	96
Prepayments		29	29
Total current assets		11,808	10,554
Non-current assets			
Value-added tax credit	7	-	215
Income tax prepayments		74	84
Total non-current assets		74	299
Total assets		11,882	10,853
Liabilities and equity			
Current liabilities			
Trade and other payables	13	2,733	1,805
Lease liabilities	11	24	24
Total current liabilities		2,757	1,829
Non-current liabilities			
Provisions	14	2,685	3,328
Lease liabilities	11	25	51
Total non-current liabilities		2,710	3,379
Total liabilities		5,467	5,208
Equity	15		
Capital stock		8,984	26,982
Investment shares		854	2,564
Accumulated losses		(3,423)	(23,901)
Total equity		6,415	5,645
Total liabilities and equity		11,882	10,853

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

Fossal S.A.A. and Subsidiary

Consolidated statement of comprehensive loss

For the years ended December 31, 2022 and 2021

	Note	2022 S/(000)	2021 S/(000)
Operating expenses, net			
Impairment of investment acquired from non-controlling interest	1	-	(14,247)
Plant closure provision	14	-	(3,328)
Provision for impairment	1.1	(2,135)	(1,890)
Administrative expenses	16	(2,583)	(6,483)
Selling and distribution expenses		(126)	-
Other operating incomes, net	18	1,182	36
Total operating expenses, net		(3,662)	(25,912)
Operating loss		(3,662)	(25,912)
Other income (expenses)			
Finance income		264	17
Finance costs		(4)	(47)
(Loss) gain from exchange difference, net	5	(21)	196
Total other income, net		239	166
Loss before income tax		(3,423)	(25,746)
Income tax expense	12	-	-
Net loss		(3,423)	(25,746)
Other comprehensive income		-	-
Total comprehensive income		(3,423)	(25,746)
Attributable to:			
Equity holders of the parent		(3,423)	(23,901)
Non-controlling interests		-	(1,845)
		(3,423)	(25,746)
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)		(0.30)	(0.63)

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, 2022 and 2021

	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, 2021	107,594	10,224	116,346	36,957	(262,075)	9,046	1,188	10,234
Net loss	-	-	-	-	(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
Net loss	-	-	-	-	(3,423)	(3,423)	-	(3,423)
Total comprehensive income	-	-	-	-	(3,423)	(3,423)	-	(3,423)
Capital contributions, note 15(a)	3,828	-	-	-	-	3,828	-	3,828
Purchase of investment shares, note 15(b)	-	364	-	-	-	-		364
Capitalization of losses, note 15(a) and (b)	(21,826)	(2,074)	-	-	23,900	-	-	-
Other	-	-	-	-	1	1	-	1
Balance as of December 31, 2022	8,984	854	-	-	(3,423)	6,415	-	6,415

Translation of financial statements and independent auditor's report originally issued in Spanish - See Note 25 to the consolidated financial statements

Fossal S.A.A. and Subsidiary

Consolidated statement of cash flows

For the year ended December 31, 2022 and 2021

	Note	2022 S/(000)	2021 S/(000)
Operating activities			
Loss before income tax		(3,423)	(25,746)
Non-cash adjustments to reconcile loss before income tax to net cash flows used in operating activities			
Provision for impairment	1.1	2,135	1,890
Finance costs		4	47
Impairment of investment acquired from non-controlling interest	1	-	14,247
Estimated provision for plant closure	14	-	3,328
Recovery of impairment		(2,755)	(268)
Finance income		(264)	(17)
Other operating, net		279	667
Working capital adjustments			
(Increase) decrease in other receivables		(758)	813
Decrease in prepayments		-	14
Decrease (increase) in inventories		277	(1,464)
Increase (decrease) in trade and other payables		285	(595)
		(4,220)	(7,084)
Interests received		262	11
Income tax recovered (paid)		10	(51)
Net cash flows used in operating activities		(3,948)	(7,124)
Investing activities			
Proceeds from sale of property, plant and equipment		584	266
Purchase of non-controlling shares	15(e)	-	(14,247)
Net cash flows provided by (used in) investing activities		584	(13,981)

Consolidated statement of cash flows (continued)

	Note	2022 S/(000)	2021 S/(000)
Financing activities			
Contribution of controlling interests	15(a)	3,545	18,591
Contribution of non-controlling interests	15(a)	283	130
Contribution of participation in investment shares of related party	15(b)	363	1,779
Contribution of participation in third-party investment shares	15(b)	1	-
Loan received from related parties	19(c)	-	17,121
Payment of loans obtained from related parties	19(c)	-	(17,121)
Lease payments	11	(32)	(32)
Net cash flows provided by financing activities		4,160	20,468
Net increase (decrease) in cash and cash equivalents		796	(637)
Net foreign exchange difference		(16)	(2)
Cash and cash equivalents as of January 1	6	10,429	11,068
Cash and cash equivalents as of December 31	6	11,209	10,429

Fossal S.A.A. and Subsidiary

Notes to the consolidated financial statements

As of December 31, 2022 and 2021

1. **Corporate information**

Fossal S.A.A. (hereinafter "the Company") was incorporated on 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 does not present public information and held 84.2 percent of the Company's common shares as of December 31, 2022 and 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. The Subsidiary was mainly engaged in the exploration of rock deposits fosfórica (Phosphates Project) in the northern region of Peru until December 31, 2020, the date on which said project was fully devalued for not being profitable in the short or medium term. To date, the Subsidiary is dedicated mainly to the extraction of diatomite in the northern region of Peru which is used for the manufacture of fertilizers and small scale paintings.

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 share acquisition resulted in a loss, that is presented in the caption "impairment of investment acquired from non-controlling interest" on the consolidated statement of comprehensive income of the year 2021.

The consolidated financial statements as of December 31, 2022 and for the year then ended, were approved by the Company's Board of Directors on February 24, 2023. The issuance of the consolidated financial statements of the Company and its subsidiary for the year ended December 31, 2021 was authorized by the mandatory annual of shareholders' meeting on March 29, 2022.

As of December 31, 2022 and 2021, the consolidated financial statements include the financial statements of the Company and its subsidiary, Fosfatos del Pacífico S.A.

The table presented below shows the summary of the main captions of the audited financial statements of the Subsidiary as of December 31, 2022 and 2021, which is based on amounts before intercompany transaction eliminations:

	2022 S/(000)	2021 S/(000)
Statement of financial position		
Assets		
Cash and cash equivalents	10,430	8,854
Income tax prepayments	41	33
Other	599	124
Total assets	11,070	9,011
Liabilities and equity		
Liabilities		
Trade and other payables	2,639	1,778
Lease liabilities	49	75
Provisions	2,685	3,328
Net equity		
Capital stock	8,634	410,143
Additional paid-in capital	-	40,215
Accumulated losses	(2,937)	(446,528)
Total liabilities and equity	11,070	9,011
Statement of comprehensive income		
Administrative expenses	(2,354)	(6,151)
Provision for impairment	(2,135)	(1,890)
Selling and distribution expenses	(126)	
Plant closure provision	-	(3,328)
Other operating incomes, net	1,448	693
Total other incomes, net	230	53
Net los	(2,937)	(10,623)
Statement of cash flows		
Net cash flows used in operating activities	(3,758)	(6,801)
Net cash flows provided by investing activities	584	266
Net cash flows provided by financing activities	4,768	10,468
Net increase in cash and cash equivalents	1,594	3,933

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 were 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.

As of result of the Subsidiary's operations in the year 2022 inventories have been generated for S/1,800,000 and general sales taxes for S/335,000 which are fully devalued as of December 31, 2022.

1.2. Accumulated losses and management plans

As of December 31, 2022, the Company and its subsidiary accumulated losses amount to S/3,423,000 and operating losses for the year then ended amount to S/3,662,000 (during the year 2021, S/23,901,000 and S/25,912,000, respectively), in this sense, the Company's net equity was reduced to less than one third of the subscribed and paid capital stock. In accordance with the provisions of subsection 4 of article N°407 of the General Law of Companies, such a circumstance is grounds for dissolution unless the losses are compensated, or the capital stock is increased in a sufficient amount. For this reason, on March 29, 2022, the Annual Shareholders' Meeting approved the application of all accumulated losses to fiscal year 2021 against the capital stock accounts in S/21,826,000 and investment shares in S/2,074,000. As of December 31, 2022, the Company and its subsidiary maintains a net equity greater than one third of the subscribed and paid capital stock. See note 15.

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 consolidated financial statements as of December 31, 2022, and 2021 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 2022 and 2021, the principal has made capital contributions in order to improve the Company's equity situation, see note 15.

The Management still evaluating the actions to be taken, among which are applying losses against the corresponding equity accounts.

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 2022 that did not had impact on the consolidated financial statements issued in prior periods, 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, 2022 and 2021. 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.

The financial liabilities of the Company and its subsidiary have been classified as accounts payable and include trade and other accounts payable.

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 consolidated 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 consolidated 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 is 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, 2022 and 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.

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, 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.

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 of 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 number 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 assets 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 assets 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, 2022 and 2021, 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 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 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 2022. The Company and its subsidiary have not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

- *Onerous Contracts – Costs of Fulfilling a Contract - Amendments to IAS 37*
  An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include 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 do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. This amendment had no impact on the consolidated financial statements of the Company and its subsidiary, as there were no onerous contracts during the period.

- *Reference to the Conceptual Framework – Amendments to IFRS 3 –*
  The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. These amendments had no impact on the consolidated financial statements of the Company and its subsidiary as there were no contingent assets or liabilities within the scope of these amendments that arose during the period.

- *Property, Plant and Equipment: Proceeds before intended Use – Amendments to IAS 16*
  The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of 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 recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. These amendments had no impact on the consolidated financial statements of the Company and its subsidiary as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

- *IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities*
  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. These amendments had no impact on the consolidated financial statements of the Company and its subsidiary as there were no modifications of the financial instruments during the period.

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 consolidated 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 January 1, 2023, and must be applied retrospectively. The Company and its subsidiary are currently evaluating the impact the amendments will have on current practice.

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 January 1, 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. This amendment has not had 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 January 1, 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. This amendment has not had a material impact on the Company and its subsidiary.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognized for all deductible and taxable temporary differences associated with leases and decommissioning obligations. This amendment has not had 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, 2022, the exchange rates for transactions in United States dollars, published by this institution, were S/3.808 for purchase and S/3.820 for sale (S/3.975 for purchase and S/3.998 for sale as of December 31, 2021).

As of December 31, 2022, and 2021, the Company and its subsidiary had the following assets and liabilities in United States dollars:

	2022 US$(000)	2021 US$(000)
Assets		
Cash and cash equivalents	387	253
Other receivables	28	8
	415	261
Liabilities		
Trade and other payables	(72)	(32)
	(72)	(32)
Net monetary position	343	229

As of December 31, 2022, and 2021, 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 2022, the net loss included a loss from exchange difference of approximately S/21,000 (net gain of approximately S/196,000 in 2021) and is presented in the caption "(loss) gain from exchange difference, net" in the consolidated statement of comprehensive loss.

6. Cash and cash equivalents

(a) This caption was made up as follows:

	2022 S/(000)	2021 S/(000)
Cash at banks (b)	2,947	4,129
Short-term deposits (c)	8,262	6,300
	11,209	10,429

(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.

7. Other receivables and value-added tax credit

(a) This caption was made up as follows:

	2022 S/(000)	2021 S/(000)
Current		
Interests receivable	-	1
Accounts receivable from Parent company, note 19	460	37
Other	110	58
Financial assets classified as other receivables	570	96
Tax credit for Value-added tax credit (b) and (c)	-	215

(b) As of December 31, 2022, 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 for an approximate value of S/56,214,000. The Company and its subsidiary have recorded an impairment of the value of the General Sales Tax credit as of December 31, 2022.

(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 during 2022 and 2021 general sales taxes have been generated for S/335,000 and S/426,000 which are fully devaluated, see note 1.1.

8. Inventories, net

In December 2020, the Subsidiary recorded an impairment of accumulated inventories for S/4,549,000 see note 1.1.

As of December 31, 2022 and 2021, the Subsidiary has generated inventories for S/1,800,000 and S/1,464,000 which are fully devaluated, see note 1.1.

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, 2021	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
Sales/retirements	-	-	(17,501)	(58,979)	(528)	(81)	(608)	(195)	(77,892)
Transfers	-	-	-	3	-	-	-	(3)	-
As of December 31, 2022	400	91,839	1,516	2,773	153	-	1,904	29,914	128,499
Accumulated depreciation									
As of January 1, 2021	-	-	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
Sales/retirements	-	-	(3,386)	(16,146)	(416)	(72)	(512)	-	(20,532)
Disposals	-	-	676	2,868	60	7	151	-	3,762
As of December 31, 2022	-	-	348	1,173	141	-	1,810	-	3,472
Allowance for impairment of assets (c)									
As of December 31, 2021	(400)	(91,839)	(15,959)	(47,298)	(184)	(16)	(341)	(30,112)	(186,149)
Sales/retirements	-	-	14,791	45,698	172	16	247	198	61,122
As of December 31, 2022	(400)	(91,839)	(1,168)	(1,600)	(12)	-	(94)	(29,914)	(125,027)
Net Book Value									
As of December 31, 2021	-	-	-	-	-	-	-	-	-
As of December 31, 2022	-	-	-	-	-	-	-	-	-

(b) As of December 31, 2022 and 2021, 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, 2021	27,177	3,073	30,250
As of December 31, 2021	27,177	3,073	30,250
As of December 31, 2022	27,177	3,073	30,250
Accumulated amortization			
As of January 1, 2021	-	541	541
As of December 31, 2021	-	541	541
As of December 31, 2022	-	541	541
Allowance for impairment of assets (b)			
As of December 31, 2021	(27,177)	(2,532)	(29,709)
As of December 31, 2022	(27,177)	(2,532)	(29,709)
Net book value			
As of December 31, 2021	-	-	-
As of December 31, 2022	-	-	-

(b) 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, 2021	100
Balance as of December 31, 2021	100
Balance as of December 31, 2022	100
Accumulated depreciation -	
Balance as of January 1, 2021	20
Balance as of December 31, 2021	20
Balance as of December 31, 2022	20
Allowance for impairment of assets (a)	
Balance as of December 31, 2021	(80)
Balance as of December 31, 2022	(80)
Net book value	
As of December 31, 2021	-
As of December 31, 2022	-

(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:

	2022 S/(000)	2021 S/(000)
Balance as of January 1	75	88
Financial interest expenses	4	5
Lease payments	(32)	(32)
Other	2	14
Balance as of December 31	49	75
Maturity		
Current part	24	24
Non-current part	25	51
Balance as of December 31	49	75

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, 2022 and 2021, the tax loss of the subsidiary amounts to S/189,051,000 and S/133,432,000, 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 2022 and 2021 is presented below:

	2022 S/(000)	2021 S/(000)
Loss before income tax	(3,423)	(25,746)
Income tax benefit at statutory income tax rate of 29.5%	1,010	7,595
Permanent differences		
Allowance for impairment of assets	(630)	(557)
Impairment of investment acquired from non-controlling interest	-	(4,397)
Provision for plant closure	-	(982)
Off take agreement paid	-	(848)
Non-deductible expenses, net	(380)	(811)
Income tax expense	-	-

13. Trade and other payables

This caption is made up as follows:

	2022 S/(000)	2021 S/(000)
Accounts payable to affiliate, note 19(b)	1,198	1,051
Trade payables	725	538
Guarantee deposits	168	80
Remuneration payable	48	41
Taxes payable	13	31
Other accounts payable	581	64
	2,733	1,805

Trade accounts payable result from the purchases of materials, services 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, 2022, the Subsidiary registered a provision amounting to S/3,328,000 for the 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. As of December 31, 2022, this provision amounts to S/2,685,000 due to payments made during the period for S/643,000.

15. Equity

(a) Capital stock –

The movement of capital stock during 2022 and 2021 is detailed below:

	S/(000)
Balance as of January 1, 2021	107,594
Capitalization of losses (i)	(99,333)
Capital contributions (ii)	18,721
Balance as of December 31, 2021	26,982
Capitalization of losses (i)	(21,826)
Capital contributions (ii)	3,828
Balance as of December 31, 2022	8,984

(i) On March 23, 2021, at Annual Shareholders' Meeting, the shareholders agreed the application of accumulated losses to year 2020 which reduced the capital stock by approximately S/99,333,000, see note 1.2.

On March 29, 2022, at Annual Shareholders' Meeting, the shareholders agreed the application of losses corresponding to fiscal year 2021 which reduced the capital stock by approximately S/21,826,000, see note 1.2.

(ii) On September 13, 2021, at General Shareholders' Meeting, the shareholders agreed to increase the 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, 2021, these contributions were fully paid.

On March 29, 2022, at the Annual Shareholders' Meeting, the shareholders agreed to increase the capital stock up to the amount of approximately S/3,836,000 and the delegation of the subscription procedure of the shares that correspond to the increase, determination of the increase and the modification of article 5 of the Bylaws to the Company's Board of Directors.

On November 10, 2022, the Board of Directors began the increase in capital stock up to the amount of approximately S/3,836,000 and to create up to 3,835,525 common shares with a nominal value of S/1 each, for the purposes of its subscription and payment by the shareholders in proportion to their participation in the capital.

As of December 31, 2022, contributions for approximately S/3,828,000 were received and in January 2023 contributions for approximately S/7,000 were received. The total number of shares subscribed by these contributions amounted to 3,835,219 common shares with a par value of S/1 each, which are pending issuance and registration in public registries.

(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.

The movement of investment shares as of December 31, 2022 and December 31, 2021 is detailed below:

	S/(000)
Balance as of January 1, 2021	10,224
Capitalization of losses (i)	(9,439)
Capital contributions (ii)	1,779
Balance as of December 31, 2021	2,564
Capitalization of losses (i)	(2,074)
Capital contributions (ii)	364
Balance as of December 31, 2022	854

(i) On March 23, 2021, at the Annual Shareholders' Meeting, the shareholders agreed the application of accumulated losses to the year 2020 which approximately reduced the investment shares account by S/9,439,000.

On March 29, 2022, at Annual Shareholders' Meeting, the shareholders agreed the application of losses corresponding to fiscal year 2021 which approximately reduced the investment shares account by S/2,074,000, see note 1.2.

(ii) On September 13, 2021, at the General Shareholders' Meeting, the shareholders agreed to increase 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.

On March 29, 2022, at the Annual Shareholders' Meeting, the shareholders agreed to increase the investment shares account up to the amount of approximately S/364,000 and the delegation of the subscription procedure of the shares that correspond to the increase, determination of the increase and the modification of article 5 of the Bylaws to the Company's Board of Directors.

On November 10, 2022, the Board of Directors began the increase in investment shares up to the amount of approximately S/364,000 and to create up to 364,475 investment shares with a nominal value of S/1 each, for the purposes of its subscription and payment by the shareholders in proportion to their participation in the capital.

As of December 31, 2022, contributions for approximately S/364,000 were received and in January 2023, contributions for S/24 were received. The total number of investment shares subscribed by these contributions amounted to 364,475 investment shares with a face value of S/1 each, which are pending issuance and registration in public registries.

(c) Additional paid-in capital -
On March 23, 2021, the General Shareholders' Meeting, the shareholders agreed the application of accumulated losses to the year 2020; 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, at the General Shareholders' Meeting, the shareholders agreed the application of accumulated losses to the year 2020; 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.

(e) Purchase 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.

16. Administrative expenses

This caption is made up as follows:

	2022 S/(000)	2021 S/(000)
Royalties, note 21	924	965
Personnel expenses, note 17(b)	487	435
Third-party services	473	754
Taxes	143	354
Services from affiliate, note 19	130	244
Right of validity	114	679
Off take agreement paid, note 21	-	2,874
Other administrative expenses	312	178
	2,583	6,483

17. Personnel expenses

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

	2022 S/(000)	2021 S/(000)
Wages and salaries	315	281
Social contributions	80	68
Legal bonuses	57	56
Vacations	28	24
Other	7	6
Total	487	435

(b) Employee benefits expenses are allocated as follows:

	2022 S/(000)	2021 S/(000)
Administrative expenses, note 16	487	435
	487	435

18. Other operating incomes, net

This caption is made up as follows:

	2022 S/(000)	2021 S/(000)
Net gain on disposal of property, plant and equipment	677	268
Sale supply	663	277
Other	(158)	(509)
	1,182	36

19. Related parties

(a) Transactions with related entities –

During the years 2022 and 2021, the Company and its subsidiary carried out the following transactions with its Principal and others related affiliates:

	2022 S/(000)	2021 S/(000)
Parent		
Inversiones Aspi S.A.		
Capital contributions, note 15(a)	3,545	18,591
Other related parties		
Income		
Distribuidora Norte Pacasmayo S.R.L.		
Sales of paint	97	55
Sales of assets	-	14
Cementos Pacasmayo S.A.A.		
Sales of clay	212	-
Sales of assets	85	2
Expense		
Cementos Pacasmayo S.A.A.		
Fees for management and administrative services (*), note 16	98	207
Office lease, note 16	32	37
Interest on loan to related party (c)	-	41

	2022 S/(000)	2021 S/(000)
Other transactions		
Cementos Pacasmayo S.A.A.		
Contribution of participation in investment shares, note 15(b)	363	1,779
Received loan (c)	-	17,121
Loan paid (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 right and obligations as of December 31, 2022 and 2021:

	Accounts receivable		Trade payables	
	2022 S/(000)	2021 S/(000)	2022 S/(000)	2021 S/(000)
Cementos Pacasmayo S.A.A.	342	27	1,198	1,051
Distribuidora Norte Pacasmayo S.R.L.	118	10	-	-
	460	37	1,198	1,051

In Management´s opinion, accounts payable and receivable classified as current as of December 31, 2022, will be realized during 2023.

(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. During the year ended 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:

	2022 S/(000)	2021 S/(000)
Numerator		
Net loss attributable to ordinary equity holders of the Parent	(3,423)	(23,901)
Denominator		
Weighted average number of common and investment shares (thousands of shares)	11,463	37,823
Basic and diluted loss for the year attributable to equity holders of common and investment shares	(0.30)	(0.63)

The Company and its subsidiary have no dilutive potential ordinary shares as of December 31, 2022 and 2021.

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 -

On December 29, 2011, the Subsidiary entered into an "off-take agreement" with Mitsubishi. On April 29, 2021, the Subsidiary signed an "off-take agreement termination payment" with Mitsubishi, which terminated the obligation to purchase future phosphate rock. As of December 31, 2021, the obligation has been canceled and represented for the Subsidiary a disbursement of US$700,000 equivalent to S/2,874,000, see note 16.

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 entities 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 2022, the expense for this concept amounted to S/924,000 (for the year 2021 the expense was S/965,000) 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, 2022 and 2021, 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, 2022 and 2021.

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.	2018-2022	Dec. 2018-2022
Fosfatos del Pacífico S.A.	2018-2022	Dec. 2018-2022

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, 2022 and 2021.

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 N° 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. N° 00318-2021-PRODUCE/DGAAMI.
- Definitive Total Detailed Closure Plan of the "Diatomite Brick Manufacturing Plant" approved during 2021 by resolution R.D. N° 00639-2021-PRODUCE/DGAAMI.
- Modification of the Mine Closure Plan of the "Diatomite Quarry" approved during 2021 by resolution R.D. N° 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. N° 00081-2021-PRODUCE/DGAAMI.

During 2022 and 2021, no costs were incurred for the implementation of safety and environmental measures.

22. Material partly-owned subsidiary

(a) Loss for the year attributed to non-controlling interests:

	2022 S/(000)	2021 S/(000)
Fosfatos del Pacífico S.A.	-	(1,845)

(b) 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, 2022 and 2021, 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, 2022 and 2021.

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, 2022 and 2021, 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.

	2022	2021
Change of rate US$ %	Effect on loss before income tax S/(000)	Effect on loss before income tax S/(000)
5	66	46
10	131	92
-5	(66)	(46)
-10	(131)	(92)

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	Less than 3 months	3 to 12 months	More than 1 year	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
As of December 31, 2022					
Accounts payable (trade and non-trade)	1,198	1,522	-	-	2,720
Lease liabilities	-	6	18	25	49

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

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, 2022 and 2021.

24. 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, 2022 and 2021.

As of December 31, 2022 and 2021, all non-current assets are located in Peru.

25. 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.

Nº 008502

COLEGIO DE CONTADORES PÚBLICOS DE LIMA

CONSTANCIA DE HABILITACIÓN

El Decano 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 SOCIEDAD CIVIL DE RESPONSABILIDAD LIMITADA
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 31 de MARZO del 2023.

Lima, 09 de AGOSTO de 2022.

CPC. Rafael Enrique Velásquez Soriano
DECANO

CPC. David Eduardo Bautista Izquierdo
DIRECTOR SECRETARIO

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