

2022 Annual Report



PROTEAK
WE MAKE FORESTRY MATTER

Annual Report presented in accordance with the General Provisions Applicable to Securities Issuers and Other Securities Market Participants, issued by the National Banking and Securities Commission, for the fiscal year ended December 31, 2022.

Name of Issuer: Proteak Uno S.A.B. de C.V.

Address: Paseo de la Reforma 540, Col. Lomas de Chapultepec, CP, 11000, Ciudad de México. +52 55 62351504

Outstanding share certificates: The certificates representing the capital stock of Proteak Uno S.A.B. de C.V. are non-par value Ordinary Share Certificates (CPOs).

Ticker symbol: The ticker symbol in the Bolsa Mexicana de Valores, S.A. de C.V., for the negotiable instruments of Proteak Uno S.A.B. de C.V. is "TEAK CPO"

The **1,119,873,861** fully subscribed and paid CPOs (made up of 373,291,287 series T shares and 746,582,574 series K shares) representing the capital stock of Proteak Uno S.A.B. de C.V. that are outstanding are registered in the National Securities Registry (RNV) under the National Banking and Securities Commission and are listed on the Bolsa Mexicana de Valores, S.A. de C.V.

Registration in the National Securities Registry not imply any endorsement of the merit of the value or solvency of the issuer, of the accuracy or veracity of the information contained in the Annual Report nor does it validate any acts which may be performed in contravention of the Law.



Mexico City, May 2th 2023.

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General Information

1.1 Glossary of terms and definitions

The following terms used in this report and listed below, will have the following meanings, which will be equally applicable to the singular or plural forms of said terms:

Management	Means the management of Proteak Uno S.A.B. de C.V., including the Board of Directors, Chief Executive Officer, executive and managerial team of the Company, as appropriate.
Company, Business, Corporation	Interchangeably refers to Proteak Uno S.A.B. de C.V. and its subsidiaries.
CPO	Acronym in Spanish for Certificado de Participación Ordinaria (Ordinary Share Certificate). In this Annual Report, also referred to as “Share”.
Dollars / USD	Refers to the legal currency of the United States of America.
Issuer	Refers to Proteak Uno S.A.B. de C.V.
Financial Statements	Refers to Consolidated Financial Statements reported on December 31, 2022.
U.S.A	Refers to United States of America.
IFRS	International Financial Reporting Standards.
ISR	Acronym in Spanish for Impuesto Sobre la Renta (Income Tax).
IVA	Acronym in Spanish for Impuesto al Valor Agregado (Value Added Tax).
LMV	Acronym is Spanish for Ley del Mercado de Valores (Securities Exchange Act).
MBA	Refers to a Master’s Degree in Business Administration.
México	Refers to the United Mexican States.
MM	Refers to millions.
Mulchers	Forest Machine
MXN / pesos	Refers to the legal currency of Mexico.

Public Offering	Refers to the public offering(s) of Share Certificates under the responsibility of the relevant Issuer, through one or more issues under the terms of this Program, with a revolving nature.
PTU	Acronym in Spanish for Participación de los Trabajadores en las Utilidades (Worker profit sharing).
Subsidiaries	Refers to the subsidiary companies of Proteak Uno S.A.B. de C.V.
TEAK	Refers to the Ticker Symbol of the Ordinary Share Certificates of Proteak Uno S.A.B. de C.V.
Holder	Refers to the Person who may at any time hold one or more CPOs, as recorded in the registry of the Indeval or the Underwriters, as the case may be.
TIR	Acronym in Spanish for Internal Rate of Return (Tasa Interna de Retorno).
Trading	Commercialization.
Triplay	Panels made up of different layers of glued and pressed wood.
UF	Urea Formaldehyde.
WACC	Refers to the average cost of capital or discount rate.

Companies and institutions mentioned in the report

AKA	Ausfuhrkredit–Gesellschaft mbH (AKA). Bank specialized in export financing, based in Frankfurt. It offers long-term financing, refinancing, services connected with the financing of exports in the medium and long term, among other international businesses.
BMV	Mexican Securities Exchange [Bolsa Mexicana de Valores].
CAMCORE	Central America and Mexico Coniferous Resources Cooperative.
COILLTE	Forest and Land Solutions
CONACYT	National Council for Science and Technology [Consejo Nacional de Ciencia y Tecnología].
CONAFOR	National Forestry Commission [Comisión Nacional Forestal].
CNBV	National Banking and Securities Commission [Comisión Nacional Bancaria y de Valores].
CONAGUA	National Water Commission [Comisión Nacional del Agua].

Commerzbank	Commerzbank AG is the second largest bank in Germany after Deutsche Bank. Commerzbank specializes in commercial banking, corporate banking, and investment banking. It is listed on the Frankfurt Stock Exchange and is part of the DAX index.
Ecodirecta	Group of Costa Rican forestry companies, comprised of the companies Ecodirecta, S.A., Casa Corazón Verde Ecológico, S.A. and Eco-Transmisión – Ecotrans -, S.A., from which Proteak acquired Biological Assets.
Dieffenbacher	A German company that is part of a leading international group of companies in the production of machinery and installation of wood-based panel plants worldwide.
FAO	United Nations Food and Agriculture Organization.
Finnfund	Finnish Fund of Industrial Cooperation Ltd. (Finnfund). Finnish Fund of Industrial Cooperation Ltd.
FINSA	Financiera Maderera S.A., the Spanish company in the Iberian Peninsula in the production and sale of boards, resins, melanins and veneers, among other things.
FSC	Forest Stewardship Council®. The FSC was founded as a non-governmental organization in 1993 to combat global deforestation. It has consolidated its role as the most rigorous and credible effort toward responsible and sustainable forest management. The FSC seal is the link between responsible forest production and consumption, helping consumers make better purchasing decisions to the benefit of both people and the environment. The FSC provides organizations and companies interested in responsible forestry with a certification system in accordance with international standards. The FSC is present in over 50 countries across the globe.
IFC	International Finance Corporation: the IFC is a member of the World Bank Group that supports the development of the private sector.
Indeval	S.D. Indeval, S.A. de C.V., Securities Depository Institution.
ITTO	International Tropical Timber Organization.
MEM	Magna Furniture Expo [Magna Expo Mueblera].
PEFC	Program for the Recognition of Forest Certification.
PROPARCO	Agency for Promoting and Participating in Economic Cooperation. It is a subsidiary of the French Development Agency that provides funding to key sectors for sustainable development in Africa, Asia, Latin America, and the Middle East.
PWC	PriceWaterhouseCoopers, S.C.

SEMARNAT	Refers to the Mexican Ministry of the Environment and Natural Resources [Secretaría de Medio Ambiente y Recursos Naturales].
TSCA	Acronym of Toxic Substances Control Act.
EY	Ernst & Young, (Mancera, S.C.).
GBM	Acronym in Spanish for Grupo Bursatil Mexicano.
<u>Subsidiary Companies of Proteak UNO S.A.B. de C.V.</u>	
Comefor	Comefor S.A. de C.V.
Comefor Internacional	Comefor Internacional S.A. de C.V. (Subsidiary in Mexico).
FOMEX	Forestaciones Operativas de México, S.A. de C.V.
Pro Eucalipto Holding	Pro Eucalipto Holding S.A.P.I. de C.V. (Holding company for the MDF Project).
ProMDF	Pro MDF S.A.P.I. de C.V.
Proteak Panamá	Proteak Panamá S.A. (Subsidiary in Panama).
Proteak Forestal	Proteak Panamá S.A. (Forestry and operating subsidiary in Costa Rica)
Proteak Vehicular	Proteak Vehicular S.A. (Subsidiary for vehicles in Costa Rica).
Proteak Comercial	Proteak Comercial S.A. (Subsidiary for services in Costa Rica).
Proteak Dos	Proteak Dos S.A. de C.V (Subsidiary in Mexico).
Proteak Tres	Proteak Tres S.A. de C.V. (Subsidiary in Mexico, Parent of Proteak Tres Sucursal).
Proteak Tres Sucursal	Proteak Tres Colombia branch (Forestry Subsidiary in Colombia).
Proucalipto	Proucalipto S.A.P.I. de C.V. (formerly KUOSOL).
SCT	Servicios Comefor Tres S.A de C.V.
Tecnotabla	Tecnotabla LLC (MDF marketing company in the USA).

Terms relating to the Forestry Industry

Acacia	Refers to a timber species with the scientific name <i>Acacia mangium</i> , a flowering tree of the Fabaceae family.
Thinning	Refers to the action of removing trees to thin a plantation.
Biological Assets	Refers to standing trees or woodland. In this document it shall be used to refer to usable volume or its corresponding economic value.
Alburnum	Refers to the young part of the wood, corresponding to the last growth rings of the tree, produced by the vascular cambium in the stalk of a plant that corresponds to the only functional xylem. Sapwood is usually lighter in color.
Cogeneration	Refers to simultaneously obtaining electrical energy and useful thermal energy (steam, hot water) from the MDF manufacturing process
DBH	Refers to the Diameter at Breast Height of a tree, and is the diameter measured at a height of 1.30 m above ground level.
Duramen	Refers to the part of the wood found in the inner core of the trunk. It represents the oldest part of the tree, tends to be dark, harder and with more natural durability.
Eucaliptus	Refers to the timber species whose scientific name is <i>Eucalyptus</i> .
Hectares or “ha”	Refers to the measurement of a surface area equivalent to 10,000 m ² or 2.471 acres.
MAI	Mean Annual Increment, is measured in cubic meters per hectare a year, and indicates the productivity of the production unit.
Sawnlogs	Refers to the wood cut in sawmills from Roundlogs, resulting in boards or planks whose typical dimensions are between 2.0 and 2.4 meters long and less than 2 inches thick.
Roundwood	Refers to wood in its natural state after being harvested, without branches or roots, with or without bark, without crowns, including all the wood that is extracted from the commercial forestry plantation and from which Roundlogs are obtained
MDF	Medium Density Fiberboard.
EIS	Environmental Impact Statement.
Teak	Refers to a timber-yielding species with the scientific name <i>Tectona grandis</i> .

Terms and institutions associated with obtaining Carbon Credit

tCO₂	Tonnes of Carbon dioxide equivalent (CO ₂)
VCS	Verified Carbon Standard.

For ease of reading, data is often rounded and may differ from unrounded figures.

1.2 Executive Summary

Proteak Uno, S.A.B. de C.V. (hereinafter simply Proteak or the Company) is a Mexican company that is dedicated to the planting, harvesting, transformation, industrialization and commercialization of commercial forest plantations. The Company operates in three segments: Teak production and trading, Eucalyptus production and trading, and MDF board production and marketing using Eucalyptus biological assets as raw material¹.

Company Results during the 2022 Fiscal year

In 2022 we closed with revenues of MXN \$1,477MM, It was a year with good results for Proteak despite the contraction observed in the MDF market, with 4 factors being the most important:

1. Managing to maintain a marketing and sales base, going from MXN \$1,895MM in 2021 to MXN \$1,901MM in 2022.
2. Constant production of MDF with a total of 210k M3
3. Participation in the national market of MDF in 23% and in value-added products 35%
4. Adjustment for fair value of the biological asset of Teak MXN (\$473.5)MM, due to the downward pressure of the price at an international level.

We strengthen alliances with our base of more than 100 customers. The same happened with customers who bought value-added products from us, this is key to complying with the conversion strategy from natural MDF to MDF with melamine. The sales volume of MDF with melamine had an increase of 3% vs. 2021.

From the perspective of operating results and financial results, we can affirm that it has been a year of stabilization, after the COVID-19 pandemic.

Board Business Unit

In 2022, Tecnotabla maintained as MDF solid total market share of 23%, positioning itself in second place, Arauco continues to be the leader in the sector. It is important to highlight that in the value-added board segment the participation was positioned at 35% vs 34% obtained in 2021.

It is estimated that in Mexico the demand for MDF during 2022 was close to 917k m3, which represents a decrease of close to 15% compared to the previous year. It is estimated that for the year 2023 the share of imports will remain at 41%, the same as in 2022.

As of the second quarter of 2022, a contraction is observed in the wood transformation industry, for this reason projects have been carried out in the decoration sector to make the most of it and work on the reactivation of the market. Also, this year, we launched our furniture line in collaboration with Liverpool, made by Mexican designers, which allowed us better brand visibility and increased sales, mainly of value-added products. We strengthened the relationship with our clients through the

¹ This summary is not intended to contain all information that may be relevant to making investment decisions about the securities mentioned herein. Therefore, the investing public should read the entire Annual Report, including the financial information and related notes, before making an investment decision. The following summary is prepared in accordance with, and is subject to, the detailed information and financial statements contained in this Annual Report. It is recommended to pay special attention to the "Risk Factors" section of this Annual Report, to determine the convenience of making an investment in the securities issued by the Issuer.

industrial MEM, one of the most important events in the industry, together with workshops focused on professionalizing the branch of the carpentry sector. We trust in the Mexican youth by expanding our Vértice program with the most important universities in the country, in design and architecture careers.

Tecnotabla started production in 2016, where consumption was 625,000 m³ per year, which means that from 2016 to 2022 the market has grown by 47%. This shows, without a doubt, that the MDF category is in a dynamic cycle, confirming our theory that entering domestic production would stimulate both consumption and the furniture production industry.

During the year, the manufacturing establishment was located at more than 210,000 m³, 12% below 2021. The MDF plant maintains an optimum level of operation with the desired quality. The boards that were manufactured were of different thicknesses and densities, corresponding to all the varieties marketed in Mexico and those necessary to operate in the US market.

During 3Q22, due to the saturation in the market and the price war, work was restricted due to plant stoppages, resulting in a reduction in OEE (Overall Equipment Effectiveness) indicators of 76.7% in the 2Q22 to 73.2% in 3Q22. However, during the last quarter of the year, this indicator stood at 79.4%, close to the values obtained during the first quarter of this year.

During the second semester of the year, the consumption of resin was optimized, using UF with a higher concentration (85%), which led to more efficient consumption of urea and UF, in turn generating a more efficient mixture of chips (national and imported), as well as improvement in its percentage of humidity.

Forestry Platform

To ensure the future supply of wood to the plant, the forestry platform continued to focus efforts and resources on Eucalyptus plantations, as well as harvesting it for immediate consumption at the board plant. In 2022, more than 400,000 m³ of own and third-party wood to supply the plant and have inventory for the normal process. This was accomplished without any impediment.

By the end of 2022, Proteak had more than 14,000 hectares planted of both Teak and Eucalyptus, keeping us as the largest commercial forestry platform in the country.

During 2022, we harvested and released more than 1,000 hectares, from which we selected the strategic hectares and began the second rotation on these same lands with the Proteak standard.

During this year, 131 hectares of new Teak plantations were established, accumulating in the period a total of 7,006 planted hectares.

Maintenance was carried out on more than 6,000 hectares of both Teak and Eucalyptus. All the plantations are in adequate production conditions and in accordance with their maturity, without registering losses or material deterioration of productivity.

The 2022 forestry campaign was carried out, focused on preparing land and planting hectares harvested. Throughout the year, 2,488 Ha. of Eucalyptus were established in order to guarantee the future supply of fiber for our production unit of MDF board business.

In 2022, a selection of new Eucalyptus clones was made, which will be established operationally in the year 2023, it was carried out through local elections for trials of the 25 best clones in the general ranking with which it is expected to reach an IMA greater than 45 m³. /ha year. During 2022, 11 new hybrids were obtained, of which trials will begin in 2023.

All the Eucalyptus clones that will be incorporated into the operation have the characteristics and quality of wood necessary for the MDF industrialization process.

In Teak, the selection of 11 clones was carried out, coming from own plantations with ages of 10 and 11 years and from CAMCORE trials, as an early analysis for the establishment of clonal trials with local selection.

In an effort to expand Proteak's forestry platform, 30 Gmelina clones selected from a project headed by CONACYT-CONAFOR were incorporated, in which we acted through participation as collaborators.

Pest management was carried out with zero applications of agrochemicals in Eucalyptus; all activities were carried out using biological controllers produced in the Proteak laboratory. In the case of Teak, there was no presence of pests.

Teak Business Unit

In order to guarantee optimal management of the plantations to maximize their value before they are commercially exploited, we continue to carry out intensive stratification work on our plantations, also setting up operational plots in each one of them. This work system allows us to make specific management decisions and validate the value of our Teak forest assets at all times.

In addition, work was done on the development of businesses for the generation of additional flow, such as: maquila services for plantations and plant nursery production for third parties.

Plantations continue to grow uninterrupted, their estimated value increasing as they mature and approach harvest age.

Derived from the thinning activities carried out during the 2022 period, 3,896 m³ of wood were channeled to MDF due to its quality.

Social and Environmental Responsibility

During 2022, Proteak continued to demonstrate its commitment to environmental and social development through various actions. The annual FSC Eucalyptus and Teak Forest Management and Chain of Custody audit concluded with positive results. Additionally, the annual reports were presented to the United Nations Global Compact to demonstrate compliance with the principles regarding human rights, labor standards, the environment and anti-corruption in the Company's operations and the annual report to the International Finance Corporation (IFC) and FINNFUND, where the application of environmental and social sustainability performance standards is monitored.

We are strengthening our sustainability model and developing programs and solutions to contribute to economic growth, empower communities to be more inclusive, and to position ourselves as a role model for the private sector. Through our community engagement efforts, we have learned that self-sufficiency and the development of practical skills are integral to the long-term prosperity of individuals and communities. In the year 2022 there was a total of 12 nearby communities with support, having approximately 9,500 inhabitants in total. The benefited students were 38.

Regarding carbon credits, the sale of 143,480 tCO₂e corresponding to the period from 2015 to 2019 of the Fresh Breeze Afforestation project was concluded, which covers 5,344 hectares of Teak plantations.

Income from Revaluation of Biological Assets

Following international accounting standards (IFRS), a forestry company must record the value of its Biological Assets (m³ of wood) over time according to their age and species following the next rules:

For teak wood:

1. Young wood (from plantations under 3 years old) is recorded at historical cost.
2. Mature wood (from year 8 and when the DBH has reached a minimum of 20 cm), is valued at the instant realization value, according to a physical inventory where the trees are measured in the field and market prices are used. for each quality of wood (the price of Teak wood depends on the size of the trunk).
3. Between years 3 and 8, the fair value of the wood is determined using growth curves previously determined based on physical inventories. The volume is estimated when they are 8 years old and the company's discount rate is used to discount the flow at the age of the plantation. The discount rate is determined each year based on internal and macroeconomic conditions. In 2022 the discount rate was 13.3%.

In the case of Eucalyptus, only the first two mechanisms are used and the price is constant regardless of size or quality.

Statement of Financial Situation and Results of the Company ²

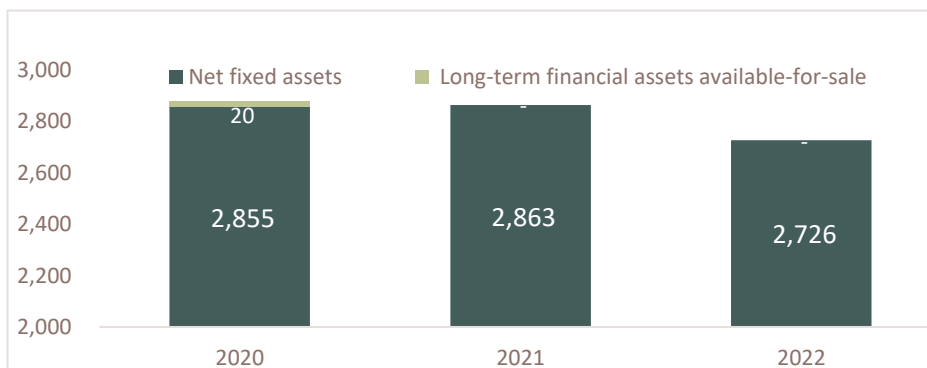
Activos	dec-22	dec-21	dec-20
Cash and cash equivalents	273,348	452,900	581,879
Customers	193,691	202,080	102,393
Recovable taxes	208,210	156,139	80,899
Accounts receivable from related parties	8,359	-	-
Sundry debtors	51	1,127	1,812
Wood and processed wood inventory	482,205	295,616	284,260
Consumable mature biological assets	150,767	83,026	92,702
Advanced payments	115,646	122,422	40,322
Long-term financial assets available-for-sell	-	-	19,925
Restricted cash	161,537	125,967	58,800
Right-of-use assets	46,891	41,460	55,500
Long-term accounts receivable	-	-	2,556
Mature and immature consumable biological assets	1,628,897	2,115,983	1,966,300
Property, machinery, and equipment	2,725,611	2,862,794	2,855,356
Deferred income tax	138,302	97,562	8,990
Joint venture investment	267,178	280,203	245,184
Advance payments	3,161	9,077	2,483
Guarantee deposits	590	3,223	430
Total Assets	6,404,444	6,849,579	6,399,791

Table 1 Assets (MXN '000)

Source: Audited Financial Statements

At December 2022, the Company's total assets amounted MXN \$6,404MM, 6% lower than at the end of 2021, and in line with 2020. This variation is mainly due to the revaluation of the mature biological assets.

Property, machinery and equipment reflect a slight decrease derived from i) the increase in their fair value (appraisals), ii) exchange rate effect and iii) depreciation of the MDF plant.

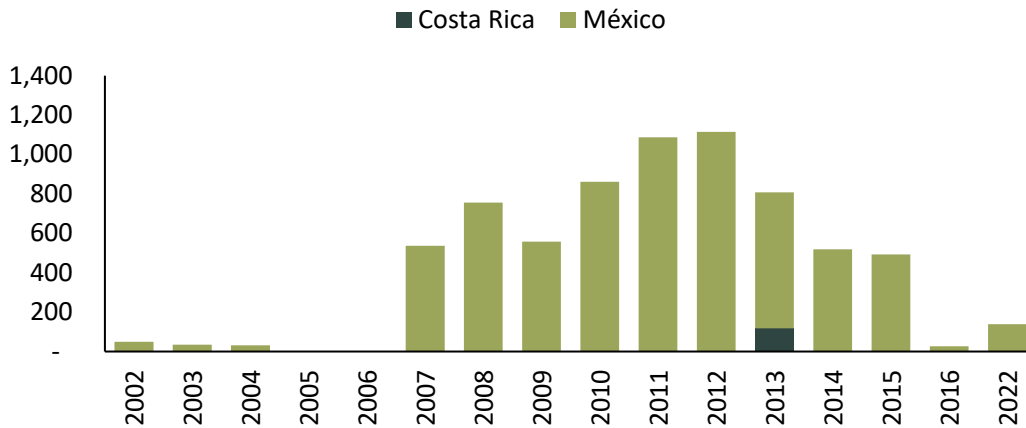


Graph 1 Fixed Net Assets (MXN MM)

Source: Audited Financial Statements

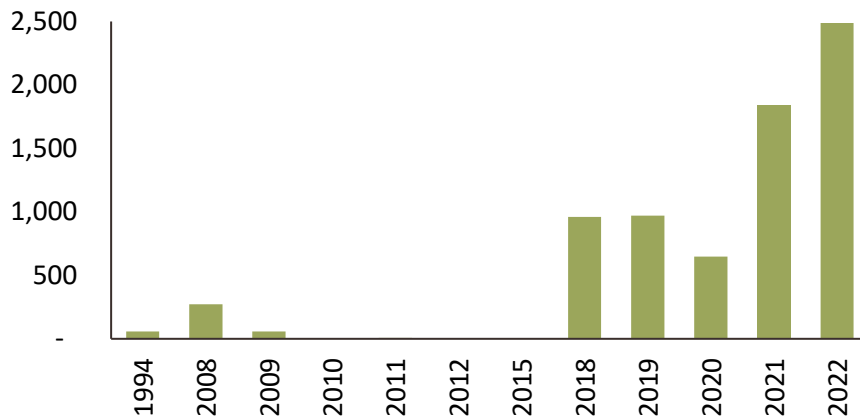
² The basis for the preparation of the financial statements can be found in Note 2 to the Audited Consolidated Financial Statements

Proteak's Biological Assets are distributed according to the year they were planted as shown in the following graphs.



Graph 2 Proteak's Teak hectares by year planted.

Source: Proteak Uno S.A.B. de C.V.



Graph 3 Proteak's Eucalyptus hectares by year planted.

Source: Proteak Uno S.A.B. de C.V.

Biological Assets (Current and Non-Current) reflect various combined effects, which can be broadly classified as: i) new additions, ii) natural growth of assets, iii) capitalizable planting and maintenance costs, iv) decline due to harvest and v) exchange rate effect. The combination of the above factors resulted in a net decrease of MXN \$419MM, -19% under 2021. In 2021, the increase was 7% vs 2020.

In accordance with our policies, the fair value determined for biological assets from year 1 to year 3 is at level 2 of the fair value hierarchy, between year 3 and up to the year in which the plantations reach the characteristics commercial assets are at level 3 of the fair value hierarchy. Biological assets that have achieved commercial characteristics are at level 1 of the fair value hierarchy:

Biological Assets as of December 31, 2022				
	Level 1	Level2	Level3	Total
Current consumable mature and immature biological assets	-	-	-	-
Current and non-current consumable mature and immature biological assets	842,646	-	424,155	1,266,801
Total Teak	842,646	-	424,155	1,266,801
Current consumable mature and immature biological assets	150,767	-	-	150,767
Current and non-current consumable mature and immature biological assets	-	362,096	-	362,096
Total Eucalyptus	150,767	362,096	-	512,863
Total Biological Assets	993,413	362,096	424,155	1,779,664
Biological Assets as of December 31, 2021				
	Level1	Level 2	Level3	Total
Current consumable mature and immature biological assets	-	-	-	-
Current and non-current consumable mature and immature biological assets	1,274,053	-	539,880	1,813,933
Total Teak	1,274,053	-	539,880	1,813,933
Current consumable mature and immature biological assets	83,026	-	-	83,026
Current and non-current consumable mature and immature biological assets	-	302,050	-	302,050
Total Eucalyptus	83,026	302,050	-	385,076
Total Biological Assets	1,357,079	302,050	539,880	2,199,009
Biological Assets as of December 31, 2020				
	Level1	Level 2	Level3	Total
Current consumable mature and immature biological assets	-	-	-	-
Current and non-current consumable mature and immature biological assets	848,124	-	867,289	1,715,413
Total Teak	848,124	-	867,289	1,715,413
Current consumable mature and immature biological assets	92,702	-	-	92,702
Current and non-current consumable mature and immature biological assets	-	250,887	-	250,887
Total Eucalyptus	92,702	250,887	-	343,589
Total Biological Assets	940,826	250,887	867,289	2,059,002

Table 2 Biological Assets by Level (MXN '000)
Source: Audited Financial Statements

Current Liabilities had an increase of MXN \$369MM, due to the fact that the short-term credit item presented changes due to an increase of MXN \$100MM in the credit line with Banco Sabadell and due to the reclassification of long-term credit amounts to short-term, the net increase in short-term loans is MXN \$205MM. Likewise, an increase of MXN \$107MM is reflected in the supplier account due to the extension of payment days.

The following table shows the analysis of Proteak's financial liabilities, the amounts presented correspond to undiscounted cash flows, including interest.

As of December 31, 2022	Less than 1 year	More than 1 less than 3 years	3 to 5 years	More than 5 years
Suppliers	210,492	-	-	-
Short-term credits	415,297	-	-	-
Short-term interest	34,499	-	-	-
Long-term credits	-	274,769	682,371	679,145
Sundry creditors	130,976	-	-	-
Financial Leases	54,682	84,436	13,800	-

As of December 31, 2021	Less than 1 year	More than 1 less than 3 years	3 to 5 years	More than 5 years
Suppliers	103,622	-	-	-
Short-term credits	219,250	-	-	-
Short-term interest	25,283	-	-	-
Long-term credits	-	224,437	500,268	1,157,369
Sundry creditors	130,837	-	-	-
Financial Leases	34,201	54,287	8,995	-

As of December 31, 2020	Less than 1 year	More than 1 less than 3 years	3 to 5 years	More than 5 years
Suppliers	132,783	-	-	-
Short-term credits	333,944	-	-	-
Short-term interest	39,489	-	-	-
Long-term credits	-	467,302	592,924	665,067
Sundry creditors	75,108	-	-	-
Financial Leases	18,986	34,664	27,285	-

Table 3 Liabilities (MXN '000)
Source: Audited Financial Statement

The total Capital of the Company at the end of the year amounts to MXN \$3,295MM, closing -14% lower in relation to the end of the previous fiscal year. Mainly reflecting the result for the year 2022, as well as the effects of foreign currency translation of the Teak forestry assets. The company's solvency ends with a ratio of Liabilities to Capital of 1.06 to 1.0.

	2022	2021	2020
Subscribed and exhibited capital stock	2,656,070	2,653,189	2,647,426
Premium on the subscription and issue of shares	153,957	153,957	153,957
Other reserves	18,709	21,590	6,809
Accumulated deficit	(12,753)	(233,077)	(14,181)
Profit (deficit) for the year	(305,767)	220,324	(218,896)
Cumulative translation effect	347,770	556,212	460,297
Revaluation surplus	312,525	332,835	305,509
Other equity items (non-controlling participation)	124,012	115,046	99,111
Equity	3,294,523	3,820,076	3,440,032

Table 4 Equity (MXN '000)
Source: Audited Financial Statements

Income Statement

	2022	2021	2020
Net income	1,919,690	1,938,424	1,165,668
Profit for changes in the fair value of biological assets, minus estimated point-of-sales costs	(473,536)	73,631	171,707
Subsidies received	-	6,360	3,839
Cost of sales	(1,448,973)	(1,421,462)	(1,079,502)
Administrative and sales expenses	(296,275)	(310,337)	(336,050)
Other income-Net	30,777	35,246	8,849
OPERATING PROFIT/LOSS	(268,317)	321,862	(65,489)
Equity interest in joint ventures	(68)	24,252	21,069
Comprehensive financing result	(78,301)	(187,348)	(278,464)
(LOSS) PROFIT BEFORE TAXES	(346,686)	158,766	(322,884)
Corporate tax	50,146	94,507	77,473
CONTINUING OPERATIONS NET INCOME PROFIT (LOSS)	(296,540)	253,273	(245,411)
Discontinued operations income	-	-	(13,614)
CONSOLIDATED NET INCOME PROFIT (LOSS)	(296,540)	253,273	(259,025)

Table 5 Results Statement (MXN '000)
Source: Audited Financial Statements

Net revenues were MXN \$1,920MM, slightly below those obtained in 2021, despite having been a year with great challenges, with a continuous contraction of the MDF market and pressure to lower prices due to the entry of imports from Asian countries. In the national market we position ourselves in second place.

On the other hand, the sales of the Teak business unit were MXN \$9MM, coming from the wood obtained in thinning activities. During 2022, no final harvests were made.

The revaluation of the biological assets of our plantations in 2022 totaled MXN-\$474MM.

General and logistics expenses totaled MXN \$296MM, which represents a 5% decrease compared to 2021. This includes panel distribution expenses for MXN \$123MM, which present a 15% decrease compared to 2021 due to lower sales volume. On the other hand, general administrative expenses closed at MXN \$172MM, reflecting an increase of 4% compared to 2021. With this, the operating result before participation in the joint venture closed with an operating loss of MXN \$(268)MM.

Regarding financial results, during 2022 the company reported net financial expenses of MXN \$(78) MM, derived from the payment of interest and bank commissions for MXN \$(173) MM and an effect of variation in the exchange rate for MXN\$95MM. The combination of the above effects results in a net loss before taxes of MXN \$347MM.

Stock Performance

During the last year, the closing value of the Issuer's stock (represented by its CPOs) fluctuated between MXN \$3.51 (July 2022) and MXN \$6.01 (January 2022), closing at MXN 3.79 on March 31, 2023. Trading volume was 11% under than in 2021 and represented less than 1% of the Company's shares.

The closing price of the stock over the last 6 years fluctuated between MXN \$3.50 (July and August 2020) and MXN \$21.20 (January 2017), closing at MXN \$3.79 on March 31, 2023 with low trading volume of the stock over these 5 years, due to its long-term investment nature. In 2022, 2021, 2020, 2019, 2018 and 2017, volume stock transactions amounted to 11.3 MM, 12.7 MM, 8.8 MM, 4.8 MM, 9.6 MM and 20.7 MM, respectively. It is important to note that the capital increase in 2015 was MXN \$15.00 per CPO, 2019 MXN \$10.00 per CPO, 2020 it was MXN \$6.00 per CPO. The Issuer acknowledges that none of the transactions made during the year could be linked to the existence of privileged information not disclosed to the general investing public.

In September 2018, Signum Research, an independent financial and stock market analysis firm, published its comments on the second quarter 2018 report with a recommendation to buy.

In October 2021, coverage of GBM Casa de Bolsa began, said organization, issued a purchase recommendation on the basis: "We are convinced that Proteak is breaking into a high cash flow generation business that is reaching a turning point in both segments in which it operates (MDF and TECA)".

The valuation reports are published on Proteak’s website:
<https://proteak.com/reporte-de-analistas-y-evaluaciones/>

The figure below shows stock performance from January 2016 to March 31, 2023:



Graph 4 TEAK CPO Performance (MXN)
 Source: Yahoo Finance

1.3 Risk Factors ³

Proteak considers the following risk factors that should be taken into account by any holder of the Company's securities, as well as any future holder, given that they could have a significant impact on the operations, financial situation, and operating results, as well such as its liquidity and price per share.

³ The investing public should carefully consider the risk factors described below before making any investment decision. The risks and uncertainties described below are not the only ones facing the Company. Risks and uncertainties that the Company is unaware of, as well as those that the Company currently considers to be insignificant, could also affect its operations and activities.

The realization of any of the risks described below could have a material adverse effect on the operations, financial condition or results of operations of the Company.

The risks described below are intended to highlight those that are specific to the Company, but in no way should be considered as the only risks that the investing public may face. Said additional risks and uncertainties, including those that generally affect the industry in which the Company operates, the geographical areas in which it has a presence or those risks that they consider not to be important, may also affect their business and the investment value.

The information other than historical information included in this report reflects the operating and financial perspective in relation to future events, and may contain information about financial results, economic situations, trends and uncertain facts. The expressions "believes", "expects", "estimates", "considers", "anticipates", "plans" and other similar expressions, identify such estimates. In evaluating such estimates, the potential investor should take into account the factors described in this section and other caveats contained in this report. Risk Factors describe non-financial circumstances that could cause actual results to differ materially from those expected based on forward-looking estimates.

The main risks to which the Company is exposed are as follows:

1. Operational Risks
2. Risks Related to Property and Biological Assets
3. Market Risks
4. Financial Risks
5. Risks due to Accounting Judgments

1.3.1 Operational Risks

Proteak's Management and Operations Team

The good performance of Proteak's operations depends directly on its management personnel. Consequently, potential investors should be aware that the loss of key Proteak personnel may have an adverse effect on the value of the Shares or the dividends derived from them and, therefore, on the value of the CPOs. There is no assurance that Proteak will be able to retain its current management team or continue to attract new talent.

Proteak's growth requires the acquisition of additional properties

Although the land needed to develop the business plan for current operations is virtually assured, since we have 100% of the Teak plantations and more than 75% of the Eucalyptus plantations, future growth plans depend on the incorporation of new land.

Proteak's operating results, as well as its growth, are directly related to the acquisition or leasing of additional land for plantation and/or existing plantations. In the event that said acquisition or lease cannot be carried out in the planned terms, there is a risk that said situation will adversely affect the value of the shares, as well as the IRR of the investors. Proteak has years of experience purchasing and cultivating land, and as of the date of this report, the Company has almost fully secured the land necessary to fulfill its Business Plan for both Teak and Eucalyptus, demonstrating that can acquire large amounts of land, where both Teak and Eucalyptus produce good yields. Despite the foregoing, there is a risk that Proteak may not be able to acquire the property it plans at reasonable prices. Additionally, it is important to emphasize that the Company has begun the implementation of new participation schemes for the development of plantations, such as trusts, which do not require capital investment.

Proteak's corporate bylaws

Proteak's corporate bylaws establish that the approval of the Board of Directors is necessary for any person or group of persons to acquire 10% or more of the Shares or rights over said Shares, including, without limitation, the negotiable instruments that represent them. The foregoing could dissuade potential TEAKCPO investors from acquiring a significant percentage of the CPOs and affect their liquidity and price.

Disruption of operations due to internal or external factors

In the event of strikes, technical stoppages or forced stoppages due to any natural or biological threat, or work suspensions at any Proteak facility, Proteak's operation and production levels could be affected.

Ethics in business

Unethical behavior or poor risk management can damage the Company's image. For breaches of the code of ethics, Proteak could incur fines related to supervisors, customers, employees, government agencies or other institutions. Through good business ethics the Company can have a positive impact on the development of the value chain and minimize this risk.

Consequences of not obtaining the Forest Plantation Registration Certificate (or its equivalent abroad) in any property or the failure to submit annual reports

The General Law of Sustainable Forest Development establishes as an infraction the fact of failing to comply with the obligation to obtain the Forest Plantation Registration Certificate in each property that can be planted. Likewise, after obtaining the aforementioned certificate, Proteak is obliged to present annual reports on plantations to the relevant authorities.

The infractions for not obtaining the Forest Plantation Registration Certificate or the non-presentation of the aforementioned annual reports range from a reprimand to the temporary or permanent, partial or total, closure of the facilities, machinery and equipment of the storage centers. and transformation of forest raw materials, or of the sites and facilities where the activities that give rise to said infraction are carried out.

There is a risk that Proteak for some reason may not obtain a Forest Plantation Registration Certificate or fails to submit an annual report in this regard. In said case, the corresponding sanctions that may be imposed could affect Proteak's operation or its results, affecting the IRR or the value of the CPOs. To date, Proteak is in compliance with all the requirements and has all the necessary authorizations for the exploitation of its plantations.

1.3.2 Risks Related to Property and Biological Assets

Plagues

Biological Assets are subject to plagues and diseases like any other agricultural or forestry asset. Additionally, since most of the Biological Assets consist mainly of two forest species –Teak and Eucalyptus–, in the event of a plague or disease, it is possible that it will spread more quickly than it would if the Biological Assets will have greater diversification in terms of their forest species. To mitigate this risk, Proteak has a considerable area of land with native vegetation interspersed with the forest plantation, which serves to partially isolate plantation sections and functions as a buffer zone in the event of the appearance of a plague. Additionally, the properties are located in different states of Mexico and Costa Rica, thus minimizing the risk of a plague spreading among its plantations; no Proteak plantation represents more than 10% of the total area. In addition, Teak is a forest species with high resistance to plagues, compared to the rest of the forest species, and to date there are no known deadly plagues that affect Teak in North America, which further reduces this risk. In the event that this risk materializes, the value of the Shares or the dividends derived from them and, therefore, the value of the CPOs, could be adversely affected.

Life cycles of the Teak and Eucalyptus species

Until 2022, sales of Teak wood and its derivatives are one of the two main sources of income for Proteak. In the event that Teak consumption is reduced for any reason, this will have a direct impact on the IRR.

Teak, like any asset of a forest nature, has a long-term life cycle that involves, among other factors, planting, growth, thinning and harvesting of the plantations that must be followed before Proteak can carry out its commercialization. This cycle depends mainly on time, as well as on various determining factors of growth such as climate, temperature and soil fertility. It is not possible to control said cycle in its entirety, so the purchasers of the CPOs must consider that the commercialization of Teak, on which Proteak's income depends, is a long-term business, in which the conditions of the market can be modified.

Eucalyptus is also a forest asset, but it has a much shorter life cycle than Teak, making it a complementary species that reduces the time in which the Company receives flows from its transformation.

The diversification of the Company's business portfolio significantly reduces its risk profile.

There is seasonal risk in wood extraction from plantations

Due to meteorological phenomena, there is a risk that Proteak will be temporarily prevented from extracting wood from its plantations, mainly due to the inability of roads. To mitigate this risk, the Company has several properties in different locations, from which it can extract wood. In turn, Proteak invests in the construction and repair of roads leading to the plantation, to ensure extraction throughout the year. However, there is a risk that sales will decrease for some time if there is a major weather event, thus affecting the value of the CPO.

Extreme weather events

Given the region in which most of Proteak's properties are located, there is a risk of hurricanes that form regularly in the Caribbean Sea, and that later transit through the Yucatan Peninsula towards the interior of the Gulf of Mexico. Statistically, the strongest hurricanes have occurred at intervals of between 5 and 10 years in the Yucatan Peninsula. It is worth mentioning that in their most common trajectory, most of the hurricanes that reach the area of the state of Tabasco, significantly lose their strength as a result of their trajectory over land, reducing the speed of the wind and the amount of precipitation of water. Consequently, the probability of causing damage and its magnitude is reduced. This is the result of crossing overland over the Yucatan Peninsula in an East-West direction.

The plantations located in western Mexico are also exposed to the meteorological phenomena that develop in the Pacific Ocean, historically these phenomena are of lesser magnitude.

The plantations located in the north of Tabasco and the south of Chiapas, are practically not exposed to meteorological phenomena such as hurricanes. At the end of 2016, Costa Rica was affected by Hurricane Otto, however, the impact on the plantations had a minor impact.

On the other hand, with the exception of the 'El Milagro' ranch in Chiapas, the Properties have no irrigation system and therefore production relies completely on regular rainfall. In the event of a prolonged drought on the property, production could be negatively affected as could the company's returns, resulting in less income to distribute to the Shareholders as dividends or a lower IRR. To prevent this, Proteak's land purchase protocols state that a ranch must historically receive at

least 2,000 mm rainfall, in order to establish a plantation, considering that both Teak and Eucalyptus grow well with 1,200 mm rainfall.

In the event that these risks materialize, despite the preventive measures adopted by Proteak, the Biological Assets may be negatively affected, which would reduce the value of the CPOs.

Illegal logging

The Proteak plantations could be affected by this crime. To mitigate this risk, Proteak plantation managers and supervisors constantly visit and monitor the plantations, in order to detect any intrusion by a third party. In turn, all our plantations with commercial value have permanent security and have direct communication with the corporate to notify any eventuality. Also, because the Teak market is normally for export, the commercialization of illegal wood is difficult, so the Company is less susceptible to this risk.

Fire

Like any other forest resource, Biological Assets are subject to risk of fire.

In order to minimize the occurrence of forest fires, Proteak has created preventive measures such as:

1. Placing firebreaks or paths around the plantations every year;
2. Establish plantations in areas with the lowest historical incidence of fires, as well as in areas where rainfall is at least 2,000 mm per year;
3. Cleaning in young plantations, to try to reduce or eliminate combustible material. This is done in the first three years of the plantation, since this is when a fire would be most damaging to the Biological Assets. In plantations over 5 years old, the impact of a fire would be less, since the shade generated by the trees themselves reduces the amount of combustible material and therefore fires; and
4. Dispersion of plantations. At the moment, there are more than 14,000 planted hectares and most of them are several kilometers apart, so there is a reduction in risk due to geographic diversification.

Likewise, Proteak has implemented reactive measures such as:

1. Radio and/or cellular communication system with all the equipment active in times of drought;
2. Permanent patrolling of all plantations; and
3. Constant communication with the authorities to receive their support in case of fire.

Biological Assets are not insured

There is no type of insurance that covers Biological Assets. In this sense, in the event of an unforeseen event that affects said assets, it is not possible to ensure that Proteak has the resources to repair or replace said assets and, consequently, Proteak's operating results will be negatively affected.

The expropriation or any circumstance that affects the ownership or possession of the property could negatively affect the investors

In the event that for any reason Proteak ceases to be the owner or legitimate owner of the property or any portion of it, or is unable to carry out its activities on it -whether by judicial, administrative, expropriation, embargo or any other reason in favor of the government or third parties, it is possible that the new owner or possessor opposes compliance with the Business Plan or hinders the development of the operations that must be carried out within the property by Proteak.

Production Quality

There is a risk that the quality achieved by the Biological Assets will not be as expected, either because the genetic material is not uniform, because there are not adequate agroclimatic conditions throughout their lives, or the studies carried out are erroneous and the quality of the soil is not conducive to producing Teak or Eucalyptus, and/or for other reasons that it is impossible to foresee today. To avoid the above, Proteak has acquired certified seed and has developed its own genetic varieties from a selection of its best trees, and since 2011 it began planting clones. Notwithstanding the foregoing, and in the event that the quality that the Biological Assets finally achieve is not as expected, or that there are faults or human errors in the cloning or thinning procedure, Proteak's operating results could decrease and, consequently, the value of the CPOs could be adversely affected.

Expected Volume

There is a risk that the expected volume for Biological Assets is not equal to the projected volume, partly due to the same factors set forth in the previous paragraph. In the event that the volume that the Biological Assets finally reach is not as expected, Proteak's operating results could decrease. For this reason, Proteak has classified its properties into 11 different qualities, distinguishing the projected growth for each of them based on the factors described above. To date, Proteak can establish the correspondence of each of its plantations with the growth curve projected for it. However, this classification may be affected in the future depending on the actual growth in each plantation.

Subsidies

No subsidy income was received this year. It depends on the authorized programs and requirements established by the government authorities.

1.3.3 Market Risks

Environmental certifications and certifications of legal origin of the products

International practice is increasingly oriented towards the sustainable management of forests. Institutional buyers of wood and derived products are requesting certifications that ensure not only their environmental goodness but also their legal origin. In the future, these certifications will be practically a requirement for access to most institutional markets. Although Proteak currently has two national certifications (FSC) and one international certification (TSCA), in addition to having strict internal policies to comply with the applicable requirements for said certifications, it is possible that Proteak will not be able to maintain said certifications in the future, or they be replaced by alternative standards. In the event that this risk materializes and Proteak does not have these certifications, the market of potential buyers of biological assets could be reduced and, consequently, Proteak's operating results could be adversely affected, reducing its potential income.

In the international board industry, the MDF must comply with standards and certifications that guarantee that the boards are produced under a controlled environment with low chemical emissions, in such a way that they safeguard people's well-being and health. As of the date of the financial statements, the Company produces MDF boards under said standards. In the event that this changes drastically, the Company may not comply with them.

Market Changes

Despite its growing popularity, timber prices cannot be insured and there is a possibility that timber prices may crash or experience temporary declines. A change in consumer preferences, due to the appearance of substitute products, whether they are synthetic materials (although no substitutes are known at this time) or other tree species, or due to the generation of surplus wood, as the case may be, would have the effect, among others, that the prices of biological assets could decrease, consequently reducing Proteak's income.

In recent years, MDF has replaced the use of natural wood for better finishes, however, despite the constant growth of the industry, substitute products for MDF have also emerged, such as MDP (medium density particleboard), HDF (high density fiberboard) and plywood, among others. This could put pressure on MDF prices or influence demand, directly impacting the Company's MDF sales revenue.

Likewise, there is a risk that the market where teak is sold suffers distortions that cause an oversupply of said product, which may cause the sale price to decrease and the results may not be those expected according to the business plan. This can negatively affect the internal rate of return of investors. Similarly, there is a risk that an excess demand will be generated in the teak market, which could cause the price of teak to increase and Proteak does not have the inventory to satisfy said demand and, consequently, the operating results are not as expected and, consequently, the value of the CPOs is adversely affected.

Effects of COVID-19

As of the date of issuance of the annual report, the Company continues to operate normally. Our administrative and non-essential staff work under a hybrid scheme (work from home and in the office) and the employees belonging to the forestry area work in activities away from the concentration of people and and collaborators belonging to the industrial area work under the established sanitary protocols.

Currently, the company does not consider an imminent risk related to the pandemic.

New Competitors

Due to the nature of Proteak's economic activity, the proposed returns have been calculated based on the existence of current competitors. However, if there are additional competitors, there is a risk that Proteak's results and profits will not be as expected, affecting the market value of its shares.

Risk Factors related to Mexico

A very significant part of the operations is expected to take place in Mexico. By virtue of the foregoing, the development of the business depends largely on the economic and political performance of the country, in addition to the climatic

phenomena that affect the country's economy. Therefore, political, economic or social events that could affect the Mexican economy could also have a negative effect on Proteak's operating results.

1.3.4 Financial Risks

Losses or profits have been recorded in previous years

Investors should consider that during 2022 and some previous years, Proteak has generated results with minimal losses or profits, so it is possible that the Company does not generate accumulated profits during a period of contraction, investment and/or growth. Due to the foregoing, there is a risk that investors will not achieve the expected returns on their investment and, consequently, the value of the CPOs will be adversely affected.

Volatility of the Securities Market

The market price of CPOs is volatile and this could make it difficult for potential investors to sell their CPOs at or above the price they paid for them. There are a number of factors, not directly related to Proteak's results of operations, that may affect the price and liquidity of CPOs. Among these factors, the following can be mentioned: (i) volatility in the market price and in the volume of securities transactions of companies in the same industry to which Proteak belongs; (ii) operating performance of companies comparable to Proteak; (iii) new legislation or new interpretations of it, including tax provisions applicable to Proteak's businesses; (iv) political situations or events; and (v) general economic trends in the Mexican, United States, or international economy or financial markets, including those resulting from wars, acts of terrorism, or the response to such events.

Liquidity Risk of the Company

Cash flow projections are made at the level of each operating entity of the Company and subsequently, the finance department consolidates this information. The Company's finance department continuously monitors the Company's cash flow projections and liquidity requirements, ensuring that it maintains sufficient cash and investment with immediate realization to meet operating needs. The Company regularly monitors its liquidity and makes its decisions without exceeding its limits or obligations set forth in its debt agreements. The projections consider the company's financing plans, compliance with obligations, compliance with minimum internal liquidity ratios and the applicable legal or regulatory requirements.

Cash surpluses of operating entities are transferred to the Company's treasury. The Company's treasury invests these funds in time deposits and negotiable instruments, whose maturities or liquidity allow flexibility in meeting the Company's cash needs. On December 31, 2022 and 2021, the Company had term deposits of MXN \$244MM and MXN \$394MM respectively and other liquid assets of MXN \$29MM and MXN \$59MM, respectively, that is estimated to allow liquidity risk Management.

Due to Proteak's investment nature, with expected returns in 3 to 25 years, there is a risk that the CPOs may not have liquidity on the securities market. This is mainly due to the fact that Proteak's shareholders have a long-term profile.

Capital Risk

The Company's objectives in relation to capital risk management are: i) to safeguard its ability to continue as a going concern; ii) provide adequate returns to shareholders and benefits to other stakeholders and iii) maintain an optimal capital structure.

For the purposes of maintaining or adjusting the capital structure, the Company may vary the number of dividends to be paid to shareholders, carry out a capital reduction, issue new shares or sell assets and reduce its debt.

As with other entities in the industry, the Company monitors its capital structure based on the financial ratio of leverage. This ratio is calculated by dividing net debt by total equity. Net debt includes the total of current and non-current loans recognized in the consolidated balance sheet less cash and cash equivalents. Total capital includes stockholders' equity as per the consolidated balance sheet plus net debt.

As of December 31, 2022, the leverage ratio was 0.30, in line with the result obtained in 2021.

Fair value estimate

This section explains the judgments and estimates that were made in determining the fair values of financial instruments. To indicate the reliability of the data used to determine the fair value, the Company classified its financial assets and liabilities in the three levels indicated by accounting standards. Details for each level are shown in notes 11 and 17 of the financial statements.

The Group's policy is to recognize transfers into or out of the levels of the fair value hierarchy at the reporting date.

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the reporting period. The market price used in the financial assets held by the Company is the current purchase price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques that maximize the use of observable information and place the least possible confidence in the Company's specific estimates. If all the relevant variables to establish the fair value of a financial instrument are observable, the instrument is included in level 2.

Level 3: If one or more relevant variables are not based on observable market information, the instrument is included in level 3. This is the case of unquoted equity instruments.

Specific financial instrument valuation techniques include:

- The use of quoted market prices or quotes from negotiators of similar instruments for other financial instruments - analysis of discounted cash flows.
- As of December 31, 2022 and 2021, the biological values and credits, also shown in notes 11 and 17 of the financial statements, fair of financial assets and liabilities recognized at amortized cost, approximate their book value as they are short-term. Fair values and asset hierarchies.

Credit risk and Company liabilities

Credit risk is managed on a consolidated basis, except for that related to accounts receivable balances. Each Proteak entity is responsible for managing and analyzing the credit risk of each of its clients, before defining the credit terms and delivery conditions. Credit risk derives from cash and investments in securities, derivative financial instruments and deposits in banks and financial institutions, as well as credit granted to wholesale and retail customers, including balances pending collection,

as well as future transactions already committed. In the case of clients, independent ratings are considered, if they exist. If they do not exist, the Company's Management estimates the customer's credit quality, taking into account their financial situation, past experience and other factors. In accordance with the policies established by the Board of Directors, individual credit limits are established based on internal or external ratings. Credit limits are monitored on a regular basis. The Company also has credit insurance for up to MXN \$1,350 MM which represents the 90% of the estimated sales (MXN \$1,500MM) effective until January 31, 2023. The premium for this insurance amounted to MXN \$1,680MM.

There are no significant concentrations of credit risk, either through exposure to individual clients, specific industry sectors and/or regions.

The Company does not request collateral in the form of a guarantee.

The credit quality of financial assets is evaluated based on historical information on counterparty default rates.

<u>Cash and cash equivalents</u>	<u>Credit rating</u>	<u>December 31,</u>		
		<u>2022</u>	<u>2021</u>	<u>2020</u>
Banco Actinver, S. A.	AA	-	1,636	1,598
Banco Santander México, S. A.	AAA	42	465	748
BBVA Bancomer, S. A.	AAA	37,484	146,705	58,562
HSBC México, S. A.	AAA	2,383	503	279
Wells Fargo Bank, N. A., Member FDIC	AA-	-	-	135
Banco Monex, S. A.	AA	32,518	41,237	66,403
Sabadell	AA+	50,434	95,548	380,665
Multiva	A-	900	1,742	1,742
Banco Invex, S.A.	AA-	112,917	98,144	
Cash on hand and other banks		36,670	66,920	71,747
		<u>273,348</u>	<u>452,900</u>	<u>581,879</u>

Table 6 Cash and Cash Equivalents (MXN '000)

Source: Audited Financial Statements.

<u>Customers:</u>	<u>December 31,</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
A CUSTOMERS	5,397	28,317	10,539
B CUSTOMERS	184,510	155,669	78,769
C CUSTOMERS	3,784	18,094	13,085
LP Receivable Accounts	-	-	2,556
Total	<u>193,691</u>	<u>202,080</u>	<u>104,949</u>

Table 7 Customers (MXN '000)

Source: Audited Financial Statements

A Customers. Refers to export sales of logs "Round logs", whose minimum collection period is 120 days from the date of billing. These operations are supported by letters of credit or collection against documents.

B Customers. They are customers derived from the sale of MDF boards, the rotation of these clients is a maximum of 90 days.

Long-term accounts receivable. It is an account receivable derived from a four-year sale contract for machinery and equipment

C Customers. They are customers whose collection uncertainty is high; however, they are going through portfolio recovery processes by the Company or have been provisioned in the estimate for customer impairment.

The customer portfolio does not have a credit rating since it corresponds to accounts receivable with mostly minor customers.

Impairment of financial assets

The Company's financial assets are subject to the expected credit loss model:

- Accounts receivable from product sales (roundwood and medium density fiberboard MDF).

Although cash and cash equivalents are also subject to the impairment requirements of IFRS 9, no impairment loss was identified.

The Company applies the simplified approach of IFRS 9 to measure expected credit losses using an estimate of expected losses over the life of the instrument for all accounts receivable.

Accounts receivable have been grouped based on shared credit risk characteristics and days past due to measure expected credit losses.

Expected loss rates are based on the payment profiles of sales that have been made in the last 36 months, and the corresponding historical credit losses experienced within this period. Historical loss rates are adjusted to reflect actual information.

The movements of the provision for expected credit losses as of December 31, 2022, 2021 and 2020 for accounts receivable are presented below:

Customers:	December 31,		
	2022	2021	2020
Balances at the start of the year	40,497	48,254	27,872
Increase in provision for recognized credit losses in income for the year	9,000	131	21,802
Accounts receivable canceled during the year as uncollectable	(4,388)	(7,888)	(1,420)
Balances at the end of the year	45,109	40,497	48,254

Table 8 Provision for credit losses
Source: Audited Financial Statements

Accounts receivable are written off when there is no reasonable expectation of recovery. The term "reasonable expectation" includes, among others, the fact that the debtor does not suggest a payment plan or the impossibility of making contractual payments for a period greater than 120 days overdue.

Impairment losses on accounts receivable are presented as net impairment losses within operating results. Subsequent recoveries of previously canceled amounts are credited against the same line.

Credits granted by the Company

The Company does not grant credits to third parties, therefore there is no risk of collection thereof.

Future issues or sales of CPOs or the expectation of their occurrence could lower the market value of the CPOs

The issuance of new CPOs or the sale of existing CPOs or potential of said issue or sale, could, as the case may be, dilute the corporate and economic rights of the shareholders or could create a negative perception in the market, which could result in a drop in the market price of CPOs.

Foreigners may not hold more than 49% of Series T Shares

The Agriculture Law and the Foreign Investment Law do not allow foreigners to hold more than 49% equity interest in Series T Shares, neither directly, nor through trusts, agreements, social or statutory pacts, pyramid schemes, or any other mechanism that grants control or a greater equity interest than that set forth, except as provided for in Article 18 of the Foreign Investment Law. Therefore, the participation of investors in Proteak is through neutral investment made in Mexican companies or trusts authorized by the Ministry of the Economy, in this case through a Trust creating an investment instrument in which CPOs are issued for the Foreign Investor. In the event that the Trust must be terminated in accordance with the provisions of Article 394 of the General Negotiable Instruments and Credit Operations Law or for any other reason, the Shares will be assigned to a new trust, similar to the original Trust, so that all investors may retain their investment in Proteak without violating the provisions of the Agriculture Law and Foreign Investment Law. Proteak cannot guarantee that in the event a Trust expires, a Trust would be set up that is similar to the original Trust, which would mean that the foreign investors could be directly affected and not be able to retain legal ownership of Series T Shares in a proportion that does not exceed the permitted maximum. Nevertheless, it has been planned that in the event that foreign investment exceeds 49% equity interest in Series T Shares, authorization shall be requested from the Ministry of the Economy for any CPOs released by the Issuing Trust to be treated as neutral investment instruments. However, Proteak cannot guarantee that such authorization will be obtained.

Foreign holders of Proteak's CPOs shall have limited voting rights

Foreign CPO Holders or parties whose investment in the CPOs is considered a "Foreign Investment" in terms of the Foreign Investment Law ("LIE" Spanish acronym) may only instruct the Trustee how to exercise the right to vote derived from the Shares that correspond to Series "K", for which the Trustee will exercise the corporate rights of the corresponding Series "T" Shares that are incorporated into CPOs owned by Holders of CPOs that are considered Foreign Investment, voting always and at all times, in the same sense in which the majority of Mexican Investors holding non-trust series "T" shares have voted.

The actual results of Proteak could be lower than the estimated results and projections mentioned in this Annual Report

All the estimates or projections contained in this Annual Report constitute only expectations of future events and are a mere estimate subject to different risks that are not ponderable because they are subject to various variables and cannot be guaranteed or insured. The calculation of the expected returns mentioned in this Annual Report is made based on the information available. Said return is subject to different risks, since the actual results may vary from the projections and expected amounts.

Investors should consider, before making an investment decision, that Proteak's results could be substantially different from the projections mentioned herein, resulting in a lower-than-expected return.

Interest rates

The effective interest rate method serves to calculate the amortized cost of a financial instrument and allocating the financial income or cost over the relevant period. The effective interest rate is the exact discount of the estimated future flows of cash receipts or payments (including all fees and basis points paid or received that are an integral part of the effective interest rate, transaction costs and other premiums or discounts). over the expected life of the financial instrument, asset or liability, where appropriate, over a shorter period, at its net book value.

80% of all liabilities with cost contracted as of December 31, 2022 and 2021, were contracted at a fixed rate.

Any increase in the interest rate may have a negative impact on the Company's results and financial position.

Interest rate fluctuations are uncertain because they depend on the future behavior of the markets and may have an impact on the Company's financial results.

As of December 31, 2022, a 100 base point difference in the interest rate would have generated a positive or negative effect on the Statement of income of MXN \$4.99 MM, respectively.

As of December 31, 2021, a 100 base point difference in the interest rate would have generated a positive or negative effect on the Statement of income of MXN \$3.99 MM, respectively. It should be noted that the Company does not maintain derivative financial instruments or other hedging elements to mitigate this risk.

Exchange Rate

Biological assets (teak specifically) of Proteak, and particularly mature ones, are a "commodity", therefore, their value is usually denominated in dollars. The Company has recognized this situation by adopting the dollar as its functional currency.

For the eucalyptus and MDF operation, the value of the biological inventory is denominated in pesos and its sales are also mostly in pesos (the Company estimates that 6% of the income will be from exports), therefore, it would seem that there is no exchange rate exposure, except that the debt contracted for the construction of the plant is payable in dollars.

In the past, the value of the Mexican peso against the U.S. dollar and other currencies has fluctuated inconsistently, an example of this is that as of December 31, 2022, the exchange rate of the Mexican peso against the U.S. dollar showed an appreciation of \$1.222 resulting from the change in parity, from \$20.5835 on December 31, 2021 to \$19.3615 on December

31, 2022. As a result of the exchange rate movements observed between both currencies, depreciation and appreciation could occur in the future.

Overall, decreases in the value of the Mexican peso against other currencies could adversely affect Proteak's business, financial and operating conditions, including its ability to make principal and interest payments on debts in foreign currency that the Company has incurred. At the end of the 2022 and 2021 fiscal year, the Company had a total bank debt in foreign currency of MXN \$1,703MM and MXN \$1,810MM, respectively.

If the Mexican currency had weakened/strengthened by 10% against the US dollar, keeping all other variables constant, the result after taxes for the accumulated twelve months as of December 31, 2022 would have changed respectively by approximately MXN \$97 MM and MXN \$(97) MM as a result of foreign exchange gains/losses resulting from the translation of accounts receivable, cash and cash equivalents, customers, as well as suppliers and creditors denominated in US dollars.

It should be noted that the Company does not maintain derivative financial instruments or other hedging elements to mitigate this risk.

As of December 31, 2022 and 2021, the Company had the following asset and liability positions in pesos and dollars:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Mexican pesos:			
Assets	2,445	5,643	1,872
Liabilities	(21,365)	(20,838)	(20,907)
<u>Net position</u>	<u>(18,920)</u>	<u>(15,195)</u>	<u>(19,035)</u>
Dollares:			
Assets	3,330	2,083	1,333
Liabilities	(70,998)	(69,601)	(69,712)
<u>Net position</u>	<u>(67,668)</u>	<u>(67,518)</u>	<u>(68,379)</u>
Euros:			
Assets	€ -	€ -	€ -
Liabilities	€ (2,626)	€ (910)	€ (696)
<u>Net position</u>	<u>€ (2,626)</u>	<u>€ (910)</u>	<u>€ (696)</u>

Table 9 Assets and liabilities in pesos and dollars

Source: Audited Financial Statements

Change in Agricultural and Environmental Regulation

Proteak is a commercial company that owns forest land and must comply with the provisions of the Agrarian Law and environmental legislation, among other applicable regulations in agrarian and forestry matters, which establish various restrictions for the possession and exploitation of Biological Assets. In the event that the Agrarian Law or the legislation on environmental matters, or any other applicable provision related to the Biological Assets, undergoes modifications that restrict the rights that Proteak currently enjoys, or in the event that Proteak fails to comply with the agrarian legislation or environment, the holding of Biological Assets by Proteak could be limited, which would have a negative effect on Proteak's operating results and, consequently, on the value of the CPOs.

Innovations and Investments in new businesses

Proteak is a company with various types of income through its subsidiaries, its investments in new businesses or innovations may not obtain the expected results, in the first years.

Risk Factors Related to Other Markets

Operations abroad

Proteak conducts various commercial activities abroad. Currently, the principal markets are in India and China, Vietnam, and the United States, so any political or economic change in those countries could affect Proteak's operations and income. The Company has 9 years of experience trading wood abroad, which has reduced operational risks and lack of knowledge of the market in these countries.

Proteak also has Assets in Costa Rica, mainly properties and Biological Assets, and as a result is subject to legislative, political or any other type of changes that could occur in that country. In this regard, Proteak has five years of experience operating in Costa Rica, so there is still the risk that the economic results obtained from these activities, including the acquisition of mature wood plantations and land for planting, may not coincide with the projected or expected results, thereby adversely affecting in the investors' IRR.

Contraction of the wood industry in major importing countries

Economic contraction or specifically of the timber industry in India, the main importer of Teak could have an impact on the supply and demand of the product at a global level and therefore put pressure on the prices at which Proteak's products are sold. In addition, an economic contraction in China, the main importer of timber and forest products, could also have an indirect effect on prices. Furthermore, a global recession affecting the general economic situation and the construction sector would significantly modify Proteak's results and projections.

1.3.5 Risks related to accounting judgments

Accounting judgments for recognizing the fair market value of biological assets and land

Estimates and assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations about future events deemed reasonable under the circumstances, especially for the 2021 fiscal year due to the pandemic, which have been considered on the assumptions for determining the accounting judgements, ones that were normalized for the effects of 2022, mainly because the effects of the pandemic were not of such magnitude as those observed in 2021.

Critical accounting estimates and judgments

Company management makes estimates and judgments in respect of the future. The resulting accounting estimates, by definition, will rarely equal actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities during the following year are presented below:

1. Critical Accounting Judgments

Significant information regarding assumptions, estimates of uncertainties and critical judgments recognized in the consolidated financial statements are described below:

- Valuation and classification of Biological Assets
- Determination of fair values for revaluation of land
- Deferred Tax Assets
- Management's Judgment in Determining Functional Currency
- Estimate of useful life of property, machinery, and equipment

Valuation and classification of Biological Assets.

Valuation and classification of Biological Assets is determined as described in note 2(j) of the Audited Financial Statements.

It should be noted that for 2022 a variation of more or less one percentage point in the discount rate for immature biological assets in the transition stage, would cause a variation of MXN (\$6.0 MM) or MXN \$6.03MM in the value of the Biological Assets in this stage, which represents (0.5%) and 0.5%, respectively, of the value of the biological asset. For the 2021 fiscal year, it would cause a variation of MXN \$(12.5MM) or MXN \$13 MM, in the value of the biological assets in this stage, which represents (0.7%) and 0.7%, respectively, of the value of the biological asset.

Furthermore, for the valuation of the biological asset, a difference in price of plus or minus 10% of the price would represent and affectation of MXN \$137.9MM and MXN (\$125.2MM) of the benefit generated by the change in the fair value of the biological assets, which would represent an increase (decrease) of the biological assets of 10% and (10%) as of 31 December 2022. As of December 31, 2021, a difference of the same percentage would represent an effect of MXN \$91.4 MM and MXN (\$91.4 MM) of the benefit generated by the change in the fair value of the biological assets.

Determination of fair values for revaluation of land

Land is recorded at fair value, on the basis of periodic valuations conducted by independent appraisers. To determine the fair value of land items, the company uses an independent expert appraiser who uses estimates to determine the value of comparable assets existing in the market. These appraisals must be reviewed, if it is considered there are elements that presume significant changes in the values of assets and any change could affect the amount recognized as valuation surplus, and if the latter is depleted, the impact is applied to income. See Note 14 of the Audited Financial Statements.

Deferred Tax Assets

The Company recognizes deferred tax assets up to the amount at which their realization is probable. To determine said realization, the Company takes into account future tax profits and tax strategies. If the company determines it can realize its deferred tax assets in the future above the amount recorded, the deferred tax asset is adjusted, increasing income for the period in which said determination would be made. If the company determines it will not be able to realize all or part of its deferred tax asset in the future, the deferred tax asset is adjusted, decreasing income for the period in which the decision was made. As of December 31, 2022, and 2021, tax losses recognized are only recognized in entities that will generate future tax profits. See Note 23 of the Audited Financial Statements.

Management's Judgment in determining functional currency

Each Group company determines the currency of the economic environment in which it operates as its functional currency. Management uses its judgment to determine the functional currency in each entity that most accurately represents the economic effects of underlying transactions, events, and conditions. For companies engaged in the Teak segment, the U.S. Dollar has been considered the functional currency, as biological assets have an observable market with prices determined in dollars, and most of their sales, as well as the most significant non-monetary acquisitions are conducted in said currency.

Useful life of property, machinery, and equipment

The Company reviews the estimated useful life of property, machinery, and equipment at the end of each annual period. During the period, it was not determined to modify the useful lives, as according to management's assessment, the useful lives reflect the economic conditions of the Company's operating environment.

1.4 Other Securities

As of the date of this report, the Company does not have any other security registered in the RNV apart from the aforementioned Ordinary Share Certificates. Each CPO comprises one T Series share and two K Series shares. Nafinsa [Nacional Financiera, a government-run development bank] acts as trustee, responsible for the custody of the company's shares and their exchange for the corresponding CPOs

1.5 Significant Changes to the rights over the securities registered in the registry

The rights over any of TEAK's securities registered in the RNV have not been modified.

1.6 Allocation of funds, if any

The funds obtained were used in accordance with the Consolidated Statement of Cash Flows (Audited Financial Statements).

The funds obtained in the capital survey conducted in 2015 were used for the MDF Project.

The funds obtained in the capital survey carried out in 2017 were used as part of the plan to grow the plantations and to face the challenges posed by the year with liquidity as the board's operation was consolidated.

The funds obtained in the capital survey carried out in 2018 were used as working capital to consolidate the MDF operation.

The funds obtained in the capital survey carried out in 2020, were used as working capital and debt service for the MDF operation.

1.7 Public Documents

The documents submitted by Proteak to the BMV are: quarterly reports for 2022 and past years, relevant events, and previous annual reports, which have been delivered in due time and form. These documents can be found at the BMV information center at www.bmv.com.mx or at Paseo de la Reforma #540, Colonia Lomas de Chapultepec, C.P. 11000 Ciudad de México, México.

Investors may also obtain a copy of said documents by sending a written request addressed to:
Mariana Rojo Granados
Chief Financial Officer
E-mail: mariana.rojo@proteak.com
The Issuer's website is: www.proteak.com.

The Issuer

2.1 History and development of the issuer

Name of issuer: Proteak Uno S.A.B. de C.V. (TEAK or the issuer)

Address: Paseo de la Reforma 540, Col. Lomas de Chapultepec, CP, 11000, México, D.F. +52 55 62351504

Proteak's evolution may be observed in five stages:

Phase Zero, Feasibility Analysis (1999 – 2000)

In this phase a strategic-financial study was conducted during which the first forestry engineers and consultants were hired and the foundations for the initial stage of the project were determined. Once the type of wood that made the most sense from an economic perspective was defined, the internal rates of return (IRRs) for several types of wood were analyzed, finding IRRs below 16% for soft or industrial woods, while the return was over 20% for hard or fine woods, especially those of rapid or medium growth. The company ultimately opted for Teak (*Tectona Grandis*).

Nayarit was identified as an interesting and viable state to establish the pilot plantation. This phase was funded by Hector Bonilla, founder, and a couple of partners.

Phase One, Scalability of the Project (2000 - 2006)

Proteak was incorporated on September 11, 2001, by means of public deed number 1,003, issued by Mr. Alfredo Bauza Witte, Esq., Notary Public number 230 of the City of Mexico, and registered in the Public Registry of Commerce of the Federal District under commercial entry number 281217.

Once the feasibility of the project had been analyzed, funds were sourced with the objective to plant between 150 and 200 hectares a year. The initial capital was obtained from small individual investors close to the founder. Other investors interested in the project were added. Funds were obtained year after year based on the needs of the business, with the capital coming from among the investors. During this stage, 580 hectares of Teak were planted on different ranches in Nayarit, creating a small operations team.

In addition, the FSC® certificate (Forestry Stewardship Council) was obtained, the highest governing body on international sustainable forestry practices. It is worth noting that Proteak was the first forest plantation in Mexico to receive this certification. Each year, FSC® personnel visit both new and old plantations to ensure their compliance with the standards set forth by the FSC® as well as federal and local government regulations.

Phase Two, Scaling Up (2007 - 2009)

In this phase, the operating procedures were determined, as reflected in the operation manuals, in order to scale up the project within an adequate cost scheme. The goal was to plant more than 800 hectares per year until reaching a target planting goal of over 2,700 hectares in 4 years and demonstrating the capabilities of the company in Plantation operations. To this end, additional capital was raised and land purchase options in Jalisco, Tabasco and Veracruz were enhanced. The

decision to open different hubs increased the complexity of the operation. However, it was necessary to demonstrate that the Company is capable of handling distant operations efficiently. Besides capitalizing on diversification at the time of purchasing land, which is one of the most important barriers to a successful forestry business.

At the end of this phase Proteak had 2,281 hectares of Teak in 23 different plantations (Jabalinas is considered 4 different ranches as well as Tintal, although at this point it did not have a plantation) in the states of Nayarit, Jalisco, and Tabasco. The Company met the objectives of this phase in terms of execution, costs, and tree growth within the expected parameters. The land where the plantations are located are as follows: 90% of the land are small landholdings and the remaining 10% are *ejidos* (community-owned land) in the process of being changed over to full ownership in order to be transformed into small landholdings (estimated time of 24 months)

Phase Three, IPO, Institutional Growth (2010-2011)

In this phase the company began implementing the business plan proposed for the initial public offering, consisting of the purchase of 1,400 hectares of mature plantations, as well as 8,000 hectares of Teak plantation. The process of institutionalizing company business processes also began during this phase, as well as the process for determining the business rules and policies which enabled us to move toward the future as a world-class company. This includes, among other initiatives, the implementation of a computer system for Enterprise Resource Planning (ERP), which as of the date of this report has been implemented in all of the Company subsidiaries.

In addition, we decided to open Proteak subsidiaries in Costa Rica and Colombia, in order to diversify the age profiles of our plantations and guarantee the continued supply of timber to our wood processing plants and our customers. We began processing mature wood from Colombia in a third-party plant to increase the production capacity and thus ensure the supply of Teak products. At this stage, a better understanding of the forestry business was achieved, as well as of the factors that affect the tree's growth, thus increasing the expected return on investment. These key factors are as follows:

- Purchasing better land: Priority is being given to purchasing higher quality land, even if this is at a higher price, but with much richer soils where Teak is expected to growth better.
- Preparation of the soil: Proteak enhanced its preparation practices, seeking to improve the properties of the soil in terms of hydrological features, including the construction of canals and/or levees, and correcting the pH to facilitate the exchange of nutrients and the enrichment of the soil.
- Fertilization: It has been proven through numerous tests in the Company's plantations that fertilization in the initial years results in increased Teak growth.
- Planting with select genetic material (commonly known as 'clones'), rather than seeds, allows the rapid adaptation of the plant to a characteristic ecosystem, resulting in faster growth and a tree with better properties and lower variability, which leads to higher quality wood and more consistent volumes.

Lastly, at this stage we begin with the acquisition of mature plantations begins in order to bring future cash flows into the present. In 2010, 119 hectares of 16-year-old Teak were acquired in Tabasco, Mexico, as well as 950 hectares of Teak and 1,450 hectares of Acacia in Costa Rica, and 890 hectares of Teak in Colombia, including 560 hectares over 20 years old (plus a purchase option on 410 hectares of plantations aged 6 to 8 years old) thus greatly improving the Company's plantation profile.

Phase Four, Stabilization of the Company (2012 -2013)

Once the acquisition of mature plantations had been completed, Proteak began to utilize the resources acquired in the last few years. A 'trading' area was created, which intends to sell roundwood harvested from the plantations without any initial value-added process, seeking to gain greater presence in the global Teak market, and particularly, in Asia. The Company also hopes to gain an important role in and greater knowledge of the distribution channel through increased intermediary activities.

In addition, Proteak has been able to consolidate its manufacturing operations, making processes more efficient, optimizing margins, and improving the distribution of products in the global market.

Another notable development during 2012 was the creation of the first hydroponic nursery in Mexico, which will allow us to continue with research and the genetic improvement of our trees, as well as ensuring the production of sufficient clones to plant our entire production target. During this phase, Proteak's intention was to start generating positive cash flows, ensuring the implementation of the Business Plan and future growth.

In 2013, the Eucalyptus nursery was acquired through the purchase of FOMEX, where all the genetic material for the Eucalyptus plantations is produced. With Proteak's two nurseries, the availability of clones is guaranteed.

Phase Five, Diversification of the Company (2013 - Present)

Throughout these 9 years, Proteak has managed to capitalize on its forestry experience, achieving a solid platform to expand its species portfolio and thus increase the current value of the Company and improve the return of its shareholders. This growth platform is based on the following competitive advantages that the issuer has developed:

1. Mastery of the forestry business and leading position in the market.
2. Unique and proven comprehensive business platform
3. Industry with high growth potential and low correlation to economic and market impacts.
4. World-class capabilities in research, development, and application of forestry techniques.
5. Geographical diversification in strategic markets with natural entry barriers.
6. Strong corporate governance with a proven management team.

In 2014, the Company entered the industrial sector with the beginning of the MDF plant construction. In only three years Proteak designed and developed the most important industrial forestry project in Mexico. In May 2016, the MDF plant started commercial operations and after twenty months of sales the Tecnotabla board, the Good Wood MDF, was recognized for its quality as it is the only MDF manufactured in Mexico that uses 100% sustainable certified wood from the Company's own commercial forest plantations. At the close of 2016, only seven months after having started operations, it was estimated that the Company had achieved a 20% market share, positioning its Tecnotabla brand as the second most important player in the Mexican market. In 2017, Tecnotabla maintained this estimated market share with a portfolio that remains diversified with MDF boards and value-added boards. In 2018, the company achieved market leadership with a 22% market share. In 2019, we remained solidly positioned in second place with 21%, after the merger of Arauco with Masisa, which combined obtained market leadership. In 2020, we achieved a record market share of 24%. In 2021 we achieved 24%, remaining in second place. Currently at the end of 2022 we continue to strengthen our position in the market with 23% maintaining second place.

Diversification to other business units

In 2013, Proteak took advantage of its experience in the forestry sector and diversified its business portfolio with shorter cycle plantations than Teak by developing the most important forestry-industrial project in the country: an MDF board plant in Tabasco in order to meet more than 20% of the national demand. To this end, it carried out a capital increase with resources used initially for the FOMEX acquisition, the largest private forestry company in the country with more than 6,500 hectares of certified eucalyptus trees, to which Proteak added 3,000 hectares, guaranteeing wood supply.

This business unit is a natural expansion of Proteak's core capabilities and the perfect complement to its cash flow structure, given that Teak is a long-term investment, where 85% of cash flows occur from the 18th to the 25th year. The combination of a Eucalyptus plantation with an MDF plant provides short-term cash flows, decreasing the WACC and thus increasing the value of the Company. Proteak's main differentiators will be distribution costs as well as our forestry experience regarding improved plantations, which will enable Proteak to generate a profitable business in the medium- and long-term.

In 2022 we closed with revenues of MXN \$1,477MM, in general it was a good year for Proteak, always seeking growth with the best quality, with 4 factors being the most important:

1. Increase in the commercialization and sales of MDF from MXN \$1,895MM to MXN \$1,900MM.
2. Constant production of MDF in values over 210k M3
3. Participation in the national market of MDF in 23% and in terms of value-added products 35%.
4. Adjustment for fair value of the biological asset of Teak MXN (\$473.5)MM, due to the downward pressure of the price at an international level.

Tecnotabla has remained the second most important player in the industry.

Main investments

Over the past 5 years (2022, 2021, 2020, 2019 and 2018) Proteak has invested in commercial forest plantations of MXN \$219MM, MXN \$137MM, MXN \$70MM, MXN \$106MM and MXN \$109MM, respectively.

2.2 Description of the business

2.2.1 Main activity

Proteak operates in two different stages of the forest-industrial business, which do not have a cyclical behavior:

I. Forestry

Proteak's main activity relates to commercial forest plantations of Teak (*Tectona grandis*) and *Eucalyptus* (*Eucalyptus Urophylla*). As of the date of this report, Proteak has more than 6,900 hectares of *Tectona grandis* and 7,300 hectares of *Eucalyptus urophylla*.

The forestry business consists of 5 main stages:

Av. Paseo de la Reforma 540
Col. Lomas de Chapultepec, Miguel Hidalgo
C.P. 11000, Distrito Federal, México

1) Site Selection

Proteak has acquired the experience needed to identify, select, and acquire the most appropriate land for the development of its business. The company has carefully analyzed the relationship between soil quality and the expected return on investment, identifying strict selection criteria. Proteak is currently acquiring land for plantations that, combined with the appropriate preparation techniques and using selected genetic material, can generate an Average Annual Increment (IMA) in Teak plantations of more than 18 m³/ha/year and an IMA (increment average annual) expected up to 45 m³/ha/year in Eucalyptus plantations.

2) Soil preparation and planting

This stage is extremely important for tree growth, as a plant sown in well-prepared soil will grow much faster than one sown in the same unprepared soil. In addition, proper soil preparation allows for maximizing the effective planting area and obtaining more uniform growth. Proteak carries out an intensive mechanical preparation of the soils to adapt the physical and chemical conditions in order to obtain provide optimal conditions for growth. In most cases, the weeds and grass found in the land is cleared. The main preparation activities include harrowing (semi-heavy and heavy), subsoiling and trimming. In second rotation lands (i.e., those that were previously planted and harvested), mechanical stump removal is carried out using mulchers or grinders).

At the same time, seedlings from genetically selected material (note that Proteak does not alter the genetic code of its trees in any way) are reproduced in a hydroponic nursery and greenhouse which, once they have reached the right size and the appropriate amount of moisture, are transferred to the field, and planted.

To produce Teak seedlings, improved genetic material is currently used, from clones selected and evaluated in trials. In the Choapas nursery, Eucalyptus clones are produced and tested on site, which allows for the greatest growth. In 2022, Proteak planted 2,488 hectares of Eucalyptus and 131 Ha. of Teak.

Proteak does not use irrigation in its plantations, with the exception of 'El Milagro', a ranch developed with support from CONAGUA in the state of Chiapas. The moisture required for the development of the tree comes from rainfall by transporting it through hydraulic works such as channels and levees.

3) Maintenance

Teak

In its first years of life the plant competes for nutrients with weeds and grasses, so it is vitally important that the area around the trees be cleared to ensure their proper development and survival. During these initial years, maintenance costs are higher, and could increase in the event of severe weather conditions that favor the growth of weeds and grasses (such as prolonged rains). Maintenance costs for the following years relate to the pruning of branches to avoid unwanted regrowth. Intensive weed and grass clearing is not necessary as the tree is taller and its shade prevents vegetation that would compete for the nutrients from the soil from growing. Pruning is carried out to ensure that the trees have a good shape and better quality.

Eucalyptus

Unlike Teak plantations, Eucalyptus plantations have a shorter cycle and require less intensive maintenance. So, in the first two years of life, the area is cleaned of weeds and grasses to ensure plant survival and nutrient absorption. Since Eucalyptus does not need pruning, maintenance is focused solely on weed control.

4) Thinning

Teak

Every plantation has a predetermined number of trees planted per hectare. Proteak has a policy of planting between 850 and 1,100 trees on average per hectare. Having enough space between them allows for maintenance to be carried out mechanically, thus reducing costs. If the crowns of the trees touch each other, the tree's growth is reduced and is the moment to reduce the density of trees per hectare, which is commonly known as thinning. Thinning depends on the growth each batch shows. Proteak does not consider the product of the first thinning to have any commercial value, as the trees neither have the size nor the quality to mill or to be sold as logs. The thinning schedule is determined for each plantation and is based on its specific features.

Trees whose potential growth is less promising, being smaller, deformed or forked, are always cut in order to leave the best trees for the final harvest, from which 70% of the income from a plantation is derived. Hence, the costs associated with thinning are considered part of the effort required to have well developed trees that do not show any features of trees that were cut.

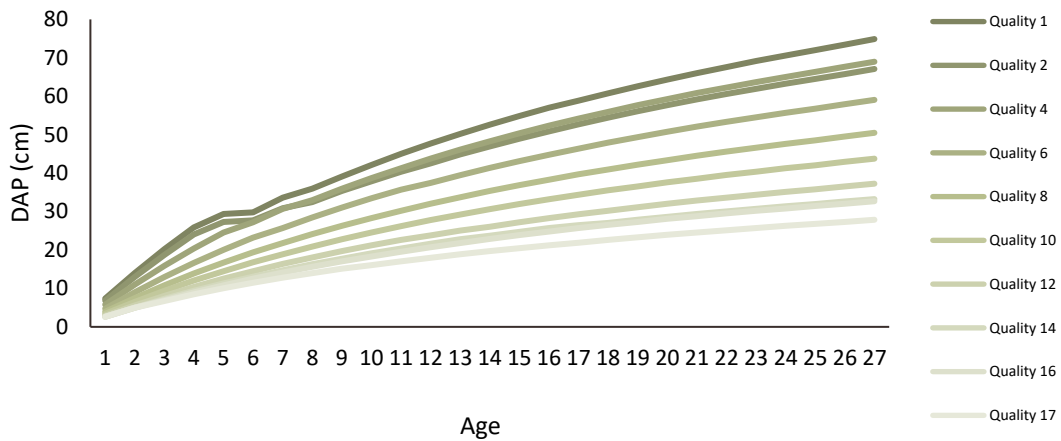
Eucalyptus

Thinning is not carried out in Eucalyptus plantations since the final product is MDF board production. Unlike Teak plantations, the aim is not to achieve the best quality of wood, but the greatest amount of volume since 100% of the tree can be used for the industrial process.

Growth curves and management plans.

Given that the profitability of the business is closely linked to Biological Assets and their growth over time, Proteak considers that it is vitally important to stratify its plantations by area, for them to better fit a growth curve and therefore ensure growth projections are more on target.

Proteak currently has 10 site classes, each refers to the production potential of the land, on the basis of which it classifies all its plantations: Marginal (considered of null future value), Average, Good, Superior or Excellent. Proteak considers that on average, each plantation site class will behave as shown in the curves given below:



Graph 5: Growth curves in DBH by plantation area

Source: Proteak Uno S.A.B. de C.V.

5) Final Harvest

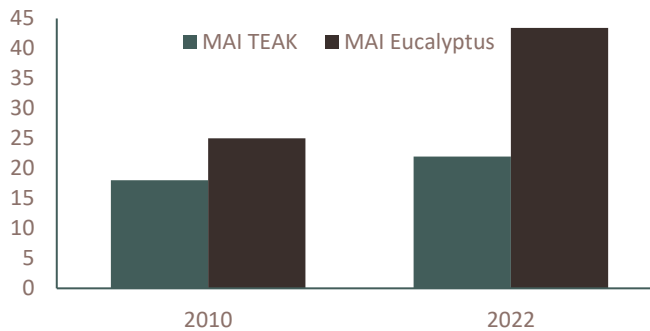
Teak

Once the necessary thinning has been carried out, the remaining trees can remain planted for a longer interval than the time between two conventional necessary thinnings. Proteak's projections consider roundwood prices (cut logs with bark).

Eucalyptus

Eucalyptus fiber is usable from the third year; however, based on the harvesting plan, the planting cycle will be 5 or 6 years when the trees already have the proper amount of fiber to be harvested. After this period, the trees will be cut down and sold to the Proteak subsidiary that operates the MDF plant. It should be noted that, in the case of Eucalyptus, a tree can be harvested up to three times because the tree is cut down and new buds sprout from the stump.

Over time, Proteak's forestry experience has been reflected in the constant increase of the MAI in its plantations. In the following figure, this growth in both Teak and Eucalyptus plantations can be seen.



Graph 6 MAI by Plantation year

Source: Proteak Uno S.A.B. de C.V.

II) Industrialization

The MDF production process is as follows:

Harvest and Transport

- Once the trees reach the optimum growth level (5 years), they are harvested and treated to remove branches. They are then transported to the MDF plant

Shredding

- The logs are fed into a shredder which initially converts them into small squares and then into fiber.

Filter

- The chips are passed through a screen, allowing material of the same size and consistency to be selected. This process also removes impurities.

Heating

- The chips are heated with steam and pressure; this process softens the chips and removes excess water in order to convert them into fiber

Defibrillator and drying

- The chips go through a defibrillator that transforms them into fiber. When drying, moisture is reduced from 40% to 10%

Mixing/EvoJET

- The necessary chemicals and resins are added. Thanks to this process, it is possible to save around 20% of the necessary inputs compared to the standard process, thus reducing costs and environmental emissions.

Quality Control

- Tecnotabla makes sure that its boards are free of impurities or air bubbles and therefore meet quality standards.

Pressing

- Through heat and pressure, the board is given the desired thickness

Sanding and cutting

- After 48 hours of cooling each board goes through a sanding and sizing process for the final finish. If the aim is to produce a board without any coating, it is ready at this point.

Melamine

- Melamine is applied based on the design, either on one or both sides of the board, and shaped to the required measurements

Tecnotabla uses the waste to generate biomass, thus guaranteeing 100% use of the raw material.

Income by product is detailed in section 3.2 Financial information by line of business.

The main climate risks are detailed in the section on risk - in the extreme weather event section (1.3.2).



2.2.2 Distribution Channels

Business Unit- MDF

As a result of its incursion into the MDF board business, Proteak has initiated activities in the industrial part of the wood value chain. In 2014, Proteak focused efforts on the construction of the MDF plant in Huimanguillo, Tabasco, which has a total annual production capacity of 280,000m³ and supplies not only part of the national demand but is also beginning to supply part of the export market. The plant began operations on February 2, 2016 and commercial activities in April 2016.

In 2017, approximately 56% of the MDF boards produced in the country were imported, mainly from Chile, Brazil, and the United States. This has led to the concentration of approximately 60% of the volume in the distribution channel, while 40% is sold directly to large transformers. There are a limited number of large distributors with mostly domestic operations, which have traditionally been the means by which the imported product is moved.

It is estimated that approximately 80% of the market is concentrated in the center, south and west of the country (mainly in the metropolitan areas of Mexico City and Guadalajara), which allows us to have access to highly competitive costs as regards transport and logistics.

For MDF, one year before production started, the sale of imported boards from Spain took place. The strategy behind this was to enter the channel, develop it and above all understand the strategic opportunities (uses and margins).

The company's strategy is to develop specialized products, with added value by leveraging proximity to the customer. For this purpose, a partnership has been developed with FINSA, which results in having the capacity to produce and offer specific solutions for the different market categories and types of use.

In 2022, the distribution channels maintained their structure compared to previous years, however the following aspects stand out:

- Consolidation and territorial expansion of large wholesalers, covering more territory and gaining relevance in the chain.
- Professionalization of the channels with points of sale to the public offering complementary services (cutting, sizing, etc.) and a better shopping experience.
- Growth of furniture sales through electronic commerce (internet) due to the effects of the pandemic.
- Large furniture manufacturers in Mexico, starting to capture demand from the high (unsatisfied) need for furniture for the US market.
- Relative professionalization of small carpenters as a result of the use of social networks and the Internet where they obtain ideas, training and best practices.
- Arrival in Mexico of large-scale furniture stores such as IKEA.
- Home centers (Home Depot) still without significant relevance in the MDF board market.

2.2.3 Source and Availability of raw materials

The only strategic and significant raw material for the company's forestry segment are the seeds or clones used to grow trees. Previously, all the plantations used seedlings generated through seeds, while today, total of Proteak's sites are being



planted with clones, which also translates into a substantial improvement to our plantations. Therefore, the Company must secure the source of both seeds and clones.

For Teak seeds, Proteak currently has a Costa Rican supplier, *Semillas y Bosques Mejorados S.A de Guanacaste*, although there are several suppliers in other countries such as Panama, Ecuador, Venezuela, and several Asian countries. In addition, Proteak is developing its own seed orchard in order to limit company dependence on third-party sources.

As regards Teak clones, Proteak invested in the development of a clonal garden in 2011, in order to ensure the reproduction and growth of seedlings with the same genetic material. In 2012, 2013 and 2014, most of the genetic material used was acquired from a Brazilian company, *Proteca Forestal LTDA*, and also from the company itself, as part of the acquisition of *EcoDirecta* (Proteak does not pay royalties on the latter). Although there are several suppliers of Teak clones in the world, the investment made in the clonal garden has allowed Proteak to select and reproduce its own genetic material using state-of-the-art techniques and guaranteeing a supply of seedlings. It is worth noting that the clones that Proteak selects and reproduces are not genetically altered (GMO's).

As regards Eucalyptus, FOMEX was a pioneer in Eucalyptus plantations in Mexico and developed expertise and first-rate genetic material. With the purchase of FOMEX, a nursery was acquired along with clonal gardens, therefore Proteak owns the genetic material developed and produced in the area, significantly reducing its dependence on third parties. To further improve the genetic material and the MAI of the plantations, clones of *Eucalyptus Eurograndis* were purchased from Brazil in 2015.

Proteak is constantly innovating. In 2015, the capacity of the nursery was increased to produce up to 7 million plants per year, enough to plant 3,000 hectares per year, through the rehabilitation of a third hydroponic module with the capacity to produce 40,000 mother plants each, 9 new rooting modules of 100,000 plants each and two organoponic modules with 30,000 mother plants each.

In both cases, Proteak also has access to one of the largest bases of genetic material for Teak and Eucalyptus known as it is a member of Camcore, (Central America and Mexico Coniferous Resources Cooperative), a non-profit organization of the University of North Carolina aimed at providing the best genetic material available for forest plantation development.

As far as land is concerned, Proteak has insured almost all of the land that it needs to fulfill its business plan, both for Teak and Eucalyptus.



2.2.4 Patents, licenses, trademarks, and other contracts

Proteak does not hold any patents or technologies that are registered or in the process of being registered related to company processes. As regards trademarks and slogans as of December 31, 2022, the following have been registered:

Mexico:

Board brands	Date
PROTEAK RENEWABLE FORESTRY	06-may-10
TECNOTABLA EL MDF DE BUENA MADERA	18-feb-15
TABLATEC EL MDF DE BUENA MADERA	18-feb-15
GOOD WOOD MDF	24-apr-15
TECNO TABLA, ESPECIAL PARA AMBIENTES HÚMEDOS	07-jan-16
TECNO TABLA, ESPECIAL PARA PINTAR	07-jan-16
TECNO TABLA, SOLUCIONES DECORATIVAS	07-jan-16
TECNO TABLA, SOLUCIONES ESPECIALIZADAS	07-jan-16
TECNO TABLA, SOLUCIONES BÁSICAS	07-jan-16
ADVANCED PANEL TECHNOLOGY	07-jan-16
TECNO TABLA, ESPECIAL PARA RAUTEAR	07-jan-16
PROTEAK	08-jul-10
PROTEAK	06-may-10
PROTEAK WE MAKE FORESTRY MATTER	04-aug-14
TECNOTABLA (Y DISEÑO)	18-feb-15
TABLATEC (Y DISEÑO)	18-feb-15
TECHNOBOARD	24-apr-15
TECHBOARD	24-apr-15
TECNOTABLA ADVANCED PANEL TECHNOLOGY BY PROTEAK	03-dec-18
TECNOTABLA EL MDF DE BUENA MADERA BY PROTEAK	03-dec-18
TECNOTABLA BY PROTEAK	03-dec-18
(DISEÑO)	03-dec-18
TECNOTABLA	03-dec-18
PROTEAK WOOD	14-feb-20
VÉRTICE BY TECNOTABLA (Y DISEÑO)	27-feb-20
VÉRTICE BY TECNOTABLA	27-feb-20

Guatemala:

Board brands	Date
TECNOTABLA BY PROTEAK Y DISEÑO	02-may-19
TECNOTABLA EL MDF DE BUENA MADERA Y DISEÑO	02-may-19
TECNOTABLA ADVANCED PANEL TECHNOLOGY BY PROTEAK Y DISEÑO	02-may-19

Estados Unidos:

Board brands	Date
TECNOTABLA	18-may-15
ADVANCED PANEL TECHNOLOGY	29-feb-16
PROTEAK RENEWABLE FORESTRY	21-jun-11

Costa Rica:

Board brands	Date
Proteak Renewable Forestry	09-may-11
Proteak Renewable Forestry	09-may-11
Proteak Renewable Forestry	10-may-11



Trademarks registered in Costa Rica are in the process of renewal.

2.2.5 Key Customers

When FOMEX was acquired, the Company continued to sell the Eucalyptus that was in marginal areas (far from the MDF plant) to third parties, however, from 2016 to 2021 PRO MDF represented 90% of the sale of round wood and in 2022 100%, in this way we ensure the supply of raw material necessary for our manufacturing process.

In 2016, Proteak started operations through PRO MDF and verified that the early commercialization strategy of third-party boards was successful. At the end of 2022, Tecnotabla has a diversified client portfolio, with more than 100 clients. The main clients to which it has been sold are:

Key customers 2022	
AGLOMERADOS Y TRIPLAY VIC SA DE CV	8.33%
MADERAS POLANCO SA DE CV	5.14%
MJB TABLEROS Y MADERAS S DE RL DE CV	4.94%
MADERAS Y ALGO MAS DE JALISCO SA DE CV	4.41%
CG UNIVERSAL WOOD SA DE CV	4.17%
Other (103)	73.01%

Table 10 Key MDF Customers

Source: Proteak Uno S.A.B de C.V

Within the category of others there is no client with a participation of 10% or more.

2.2.6 Applicable legislation and tax regime

The General Law of Sustainable Forest Development regulates Forest legislation and the regulations derived from it. During October 2013, the Chambers of Senators and Deputies approved the issuance of a new Income Tax Law (LISR), which entered into force on January 1, 2014. With this, the simplified regime was eliminated and all activity forestry is taxed at 30%.

Proteak's activities are also governed by the General Law of Ecological Balance and Environmental Protection, the General Law for Integrated Waste Management and Prevention, the Land-Reform Law and the Regulations of the Land-Reform Law regarding the Organization of Rural Property, the applicable Mexican Official Standards, and all other laws and regulations that apply to the environment and/or forestry.

Likewise, due to the land ownership that the Company holds in Costa Rica and Colombia, transactions that occur within these countries are subject to local regulation and legislation.

Sole Circular of External Auditors (CUAE for its acronym in Spanish).

Proteak is subject to the various provisions that regulate the operation of the securities market in Mexico and other foreign regulations related to the Company's securities registered in markets outside of Mexico.



In this last respect, it is necessary to mention that on April 26, 2018, the CNBV, through COFEMER, published the General Provisions Applicable to Entities and Issuers supervised by the CNBV that contract external audit services of basic financial statements (Auditors Law), in order to improve the quality of external audit services and persons subject to the supervision of the Commission.

Among the main requirements is to have qualified personnel who meet certain requirements to be part of the Audit Committee. This law was published in the Official Gazette of the Federation (DOF) on April 26, 2018, and updated with the reform, published in the DOF on November 15, 2018.

In accordance with the provisions of Annex N of the Issuers Sole Circular (CUE - for its acronym in Spanish), no relevant, current or potential impact of the regulations on climate change is considered due to the current regulatory compliance in our facilities in relation to the emissions of gases and compounds of effect greenhouse. It is important to mention that, due to the high standards of our creditors in terms of environmental and social impact, Proteak is subject to the Guidelines on the Environment, Health and Safety of Boards and Products and Particulate Wood issued by the International Finance Corporation of the World Bank which has been met to date in accordance with the evaluation criteria of said institutions.

The Company has received a series of subsidies from the National Forestry Commission (CONAFOR), through its National Forestry Program, for engaging in reforestation activities. These subsidies are obtained by competition and awarded in phases. For the years ending December 31, 2022, no subsidies were received. For the year ending December 31, 2021, the Company received subsidies for MXN \$6.4MM. These subsidies are not conditioned on any compliance subsequent to their granting nor do they have to be repaid in the future. For more information, see note 2, section (z) of the Audited Financial Statements.

2.2.7 Human Resources

Proteak's employees are hired by five of its subsidiaries: Comefor, Fomex, Pro MDF, Proucalipto and Servicios Comefor Tres (SCT). As of December 31, 2022, Proteak had 133 trusted employees; of which 10 are directors and the rest work in the administrative, forestry, operational or plant areas. In 2021, the Company had 122 trusted employees. All employees receive legal and social security benefits. There are other benefits that apply to certain employees depending on the locations where they work.

Proteak hires a significant number of temporary or casual employees for the preparation, planting, and maintenance of forest plantations. The average number in 2022 was 1,033 temporary employees. Temporary employees enter into fixed-term agreements with the Company; they are registered with the Social Security Institute and receive the benefits provided by law, they also receive transport services.

Current Proteak employees, with the exception of trusted workers, are affiliated with the Union (Tabasco and Veracruz) corresponding to their field of work, which the company recognizes as the legitimate and sole representative of their interests, as set forth in the relevant Collective Bargaining Agreements executed. The relationship with the Union is one of cordiality, understanding, agreement and mutual support regarding the productivity and welfare of our employees.

In 2022, the average number of permanent employees was 418, of which all are located in Mexico. As of December 2022, Proteak had a total of 1,451 employees, of which 29% are trusted and 71% are unionized. In 2021, the total number of employees was 1,126, of which 11% were trusted and 89% unionized. The variation in the number of total employees responds to the eventuality of certain forestry activities.



2.2.8 Environmental compliance

During 2022, Proteak continued to demonstrate its commitment to environmental and social development through various actions. The annual FSC Eucalyptus and Teak Forest Management audit concluded with positive results, as did the Teakhaus Chain of Custody audit. Additionally, the annual reports were presented to the United Nations Global Compact to demonstrate compliance with the principles regarding human rights, labor standards, the environment and anti-corruption in the Company's operations and the annual report to the International Finance Corporation (IFC) and FINNFUND, where the application of environmental and social sustainability performance standards is monitored.

Regarding carbon bonds, the sale of 143,480 tCO₂e corresponding to the period from 2015 to 2019 of the Fresh Breeze Afforestation project, which covers 5,344 hectares of Teak plantations, was concluded.

2.2.9 Market information

In 1990, the world had 4,128 million hectares of forest; by 2020 that area had decreased to 3,714 million hectares, and about 31% (1,151 million hectares) of the world's forests were designated primarily as production forests, which in the forestry world can be divided into two types of timber from the point of view and economic strategy:⁴

Industrial woods:

These woods are used for the manufacture of paper, cardboard and the construction industry. Some industrial species have a very fast growth rate or IMA, over 30m³/hectare/year, therefore, they have short planting cycles (between 5 and 15 years). While others may have fairly low increases, just 0.9 m³/ha/year, such as the ponderosa pine. At the same time, these woods have a relatively low market value (less than USD 100 per m³).⁵

Within this type of wood, we find softwood species such as Pines (Taeda, Ellioti, Patula and Radiata), and hardwoods such as Eucalyptus (Eucalyptus Grandis, Eucalyptus Urophylla, Eucalyptus Dunni), poplar and oak, among many others.

Fine or high-value woods:

High value hardwoods are woods mainly used for boat building, outdoor and indoor furniture manufacturing, interior decoration, paneling, and terrace construction. The species in this category are known as luxury woods or special woods.

This type of wood generally has a slow growth rate (less than 15m³/ha/year) and therefore has longer plantation rotations (20 years) but has a relatively high market value (more than USD 500 per m³)⁶ Among this type of wood are some tropical hardwoods such as Mahogany, Red Cedar and Teak, temperate woods such as Maple, Walnut and Cherry; and softwoods such as Cypress and Cedar.

Fine woods: Teak

"In terms of wood, Teak is like a diamond among precious stones".⁷

⁴ FAO, Global Forest Resources Assessment 2015, How are the world's forests changing, Second Edition, 2016.

⁵ Evans Julian, Turnbull John W.: Plantation Forestry In The Tropics The Role, Silviculture And Use Of Planted Forests For Industrial, Social, Environmental And Agroforestry Purposes 3 Rev Ed Oxford University Press (United Kingdom), 2004.

⁶ Ibid.

⁷ ITTO Tropical Forest Update Volume 12 Number 1, OTTI, 2004, Page 3.



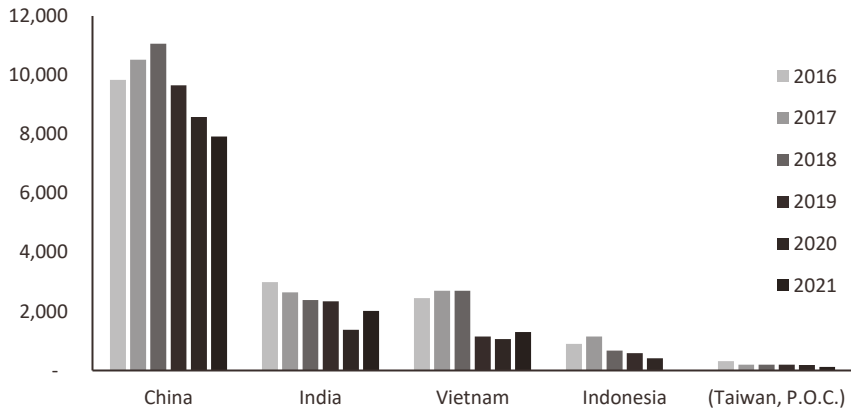
Teak is native to India and Southeast Asia (Myanmar, Thailand, Laos) and is the most cultivated quality tropical wood in the world. It is known for having excellent properties, being one of the most valuable in the world. It is characterized by its strength and low weight, its durability, dimensional stability, non-corrosive nature, ease of carving and drying, resistance to termites, fungi and weather, and its beauty. The purposes for which Teak is used are many, such as the construction of bridges and docks, furniture, railway cars and sleepers, and carpentry, in general. It is highly valued in shipyards, where it is used for ship decks; in addition, it is used for carving, and is durable as flooring.⁸

Industrial woods: Eucalyptus

Eucalyptus is considered to be a precious wood among industrial woods and is also the most profitable due to its rapid growth, growing up to 75 m high with a 2 m diameter. After year 5, its properties are optimal for structural uses. Eucalyptus is remarkably diverse but 83% is used as cellulose in paper. The other 17% is used to manufacture posts, boards, furniture, veneer, among other uses.

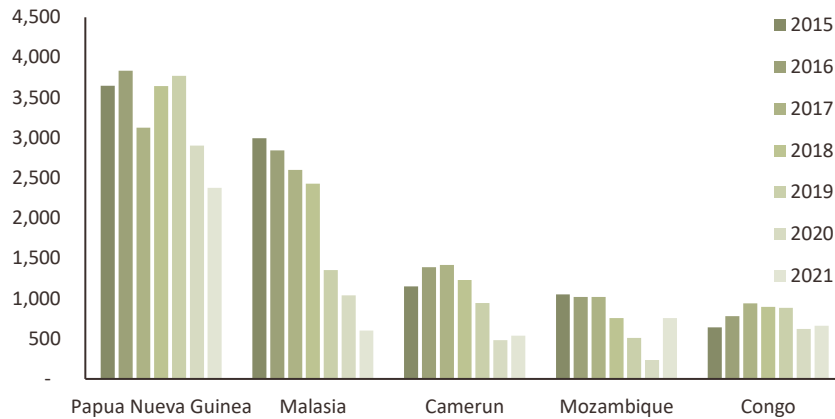
Tropical Wood Market in the World:

Papua New Guinea and Malaysia lead the list of the largest exporters of tropical roundwood, while China and India position themselves as the largest importers of this product. Countries previously on the export list, such as Myanmar, significantly reduced their exports as a result of government bans. While India has decreased its imports in recent years, mainly due to a slowdown in its economy, China has increased its imports of tropical wood.



Graph 7 Tropical Wood Importers
Source: ITTO Biennial Review

⁸ The future of Teak in Tropical America <http://www.fao.org/docrep/n6845s/n6845s02.htm>.



Graph 8 Tropical Wood Exporters
Source: ITTO Biennial Review

The most recent studies indicate that the growth rate in wood consumption is in line with population growth. Currently, most of the world's production comes from unsustainable sources (natural forests). Plantations will play a much more important role in meeting this demand as natural forests are exhausted or will be protected. Satisfying this demand in the future will require more than 9 million hectares of forest plantations, above the 4.3 million hectares of Teak currently planted, which are mainly composed of sub-optimal quality and growth plantations.

The clearest trend in the supply of Teak wood in the market is that as deforestation, or protection, of natural forests progresses, the dimensions of natural trees will get closer and closer to the dimensions of plantation trees, erasing thus the difference that exists today in the perception of quality of one wood and another. Another very important trend that will gain more and more strength is the consumption of certified wood. It is important to clarify that not all forest plantations are likely to be certified because a good part of them did not follow the high sustainability standards required from their origins.

According to the ITTO (International Tropical Timber Organization) in May 2014, the major global certification bodies (FSC and PEFC) reported a total gross area of 438 million hectares under their individual (approved) certification standards, of which only 182,000 hectares of Teak are certified.⁹

World Teak Market

Teak is one of the tropical woods with the greatest added value and one of the most difficult to obtain from natural forests. Teak is primarily obtained in Southeast Asia, as it originates from the tropical forests of Asia. Trends in Teak trade are mainly determined by the behavior and performance of the Asian market. It is estimated that the natural Teak forests expand 29 million hectares, mainly in India, Laos, Myanmar and Thailand, half of this figure is found in Myanmar. The estimated area of Teak plantations worldwide is 4.3 million hectares, of which 83% is in Asia, 11% in Africa, about 6% in the Americas and less than 1% in Oceania. .¹⁰

⁹ Biennial Review and Assessment of the World Timber Situation 2013 - 2014, International Tropical Timber Organization, 2015

¹⁰ Kollert, W. and Cherubini, L. 2012. Teak resources and market assessment 2010. FAO Planted Forests and Trees Working Paper FP/47/E, Rome. Available at: <http://www.fao.org/forestry/plantedforests/67508@170537/en/>



Between 2 and 2.5 million cubic meters of Teak are harvested annually worldwide from natural forests and forest plantations, with forest plantations being the main source of harvest, from 1 to 1.5 million cubic meters. It is estimated that this level of production will increase, particularly from forest plantations from Central and South America. Myanmar is the only one to produce high quality Teak from natural forests as India, Laos and Thailand have logging bans in their forests (illegal logging has been detected). Although there is no exact estimate of Myanmar production, it is estimated that the maximum sustainable Teak production in this country is 50,000m³/year.¹¹

Since natural teak production has reached its limit of sustainable extraction, it is highly likely that the natural forest supply is decreasing. Based on ITTO estimates, prices for high quality Teak logs are over USD \$1,800 per m³ in Myanmar, while lower quality Teak Lumber can be priced up to USD \$1,000.¹²

The only known substitute for Teak from natural forests is that produced on commercial plantations. Although it is less expensive than naturally harvested teak, plantation teak has been well accepted in the marketplace.

Since the first Teak plantation was established at Nilambur, in the state of Kerala (India) in 1842, the production of high-quality wood has been carried out with relatively long rotation cycles of 50–70 years. However, shorter rotations of 20–30 years are now being used in many countries for veneer and sawlog production in order to achieve relatively faster returns. A new wave of innovation promises to reduce rotations to cycles of 15 to 20 years, which will allow even greater availability of Teak in world markets.

Only 1.1% of the world's commercial plantations are made of Teak.¹³

The introduction of Teak beyond its natural environment is a relatively recent phenomenon. 83% of the world's teak plantations are found in the tropics of Asia (India and Indonesia being the most prominent), with 11% being planted in the tropical region of Africa (mainly Ghana and Nigeria). 5% has been planted in tropical regions of the Americas, with Panama, Costa Rica, Ecuador, and Brazil being the most prominent.¹⁴ It is estimated that about 225,000 hectares have been planted in Latin America, and in Central America, there is the potential to plant at least another 100,000 hectares. Thus, within 20 years the potential production of Teak for Latin America would be around 1,300,000m³.¹⁵

As the trend for teak from commercial plantations with 20-30-year rotations continues to grow, the teakwood products industry is expected to develop new technologies for the harvesting of young wood.

Domestic Teak Production

From 2008 to 2017, Mexico's timber forest production has remained stable, starting with 6.3 million m³ in 2008 and ending with 9.0 million m³ in 2017. This amount is insufficient to cover the estimated national demand of more than 20 million m³ annually, so the rest is imported from other nations.¹⁶

¹¹ Ibidem, pp. 7.

¹² Ibidem, pp.20.

¹³ Camino, Ronnie de, Las Plantaciones de Teca en América Latina; Mitos y Realidades, FAOCATIE, 2013, pp.4.

¹⁴ The global Teak Study, Analysis, Evaluation and Future Potential of Teak Resources, Kollert W. Kleine M., 2017.

¹⁵ Ibidem, pp.14.

¹⁶ SEMARNAT, Statistical Yearbook of the Forest Production 2017.



Mexico presents optimal ecological niches for the proper development and high yield of Teak in states with a tropical climate such as Chiapas, Campeche, Tabasco, Veracruz and Oaxaca. In addition, commercial Teak plantations have been carried out in Michoacán, Puebla, Jalisco, Colima, Nayarit and Tamaulipas, which also contemplate the planting of other precious woods, such as red cedar, mahogany, primavera, etc.¹⁷

Teak was first introduced into Mexico in 1950 by the extinct Papaloapan Commission, with the establishment of some plantations in Tabasco, Veracruz, Chiapas, and Campeche. According to the National Forestry Commission, Mexico has two large types of Teak plantations: mixed plantations and exclusively Teak plantations. With the implementation of the Program for the Development of Commercial Forest Plantations (PRODEPLAN), the surface area planted with Teak along with other species from 2000 to 2014 was 177,216 hectares, while plantations consisting exclusively of Teak during the same period totaled 25,324 hectares. The most recent information shows that Campeche has 34.76% of the established Teak surface area, followed by Tabasco with 28.7%, Chiapas with 11.6%, Veracruz with 9%, Nayarit with 7.7%, and the remaining states account for 8.1%.¹⁸

Determination of Teak prices

In addition to the supply/demand balance, Teak prices depend on the diameter and length of the trunk, which, in turn, depends on the age, soil, climate, irrigation and fertilization, quality (percentage of heartwood, knots, pith, certification and defects) and the distance between the origin and consumption market.

Silviculture treatments such as thinning and pruning, if done rationally, can also improve the quality of the wood, producing wood with fewer knots and curves, less tapering and more heartwood.

The following diagram shows the variables affecting the price of Teak:

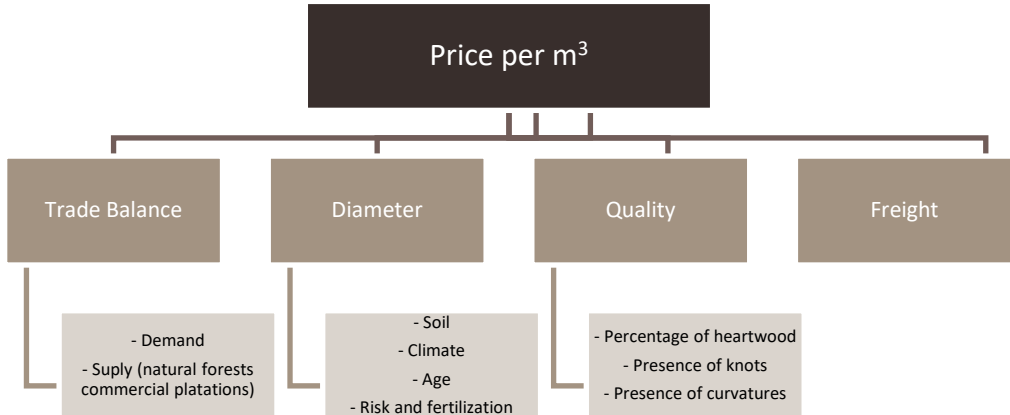


Figure 1 Factors that determine the price of Teak

¹⁷ Main timber species established in FFP by Federal Entity, CONAFOR, 2015.
¹⁸ Ibid.



Source: SAI with ITTO data and SAGARPA (FUMIAF) report.

Although there is no international system for classifying the quality of Teak wood, the best-known system is the one used by Myanmar for classifying the wood that is auctioned in the markets of the Burmese capital. This system classifies the wood according to the quality, as well as the diameter of the trunk (the larger the diameter, the greater the amount of wood to be sawn). The system has 8 levels, of which the first 3 indicate the highest quality wood and age for veneer (veneer quality). These 3 types of quality occur only in natural plantations, and the remaining 5 classify quality wood for sawmills (sawing quality). High quality lumber is very scarce and fetches prices in the thousands of dollars per m³, while sawmill grade lumber is the most common and similar to lumber produced on commercial plantations.

Myanmar's classification system has the following categories:

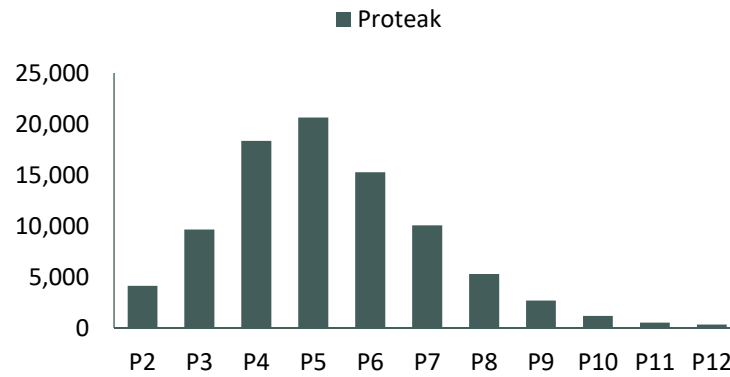
- Third Quality (4 Q)
- Sawing grade I (SG-1)
- Sawing Grade II (SG-2)
- Sawing Grade III (SG-3)
- Sawing Grade IV (SG-4)
- Sawing Grade IV (SG-5)
- Sawing Grade IV (SG-6)
- Sawing Grade IV (SG-7)

As for future forecasts, given the distribution of the age ranges and the long rotations no significant increase in the supply is expected in the next 20 years. The overexploitation of natural forests and their consequent reduction will be replaced by production in commercial plantations. Although in the short term the price of Teak has been affected due to factors such as the economic slowdown in India and the weakness of the Rupee (INR), according to Coillte Consult, it can be expected that in the long term the price of wood grows at or above inflation, considering a 1% potential real growth per year as a conservative estimate.

Market Trends

As mentioned, Teak is the only economically viable plantation-based tropical hardwood and will therefore significantly increase its share of the tropical plantation wood market in the coming years.

Our market presence continues through our exports of roundwood and sawn timber to Asia.



Graph 9 Volume by size category for roundwood

Source: Proteak Analysis

Competition

Because the teak market in Mexico is very small and still developing, there are not many major competitors in the market. Among the most significant competitors is Santa Genoveva, an agricultural company that started planting in 2002 and which plans to grow 19,560 hectares over 20 years. In 2008, the company raised funds through a structured instrument for the development of this growth plan.

Derived from the fact that our main sales are for export, our main competitors are large global players, but it is worth noting that the Teak market has such high levels of demand that currently all producers/marketers cannot satisfy it.

Carbon Capture

Proteak has voluntarily engaged in a carbon credit certification process, which it has called “Fresh Breeze Afforestation Project.” Said project developed under the standards of the Verified Carbon Standard (VCS), was the first of its kind in Mexico and during the first verification, it generated 1,033,143 tons of carbon dioxide equivalent (tCO₂e) in the three verifications in which it has been participated since 2019, which can be sold on the international voluntary market.

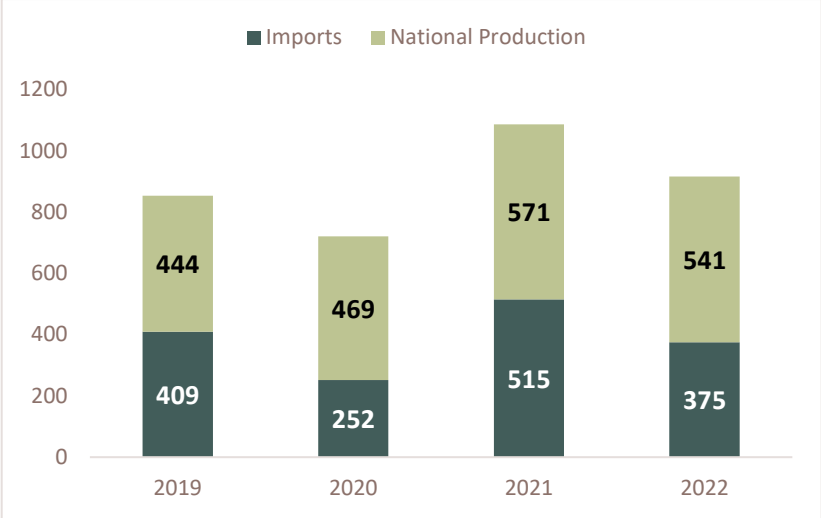
The Company firmly believes that carbon capture will make a significant contribution to mitigating climate change. It also seeks to demonstrate that forest plantations are an ideal instrument to encourage private investment in the sector, in addition to promoting afforestation projects in local communities. Additionally, the project will contribute to sustainability in Mexico, by i) increasing the supply and quality of work; ii) decentralized rural development; iii) increase net production value, iv) improvements in the fiscal balance; v) preservation of biodiversity, and vi) preservation and improvement of soil quality.

MDF Mexican Market

It is estimated that in Mexico the demand for MDF during 2022 was close to 917,000 m³, which represents a decrease of close to 15% compared to the previous year. The participation of imports continues to be representative and represented



41% of total demand. An important change during 2022 was the change in the origin of imports. In years past, Brazil and Chile accounted for the largest share and by 2022, boards from Asia have replaced the rest. The national production continues in consolidation where Tecnotabla, Arauco and Duraplay de Parral participate primarily.



Graph 10 National MDF Market
Source: Proteak Uno, S.A. de C.V

MDF Prices in Mexico

Until May 2022, the price per m3 of MDF had significant increases, caused by the effect of high demand, combined with the pressure of raw material and freight costs. However, starting in June, the price was adjusted downwards due to the market stabilization process, considering that 2021 was an extraordinary year of operation, which reflected a contraction in demand, as well as a decrease in international freight. Despite the contraction in demand and the decrease in prices, the average price per m3 of MDF in our sales in the domestic market reached \$9,628 MXN/m3 in 2022 vs. \$8,122 MXN/m3 in 2021 (+19%).

Market Trends

The board market in Mexico by 2022 is still young, however, it shows some aspects of maturity and consolidation, mainly due to the higher production of the plants installed in recent years, to a greater penetration and use of this material in the different industries in Mexico.

Although, in the short term, there was a contraction in demand, in a general and long-term context, the market continues with dynamism:

- 1.- Natural wood and plywood continue to be replaced by a greater use of MDF, increasing the penetration and use of this material.



2.- The return to normality, after COVID-19, caused the reconversion of commercial spaces, office remodeling and the reactivation of construction that generated an increase in demand. However, household spending also increased and reduced the effects of growth.

This significantly benefited the use of Value-Added Dashboards. This type of board went from representing 18% of the market to nearly 21%, which was also a reason that helped prices and margins recover.

Although the penetration of MDF increased in the last year, MDF consumption in Mexico is still low compared to figures from other countries and given the acceptance both of MDF and the Tecnotabla brand, market growth of between 8% and 12% is anticipated. Annual per capita consumption in Mexico is currently estimated at 5m³ vs. 19m³ in Brazil.

Competition

By the end of 2022, five national MDF producers are registered in Mexico: Tecnotabla, Arauco, Emman, Macosa and Duraplay. This year the national production reached 59% participation. The rest of the local producers also benefited from the high demand and better market prices and were affected by the drop in consumption at the end of the year.

2.2.10 Corporate structure

Proteak was incorporated on September 11, 2001, by means of public deed number 1,003, issued by Mr. Alfredo Bauza Witte, Notary Public number 230 in and for Mexico City, and registered in the Public Registry of Commerce of the Federal District under commercial entry number 281217.

ProMDF S.A.P.I de C.V.'s main objective is the construction, equipping and operation of a medium density fiberboard (MDF) plant. The company was incorporated on April 22, 2013 and began operations in June 2016.

Comefor began operations in 2007 for the purpose of trading the wood from Proteak's first thinning. It was incorporated on April 19, 2007 by means of public deed number 28,245, issued by José Eugenio Castañeda Escobedo, Notary Public Number 211 in and for Mexico City, and registered in the Public Registry of Commerce of the Federal District under commercial folio number 365817 on June 16, 2007. The shareholders' meeting in which Comefor was consolidated as a subsidiary of Proteak was held on October 27, 2009.

From 2011 Proteak, in order to extend its operations in Central America, created new companies: Proteak Panama, Proteak Forestal, Proteak Vehicular, Proteak Comercial, Proteak DOS, Proteak TRES, Proteak TRES sucursal, Comercializadora Internacional Proteak Colombia and Comefor Internacional.

Currently three companies of the group (Proteak Uno, Fomex in Mexico, and Proteak Forestal in Costa Rica) maintain forestry assets, with Fomex specializing in Eucalyptus and the other two in Teak. ProMDF maintains the required assets for forest production. Fomex and ProMDF have employees since the reform in Mexico on subcontracting.

A diagram describing the composition of Proteak is shown below:

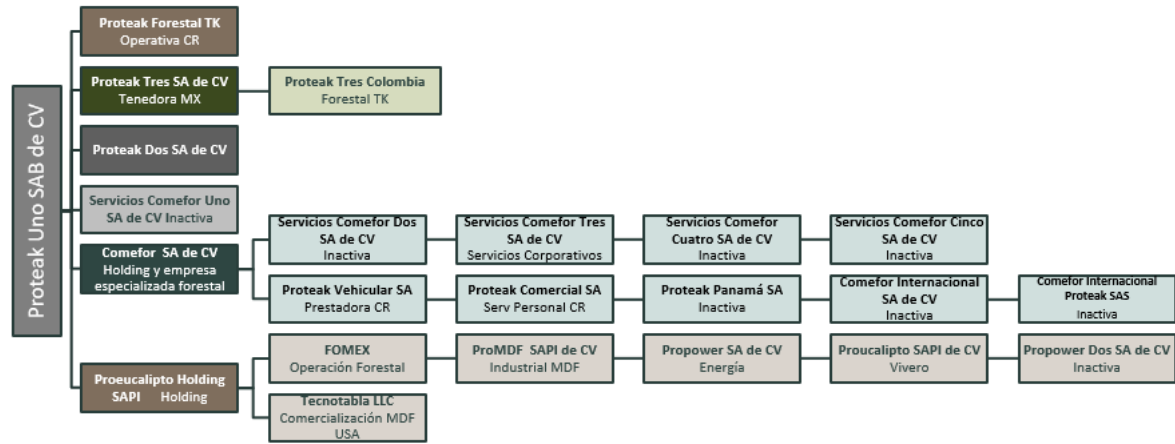


Diagram 1 Corporate Structure
Source: Proteak Uno S.A.B. de C.V.

For more information see note 1 of the Audited Financial Statements.

2.2.10.1 Control of the Issuer

Proteak does not have any person or group of persons exerting control over it, nor does it have any special class of shares granting any special rights to its holders.

2.2.11 Description of its main assets

Proteak's main assets are the lands where the plantations are located and the Biological Asset (trees) that are growing on these lands, together they make up what are called Forest Assets. The asset owned by PRO MDF (Proteak), covers 100% of the surface area and is also insured:

Ranch	Country	State	Area / Has
Los Naranjos	Mexico	Tabasco	31
TOTAL			31

Table 11 ProMDF properties
Source: Proteak Uno S.A.B. de C.V.

As part of ProMDF's list of Assets is the MDF Plant built on the Los Naranjos site and has a useful life of up to 25 years. This plant has an installed capacity of up to 260 thousand m3. Two years after initiating operations, the production level has been over 190 thousand m3, which is the standard when commissioning plants of this type. However, during 2022, a production of over 210k m3 was reached. To date, there are no plans to build, expand or carry out improvements to the facilities.

The following is a list of the properties owned by Fomex (Proteak); the effective surface area level of the land is on average 80%:



Ranch	Country	State	Surface (ha). Deed
Plots 12, 13, 23, 24, José María Pino Suárez	Mexico	Tabasco	400
75 Bis, Manuel Sánchez Marmol	Mexico	Tabasco	49
Plot 3, Laguna del Rosario	Mexico	Tabasco	79
Plots 60 y 64, Agrícola Gregorio Méndez	Mexico	Tabasco	52
Plot 14, José María Pino Suárez	Mexico	Tabasco	100
Plot 10, Ranchería Tierra Colorada	Mexico	Tabasco	50
Plot 87, Manuel Sánchez Marmol	Mexico	Tabasco	100
Plots 50-A, 59, A, 59B, 55, 58, Agrícola Venutiano Carranza	Mexico	Tabasco	179
Plot 16, Laguna del Rosario	Mexico	Tabasco	100
Plot 27, Laguna del Rosario	Mexico	Tabasco	100
Plot 40, Laguna del Rosario	Mexico	Tabasco	100
Plot 19, Fracc. 1, Laguna del Rosario	Mexico	Tabasco	100
Plot 33, 109, 109A, Cuitlahuac, Choapas	Mexico	Veracruz (Choapas)	239
Rustic Property, Ranchería Tancochapan	Mexico	Tabasco	100
Plots 3, 4, 5, 6, 9, 10, 11, 12, 13, 14, 15, 16, 26, 27, Col Pedro C. Colorado	Mexico	Tabasco	711
Rustic Property, Ranchería Tierra Colorada	Mexico	Tabasco	25
Rustic Property, Ranchería Tancochapa	Mexico	Tabasco	2246
Section of Rustic Property	Mexico	Veracruz (Choapas)	10
Plot 88, Manuel Sánchez Marmol	Mexico	Tabasco	100
El Ausente	Mexico	Tabasco	196
Los Panchos	Mexico	Tabasco	490
Valle Verde	Mexico	Tabasco	316
Piñas Primavera	Mexico	Tabasco	280
Santa Elena	Mexico	Tabasco	100
El Trébol (Promesa de compraventa)	Mexico	Tabasco	553
Eucaliptos Maravilla	Mexico	Tabasco	275
TOTAL			7,051

Table 12 Fomex properties
Source: Proteak Uno S.A.B. de C.V.



These assets are the properties owned by Proteak. As Fomex, the level of effective land area is on average 80%:

Ranch	Country	State	Surface (ha). Deep
Ajengibre	Mexico	Jalisco	676
Ardillas	Mexico	Nayarit	131
Asterisco	Mexico	Chiapas	98
Capitán	Mexico	Nayarit	253
Capri	Mexico	Chiapas	14
Cuvadonga	Mexico	Tabasco	196
Desenredo	Mexico	Nayarit	86
Diamante	Mexico	Tabasco	62
Don Justi	Mexico	Tabasco	77
El Abuelo	Mexico	Tabasco	494
El Azteca	Mexico	Tabasco	378
El Establo	Mexico	Chiapas	35
El Milagro	Mexico	Chiapas	105
El Porvenir	Mexico	Tabasco	67
El Rincón	Mexico	Chiapas	138
EMPENO I y II	Mexico	Nayarit	314
Enredo	Mexico	Nayarit	103
Esperanza	Mexico	Nayarit	64
Insomnio	Mexico	Nayarit	138
La Estrella	Mexico	Chiapas	214

Ranch	Country	State	Surface (ha). Deep
La Laguna	Mexico	Tabasco	400
Las Amapas	Mexico	Tabasco	360
Las Caobas	Mexico	Tabasco	317
Libertad	Mexico	Nayarit	166
Los Brasiles	Mexico	Tabasco	360
Los Cedros	Mexico	Tabasco	100
Mariachi	Mexico	Nayarit	114
Nueva Pezuna	Mexico	Chiapas	20
Pasiones	Mexico	Nayarit	179
Pediatra	Mexico	Nayarit	229
Piedrasanta	Mexico	Tabasco	356
Pocito	Mexico	Tabasco	600
San Agustín	Mexico	Chiapas	70
San Juan	Mexico	Chiapas	102
San Pablo	Mexico	Tabasco	180
Santa Rosa	Mexico	Tabasco	95
Tintal	Mexico	Tabasco	385
Victoria 2	Mexico	Nayarit	108
Victoria 7	Mexico	Nayarit	89
Zombie	Mexico	Chiapas	157
TOTAL			8,030

Table 13 Proteak properties
Source: Proteak Uno S.A.B. de C.V.

Proteak conserves and protects natural areas. In Costa Rica, environmental law states that if a piece of land has not been used for more than 3 years, and the native vegetation of the area invades it, it automatically becomes a protected area.

The credit granted by the IFC and PROPARCO has collateral guarantees on some rural and/or urban properties amounting to USD \$75.6 MM.

On July 17, 2017, an irrevocable trust agreement for the administration and guarantee of real estate and Biological Assets with the IFC and PROPARCO was used. The term of said trust will be February 15, 2027 or when the Company has settled the total debt, whichever comes first.

Another important asset of Proteak is the Biological Asset, which is composed of exploitable forest cover or forest stand.

In addition, Proteak has machinery and equipment to carry out Forestry Operations, which includes agricultural machinery and implements (mostly tractors, excavators, harvesters, truck loaders, etc. and also crawlers, disc harrows, lime spreaders, sanders, etc.) Moreover, ProMDF, the subsidiary specialized in manufacturing MDF boards from Eucalyptus, has the Civil



Works and Buildings corresponding to the plant located in the municipality of Huimanguillo, Tabasco, as well as all the Machinery and Equipment involved in the production process.

Pursuant to the terms of the Credit Agreement entered into by Pro MDF, S. A. P. I. de C. V. and AKA, on January 14, 2014, a guarantee is granted through the irrevocable collateral trust agreement identified under number F/2137. As of December 31, 2018, MXN \$12MM have been contributed to the trust (for the land where the MDF plant is located) and MXN \$440MM are pending to be contributed to the trust (for construction work carried out on the land where the MDF plant is located). The possession of the assets will be in charge of the settlor as depositary.

Details and rates of such credits are included in section 3.3 Relevant Credit Information.

2.2.12 Judicial, administrative or arbitration processes

There are no other outstanding judicial, administrative or arbitration proceedings against Proteak, Comefor or the Trustee of relevance to shareholders. Nor is there any knowledge of any proceeding that could be enforced by government authorities that would represent a material contingency for the financial position of the company. For more information see notes 24 of the Audited Financial Statements.

As of the date of this Annual Report, the company is not in the assumptions set forth in Articles 9 and 10 of the Commercial Bankruptcy Law.

2.2.13 Shares representing capital stock

As of December 31, 2022 and 2021, there are 2,455,299 shares pending subscription.

During 2022, 3,000,000 shares with a nominal value of \$0.960438945 were capitalized, for an amount of MXN \$2.8MM, which correspond to 1,000,000 accrued CPOs corresponding to the share plan for executives and employees.

During 2021, 6,000,000 shares with a nominal value of \$0.960438945 were capitalized, for an amount of MXN \$5.8MM, which correspond to 2,000,000 accrued CPOs corresponding to the share plan for executives and employees.

As of December 31, 2021, the reserve of CPOs assigned to the approved stock plan for executives and employees amounted to MXN \$20.5MM.

Dividends paid in cash or in kind by Mexican companies in the Group are subject to income tax, if the dividends are paid from profits that have not been taxed by the Income Tax Law. In this case, the dividends will be taxed by multiplying them by a factor of 1.4286 and applying the income tax rate of 30% to the result. The Company that distributes the dividends must pay this income tax. Additionally, it is established that the entities that distribute dividends to their shareholders, who are individuals or residents abroad, must withhold the corresponding 10% for income tax, which will be paid in Mexico.

The foregoing will not be applicable when the distributed dividends come from the "net tax profit account" held as of December 31, 2013 by the company that distributed the dividends.

In the event of a capital reduction, the procedures established by the Income Tax Law (LISR), provide that any excess of the balance of the contributed capital account be given the same tax treatment as that applicable to dividends.



As of December 31, 2022 and 2021, the Company does not have a balance of the Net Tax Profit Account (CUFIN).

Share-based payments.

As of January 1, 2022, the movements in the number of current CPOs corresponded to 4,200,000 with an average price of MXN \$5.49. The CPOs granted in 2022 were 835,000 with an average price of MXN \$5.49, these were assigned and delivered, thus totaling 3,365,000 CPOs as of December 31, 2022.

Of the 3,365,000 CPOs, 1,365,000 are accrued, pending delivery and the remaining 2,000,000 are yet to be accrued. The CPOs granted in 2021 represented 3,031,285 shares at the weighted average price of MXN \$6.05 each.

The total expenses recognized in the statement of income derived from the shares issued to directors and employees are described in Note 22 of the Audited Financial Statements.

2.2.14 Dividends

The distribution of dividends to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. Until December 31, 2022, the payment of dividends is conditional on the fulfillment of the commitments included in the cost-bearing liability contracts. See section 3.

Financial Information

3.1 Selected financial information

The selected financial information is presented below. In order to generate a comparability of the data, see Note 2 of the Audited Financial Statements of Summary of Accounting Policies, where the variations in the accounting regulations adopted for 2022 and 2021.

	2022	2021	2020
Net income	1,919,690	1,938,424	1,165,668
Profit from change in the fair value of biological assets, minus estimated point-of-sale costs	(473,536)	73,631	171,707
Subsidies received	-	6,360	3,839
Costo of sales	(1,448,973)	(1,421,462)	(1,079,502)
Administrative and sales expenses	(296,275)	(310,337)	(336,050)
Other income - Net	30,777	35,246	8,849
OPERATING PROFIT/LOSS	(268,317)	321,862	(65,489)
Equity interest in joint venture	(68)	24,252	21,069
Comprehensive financing result	(78,301)	(187,348)	(278,464)

PROFIT (LOSS) BEFORE TAXES AND DISCONTINUED OPERATIONS	(346,686)	158,766	(322,884)
Corporate tax	50,146	94,507	77,473
CONTINUING OPERATION NET INCOME PROFIT (LOSS)	(296,540)	253,273	(245,411)
Discontinued operation income	-	-	(13,614)
CONSOLIDATED NET INCOME PROFIT (LOSS)	(296,540)	253,273	(259,025)

Table 14 Consolidated Income Statement (MXN '000)

Source: Audited Financial Statements

Assets	dec-22	dec-21	dec-20
Cash and cash equivalents	273,348	452,900	581,879
Customers	193,691	202,080	102,393
Recoverable taxes	208,210	156,139	80,899
Accounts receivable from related parties	8,359	-	-
Sundry debtors	51	1,127	1,812
Wood and processed wood inventory	482,205	295,616	284,260
Mature consumable biological assets	150,767	83,026	92,702
Advanced payments	115,646	122,422	40,322
Long-term financial assets available-for-sale	-	-	19,925
Restricted cash	161,537	125,967	58,800
Right-of-use assets	46,891	41,460	55,500
Long-term accounts receivable	-	-	2,556
Mature and immature consumable biological assets	1,628,897	2,115,983	1,966,300
Property, machinery, and equipment	2,725,611	2,862,794	2,855,356
Deferred income tax	138,302	97,562	8,990
Joint venture investment	267,178	280,203	245,184
Advance payments	3,161	9,077	2,483
Guarantee deposits	590	3,223	430
Total Assets	6,404,444	6,849,579	6,399,791

Table 15 Proteak Asset Distribution (MXN ,000)

Source: Audited Financial Statements

	2022	2021	2020
Profit (loss) per share MXN	(0.318)	0.229	(0.227)
Depreciation and amortization for the fiscal year	128,662	126,076	132,260
Accounts receivable turnover	9.91	9.59	11.38
Accounts payable turnover	(6.88)	(13.72)	(8.13)
Inventory turnover	(3.00)	(4.81)	(3.80)

Table 16 Financial Indicators

Source: Audited Financial Statements

Statement of Financial Position

Assets	2022	2021	2020	Variations 2022-2021	Δ 2022-2021
Cash and cash equivalents	273,348	452,900	581,879	(179,552)	(39.6%)
Customers	193,691	202,080	102,393	(8,389)	(4.2%)
Recoverable Taxes	208,210	156,139	80,899	52,071	33.3%
Accounts receivable from related parties	8,359	-	-	8,359	0.0%
Sundry debtors	51	1,127	1,812	(1,076)	(95.5%)
Inventories	482,205	295,616	284,260	186,589	63.1%
Consumable mature biological assets	150,767	83,026	92,702	67,741	81.6%
Advance payments	115,646	122,422	40,322	(6,776)	(5.5%)
Long-term financial assets held-for-sale	-	-	19,925	-	0.0%
Current assets	1,432,277	1,313,310	1,204,192	118,967	9.1%
Restricted cash	161,537	125,967	58,800	35,570	28.2%
Right-of-use assets	46,891	41,460	55,500	5,431	13.1%
Long-term accounts receivable	-	-	2,556	-	0.0%
Mature and immature consumables, biological assets	1,628,897	2,115,983	1,966,300	(487,086)	(23.0%)
Property, machinery and equipment	2,725,611	2,862,794	2,855,356	(137,183)	(4.8%)
Deferred income tax	138,302	97,562	8,990	40,740	41.8%
Joint venture investment	267,178	280,203	245,184	(13,025)	(4.6%)
Advance payments	3,161	9,077	2,483	(5,916)	(65.2%)
Security deposits	590	3,223	430	(2,633)	(81.7%)
Non-current assets	4,972,167	5,536,269	5,195,599	(564,102)	(10.2%)
Total assets	6,404,444	6,849,579	6,399,791	(445,135)	(6%)
Suppliers	210,492	103,622	132,783	106,870	103.1%
Sundry creditors	130,976	130,837	75,108	139	0.1%
Financial leasing	54,682	34,201	18,986	20,481	59.9%
Accounts payable to related parties	1,563	-	-	1,563	0.0%
Provisions	16,497	9,840	20,403	6,657	67.7%
Contract liabilities	49,929	24,160	42,165	25,769	106.7%
Income tax payable	15,326	13,407	3,495	1,919	14.3%
Subsidies pending application	-	-	-	-	0.0%
Short Term Credits	449,796	244,533	373,433	205,263	83.9%
Short-term liabilities	929,261	560,600	666,373	368,661	65.8%
Labor obligations	9,134	12,487	9,367	(3,353)	(27%)
Long-term financial leasing	98,236	63,282	61,949	34,954	55.2%
Long-term credits	1,636,285	1,882,074	1,725,293	(245,789)	(13%)
Deferred income tax	437,005	511,060	496,777	(74,055)	(14%)
Long-term liabilities	2,180,660	2,468,903	2,293,386	(288,243)	(12%)
Total liabilities	3,109,921	3,029,503	2,959,759	80,418	2.7%
Subscribed and exhibited share capital	2,656,070	2,653,189	2,647,426	2,881	0.1%
Premium in subscription and placement of shares	153,957	153,957	153,957	-	0.0%
Other Reserves	18,709	21,590	6,809	(2,881)	(13%)
Accumulated deficit	(12,753)	(233,077)	(14,181)	220,324	(95%)
Profit/loss (deficit) for year	(305,767)	220,324	(218,896)	(526,091)	(239%)
Cumulative translation effect	347,770	556,212	460,297	(208,442)	(37%)
Revaluation surplus	312,525	332,835	305,509	(20,310)	(6%)
Other Equity Items (Non-controlling interest)	124,012	115,046	99,111	8,966	7.8%
Stockholders' equity	3,294,523	3,820,076	3,440,032	(525,553)	(14%)
Total liabilities and stockholders' equity	6,404,444	6,849,579	6,399,791	(445,135)	(6%)

Table 17 Consolidated Balance Sheet (000 MXN)

Source: Proteak Audited Financial Statements

3.2 Financial information by line of business, geographical area and export sale

In 2022, Revenues remain at the same level as in 2021, there is a decrease in the generated profit, mainly due to the change in the fair value of biological assets for an amount of MXN (\$474MM) and a 5% saving in the total expenses.

	2022				2021				2020			
	Teca	Eucalipto	MDF	Total	Teca	Eucalipto	MDF	Total	Teca	Eucalipto	MDF	Total
Income	18	-	1,902	1,920	35	-	1,904	1,938	26	-	1,140	1,166
Gain from change in fair value	(474)	-	-	(474)	74	-	-	74	172	-	-	172
Subsidies received	-	-	-	-	-	6	-	6	-	4	-	4
Historical timber cost	(14)	-	-	(14)	(92)	-	-	(92)	(80)	-	-	(80)
Depreciation	(5)	-	(119)	(124)	(2)	-	(119)	(121)	(3)	-	(124)	(127)
Teak Product Costs	-	-	-	-	-	-	-	-	-	-	-	-
MDF Board Costs	-	-	(1,309)	(1,309)	-	-	(1,181)	(1,181)	-	-	(868)	(868)
Logistics Costs	(1)	-	-	(1)	(27)	-	-	(27)	(5)	-	-	(5)
Total Costs	(20)	-	(1,429)	(1,449)	(121)	-	(1,300)	(1,421)	(88)	-	(992)	(1,080)
Wages and salaries	(21)	(17)	(25)	(63)	(31)	(7)	(20)	(59)	(9)	(7)	(21)	(36)
Professional services	(36)	(4)	(4)	(43)	(53)	(1)	(10)	(64)	(60)	(2)	(6)	(69)
Depreciations	(4)	-	-	(4)	(5)	-	(0)	(5)	(5)	-	(0)	(5)
Travel expenses	(6)	(0)	(2)	(7)	(2)	(0)	(0)	(3)	(3)	(1)	(2)	(5)
Office services	(12)	(4)	(7)	(23)	(9)	(1)	(5)	(14)	(9)	(1)	(15)	(25)
Others	7	(22)	(1)	(16)	(8)	(5)	1	(13)	(14)	(5)	(20)	(39)
Freight	-	-	(124)	(124)	-	-	(145)	(145)	-	-	(124)	(124)
Uncollectible accounts reserve	(6)	-	(4)	(9)	(2)	-	1	(0)	(10)	(1)	(11)	(22)
Estimated costs of sale of assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Impairment of assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Employee stock ownership plan	(7)	-	-	(7)	(7)	-	-	(7)	(11)	-	-	(11)
Total costs	(83)	(47)	(166)	(296)	(118)	(14)	(178)	(310)	(122)	(15)	(199)	(336)
Other Net Income	29	1	0	31	24	10	1	35	1	7	1	9
Operating profit loss	(530)	(46)	308	(268)	(106)	2	426	322	(11)	(5)	(50)	(65)

Table 18 Operating Income by Segment (000 MXN)

Source: Audited Financial Statements

The assets by business unit are:

	31 de December de		
	2022	2021	2020
Teak	2,496,555	2,674,752	3,017,903
Eucalyptus	1,111,561	1,470,674	1,134,893
PRO MDF	2,796,328	2,704,153	2,246,995
Total	6,404,444	6,849,579	6,399,791

Table 19 Assets by segment (000 MXN)

Source: Audited Financial Statements

Liabilities by segment for December 31, 2022, 2021 and 2020 are as follows:

	31 de diciembre de		
	2022	2021	2020
Teca	293,023	436,070	414,364
Eucalipto	744,074	528,667	453,467
PRO MDF	2,072,824	2,064,766	2,091,928
Total	3,109,921	3,029,503	2,959,759

Table 20 Liabilities by segment (000 MXN)

Source: Audited Financial Statements

Revenues by geographical area as of December 31, 2022, 2021 and 2020 are as follows:

	31 de diciembre de		
	2022	2021	2020
Mexico	1,824,159	1,864,091	1,038,367
United States of America	95,531	74,333	121,253
Costa Rica	-	-	6,048
Total	1,919,690	1,938,424	1,165,668

Table 21 Income by geographical area (000 MXN)

Source: Audited Financial Statements

Non-current assets not considered deferred taxes by geographical region as of December 31, 2022, 2021 and 2020 are listed below:

	31 de diciembre de		
	2022	2021	2020
Mexico	4,800,737	5,391,069	5,143,221
United States of America	533	515	519
Costa Rica	32,595	47,123	42,869
Total	4,833,865	5,438,707	5,186,609

Table 22 Non-current assets excluding deferred taxes by geographical area (MXN 000)

Source: Audited Financial Statements

3.3 Relevant Credit Information

The following table shows the analysis of Proteak's financial liabilities based on the period between the date of the consolidated statement of financial position and the date of maturity. The amounts listed in this table correspond to undiscounted cash flows, including interest:

As of December 31, 2022, 2021 and 2020 the Company held credits for the amounts of MXN \$2,086MM, MXN \$2,127MM and MXN \$2,099MM, respectively, for long-term credits which are itemized below:

Institution	2022		2021		2020	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
AKA-Commerzbanck Aktiengesellschaft (1)	40,425	1,173,311	21,852	1,306,228	70,955	1,216,122
Proparco (2)	50,995	205,721	1,698	261,028	50,262	229,521
International Finance Corporation (IFC) (3)	58,543	257,253	1,733	314,818	57,633	279,650
Sabadell (4)	299,833	-	199,250	-	194,583	-
Mexarrend	-	-	20,000	-	-	-
Total	449,796	1,636,285	244,533	1,882,074	373,433	1,725,293

Table 23 Proteak Credits (000 MXN)

Source: Audited Financial Statements

The amount of undrawn and no longer available credits is presented, from the restructuring carried out during 2021:

Institution	2022	
	Available amount	Currency
International Finance Corporation (3)	18,784	Dollar
Proparco (2)	14,215	Dollar
Total	32,999	

Table 24 Credit Status (000)

Source: Audited Financial Statements

- (1) Credit agreement for Eur \$69,318MM entered into between Pro MDF, S.A.P.I. of C.V. and AKA Ausfunhrkredit-Gesellschaft mbh "AKA" on January 14, 2014 at a fixed rate of 3.67% per annum; payable in thirteen semi-annual fixed amortizations from January 31, 2023 and until January 31, 2029 (previously payable from July 31, 2018 and until January 15, 2028 since during October 2021 an agreement was made amendment to the original contract in which the start date of payment was postponed). On July 6, 2018, the entire line of this financing in the amount of USD \$10,945 was drawn down, with the same conditions and maturities. This provision was used for the outstanding payment for the purchase of machinery and equipment for the MDF plant to Dieffenbacher. All the credit provisions were agreed upon and are payable in dollars; the amount in Euros was only used as a reference.

Pursuant to the terms of the Credit Agreement entered into by Pro MDF, S. A. P. I. de C. V. and AKA, on January 14, 2014, a guarantee was granted through the irrevocable trust guarantee agreement identified with number F/2137. As of December 31, 2018, \$11,721 has been settled in the trust (corresponding to the land where the MDF plant is located) and \$440,482 (corresponding to the construction work carried out on the land where the MDF plant is located) is pending settlement in the trust. The possession of the assets will be determined by the settlor as depositary.

On October 19, 2021, an amendment agreement was signed to amend the contract, establishing new covenant rates, and extending compliance with these covenants as of 2023. It also sets out the payments to be made on a semi-annual basis from January 2023 to January 2029, with 2 payments of US\$500, 1 of USD \$750 K, 1 of US\$1,000, 1 of US\$2,000, 1 of US\$3,000, 1 of US\$4,000, 1 of US\$6,000, 1 of US\$7,750, 1 of US\$9,250, 1 of US\$10,500, 1 of US\$10,750, and 1 of US\$11,244. All other conditions remain the same. By means of this agreement, the Company is obliged to pay a commission of US \$535.



- (2) Straight credit agreement for up to a total amount of USD \$28,000 at a LIBOR rate plus 475 basis points with fixed semi-annual amortizations starting February 15, 2023 and until February 2028 (before payable from February 15, 2022 and until March 2027 since on November 8, 2021 an amending agreement was made to the original contract in which the payment start date was postponed) with semi-annual interest starting in August 2017. Contracted on January 13, 2017. As of December 31, 2022, and 2021 the Company has not drawn down USD \$14,215.
- (3) Simple Credit Agreement for up to a total amount of USD \$37,000 with collateral, without ownership transfer, at a LIBOR rate plus 475 basis points, with fixed semi-annual amortizations from February 15, 2023 to February 2028 (previously payable from February 15, 2023 and until February 2027, since on November 8, 2021, an amendment agreement was made to the original contract in which the payment start date was postponed). Said credit can be disposed of in pesos or dollars and, depending on the disposition, the rate can be the Interbank Equilibrium Interest Rate (TIIE) or LIBOR. As of December 31, 2022 and 2021, the Company has not disposed of USD \$18,785.

On July 17, 2017, an irrevocable collateral trust agreement for real estate and biological asset management was entered into with IFC and Proparco. The term of such trust shall be February 15, 2027 or the date the Company settles the total amount of the credit, whichever occurs first. As of December 31, 2022, and 2021, these guarantees amount to USD \$75,600.

- (4) Contract for the opening of a qualifying credit and avío in the form of a current account credit, entered into on August 30, 2019 between Pro MDF, S.A.P.I. de C.V. and Banco Sabadell, S.A. Multiple Banking Institution, for the amount of up to MXN\$100,000,000 pesos, intended for the acquisition of raw materials and materials, with a term of 36 months. Said contract expired in August 2022 and was replaced with a new contract, with a line of credit for \$200,000,000 pesos, entered into on August 24, 2022, with a term of 36 months. As of December 31, 2022, the Company has drawn down the entire line of credit (\$200,000,000).

Contract for the opening of an authorization credit and avío in the form of a credit in a checking account, entered into on June 17, 2019 between Pro MDF, S.A.P.I. de C.V. and Banco Sabadell, S.A. Multiple Banking Institution, for the amount of up to MXN\$100,000,000 pesos, intended for the acquisition of raw materials and materials, with a term of 36 months. On March 30, 2022, the company entered into an agreement amending the contract for the same amount of \$100,000,000 pesos, valid for 36 months. As of December 31, 2022, the Company has drawn down the entire line of credit (\$100,000,000).

The company may dispose of all or part of the credits (\$300,000,000) during the term of the contracts and each drawdown will have a maximum maturity of 180 days.

Interest is at a TIIE variable rate plus the percentage points established in each drawdown request. Additionally, the Company undertakes to pay a commission of 1% for the drawdown of the credit lines, calculated on the maximum amount of the credits, which will be payable only once, after the first drawdown of each is made. Likewise, an annual commission for maintenance of 1% will be paid on the maximum amount of the credits, payable on each anniversary date of the signing of the contracts.

As of December 31, 2022 and 2021, the fair value of long-term credits was \$2,549,741 and \$2,438,786, respectively. The fair value for long-term debt is based on the present value of cash flows discounted to their present value using interest rates obtained from readily observable markets. The above fair value is classified in level 2 of the fair value hierarchy.



The Company is obligated to comply with certain affirmative and negative covenants based on the credits that it has contracted at the end of fiscal year 2022 and 2021 with the financial institutions detailed in the table below. These obligations are governed by market conditions and practices, and do not constitute onerous responsibilities and burdens for Proteak.

The affirmative and negative covenants were fulfilled as of December 31, 2022 and 2021

The affirmative and negative covenants for credit are shown below:

New obligations restructuring contracts 2021 (October and November 2021)

AKA Obligations:

- Unless AKA agrees otherwise in advance in writing, the Guarantor will ensure that, on a consolidated basis and after the effective date, the following:

(i) The Liquidity Ratio, calculated on the basis of the last of twelve months, will be:

- at least 2.0 on December 31, 2021, December 31, 2022, December 31, 2023, December 31, 2024, December 31, 2028 and December 31, 2029;
- at least 1.5 on December 31, 2025;
- at least 1.25 on December 31, 2026;
- at least 1.4 on December 31, 2027.

(ii) The debt service coverage index, calculated on the basis of the last twelve months, will be at least 1.05.

(iii) The Leverage Ratio, calculated on the basis of the last twelve months, will not exceed 1.0.

- Submit consolidated financial statements no later than 6 months after closing the fiscal year.
- Submit internal financial statements on a semi-annual basis no later than 45 days after the end of said semester, as well as consolidated figures and the updated financial model

Comply with the financial ratios, which will be measured on the last day of each financial year starting on December 31, 2022 and must be confirmed in writing by EY within a term of 30 days after the publication of Pro MDF financials.

IFC and Proparco obligations:

- Financial ratios:
 - ✓ Liquidity ratio, greater than or equal to 2.0 (combined basis)
 - ✓ Debt service coverage ratio, greater than or equal to 1.15 (combined basis)
 - ✓ Leverage ratio, less than or equal to 1.0 (consolidated basis)
- Deliver financial statements and quarterly reports as soon as they are available, but in any case, within 30 days of the end of each quarter.

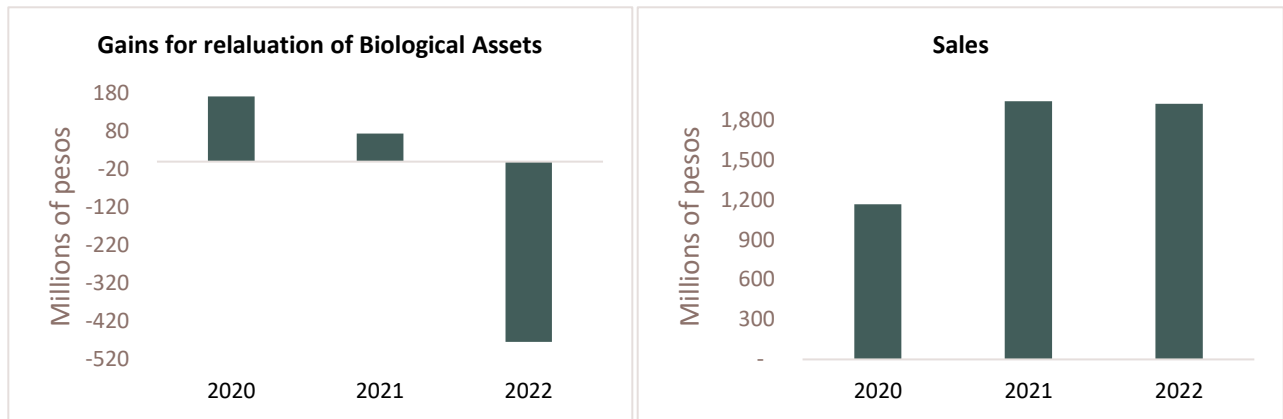


- Deliver annual reports and financial statements as soon as they are available, but in any case, within 90 days of the end of each fiscal year.
- Submit semi-annual financial statements and excess cash report as soon as they are available, but in any case, within 45 days after the end of the semester.

As of December 31, 2022 and 2021, the obligations to do and not to do were fulfilled.

3.4 Management’s observations and analysis of operating results and financial position

3.4.1 Operating Results



Graph 11 Income from changes in the fair value of Biological Assets, Sale of Goods
 Source: Audited Financial Statements.

In 2022, sales of goods remained almost at the same level as in 2021, despite the contraction in the board market and the drop in prices due to the entry of imports from Asian countries. The actions of rapprochement and strengthening of relations with our clients, carried out by the company, such as: training, workshops, promoters, events, new launches, Vértice program, "Specifying Trends" program, reinforcement of the exhibitors and visibility program , as well as the alliance with the Liverpool department store, have undoubtedly contributed to maintaining the stability of the company.

Revenues from revaluation of the biological asset decreased by MX \$547 million compared to those registered in 2021, due to the effect of the adjustment in revaluation of the biological asset at the end of the year. It is necessary to highlight that the price of teak at the international level has been pressured downwards, this has as a consequence that the fair value of this asset has decreased.

Likewise, it is important to mention that unlike the agriculture sector where a cycle determines the success or failure of the crop, in the forestry sector a year of rains does not determine the growth of the plantation, but is the sum of all the years that complete the cycle, in this way, both growth in the year and accumulated are in line with expectations.



Revaluations do not include the exchange effect (it is directly reflected in comprehensive income) derived from the depreciation of the dollar, the Company's functional currency. In the last year, the revaluation adjustment derived from the change in the fair value of biological assets was MXN -\$473MM.

Pursuant to international accounting standards (IFRS), a forestry company must record the value of its Biological Assets (volume of standing timber pending biological transformation or growth) over time according to its age, in accordance with the following rules:

1. Young wood (from plantations under 3 years old) is recorded at historical cost.
2. Mature wood (from year 8 and when the DBH has reached a minimum of 20 cm) is recognized at current realizable value, according to a physical inventory where the trees are measured in the field and market prices are used for each quality of wood (the price of Teak wood depends on the size of the trunk).
3. Between years 3 and 8, the fair value of the wood is determined using growth curves previously determined based on physical inventories; the volume is estimated when they are 8 years old and the company's discount rate is used to discount the flow based on the plantation's age. The discount rate is determined each year based on internal and macroeconomic conditions. In 2022, the rate was 13.3.

Only the first two mechanisms apply to Eucalyptus, and the price remains the same regardless of size or quality.

The revaluation of the biological assets at our plantations in 2022 totaled MXN -\$473MM. Proteak has 1,160 hectares of Teak in a company that Proteak owns 50% of. Revenue from the revaluation of these hectares is recognized as revenue from participation in a joint venture and the total of this revenue from revaluation in 2022 was MXN -\$0.1MM.

Throughout the year, the Company makes income provisions according to the estimate of the revaluation of the biological asset, however it is in the fourth quarter of the year when the physical inventory is carried out to determine the growth and fair value of the plantations; through random inventories with systematic start and/or through permanent plots, based on the valuation results in accordance with said inventories, the final revaluation amount is recorded at the end of the year.

Total income is made up of the sale of assets, the gain or loss from changes in the fair value of biological assets, as well as the subsidies received. In the year 2022, no subsidies were obtained and for the year 2021, the subsidy received from CONAFOR amounted to MXN \$6.4MM. Such financial support is not conditional on any performance nor does it have to be repaid in the future.

The cost of sales of the products is divided according to the cost by segment of the company. There was a 10% increase in the cost of sales of the MDF segment vs. 2021, through the efforts of selling value-added products, reflecting a lower cost of substrate production (-8%), through business consolidation. Selling costs vary according to the need of the business units. The cost is mainly represented by the MDF business unit, with 99% of the total cost of Proteak.

Within the MDF business, 2 types of cost are included, the production cost of MDF boards (substrate) and the depreciation cost of the fixed asset. Regarding the depreciation of assets, the cost has decreased due to its accounting nature, where in 2022, 2021, and 2020 they represent only 8%, 8%, and 11% of the total cost, respectively.



The cost of sales of the Teak business is divided into 3 items: historical cost of wood, depreciation and logistics costs. The sum of these costs totaled in 2022, 2021 and 2020 MXN \$(20)MM, MXN \$(121)MM and MXN \$(88) respectively, added to the operation carried out in each of these periods.

Gross profit, including other income, resulted in MXN \$28MM vs. MXN \$632MM for the year 2021, mainly impacted by a drop in the MDF margin and revaluation of inventories of the biological asset.

Administrative and Selling Expenses totaled MXN \$296MM, which represents a decrease of 5% vs. 2021. Within this amount is MXN \$124MM corresponding to logistics expenses and distribution of MDF boards. The Company has been managing to dilute expenses, both in relation to Sales of Goods and Total Assets. Thus, while Expenses represented 29%, 16% and 15% of Sale products Income in 2020, 2021 and 2022 respectively. For more information see note 22 of the Audited Financial Statements.

Annual Operating Income totaled MXN \$(268) MM, compared to the profit of MXN \$322 MM recorded in 2021. It is worth mentioning that these results reflect the consolidation of the board plant, as well as the commercial transition of the business unit of Teak.

The joint business share corresponds to the revaluation of the plantations belonging to the Company. This item is regularly found under income, due to the figure e under which it must be recorded. If this revaluation is considered, the operating income is MXN \$(268)MM vs MXN \$346MM in 2021.

In 2022 and 2021, Comprehensive Financing Costs yielded MXN \$16MM and MXN \$10MM of interest in favor of time deposit investments; interest payments amounted to MXN \$149MM and MXN \$121MM; and banking commissions and expenses amounted to MXN \$40MM and MXN \$35MM, respectively.

The exchange variation affects the liabilities, due to the concentration of the debt in USD. In the 2022 and 2021 periods, exchange variations were generated for MXN \$95MM and MXN \$(42)MM, respectively. The net result was a financial expense of MXN \$(78) MM vs. MXN \$(187) MM reported in 2021. This difference comes mainly from the exchange variation charge and interest payment.

Additionally, during the year, the company generated a deferred tax of MXN \$50MM in 2022 and MXN \$95MM in 2021. The tax result differs from the accounting result, mainly due to those items that over time are accumulated and deducted differently for each end, by recognizing the effects of inflation for tax purposes, as well as those items that only affect accounting or tax results. Total income taxes are divided between the ISR accrued and the deferred ISR, where the ISR accrued in 2022 and 2021 added up to MXN \$(9)MM and MXN \$(2)MM, respectively, and the deferred ISR ended in MXN \$59MM and MXN\$96MM.

As a result, the Company closed fiscal year 2022 with a consolidated net loss of MXN (\$296)MM, compared to a consolidated net profit of MXN \$253MM reported in 2021.



3.4.2 Financial situation, liquidity, and capital resources

Assets

As of December 2022, the Company's total assets totaled MXN \$6,404MM, 6.5% lower than the end of 2021.

The liquidity of the company during 2022 comes from external and internal sources. External sources of short-term capital, through a new credit agreement for working capital with Sabadell with additional amount of MXN \$100MM for MDF operations, provisions made in 2022.

Internal sources of liquidation of the Company mainly come from the business operation of boards in MDF and the administration of its working capital, as well as treasury shares on the cash position.

The cash position at the end of 2022 reflects an amount of MXN \$273MM, MXN \$(179)MM lower at the end of 2021. Cash surpluses from operating entities are transferred to the Company's treasury. The Company's treasury invests these funds in term deposits and marketable securities, whose maturities or liquidity allow flexibility to meet the Company's cash needs. As of December 31, 2022, 2021 and 2020, the Company had time deposits for MXN \$244MM, MXN \$394MM and MXN \$149MM respectively and other equally liquid assets for MXN \$29MM, MXN \$59MM and MXN \$433MM respectively.

The Customer segment at the end of 2022 remains at MXN \$194MM vs. MXN \$202MM in 2021, reflecting the same trend shown in sales, almost in line with the year 2022.

For its part, the inventory segment closed with MXN \$482MM, which translates into a decrease of MXN \$187MM vs. the balance as of December 2021, due to the contraction in demand and the increase in stock in our warehouses.

Property, machinery and industrial equipment totaled MXN \$2,725MM, presenting a decrease of MXN \$137MM vs the end of 2021, mainly related to the depreciation of assets.

As of the reporting date, Proteak has more than 6,800 hectares of Teak plantations and more than 7,300 hectares of Eucalyptus plantations. The integration of mature and immature biological assets is shown below:

	2022	2021	2020
Initial Balance	2,199,009	2,059,002	1,936,377
Planting and maintenance costs	218,806	136,964	69,882
Gain from change in fair value of biological assets, less estimated point-of-sale costs	(473,536)	73,631	171,707
Loss of biological asset due to production of agricultural product	(74,793)	(125,003)	(182,393)
Foreign currency translation effect	(89,822)	54,415	63,429
Ending balance	1,779,664	2,199,009	2,059,002
Current mature biological assets	(150,767)	(83,026)	(92,702)
Non-current consumable mature and immature biological assets	1,628,897	2,115,983	1,966,300

Table 25 Summary of biological asset transactions (MXN 000)

Source: Audited Financial Statements

Liabilities

Current liabilities increased by MXN \$369MM in relation to December 2021, mainly due to the following factors: the supplier category closed MXN \$107MM above the 2021 result, derived from the increase in payment terms; On the other hand, the short-term credit and interest account increased by MXN \$205MM, due to the application of debt payments, in accordance with the restructuring of credits with AKA, IFC and Proparco, as well as the expansion of the line of credit with Sabadell, S.A. Multiple banking institution for MXN \$100MM.

The following table shows the analysis of Proteak's financial liabilities presented based on the period between the date of the consolidated statement of financial position and the date of maturity and correspond to amounts of undiscounted cash flows, including interest:

As of December 31, 2022	Less than 1 year	More than 1 less than 3 years	3 to 5 years	More than 5 years
Suppliers	210,492	-	-	-
Short-term credits	415,297	-	-	-
Short-term interest	34,499	-	-	-
Long-term credits	-	274,769	682,371	679,145
Sundry creditors	130,976	-	-	-
Financial Leases	54,682	84,436	13,800	-

As of December 31, 2021	Less than 1 year	More than 1 less than 3 years	3 to 5 years	More than 5 years
Suppliers	103,622	-	-	-
Short-term credits	219,250	-	-	-
Short-term interest	25,283	-	-	-
Long-term credits	-	224,437	500,268	1,157,369
Sundry creditors	130,837	-	-	-
Financial Leases	34,201	54,287	8,995	-

As of December 31, 2020	Less than 1 year	More than 1 less than 3 years	3 to 5 years	More than 5 years
Suppliers	132,783	-	-	-
Short-term credits	333,944	-	-	-
Short-term interest	39,489	-	-	-
Long-term credits	-	467,302	592,924	665,067
Sundry creditors	75,108	-	-	-
Financial Leases	18,986	34,664	27,285	-

Table 26 Proteak's Financial Liabilities (MXN 000)

Source: Audited Financial Statements

The description and detail of the credits is in section 3.3 Relevant Credit Information.

Capital



The total capital of the Company at the end of the year amounts to MXN \$3,295MM, a decrease of 14% compared to the end of the previous year. This impact is the net effect of the result for the year 2022 and accumulated results of previous years, as well as the effect of foreign currency translation of the Teak forest assets denominated in USD. The Company maintains a liability to capital ratio of 1.06 to 1.0 versus a ratio in 2021 of 1.26 to 1.0 and in 2020 of 1.16 to 1.0.

As of December 31, 2022, there are 2,455,299 shares pending subscription.

The company's capital stock as of December 31, 2022, is made up of 1,119,873,691 shares, of which 373,291,287 are series T shares and 746,582,574 are series K. Series "T" shares will have the right to, upon liquidation of the company, receive land in payment of what corresponds to them in the social assets, in accordance with the current Agrarian Law.

3.4.3 Internal Control

The internal control of the Company is carried out in accordance with best practices and supervised by the Audit Committee whose functions are detailed in section 4.4.

To comply with the responsibilities regarding the integrity of financial information, the Company's management maintains and verifies compliance with the policies that are communicated to all personnel through the appropriate channels.

Valuation of Biological Assets at fair value: Biological Assets, including agricultural products, must be recognized at their fair value, provided that this can be reliably obtained from an active market. Based on the parameters determined through studies of Biological Assets, the fair value of the Company's plantations is measured as follows.

- Initial plantation risks are not overcome until year 2, therefore during this period; assets are recognized at their cost (accumulated historical cost).
- There is an active and efficient asset product market for bark over 12 cm in diameter with a minimum 50% heartwood. The time for a plantation to reach the required commercial characteristics will depend on its development and growth. For young teak plantations, this normally occurs between 8 to 10 years from their planting.

During years 3 to 8 (intermediate period), biological assets are measured at their estimated value upon transition to market value, discounted at the valuation date.

3.5 Estimates, Provisions, and Critical Accounting Reserves

The estimates and assumptions are reviewed continuously and are based on historical experience and other factors, including expectations about future events that are considered reasonable under the circumstances and especially in fiscal year 2021 due to the effects of the pandemic, which were considered in the premises to determine the critical judgments, and the same ones that were normalized for the effects of 2022, since the effects of the pandemic were not of such magnitude as those observed in 2021.

Critical accounting estimates and judgments



The Company's Management makes estimates and judgments regarding the future. The resulting accounting estimates, by definition, will rarely equal actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the book values of assets and liabilities during the following year are presented below:

Critical Accounting Judgments

Significant information regarding assumptions, estimates of uncertainties and critical judgments recognized in the consolidated financial statements are described below:

- Valuation and classification of biological assets.
- Determination of fair values for revaluation of land.
- Derred tax asset.
- Managerial judgment in determining functional currency.
- Estimate of useful life of property, machinery, and equipment

Valuation and classification of biological assets.

The valuation and classification of biological assets is determined as described in Note 2 section (j) of the Audited Financial Statements.

It should be noted that for fiscal year 2022 a variation of plus or minus one percentage point in the discount rate for immature biological assets in the transition stage would cause a variation of MXN \$(6.0)MM or MXN \$6.3MM in the value of the Biological Assets at this stage, which represents (0.5)% and 0.5%, respectively, of the value of the Biological asset; and for fiscal year 2020 it would cause a variation of MXN \$(12.4)MM or MXN \$13.0MM, in the value of the Biological Assets at this stage, which represents (0.7)% and 7.0%, respectively, of the value of the biological asset.

Likewise, for the valuation of the biological asset, a difference in the price of plus or minus 10% of the price would represent an affectation of MXN \$137.9MM and MXN \$(125.2)MM of the gain generated by the change in fair value of biological assets, which would represent an increase (decrease) of biological assets of 10% and (10%) as of December 31, 2022. As of December 31, 2021, a difference by the same percentage would represent an effect of MXN \$91.4MM and MXN \$(91.4)MM of the gain generated by the change in the fair value of biological assets.

Determination of fair values for revaluation of land

Land is shown at its fair value, based on periodic valuations carried out by independent appraisers. For purposes of determining the fair value of land items, the Company uses an independent appraiser who uses estimates to determine the value of comparable assets existing in the market. These valuations must be reviewed if it is considered that there are elements that presume important modifications in the values of the assets and any change could affect the amount recognized in revaluation surplus and in case it is exhausted, the impact is recognized in income. See note 14 of the Audited Financial Statements.

Deferred tax assets

The Company recognizes deferred tax assets up to the amount in which their realization is probable. The Company considers future tax profits and tax strategies to determine such realization. In the event that the Company determines that it is capable of realizing its deferred tax assets in the future in excess of the recorded amount, an adjustment will be made to



the deferred tax asset which would increase the results in the period in which said determination is made. If the Company determines that it would not be able to realize all or part of its deferred tax asset in the future, an adjustment would be made to the deferred tax asset which would decrease results in the period in which such decision is made. On December 31, 2022, and 2021, tax losses recognized are only recognized in entities that will generate future tax profits. See Note 23 of the Audited Financial Statements.

Management's Judgment in Determining Functional Currency

Each company in the group sets the currency of the economic environment in which it operates as its functional currency. Management uses its judgment to determine the functional currency for each entity that most accurately represents the economic effects of underlying transactions, events, and conditions. For companies engaged in the Teak segment, the U.S. Dollar has been considered the functional currency, as biological assets have an observable market with prices determined in dollars, and most of their sales, as well as the most significant non-monetary acquisitions are conducted in that currency.

Useful lives of property, machinery, and equipment

The Company reviews the estimated useful life of property, machinery, and equipment at the end of each annual period. During the period, it was determined that the useful lives have to be modified according to management's assessment, the useful lives reflect the economic conditions of the Company's operating environment.

As of December 31, 2022 there are no critical accounting reserves.

Summary of significant accounting policies:

The main accounting policies applied in the preparation of the consolidated financial statements are detailed below. These policies have been applied consistently in all the years presented, unless otherwise indicated.

a) Basis of preparation

Going Concern

The consolidated financial statements have been prepared by Management assuming that the Company will continue to operate as a working company.

i. IFRS compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as well as International Accounting Standards applicable to companies reporting under the IFRS. The financial statements comply with IFRS standards issued by the International Accounting Standards Board (IASB).

ii. Historical cost basis

The financial statements have been prepared based on the historical cost basis, except for the following items:

- Land at fair value



- Mature and immature consumable biological assets, at fair value less the costs of sale

iii. Critical accounting estimates: IFRSs require certain critical accounting estimates to be made when preparing the financial statements. They also require management to exercise judgment in defining the accounting policies to be applied by the Group. The segments that involve a higher degree of judgment or complexity and in which the assumptions and estimates are significant for the consolidated financial statements are described in Note 4 of the Audited Financial Statements.

iv. Changes in accounting policies: During 2022, the Company did not apply for the first time any standard or interpretation that came into force as of January 1, 2022, considering that they were not applicable for the purposes of its consolidated financial statements and its relevant operations; the Company did not early adopt any other standards, interpretations or modifications. The new and modified standards and interpretations are as follows:

- Onerous contracts – Costs incurred in fulfilling a contract – Amendments to IAS 37
- Reference to the conceptual framework – Amendments to IFRS 3
- Property, plant and equipment: Income before intended use- Amendments to IAS 16
- IFRS 1 First-Time Adoption of IFRS - Subsidiary as a first-time adopter
- IFRS 9 Financial Instruments - Fees in the '10 percent' test to determine the derecognition of financial liabilities
- IAS 41 Agriculture - Taxes on fair value measurements; this amendment removes the requirement in paragraph 22 of IAS 41 that requires entities to exclude tax cash flows when measuring the fair value of assets that are within the scope of IAS 41. This amendment had no impact on the consolidated financial statements of the Company.

v. Impact of recently issued regulations that are not applied

The Company has not applied in advance the following recently issued standards and interpretations, but which are not yet effective at the date of issuance of the Company's consolidated financial statements. The Company intends to adopt these standards, if applicable, when they become effective.

- IFRS 17 Insurance contracts
- Amendments to IAS 1: Classification of Liabilities as Current or Non-Current
- Definition of accounting estimates - Amendments to IAS 8
- Disclosure of accounting policies - Amendments to IAS 1 and the Practice Statement of IFRS 2



- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12

Annual Amendments to IFRS

IFRS 1 First-time adoption of International Financial Reporting Standards - Subsidiary as first-time adopter

As part of its 2018-2020 annual improvements process, the IASB issued an amendment to IFRS 1. The amendment allows a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment will also apply to an associate or joint venture that chooses to apply paragraph D16 (a) of IFRS 1.

The amendment is effective for periods beginning on or after January 1, 2022, with an early adoption option.

IFRS 9 financial instruments: commissions in the "10%" test for derecognition of financial liability accounts

As part of its 2019 - 2020 annual improvements process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when evaluating whether the terms of a new or modified financial liability are materially different from the terms of the original financial liability. These fees include only those paid or received between the debtor and the lender, including fees paid or received by the debtor or the lender on behalf of the other. An entity shall apply this amendment to liabilities that are modified or exchanged on or after the beginning of the annual period in which the entity first applies this amendment.

The amendment is effective for annual periods beginning on or after January 1, 2022, with an option for earlier application.

These amendments are not expected to have a material impact on the Company's consolidated financial statements.

IAS 41 Agriculture - Taxation on fair value measurements

As part of its annual improvements process to IFRS 2018-2020, the IASB issued an improvement to IAS 41 Agriculture, which eliminates the requirement established in paragraph 22 of IAS 41 that entities exclude tax flows when measuring the fair value of assets within the scope of IAS 41.

The entity will apply the amendment prospectively to fair value measurements on or after the beginning of the first annual period beginning on or after January 1, 2022, early adoption is permitted.

The Company does not expect this improvement to have a material impact on its consolidated financial statements.

Definition of Accounting Estimates - Amendment to IAS 8

In February 2021, the IASB issued amendments to IAS 8, introducing a definition of "accounting estimates". The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and correction of errors. In addition, they clarify how entities use data and measurement techniques to develop accounting estimates.



These modifications are effective for fiscal years beginning on or after January 1, 2023 and must be applied to those changes in policies and estimates that occur as of the beginning of said period. Its early application is allowed as long as it is disclosed by the Company.

The Company does not expect that these amendments will have a significant impact on the consolidated financial statements.

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

In February 2021, the IASB issued amendments to IAS 1 and Practice Statement 2 of IFRS - Making Materiality Judgments, where it provided guidance and examples to support entities in applying materiality judgments to accounting policy disclosures. The amendments seek to support entities to make disclosures of accounting policies that are more useful, replacing the requirement to disclose significant accounting policies with a requirement to disclose those policies that are material and increasing guidance for entities to apply the concept of materiality when making decisions about the disclosure of its accounting policies.

The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2023, allowing early application. Since the amendments to Practice Statement 2 provide non-mandatory guidance on the application of the definition of material, an effective date for these is not required.

The Company is evaluating the impact of these modifications on the Company's disclosures.

i. Subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its interest in the entity and has the ability to affect the returns through its power over the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and until the date control is lost.

Intercompany transactions and balances, as well as unrealized gains on transactions between Proteak companies, are eliminated in the preparation of the consolidated financial statements. In order to ensure consistency with the policies adopted by the Company, the amounts reported by subsidiaries have been modified where deemed necessary.

Non-controlling interests in the results and in the capital of the subsidiaries are presented separately in the consolidated statement of comprehensive income, in the statement of changes in stockholders' equity and in the statement of financial position, respectively.

ii. Absorption (dilution) of control in subsidiaries

The effect of absorption (dilution) of control in subsidiaries, that is, an increase or decrease in the percentage of control, is recognized as part of stockholders' equity, directly in the retained earnings account, in the year in which the transactions that give rise to these effects occur. The control absorption (dilution) effect is determined by comparing the book value of the investment in shares based on the participation before the absorption or dilution event against said book value considering the participation after the aforementioned event. In the case of loss of control, the dilution effect is recognized in income.



iii. Joint agreements

Under IFRS 11, investments in joint arrangements are classified as either a joint operation or a joint venture depending on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

A joint venture is a contractual arrangement whereby the parties with joint control of the arrangement are entitled to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Company has only invested in joint ventures.

Equity interest in a joint venture is accounted for under the equity method, after being initially recognized at cost in the consolidated statement of financial position.

iv. Equity method

Under the equity method, investments are initially recognized at cost and adjusted thereafter for the post-acquisition change in equity, as well as transactions in other comprehensive income accounts. Dividends received or receivable from joint ventures are recognized as a reduction in the book value of the investment.

When the Company's share of the losses of a joint venture equal or exceeds its share of the joint venture (which includes any long-term interest that, in essence, forms part of the Company's net investment in the joint venture), the Company does not recognize additional losses unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealized gains on transactions between Group companies and their joint ventures are eliminated up to the amount of the Group's interest in the joint venture. Unrealized losses are also eliminated unless the transaction provides some evidence of impairment of the transferred asset. The accounting policies of investments accounted for under the equity method have been changed where necessary to ensure consistency with the policies adopted by the Group.

The book value of investments under the equity method is tested for impairment pursuant to the policy described in note 2(l) of the Audited Financial Statements. IFRS 9 requirements determine whether it is necessary to recognize an impairment loss in respect of the Company's investment in a joint venture.

The Company holds a 50% equity interest in a joint venture called "Fideicomiso Tacotalpa".

(c) Segment reporting

An operating segment is a component of the Company that engages in business activities in which it may earn revenues and incur expenses, including revenues and expenses that are related to transactions with the Company's other components. The operating results of an operating segment are regularly reviewed by the Steering Committee, which is in charge of deciding how resources are allocated to segments, as well as evaluating their performance, as well as those for which financial information is available. The Company has identified three operating segments which are divided into teak production and commercialization, eucalyptus production and commercialization and medium density fiberboard (MDF) production, using Eucalyptus biological assets as raw material.



Financial information by operating segment is presented consistently with the information included in the internal reports provided to the Group's chief operating body. This maximum authority is exercised by the Board of Directors, who are responsible for allocating resources and evaluating the performance of the Group's operating segments.

(d) Foreign currency translation

i. Functional and reporting currency

The Company has identified that its functional currency is the U.S. dollar (USD), as Teka biological assets are a commodity and therefore, their value is usually denominated in dollars. The company has therefore recognized this situation by adopting the dollar as its functional currency, and the Mexican peso as its reporting currency. In addition, the functional currency of all group entities is the U.S. dollar, except for the following companies engaged in providing personnel and administrative services, Proeucalpto Holding, S. A. P. I. de C. V. and subsidiaries, whose functional currency is the Mexican peso.

ii. Transactions and balances

Foreign currency transactions are converted to the functional currency using the exchange rates in effect on the transaction or valuation dates when the items are re-measured. The lost profits resulting from said transactions and from translation, at the exchange rates in effect at the year-end close, of monetary assets and liabilities denominated in foreign currency are recognized as exchange fluctuations under financing expenses in the income statement.

iii. Group Companies

The financial results and financial position of the Company's entities (none of which use the currency of a hyperinflationary economy), whose functional currency is different from their reporting currency, are converted to the reporting currency, as follows:

- i. The assets and liabilities recognized in the balance sheet are translated at the exchange rate prevailing on the closing date of said balance sheet.
- ii. The income and expenses recognized in the income statement are converted at the average exchange rate of each year (except when this average is not a reasonable approximation of the effect derived from converting the results at the exchange rates in force on the dates of operations; in which case those exchange rates were used).
- iii. The capital recognized in the balance sheet is converted at the historical exchange rate.
- iv. Resulting exchange differences are recognized as other components of comprehensive income.

(e) Cash and cash equivalents

Cash and cash equivalents include cash and other highly liquid short-term investments with original maturities of under three months. These losses are recorded at their historical cost, provided these do not significantly differ from their fair value. See Note 6 of the Audited Financial Statements.

Restricted cash is subject to contractual restrictions and is therefore not available for general use by the Company. See Note 19 of the Audited Financial Statements.



In the consolidated statement of cash flows, cash and cash equivalents include available cash, demand deposits at banks and other highly liquid short-term investments with maturities of three months or less.

(f) Financial assets

(i) Classification

The Company classifies its financial assets into the following categories:

- Those valued at their amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

(ii) Recognition and derecognition

Regular purchases and sales of financial assets are recognized on the trade date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have matured or have been transferred and the Company has substantially transferred all risks and rewards of ownership.

(iii) Measurement

Upon initial recognition, financial assets are measured at fair value plus, in the case of a financial asset that is not at fair value through the income (Vr-income), transaction costs directly attributable to the acquisition of the financial asset.

Subsequent measurement depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

(iv) Impairment

The Company applies the simplified approach of IFRS 9 to measure expected credit losses using an expected loss provision over the life of the instrument for all accounts receivable, for further details see note 3.2 of the Audited Financial Statements.

(v) Financial liabilities

The Company initially recognizes all of its financial liabilities net of directly attributable transaction costs.

The Company does not have any liabilities at fair value or liabilities arising from transfers of assets, nor does it have any financial guarantee contracts or commitments to lend at a lower than market rate.

Subsequent measurement of financial liabilities is at amortized cost using the effective interest rate method.

(g) Accounts receivable from customers



Accounts receivable from customers are initially recognized at the amount of the consideration that is unconditional, unless they contain significant financial components when they are recognized at their fair value, less the provision for losses. See note 8 of the Audited Financial Statements for more information on the recording of accounts receivable from Company customers and note 3.2 of the Audited Financial Statements for a description of the Group's impairment policies.

(h) Inventories

Inventories of wood and processed wood (MDF) are recorded at cost or their net realization value, whichever is less. The costs include the cost of the product plus import costs, freight, handling, shipping, customs storage and distribution centers. Purchased inventory costs are determined after discounts and rebates are deducted. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale. With regard to biological assets transferred to inventories, the cost represents the fair value less selling expenses at the time of reclassification.

Inventories are subjected to impairment tests in each accounting period in order to identify obsolescence, damage to items or drops in their market value.

In the event that the amount of future economic benefits of inventories, that is, their estimated net realizable value is less than their net book value, an impairment loss is recognized, which is recorded in cost of sales for the period. In which it is presented As of December 31, 2022 and 2021, the company has recognized the corresponding impairment reserves.

(i) Mature and immature consumable biological assets

The Company's consumable biological assets are made up of teak and eucalyptus wood plantations.

IAS 41 requires that biological assets be valued at fair value, less estimated point-of-sale costs. This value is determined on the basis of prices on an active market.

When the fair value of a biological asset cannot be established, IAS 41 allows for valuation thereof at its accumulated historical cost.

Classification, measurement, and valuation of biological assets.

Biological assets are recognized at fair value, based on the following considerations:

For Teak

The Company considers, based on its commercial experience, that there is an active and efficient market for plantations with an average diameter equal to or greater than 20 cm and a minimum age of 8 years. The moment in which a plantation reaches the required commercial characteristics will depend on its development and growth.

For these assets, the Company estimates the market value at the valuation date, taking into account: i) the estimated volume of the plantation, measured in cubic meters (m³), (ii) unit prices observed or obtained by the Company in said



market, less point-of-sale costs, and expenses such as harvesting, hauling, measurement, identification, rents, etc. and iii) commercial characteristics such as diameter, shape, age, etc.

To determine the volume, the Company obtains the diameter, height, and density of the trees through a systematic random inventory of its mature plantations. With this field information, the exploitable commercial volume is then determined.

During 2022 and 2021, unit prices vary between USD \$50/m³ and USD \$874/m³, depending on the diameter or circumference and quality of the log.

For assets that have not yet reached maturity and for which there is no observable active market, the Company distinguishes between two fundamental development stages:

Initial stage

The initial plantation risks are not overcome until after year 2, a period in which the biological asset is more vulnerable to the factors that may affect its survival; During this period, the asset is recognized at its accumulated historical cost, which mainly includes seeds, maintenance, fertilizers, pesticides, etc.

Transition stage

Once the initial stage has been overcome, until there is an active and efficient market, i.e., between years 3 and the time when the following two commercial characteristics have been attained, without exception: a) the average diameter is 20 cm or more, b) the plantation is at least 8 years old, the Biological Asset is valued at its estimated value at the time of transition to market value, discounted at the valuation date. For this purpose, the Company assigned each plantation one of 10 expected growth curves based on the physical-chemical characteristics of the soil (such as effective depth of the soil and acidity) and genetic material used and one of 10 expected growth curves based on the average diameter of the lot as determined by the last inventory or as estimated based on the conditions of the plantation and the area in which it is located. In addition, each growth curve has an associated forest management plan. With the projected unit volume per hectare determined, and using the aforementioned market prices, the projected value of each plantation's biological assets is determined at the point of transition.

It should be noted that the growth curve and management plan jointly determine the expected year of transition. During the transition period, the Company verifies that the state of the plantation is in line with expectations through field growth data (using diameters or circumferences as a predictor of growth).

The projected value at the time of transition when there is an active and efficient market is discounted at the valuation date for each plantation, using a discount rate in 2022 and 2021 determined through the weighted average cost of capital (WACC) of 13.3% and 11.3%, respectively.

Periodic changes resulting from growth and biological transformations are recognized as income or a cost in the income statement in the year in which they occur.

Biological assets that will be cut and sold in the short term are classified as short-term biological assets and the rest as non-current assets.



The fair value determined for biological assets from year 1 to year 3 is in level 2 of the fair value hierarchy, between year 3 and up to the year in which the plantations reach commercial characteristics are in level 3 of the fair value hierarchy. Biological assets that have achieved commercial characteristics are at level 1 of the fair value hierarchy.

For Eucalyptus

Based on its commercial experience, the Company considers that there is an active and efficient market for agricultural products (m³ of eucalyptus wood) that have a diameter without bark greater than 8 cm and a maximum of 55 cm. The moment in which a plantation reaches the required commercial characteristics will depend on its development and growth. For eucalyptus plantations, this normally occurs after year 2 from planting.

For these assets, the Company estimates the market value at the valuation date, considering: i) the estimated volume of the plantation, measured in cubic meters (m³), and ii) the unit prices observed or obtained by the Company in said market, less point-of-sale costs, and expenses (such as harvesting, hauling, measurement, identification, rent, etc.).

To determine the volume, the Company obtains data on the diameter, height and density of trees through a systematic inventory with random start of its mature plantations. With these field data, the usable commercial volume is then determined.

During 2022 and 2021 the unit price of eucalyptus was MNX \$338.50/m³. Regardless of the log's diameter, circumference, and quality.

For assets that have not yet reached maturity (the Company considers that the initial planting risks are not overcome until year 2, the period in which the biological asset presents greater vulnerability to factors that could affect its survival) and for which there is no active observable market, the Company recognizes the asset at its accumulated historical cost.

Periodic changes resulting from growth and biological transformations are accounted for as income or cost in the income statement in the year in which they occur.

Biological assets are classified as short-term biological assets, those that will be cut and sold in the short term and the rest as non-current assets.

The value of eucalyptus is determined at the end of the year, based on the costs incurred, the Company classifies for purposes of its policy and for disclosure in the financial statements the amount of Eucalyptus older than 2 years as Level 1 and eucalyptus with age less than or equal to 2 years, as Level 2 (See Note 11 of the Audited Financial Statements).

(j) Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their book value will be recovered through a sale transaction and not through continued use, and once the sale is completed. considered highly probable. Assets held for sale are measured at the lower of the book value of such assets or their fair value less costs to sell.



An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less cost of sales. A gain is recognized for any subsequent increase in the fair value less cost of sales of an asset (or disposal group), but not exceeding any previously recognized accumulated impairment loss. A gain or loss not previously recognized at the selling date of the non-current asset (or disposal group) is recognized on the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not amortized or depreciated while they are classified as held for sale.

Interest and other expenses attributable to the liabilities of a Group of assets for disposal classified as held for sale, continue to be recognized.

Non-current assets classified as held for sale and assets of a disposal group classified as held for sale are presented separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

(k) Property, machinery, and equipment

The land is shown at its fair value, based on appraisals prepared by external independent experts. Valuations are carried out with sufficient regularity (every 2 years) to ensure that the fair value of a revalued asset does not differ materially from its book value.

The fair value determined for the land is at level 2 of the fair value hierarchy.

Other items comprising property, machinery and equipment are recognized at cost, less their accumulated depreciation and impairment losses. The historical cost includes the expenses directly attributable to the acquisition of these assets and all expenses related to the location of the asset in the place and in the conditions necessary for them to operate as expected by Management. For ratable assets, the cost includes the cost of loans capitalized in accordance with the Company's policies.

Costs related to an item incurred after initial recognition are capitalized, as part of that item or a separate item, as appropriate, only when it is probable that they will generate future economic benefits for the Group and the cost can be measured reliably. The book value of the replaced components is written off. Maintenance and repair expenses are charged to the income statement in the period they are incurred.

Increases in book value generated as a result of revaluation of land are credited to the revaluation surplus net of deferred income tax. The decreases that offset the above increases in the same asset are charged to other comprehensive income. All other decreases are charged to the income statement.

Landholdings are not depreciated. Depreciation of the rest of the items comprising property, plant and equipment is calculated by the straight-line method, which is applied to the cost of the asset, without including its residual value, and taking into account their estimated useful lives, as follows:

	<u>Useful life</u>
Computer equipment	3 years
Transportation equipment	4 years



Agricultural equipment and machinery	10 years
Office equipment	10 years
Properties	33 years
Industrial equipment and machinery	5-25 years
Leasehold improvements	Term of the lease

The Company assigns the amount initially recognized for an item of property, furniture and equipment in its different significant components and depreciates each of those components separately.

The residual values and useful lives of the assets are reviewed and adjusted, if necessary, at the end of each year.

When the book value of an asset exceeds its estimated recovery value, an impairment loss is recognized to reduce the book value to its recovery value.

The result from the sale of property, machinery and equipment is determined by comparing the fair value of the consideration received and the net book value of the asset sold and is recorded in the income statement under "Other income - Net".

When revalued assets are sold, amounts included in other reserves are transferred to accumulated income.

Leased assets are presented as a separate item in the statement of financial position (right-of-use assets), see note 15 and 2(v) of the Audited Financial Statements.

(l) Impairment of non-financial assets

Other non-financial assets (other than goodwill and indefinite-lived intangible assets), including the investment in a joint venture, are tested for impairment when events or changes in circumstances indicate that the book value may not be recovered. An impairment loss is recognized for the book value of the asset that exceeds its recoverable value. The recoverable value is the higher of the fair value of an asset less its disposal costs and its value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, which are largely independent of the cash flows of other assets or Groups of assets (cash-generating units). Impaired non-financial assets other than goodwill are reviewed to determine the possible reversal of the impairment at the end of each reporting period. As of December 31, 2022 and 2021 there are no impairment losses.

(m) Accounts payable

Accounts payable to suppliers and sundry creditors represent liabilities for goods and services rendered to the Company before year-end that have not been paid. The amounts are not guaranteed and are generally paid within 60 days of recognition. Suppliers and other accounts payable are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are initially recognized at fair value and subsequently valued at amortized cost using the effective interest rate method.

(n) Loans

Loans received are initially recognized at fair value, net of related costs incurred, and subsequently recognized at amortized cost. Any difference between the funds received (net of related costs incurred) and the redemption value are recognized in the income statement over the term of the loan, using the effective interest rate method.



Fees incurred to obtain said financing are recognized as transaction costs to the extent part or all of the loan is likely to be received.

Affirmative and negative covenants

Some of the Company's loan agreements have affirmative and negative covenants requiring the Company to meet certain performance indicators. These obligations are governed by market conditions and practices and do not constitute onerous liabilities and burdens on the Company. As of December 31, 2022 and 2021, the affirmative and negative covenants were fulfilled.

(o) Cost of Loans

Overall or specific costs of loans directly attributable to the acquisition, construction, or production of ratable assets, those requiring a lengthy period to reach the conditions for use or sale, are capitalized as part of the costs of those assets until the assets are substantially ready for use or sale.

As of December 31, 2022 and 2021, no costs of loans were capitalized. Biological assets are not considered ratable assets.

(p) Provisions

Provisions are recognized when the Company has a legal obligation, present or assumed, as a result of past events, likely to require the use of cash flows to settle the obligation and the amount thereof can be reliably estimated. No provisions for future operating losses are recognized.

Provisions are valued at the present value of cash flows expected to settle the obligation, through the use of an interest rate before taxes that reflects the assessment of the current value of the money over time, as well as the specific risks of said obligation. The increase in the provision over time is recognized as an interest expense.

(q) Corporate tax

The corporate tax expense for the period comprises current and deferred corporate tax. The tax is recognized in the statement of income, except when it relates to items recognized directly in other comprehensive income or in stockholders' equity. In this case, the tax is also recognized in other comprehensive income or directly in stockholders' equity, respectively.

Current corporate tax is calculated as per the tax laws approved or substantially approved at the date of the balance sheet date, in the countries in which the Company operates and generates a taxable income. Management periodically evaluates its position with regard to tax declarations in situations where the tax laws are subject to interpretation. The Company, where applicable, records provisions for additional amounts it expects to pay to the tax authorities.

Deferred income tax is recognized on temporary differences that arise between the tax bases of assets and liabilities and their respective book values shown in the consolidated financial statements. However, the deferred income tax that arises



from the initial recognition of an asset or a liability in a transaction that does not correspond to a business combination that at the time of the transaction does not affect either the accounting or tax profit or loss, it is not registered. Deferred income tax is determined using the tax rates and laws that have been enacted at the balance sheet date and are expected to be applicable when the deferred income tax asset is realized or the income tax liability is paid.

The deferred income tax asset is only recognized to the extent that it is probable that future tax benefits will be obtained against which the passive temporary differences can be used.

The deferred tax liability arises from temporary tax differences arising from investments in subsidiaries, except for the deferred tax liability at the time the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not will reverse in the near future. In general, the Company is in a position to control the reversal of temporary differences for subsidiaries and joint ventures. Only when there is an agreement that gives the Company the possibility to control the reversal and it is probable that the temporary difference will not be reversed in the near future, temporary differences are not recognized, only disclosed. See Note 23 of the Audited Financial Statements.

The deferred tax asset is recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint ventures only if it is probable that the temporary differences will be reversed in the future and if there is sufficient taxable income against which they can be use time differences.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(r) Employee benefits

i. Short-term benefits

Proteak provides short-term employee benefits, which can include, wages, salaries, annual bonuses, and bonuses payable over the following 12 months. Proteak recognizes a provision when contractually obligated or when past practices have created an obligation.

In accordance with the new labor reform law on vacations that entered into force on January 1, 2023, in Mexico, starting with the first year of service, you are entitled to 12 days of vacation that will increase by two business days each year until you reach 20, as of the sixth year, the vacation period will increase by two days for every five years of service. For the purposes of the financial statements as of December 31, 2022, the Company calculated the amount of vacations and vacation premium related to the new labor reform law and recorded the relative amount.

ii. Employee profit sharing.

The Company recognizes a liability and expense for Worker Profit Sharing (PTU) based on a calculation that takes into account taxable income after certain adjustments. The Company recognizes a provision when it is legally obligated to make the payment.



Due to the labor subcontracting reform approved in Mexico, during 2021 the way of calculating the payment of the workers' profit sharing (PTU) was modified. Limitations were established, which establish that the amount of PTU assigned to each employee may not exceed the equivalent of three months of their current salary, or the average of PTU received by the employee in the previous three years (PTU assigned), whichever be older.

If the PTU caused, which was determined by applying the rate of 10% on the base tax profit, is greater than the sum of the PTU assigned to each and every one of the employees, the latter must be considered the PTU caused for the period, and based on in the Federal Labor Law (LFT) it is considered that the difference between both amounts does not generate current or future payment obligations.

If the PTU determined by applying the 10% rate on the base tax profit is less than or equal to the sum of the PTU assigned to each and every one of the employees, the PTU caused will be the one determined by applying 10% to the profit. base tax.

iii. Seniority bonus

The Group companies have established a plan pursuant to the provisions set forth in the Federal Labor Law (LFT) in respect of which Group companies that have personnel are required to pay their employees, who are entitled to receive a seniority bonus after 15 years of service. This obligation is considered a post-employment obligation.

The liability or asset recognized in the balance sheet for seniority premiums is classified under defined benefits and is equal to the present value of the Defined Benefit Obligation (DBO) at the reporting date, together with adjustments for unrecognized actuarial gains or losses and past-service costs. DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated cash flows using the interest rate for pension obligation bonds denominated in the currency in which the benefits will be paid.

Actuarial gains and losses generated by experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are immediately applied to income, unless the changes in the pension plan are subject to the employee continuing in service for a determined period of time (qualifying period). In this case, past service costs are amortized using the straight-line method over the qualifying period.

iv. Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary separation in exchange for these benefits. The Company recognizes termination benefits on the first of the following dates: a) it is committed to terminate the employment of the employees under a detailed formal plan without the possibility of withdrawal, b) when the Company recognizes restructuring costs in accordance with IAS 37 and involves termination benefit payments. If voluntary separation is offered, termination benefits are valued on the basis of the number of employees expected to accept the offer. Benefits maturing 12 months after the reporting period are discounted at their present value.

(s) Share-based payments



The Company participates in share-based payment plans, through which it receives services from employees and delivers Group equity instruments (shares) as consideration. The value of the services received from the employees is recognized as an expense, and is used as a reference for estimating the fair value of the shares granted, considering:

Any condition for awarding related to market performance (e.g., the Company's share price)

The impact of any awarding condition or service other than market performance (e.g., profitability, sales growth targets, and employees staying for a certain time period) are excluded from this estimate along with any condition that does not affect the granting of benefits (e.g., employees' need to save).

At the end of each year, the Group reviews its estimates of the number of shares expected to be awarded considering changes in award conditions other than market performance. The impact of this estimate review, if made, is recognized in the statement of profit or loss, with a counter entry in equity.

When shares are redeemed, the nominal value is credited to capital stock (nominal value) and the share issue premium account.

The fair value of such shares is determined on the date they are granted.

(t) Capital stock

Ordinary shares are classified as capital, and there are no preferred shares. The premium on share subscription is net of share transaction costs.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction from the amount received, net of tax.

(u) Revenue recognition

i. Sale of goods

Revenues are derived primarily from the sale of roundwood and processed wood (MDF) in Mexico and the United States, which is trading by subsidiaries abroad and in Mexico.

Revenue is recognized when control of the products is transferred, i.e., when the products are delivered to the customer, the customer has full discretion over the sales channel and the price of the products, and there are no unmet obligations that could affect the customer's acceptance of the products. Delivery is effective when the products are sent to the specific location, the risks of obsolescence and loss have been transferred to the customer, and the customer has accepted the products pursuant to the sales contract, the provisions on acceptance have matured, or the Group has objective evidence that all the acceptance criteria have been met.

The product is often sold without volume discounts. The Company grants a cash discount ranging from 1% to 3% of the sale value for customers who pay within the first month after the delivery of the good. Revenues from these sales are recognized based on the price set forth in the contract, net of estimated volume discounts and prompt payment. Past experience is used to estimate and predict discounts using the expected value method and income is only recognized to the extent that it is highly unlikely that there will be a significant change. A decrease in the account receivable is recognized for the volume and prompt payment discounts that will be applied to customers in relation to collections within the period and/or sales



until the end of the period. There are not considered to be any elements of financing since sales are made with a credit term of between 60 and 120 days, which is consistent with market practice. The Company has no obligation to replace defective products once the product is delivered to, and accepted by, the customer.

At the Group level, the following performance obligations have been identified:

- Delivery of round wood
- Delivery of processed wood (MDF)

The Company has only identified one performance obligation (product delivery)

The Company has only identified revenues that are recognized at one point in time.

The Company has identified transportation costs for the delivery of its products as a contract fulfillment cost.

Contract liabilities correspond to considerations received from customers that were previously included as customer advances. These are recognized when the customer's consideration is received to fulfill a performance obligation in the future.

Reconciliation of liabilities per contract in 2022 and 2021 totaled MXN \$50MM and MXN \$24MM.

(v) Leases

Leases are recognized as right-of-use assets and a liability at the date on which the leased asset is available for use by the Company.

Assets and liabilities arising from leases are initially measured at present value.

Lease liabilities include the current net value of the following payments:

- Fixed payments (including those that are substantially fixed), less lease incentives receivable;
- Variable lease payments that are based on an index or rate; initially measured using the rate on the start date
- The expected amounts payable by the Company as a residual value guarantee;
- Strike price of a purchase option if the Group is reasonably certain that the option will be exercised, and
- Penalty payments upon termination of the lease agreements, if the terms of the lease reflect that the Company will exercise an option.

Lease payments to be made under renewal options with reasonable certainty of being exercised are also included in measuring the liability.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, as is usually the case with leases in the Group, the lessee's incremental financing rate is used, which is the rate the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, guarantees and conditions.



In determining the incremental financing rate, the Company:

- When possible, uses recent third-party financing received by the lessee as a starting point, adjusted to reflect changes in financing terms since the third-party financing was received
- Uses other approaches where it starts with a risk-free, credit-adjusted interest rate for leases held, that do not have recent third-party financing, and
- Applies specific adjustments to the lease, for example, term, country, currency and guarantees.

The Company is exposed to possible future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to index or rate-based lease payments become effective, the lease liability is revalued and adjusted to the right-to-use asset. Lease payments are allocated between principal and financing cost. The finance cost is charged to income during the lease period to produce a steady periodic interest rate on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost including the following:

- The amount equal to the lease liability at its initial recognition;
- Lease payments made at or before the commencement of the lease, less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

Right-of-use assets are generally depreciated on a straight-line basis over whichever of the asset's useful life and the lease term is shorter. If the Company has reasonable certainty of exercising a call option, the right-of-use asset is depreciated over the life of the underlying asset. Although the Company re-assesses its landholdings that are recorded under property, machinery, and equipment, it has chosen not to do so for the right to use the landholdings owned by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognized under the straight-line method as an expense in income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets include IT equipment and small items of office furniture.

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximize operational flexibility in terms of managing the assets used in the Group's operations.

As of December 31, 2022 and 2021, there are no residual value guarantees.

(i) Leasing Activities

The Group rents land, offices, warehouses, equipment, and vehicles. Rent agreements are usually made for fixed periods of 6-months to 9-years, but there may be options to extend the period as stipulated below. The agreements may contain leasing and non-leasing components. The Group shall assign the consideration in the agreement for the leasing and non-leasing components pursuant to the relative independent prices.



Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease contracts do not impose any covenant other than the guarantee on the leased assets that are held by the lessor. Leased assets cannot be used as collateral for lending purposes.

(w) Dividend income

Dividend income is recognized when the right to receive payment is established.

(x) Distribution of dividends

The distribution of dividends to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

(y) Earnings per share

The basic loss per ordinary share is calculated by dividing the controlling interest by the weighted average number of ordinary outstanding shares during the year. The loss on share dilution is determined by adjusting the controlling interest and the ordinary shares, under the assumption that the Company's commitments to issue or exchange its own shares.

(z) Subsidies

Subsidies obtained from the government, related to the planting of biological assets, are recognized in the consolidated statement of income (in income) at the time they are actually received. In the year ending December 31, 2022, no subsidies were received from CONAFOR.

(aa) Rounding of balances

All amounts disclosed in the consolidated financial statements and notes have been rounded to the nearest thousand unless otherwise stated.

(ab) IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 Uncertainty Regarding Income Tax Treatments clarifies how the requirements for recognition of IAS 12 Income Taxes are applied when there is uncertainty regarding income tax treatments. In it, four problems are addressed when there is uncertainty; The first of these is whether an entity separately considers the uncertain tax treatment; the second, the assumptions that an entity makes about the review of tax treatments by the tax authorities; third, how an entity will determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and finally, how an entity should consider changes in facts and circumstances, as of December 31 2022 and 2021 there are no uncertain fiscal positions.



Management

4.1 External Auditors

The selection process of the external auditors consists of the ratification in the Report of the Chairman of the Audit Committee and in the ratification through the Minutes of the Audit Committee.

During the fiscal years 2020, 2021 and 2022, no opinions with qualifications or negative opinions have been issued by the audit firm Ernst & Young.

4.2 Related party transactions and conflicts of interest

As of December 31, 2022, 2021 and 2020, the key personnel of the Company, which includes the Directors, members of the Board of Directors and Committees, received a total aggregate compensation of approximately MXN \$36MM, MXN \$38MM, and MXN \$34MM, respectively.

As of December 31, 2022 there is no transactions with related parties or operations that generate a conflict of interest.

A summary of the total compensation received by key Proteak personnel is itemized below:

	December 31,		
	2022	2021	2020
Salaries and other benefits	27,526	25,563	22,211
Insurance	2,122	1,243	925
Share-based payments	6,311	11,039	10,429
Total remunerations	35,959	37,845	33,565

Table 27 Total remuneration of key personnel
Source: Audited Financial Statements



During 2021, 6,000,000 shares with a nominal value of \$0.960438945 were capitalized, for an amount of MXN \$5.8MM, which correspond to 2,000,000 accrued CPOs corresponding to the share plan for executives and employees.

The reserve of the CPOs assigned to the approved stock plan for executives and employees was adjusted, according to the CPOs accrued and the value of the CPO, for an amount of MXN \$20.5MM.

As of the issuance date of the annual report, there are no relevant transactions or credits and no conflict of interest has been identified between the Issuer and the people related to it.

4.3 Administrators and shareholders

The administration of Proteak is in charge of a Board of Directors that during 2022 was made up of 9 directors. This council meets at least 4 times a year. From the beginning, the Board of Directors has been professional, integrated mainly by Independent Members of the administration.

None of the directors has absolute decision-making power; most of the members are well-known entrepreneurs or high-level executives in high performance companies. It should be noted that none of the Shareholders has control of the Board, as the group of shareholders with the largest share controls less than 20% of the capital.

There are no filial nor civil relationships, or affinity of any kind, between directors and/or executives.

To date, there is no code of conduct in place for the board of directors.

The compensation received by the Board of Directors is determined by the Compensation Committee. There are no special agreements or programs for the board of directors, other than the emoluments distributed according to the shareholders' meeting.

In order to ensure an impartial vision of strategic planning, Proteak has incorporated the figure of the Independent Director, who today represents 89% of the total number of members, a percentage that exceeds the 25% required by the Securities Exchange Law.

The Board of Directors shall have the broadest powers provided by law to a general attorney-in-fact to execute all manner of contracts and to carry out all manner of actions and transactions not expressly reserved by Law or these corporate bylaws as the purview of the Shareholders' Meetings, as well as to manage and conduct the business of the company, to realize each and every one of its corporate purposes and to represent it before all manner of Federal, State or Municipal administrative, judicial (civil and criminal) or labor authorities with the broadest power of attorney for lawsuits and collections, acts of administration and ownership, under the terms of the first three paragraphs of Article 2554 of the Civil Code for the Federal District and correlative Articles of the Federal Civil Code and the Civil Codes for all the States of the Mexican Republic, including those that require a special clause by Law and to which Articles 2574, 2582, 2587 and 2593 of



the Civil Code for the Federal District and correlative Articles of the Federal Civil Code and the Civil Codes for all the States of the Mexican Republic refer, as well as Articles 9 and 10 of the General Negotiable Instruments and Credit Operations Law, including but not limited to the following:

- a. To file claims and complaints and to withdraw therefrom, bring accusations, stand as intervenor of the Public Prosecutor's Office and grant pardons;
- b. To file constitutional relief proceedings and any incident cases and withdraw therefrom;
- c. To grant general or special powers of attorney, without limitations or with the limitations that the Board deems pertinent, and to revoke all manner of general and/or special powers, including powers of attorney for acts of administration, acts of ownership and for lawsuits and collections;
- d. To delegate any of their powers to the person or persons, managers, officers, attorneys-in-fact, or committees that the Board deems pertinent.

The aforementioned powers shall be exercised by the Board of Directors, provided the exercise thereof does not imply any violation of the provisions of Clause Twenty-Two, paragraph two of these bylaws.

Through an ordinary general meeting of shareholders dated April 28, 2022, Diego Prieto Barbachano, Jorge Silberstein Tenenbaum, Ricardo Haneine Haua and Ana Aragão Teixeira Aguiar de Matos de Lima Miranda were ratified as proprietary members of the Board of Directors of Proteak for the fiscal year corresponding to the fiscal year of 2022. During this meeting, Diego Prieto Barbachano was appointed as Chairman of the Board of Directors:

Proprietary Member
Diego Prieto Barbachano
Luis Eduardo Tejado Bárcena
Jorge Hillmann
Manuel Ruiz Gutiérrez Topete
Abraham Hernández Pacheco
Ricardo Elizondo Guajardo
Jorge Silberstein Tenenbaum
Ricardo Haneine Haua
Ana Aragão Teixeira Aguiar de Matos de Lima Miranda

Table 28 Board of Directors in force during the 2022
Source: Proteak

The companies in which the members of the Board of Directors work have no relationship with Proteak.

Beneficiary shareholders with more than 10% of the Issuer's capital stock

The Company does not have any beneficiary shareholder with more than 10% of the Issuer's share capital. stock.

Shareholders with significant influence

Proteak does not have any shareholders who exercise significant influence.



Shareholders with executive power or authority

Proteak does not have any shareholder with executive power or authority.

Gender Inclusion

Although the Company does not have a comprehensive policy on gender inclusion, various measures are still being carried out to materialize it. Proteak has promoted guidelines to promote an organizational culture in terms of gender inclusion. In addition, it seeks to hire and retain male and female personnel throughout its business structure, trying to maintain a balance in its labor base in terms of gender. The Company will continue promoting opportunities in matters of ethical conduct, labor inclusion and diversity.

The participation of the female gender in Proteak's workforce has been approximately 16% of the Group's workforce in operational, managerial and executive positions. For its part, the Company's Board of Directors is currently made up of male and female members.

The Management Committee closed the year 2022 with 10 directors: 7 men and 3 women, thus advancing to 30% of women in the company's strategic decision-making.

Based on its social responsibility and in terms of sustainability, Proteak is analyzing various schemes, in addition to those already existing, for the creation and execution of guidelines and best practices in this area.

Proteak's working population is heterogeneous and is based on the different working and market conditions of its business areas. This condition has led the Group to put, policies, processes, and procedures, as well as practices in place with respect to the recruitment, selection, hiring and training of personnel since its foundation. Likewise, the lack of equal opportunities and discrimination on the basis of ethnic group or social stratum, belief, sex, age, social preference, or physical ability, is strictly prohibited, and is reflected in the Company's Environmental, Social and Occupational Health and Safety Policy. Compliance with such Policy is overseen by the internal audit area.

4.4 Proteak's Committees

Audit Committee

The Audit Committee shall consist of at least 3 members who must comply with the independence prerequisite specified in Article 26 of the LMV. The principal responsibilities of the Audit Committee include the following, among others:

- a. To render their opinion to the Board of Directors on any matter within the scope of their duties as stipulated by the LMV.
- b. To select the legal entity providing external auditing services.
- c. To establish the contracting conditions and the scope of the professional mandates of the External Auditors; approving services in addition to the auditing services that, when applicable, the External Auditors may provide; and overseeing the fulfillment of the audit contracts and independence prerequisites of the External Auditors.



- d. To meet with the External Auditor when necessary or at least once a year to review matters within the scope of its duties.
- e. To discuss the Company's financial statements with the persons responsible for their preparation and review and, on such basis, determine whether or not to recommend their approval to the Board of Directors.
- f. To recommend the bases for the preparation of the financial information to the Board of Directors and to assist in the review and issuance thereof; and to give an opinion on the relevant changes to accounting policies, criteria, and practices with which the financial statements are prepared.
- g. To ensure Proteak's compliance with accounting and tax regulations.
- h. The members of the Audit Committee shall be appointed by the Board of Directors in the annual meeting.
- i. The Committee shall examine, discuss, and assess its own performance, at least once a year. The committee must also periodically examine and assess the suitability of its rules of operation and recommend the proposed changes to the Board of Directors for its consideration.

	Member	Position
1	Manuel Ruíz Gutiérrez Topete	Chair
2	Abraham Hernández Pacheco	Member
3	Ana Aragão Teixeira Aguiar de Matos de Lima Miranda	Member

Table 29 Audit Committee
Source: Proteak

Corporate Practices Committee

The Corporate Practices Committee shall consist of at least 3 members who must comply with the independence prerequisite indicated in Article 26 of the LMV. The principal responsibilities of the Corporate Practices Committee include the following:

- a. To render their opinion to the Board of Directors on the matters within the scope of their duties according to the LMV.
- b. To request the opinion of independent experts in any issues they deem advisable, for the proper performance of their duties.
- c. Convene Shareholders' Meetings and ensure the issues they deem pertinent are included in the agenda of said meetings.
- d. To support the Board of Directors in the preparation of the report containing the main accounting and information policies and criteria, the preparation of the financial information presented annually to the Shareholders' Meeting under the terms of article 172 b) of the LGSM, as well as in the preparation of the report on the operations and activities in which it has taken part.
- e. The members of the Corporate Practices Committee will be appointed by the Board of Directors at the annual meeting.



- f. The Committee shall examine, discuss, and assess its own performance, at least once a year. The committee must also periodically examine and assess the suitability of its rules of operation and recommend the proposed changes to the Board of Directors for its consideration.

The members of the Corporate Practices Committee, all of whom are considered as financial experts:

	Member	Position
1	Manuel Ruíz Gutiérrez Topete	Chair
2	Abraham Hernández Pacheco	Member
3	Ana Aragão Teixeira Aguiar de Matos de Lima Miranda	Member

Table 30 Corporate Practices Committee

Source: Proteak

Compensation Committee

The Compensation Committee consists of 3 members who must comply with the independence prerequisite specified in Article 26 of the Securities Exchange Law. The principal duties of the Compensation Committee include, among others, the following:

- a. Support the Board of Directors in the fulfillment of their responsibilities in relation to the remuneration of the company’s executives.
- b. Establish and supervise both the short-term and long-term compensation programs for the Company’s first and second level officers.
- c. Prepare an annual report on the compensation for the first and second level executives of the organization as well as of the Chairman and Members of the Board.
- d. When applicable, propose to the Board of Directors changes to the company’s compensation plans.
- e. The Committee may propose to the Board of Directors the contracting of internal or outside resources that the Committee considers or appropriate to fulfill their responsibilities.
- f. The Committee shall examine, discuss, and assess its own performance, at least once a year. The committee must also periodically examine and assess the suitability of its rules of operation and recommend the proposed changes to the Board of Directors for its consideration.
- g. The members of the Compensation Committee are:

	Member	Position
1	Ricardo Elizondo Guajardo	Chair
2	Ricardo Haneine Hava	Member
3	Jorge Silberstein Tenebaum	Member

Table 31 Compensation Committee

Source: Proteak.



Forestry Committee

The Forestry Committee shall be constituted by either one or two members, who must fulfill the independence prerequisite set forth in article 26 of the LMV. The principal duties of the Forestry Committee include, among others, the following:

- a. Monitor all aspects of the Company's forestry activities on behalf of the Board of Directors and advise the Board on matters relating to the Company's forestry. The Committee is available to act as an advisor to the Company's Executive Management in this regard.
- b. Conduct an annual in-depth review of the performance of the established forestry assets.
- c. Supervise the process of establishing plantations and ensure that the technical parameters are met.
- d. Review the organizational structure, management capacity, capabilities, and resources available for forestry activities.
- e. The Chairman and members will be appointed by the Board of Directors. The Board of Directors shall have the authority to remove any Committee member at any time without cause.
- f. The Committee shall hold at least four meetings a year but may meet more frequently if deemed necessary.
- g. The Committee may meet as frequently as required.
- h. The Chairman of the Committee will appoint a secretary who will be responsible for preparing the minutes of the meetings, which will be distributed to the rest of the members of the Board of Directors.
- i. The minutes of the Committee's meetings shall be distributed to the Board of Directors, and the Chairman of the Committee shall report its conclusions and recommendations directly to the Board.
- j. Any member of the Committee may participate in any of the Committee's meetings held through the telephone, whether in whole or in part, whereby all persons participating in the meeting may hear each other speak (such participants shall be considered present at the meeting).
- k. The Forestry Director, the Chairman and the Chief Executive Officer shall be entitled to attend all of the Committee's Meetings.
- l. The Committee may propose to the Board of Directors the contracting of internal or outside resources that the Committee considers or appropriate to fulfill their responsibilities,
- m. The Committee shall examine, discuss, and assess its own performance, at least once a year.

The committee must also periodically examine and assess the suitability of its rules of operation and recommend the proposed changes to the Board of Directors for its consideration.

All committees must have at least one member who specializes in finance.

All members are governed by the provisions applicable to the underlying management bodies and committees, in compliance with corporate bylaws and other applicable regulations aimed at improving their efficiency.

Proteak's Executive Officers



Name	Position	Current and total experience
César Arturo Vélez Pongutá	Chief Executive Officer	César Vélez joined Proteak in 2019 as Chief Financial Officer. He was designed as Chief Executive Officer of Proteak in September 2022. He has more than 17 years of experience in the financial area of leading transnational companies in the forestry and mass consumption sectors, wherein he has overseen financial management, business plan creation, investment project assessment, mergers and acquisitions, financial analysis, among others. Prior to Proteak, he was the Director of Administration and Finance, and has held different management and executive positions in Masisa. He has also served as Head of Planning and Business Analyst at Rayovac. He holds a degree in Economics from Universidad de La Salle in Bogotá, Colombia, a Master's degree in Project Assessment and Management from the Universidad Panamericana, and an MBA in Senior Management from IPADE.
Mariana Rojo Granados	Chief Financial Officer	Mariana Rojo Granados has a degree in Public Accounting from the Autonomous Technological Institute of Mexico (ITAM) and graduated from the Senior Management program (D1) from IPADE Business School; assumed the position of Chief Financial Officer on December 12, 2022. Mariana Rojo has extensive experience of more than 20 years in capital and debt markets in Mexican companies that are listed on the Stock Exchange and will supervise all administration and finance, playing a key role in investor communications.
Cinthia Paulina Villaseñor Islas	General Counsel	Paulina Villaseñor joined Proteak in 2015. Prior to joining Proteak, she had 9 years of experience in <i>tier one</i> law firms with a focus on corporate and business law, at Goodrich Riquelme y Asociados, Ríos Ferrer, Guillén-Llarena, Treviño y Rivera, S.C., and Olivares y Cía, S.C. She was also Director of Legal Affairs at the Road Development Branch of the Ministry of Communications and Transportation. She holds a degree in law from the UNAM.
Ofelia Rendón Rodríguez	Director of Human Development and Environment*	Ofelia Rendón joined Proteak in 2022. She has a degree in Industrial Administration, Business Administration and Management from the National Polytechnic Institute and a Master of Business Administration (MBA) from the Universidad del Valle de México. She has held the position of director of human resources in various companies with great impact in the Mexican Republic and that have an international presence, such as Great Panther Mining Limited; Kaltex Group, Bunge, among others.
Jürgen Bernhard Stock Leyton	Forestry Director	Jürgen Stock joined Proteak as Research Manager in December 2007 and is currently the Forestry Director. Prior to joining Proteak, he was Research Manager, Forestry Division of Smurfit Carton de Venezuela. He has worked on developing successful clonal propagation programs for forest species which increased the company's productivity by 40%. He holds a degree in forest engineering and a Master of Science from the University of the Andes in Merida, Venezuela.
Cesar Rodríguez Bejarano	Sales Director	He joined Proteak in 2014 as Industrial Sales Director. He has over 15 years of experience in the steel and metalworking industry and more than 7 years in the board industry, has had direct experience in customer service, sales and purchasing as well as being an expert in establishing supply chains. He has worked in companies such as New Process Steel and Ryerson Inc. He holds a degree in International Business from ITESM and has an MBA from EGADE Business School.
Iván Ahedo Gaudry	Marketing Director	He joined Proteak in March 2018 as Marketing Director. Ivan has more than 20 years of international experience in Marketing, Commercial Strategy and Strategic Planning in different industries and companies in Retail, Consumer, Services, Entertainment and B2B; including brands and companies of recognized success and international influence like 3M, José Cuervo, Grupo LALA, SABMiller (USA), Starbucks and PPGComex. He has been an advisor, business consultant



		and mentor for the Endeavor organization since 2009. He holds a BA (Hons) in Marketing from the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) in Mexico, as well as postgraduate studies in Finance and Business from the University of Miami and Amsterdam, Netherlands.
Luis Antonio González Arce	Supply Chain Director	Luis González Arce joined Proteak in 2021. He has more than 17 years of corporate and operational experience in the areas of Supply Chain, Logistics and Operations, Production and Manufacturing, Distribution and Warehouses, Procurement and Purchasing, Planning and S&OP and Projects and Continuous Improvement in transnational and mass consumption companies. Prior to joining Proteak, he served as Director of Operations and Supply Chain at Bexel International and before that he was at Arca Continental for 10 years in Supply Chain and Logistics Management positions. He is an Industrial and Systems Engineer from ITESM and has 2 MBAs, from ESSEC Business School France and from EGADE Business School.
Boris Ludovic Moghrani Cisneros	IT Director	He joined Proteak in April 2016 as IT Director of Proteak and Bluedrop, Proteak's sister company. Boris has more than 22 years of experience in IT, design, implementation and execution of IT strategies, business realignment of IT objectives, business process reengineering through IT and management of multidisciplinary teams. Prior to Proteak, he worked in internationally recognized companies such as Monsanto, MasNegocio.com and Sports World. He holds a degree in Computational Mathematics from UNAM.
Rodrigo Méndez Pech	Plant Director	He joined Proteak in November 2017 as Production Manager and has been the Plant Director since December 2019. Rodrigo has more than 22 years of experience in coordination, management and control of production and maintenance. He has worked in various companies such as FEMSA, Embotelladora Bepensa and Organización de Aguas de México. Rodrigo is a Mechanical and Electrical Engineer from the Universidad Juárez Autónoma de Tabasco and holds a Master's in Administrative Engineering from the Instituto de Estudios Universitarios.

Table 32 Proteak's Executive Officers

Source: Proteak

Proteak Board of Directors

Name	Position	Current and total experience
Diego Prieto Barbachano	Chair of the Proteak Board of Directors**	He was appointed member of the board in April 2021 and is Chairman of the Board of Directors, appointed by ordinary general meeting in December 2021. He has a degree in Finance, Master of Business Administration (MBA), Director of Administration and Finance at the Banking and Commercial School, and Director, partner and director of companies in the educational, agro-industrial and real estate sectors in Mexico.
Jorge Silberstein	Member of the Proteak Board of Directors	He has been a member of the Board of Directors since April 2021. He was Head of Investment Banking at Barclays Investment Bank for 11 years, until 1999 he served as Undersecretary of Communications at (SCT) and was previously Deputy General Director of Financial Engineering at Banobras, S.N.C., From 1989 to 1993, he held important positions in the Ministry of Finance and Public Credit, both as Sub-coordinator of the Divestiture Unit, as well as General Director of Financial Engineering of the Divestment Unit.
Luis E. Tejado	Member of the Proteak Board of Directors.	He has been the Chief Executive Officer of Bluedrop since 2012. Prior to that he was Chief Executive Officer of Proteak from 2007 to 2012 and Chief Financial Officer of Grupo Editorial Expansión from 2004 to 2007. He was part of the Boston Consulting Group as a project leader and consultant. From 1993 to 1995, he was Director of the Finance Department. He is an Industrial Engineer from the Universidad Panamericana and holds an MBA from Harvard Business School.



<p>Manuel Ruiz Gutiérrez Topete</p>	<p>Member of the Proteak Board of Directors.</p>	<p>He is also currently a board member for Vitamedica and Director of Administration and Finance for the Formula 1 Mexico Grand Prix Project. He is also Treasurer for FICSAC (Patronato Universidad Iberoamericana). Before joining these companies, he worked in the banking sector as Director of Administration and Finance for Banamex. He was also the Chief Financial Officer (CFO) of Banco Nacional de México and Citibank. Before this he was CFO of Seguros Banamex. He holds a degree in Economics from the Universidad Iberoamericana and an MBA with a focus in Finance from Cornell University.</p>
<p>Jorge Hillman</p>	<p>Member of the Proteak Board of Directors.</p>	<p>Since 2014, he has been a member of Proteak's Board of Directors and is a member of three other companies: Peccin SA, CEPAR - CESBE Participações and Famex S/A - Administracao de Espacos Comerciais. Currently, he works at TCP Partners Consulting as a New Business Advisor in different regions of Brazil. Previously, he was a director of TONDO, Caixas do Sul Brazil and has more than 30 years of professional experience in national and multinational companies. He has been Executive Director of different companies in Brazil, Central America, and Canada such as Masisa Do Brasil LTDA, Nueva C.R. S.A., The PQ Corporation INC Brazil and Toronto, and SIKA S.A. He holds a degree in engineering and business administration from UFRGS, in Porto Alegre, Brazil. He has a master degree in finance by IBMEC, Rio de Janeiro and a postgraduate degree in Marketing by ESPM, São Paulo.</p>
<p>Ricardo Elizondo Guajardo</p>	<p>Member of the Proteak Board of Directors.</p>	<p>Founding partner and Director of the Mexican fund Ideas y Capital. Since 2005, he has invested in 24 private companies. He is currently a member of the Board of Directors of Proteak and of the following 11 companies: Fruitex, Econduce, Prolade, EnKontrol, Grupo Amigo, Boletia, Dvdendo LLC, Nimbler, Pro Organic Growers, CFE Internacional, LLC y CFenergía, subsidiaries of the Federal Electricity Commission (CFE). None of these companies have any affiliation with Proteak. He was a director and chairman of the Venture Capital Committee of the Mexican Private Equity Association (AMEXCAP) from April 2015 to April 2018. He teaches the subjects of Innovation and New Business Development as part of the Executive MBA at the ITAM and is a mentor in several incubators and accelerators throughout Mexico. Previously Ricardo was the Deputy Editorial Director of the Reforma newspaper where he worked for 16 years. Ricardo holds a Master of Business Administration (MBA) and a Master of Public Administration (MPA2), both from Harvard University.</p>
<p>Ricardo Haneine Haua</p>	<p>Member of the Proteak Board of Directors.</p>	<p>He was appointed a member of the Board of Directors since December 2021. With more than 20 years of experience, he is currently a consulting partner at A.T. Kearney.</p>
<p>Ana Aragão Teixeira Aguiar de Matos de Lima Miranda</p>	<p>Member of the Proteak Board of Directors.</p>	<p>He has been a member of the Audit Committee since December 2021. He is currently CFO at Timber Capital Portugal and was CFO at Investwood.</p>
<p>Abraham Hernández Pacheco</p>	<p>Member of the Proteak Board of Directors.</p>	<p>He is currently a member of the Audit Committee of Proteak He is president and founding partner of VITALIS, a Mexican company that is an expert in private pensions, where he also chairs the Investment Committee. He is president of the Pension, Benefits and Social Security Section of the International Actuarial Association, where he is also a member of the Nominating and Strategic Planning Committees. He founded and was the first Head of ProMéxico's Business Intelligence Unit. He participates in the Board of other public companies, FIBRAS and private equity funds. He actively participates in social causes focused on the reduction of poverty in old age, the fight against labor informality and, in favor</p>



		of responsible investment. Abraham is an actuary and is currently studying for a doctorate in applied mathematics.
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Table 33 Proteak’s Board of Directors
Source: Proteak

4.5 Corporate bylaws and other agreements

- a. The corporate address shall be Paseo de la Reforma 540, Lomas de Chapultepec, CP. 11000, Mexico City, Mexico.
- b. The duration of the company shall be 99 years.
- c. The principal purpose of the company is the cultivation, planting, production, sowing, harvesting, processing, purchase and sales, industrialization, import, export, marketing, and transfer by any legal title of flowers, plants, trees and seeds and other products derived therefrom.
- d. A foreigner's admission clause is included.
- e. The capital stock is represented by non-par-value ordinary registered shares.
- f. The minimum fixed capital amounts to MXN [2,653,188,682] and the variable capital is unlimited.
- g. The shares may have all the other characteristics determined by the General Shareholders’ Meeting that agrees to their issuance under the applicable standards.
- h. All shares representing the fixed, minimum, or variable capital have equal rights and obligations and give their holders equal rights and obligations in compliance with Article 112 of the LGSM.
- i. If the Shareholders’ Meeting resolves to issue shares with restricted rights and/or obligations, said issuance shall be subject to the provisions of Article 54 of the LMV.
- j. Every share of any Series and Class provides voting rights in Ordinary or General Extraordinary Shareholders’ Meetings.



- k. In compliance with Article 123 of the Agrarian Act, its capital stock must distinguish a special series of shares or equity interest identified by the letter T, which shall be equivalent to the capital contributed in agricultural, livestock or forestry land or to the capital used for their acquisition, in accordance with the value of the lands at the time of the contribution.
- l. The Series "T" Shares issued by the company shall not enjoy special rights over the land or any corporate rights other than those that correspond to the Shares under the General Corporation and Partnership Law, unless the company is liquidated, in which case only the holders of said Series "T" Shares shall have the right to receive land in payment of their due in corporate assets.
- m. Foreign shareholders may not hold more than 49% of the Series "T" Shares.
- n. Approval is required of the Board of Directors for any person or group of persons that wishes to acquire shares or the certificates that represent them, or share rights, by any means or legal title (i) the consequence thereof is that their shareholding individually and/or in conjunction with the Related Party or Parties represent(s) equity interest equal or greater than 30%; (ii) holding 30% or more of all the shares, the consequence thereof is that their shareholding individually and/or in conjunction with the Related Party or Parties represent(s) a shareholding equal or greater than 40%; and (iii) holding 40% or more of all the Shares, the consequence thereof is that their shareholding individually and/or in conjunction with the Related Party or Parties represent(s) a shareholding equal or greater than 50% (fifty percent) of all the Shares. Likewise, (i) any person that is a competitor of the company or of any subsidiary of the company that, individually or in conjunction with one or more related parties, wishes to acquire shares, the certificates that represent them or share rights, by any means or title, the consequence thereof is that their shareholding individually and/or in conjunction with the Related Party or Parties represent(s) a percentage that is equal or greater than 5% (five percent) of the total shares, or its multiples; (ii) any contract, agreement or legal act that wishes to restrict or results in the transfer of any of the rights and powers that correspond to shareholders or holders of Shares or the certificates that represent them in the company, including financial instruments or derivatives, as well as the acts that imply the loss or limitation of the voting rights granted by the shares representative of this Company's capital stock in a proportion that is equal or greater than 5% of the total Shares in which the company's capital stock is divided; and (iii) The execution of restricted covenants.
- o. Pursuant to Article 108 of the LMV, in the event of the cancellation of the registration of the Shares or certificates representing the capital stock of the company or negotiable instruments in the RNV, whether upon request of the company with a prior resolution of the General Extraordinary Shareholders' Meeting adopted by the affirmative vote of the Shareholders, with or without voting rights, representing 95% of the capital stock of the company, or by resolution of the CNBV, under the terms of the LMV, the company shall be obliged, if so required by the National Banking and Securities Commission (CNBV), to make a public offering within a period not exceeding 180 calendar days as of the date when such resolution goes into effect, or the date in which the Meeting has adopted the respective resolution, pursuant to Articles 96, 97, 98, sections I and II and 101 first paragraph, of the aforementioned LMV. The offer must be exclusively addressed to the shareholders or to the holders of negotiable instruments representing the company Shares, and who are not part, at the time of the CNBV request, of the group of persons that control the company. The term "Control" used in the bylaws shall be as defined by Article 2, section III of the LMV; the offer must be made at no less than the quoted value and the book value of the shares or negotiable instruments representing such shares, whichever is higher, according to the last quarterly report submitted to the CNBV and to the Mexican Stock Exchange (BMV) before the start of the offering, adjusted when such value has been modified, in accordance with criteria applicable for the determination of relevant information, in which case, the most recent financial



information that the company has available must be considered and a certification of the Chief Executive Officer and/or Deputy Chief Executive Officer must be submitted with respect to the determination of the book value.; and the company shall transfer to a trust, during a period of 6 (six) months as of the corresponding cancellation date, the funds necessary to acquire at the same price of the offering, the securities of the investors that did not participate in the offer.

- p. For an Ordinary Shareholders' Meeting held on the first or subsequent call to be considered legally convened, at least the majority of the voting shares issued by the company must be represented and the affirmative vote of the simple majority of the shares represented at the Meeting shall be required to adopt resolutions in any Ordinary Shareholders' Meeting held on the first or subsequent call.
- q. In order to consider legally installed an Extraordinary Shareholders' Meeting held on first call, at least 75% (seventy-five percent) of all the shares issued by the Company and with voting rights must be represented, in the case of second or subsequent call. In order to consider the Extraordinary Shareholders' Meeting legally installed, at least 50% of all the shares issued by the Company must be represented.
- r. For resolutions adopted in any Extraordinary Meeting, either on the first or subsequent call to be valid, shall require the affirmative vote of at least 50% (fifty percent) of the shares of capital stock represented at the meeting.
- s. Under the terms of Article 23 of the Securities Exchange Act ("LMV"), the administration of the company is entrusted to the Board of Directors and a Chief Executive Officer, under the terms of the corporate bylaws and the provisions of the LMV.
- t. The Board of Directors shall be comprised of the number of regular members that the general Shareholders' Meeting determines in a range of 3 (three) and 21 (twenty-one) directors, of whom at least twenty-five percent (25%) shall be independent, under the terms of Article 26 of the LMV. An Alternate may be appointed for each proprietary board member on the understanding that Alternates for Independent Board members shall also be independent and that alternate members may only substitute for Standing Members of the same share series that elected them. Likewise, the Board of Directors shall have a Chairman and his respective alternate and appoint a Secretary who shall not form part of said body. The General Shareholders' Meeting that appoints or ratifies the members of the Board of Directors shall determine the independence of its members. Notwithstanding the foregoing, under no circumstances may any of the persons indicated in Article 26 of the LMV be appointed or act as independent members.
- u. In the corresponding Shareholders' Meeting, any shareholder or group of shareholders that, individually or jointly hold 10% (ten percent) of the voting shares representing the company's capital stock, shall have the right to appoint 1 (one) Standing member and their respective alternate.
- v. Notwithstanding the foregoing, any Shareholder(s) who individually or jointly hold ten per cent or more of the company's capital stock who wish to designate a Board member, must notify the company Nominations Committee within a period not exceeding five (5) days after time of the publication of the call for an Annual General Ordinary Shareholders' Meeting.
- w. The Company Nominations Committee may propose to the Annual General Shareholders' Meeting the ratification, in full or in part, of the positions for the following year of the members of the Board of Directors previously appointed by the shareholders.



- x. At each Shareholders' Meeting that decides on the appointment of the members of the Board of Directors, the members appointed by the Shareholders or group of Shareholders who own 10% (ten percent), or more, of the social capital.
- y. Members of the Board of Directors, in the diligent exercise of the duties that the LMV, other laws, and these bylaws confer upon that corporate body, shall act in good faith and in the best interests of the company.
- z. Board members and the Secretary of the Board of Directors must maintain confidentiality with respect to any information and matters of which they have knowledge by virtue of their position in the company when such information or matters are not in the public domain.
- aa. In the performance of its duties the Board of Directors shall be assisted by an Audit Committee and a Corporate Practices Committee for the oversight of the management, governance, and execution of the company's businesses.
- bb. The Board of Directors shall meet at least four times every fiscal year.
- cc. The Chief Executive Officer shall be responsible for the duties of management, governance, and execution of the business of the company and the legal entities it controls, abiding by with the strategies, policies and guidelines approved by the Board of Directors.
- dd. The Company is not required to appoint Statutory Auditors as, for its management and oversight, it has adopted the regime for the integration, organization, and operation of publicly traded corporations, entrusting its oversight to the company that prepares the company's External Audit as well the Audit Committee.
- ee. The bylaws do not establish any statutory restrictions on the Board of Directors setting up remuneration plans for the executives and directors of the Issuer. In terms of the decision-making on any matter in which the directors have a personal interest, the corporate bylaws establish that board members or, as applicable, the Secretary of the Board of Directors, with a conflict of interest in any matter, shall abstain from participating in the respective matter and shall not attend the deliberation and vote thereof. Likewise, the corporate bylaws establish that the affirmative vote of at least 51% (fifty-one percent) of the formally appointed members of the Board of Directors or, when applicable, the affirmative vote of at least 51% (fifty-one percent) of the shares representing the capital stock of the company in the case of a resolution of the Shareholders' Meeting is required, either on the first or subsequent call, to approve the execution of contracts with related parties.
- ff. On the date of the Offer, there shall not be any agreement whatsoever that has the effect of delaying, preventing, deferring, or making a change of control in Proteak more onerous.
- gg. As of the date in which this Annual Report is prepared, there are no trusts or any other mechanism limiting the corporate rights conferred by the Shares.
- hh. In order to be able to change the rights associated with the Shares, and any limitation on their acquisition by the shareholders, requires amendment of the corporate bylaws. The amendment of the corporate bylaws requires a General Extraordinary Shareholders' Meeting, wherein at least 75% (seventy-five percent) of all the voting shares must be represented at first call, and in the event of a second or subsequent call, at least 50% (fifty percent) of the voting shares issued by the company must be represented. Resolutions adopted in any extraordinary shareholders'



meeting, whether on first or subsequent call, shall require the affirmative vote of at least 50% (fifty percent) of all the voting shares represented at the meeting to be valid.

- ii. Clause Eight of the corporate bylaws establishes a mechanism for the Board of Directors to approve any person or group of persons acquiring shares or rights over said shares, including, without limitation, the negotiable instruments that represent them, in accordance with the percentages established in the above subsection.
- jj. The board of directors must appoint the Compensations Committee, which is governed under Article 26 of the LMV in order to ensure independence. Such committee has two members of the board and determines the fees to be paid. See section 4.4.

4.6 Other corporate governance practices

Proteak includes this section because it is considered to be relevant information for the investing public, where strategic guidelines for the company are listed, as well as the Company's action framework.

Proteak is a Sociedad Anónima Bursátil de Capital Variable S.A.B. de C.V. Proteak is governed by the provisions of its corporate bylaws, the LGSM, the LMV and the Sole Circular, as applicable.

The following are some of Proteak's principal provisions of corporate governance.

Proteak's management is currently comprised of 9 members, 8 of whom are independent members in terms of the LMV. Said Board meets between 3 or 4 times a year.

At the corresponding Shareholders' Meeting, any shareholder or group of shareholders that, individually or jointly hold 10% (ten percent) of the CPO voting shares representing the company's capital stock, shall have the right to appoint 1 (one) Standing member and their respective alternate.

The Board of Directors will have the widest powers of representation recognized by law to a general agent to enter into all kinds of contracts, and to carry out all kinds of acts and operations that by law or by provision of the bylaws are not reserved to a Board of Directors, as well as to manage and direct the business of the Company.

Proteak has three Committees that assist the Board of Directors in the performance of its duties, and which are listed below:

- Audit Committee. Consists of at least 3 members who must comply with the independence prerequisite specified in Article 26 of the LMV.
- Corporate Practices Committee. Consists of at least 3 members who must comply with the independence prerequisite specified in Article 26 of the LMV.
- Compensation Committee. It is made up of the number designated by the Shareholders' Meeting but at least the majority of its member must be, in turn, members of the Company's Board of Director, or else, Secretary of the Company. Proteak has contracted the services of EY Ernest & Young, (Mancera, S.C), as external auditor, to fulfill the functions that for said position are established both in the corporate bylaws and in the applicable legislation.

Mr. César Arturo Vélez Pongutá is Proteak's Chief Executive Officer and is responsible for the management, governance, and execution of the business of Proteak and the legal entities it controls, in terms of the strategies, policies and guidelines



approved by the Board of Directors or the General Ordinary Shareholders' Meeting, as applicable. The General Ordinary Shareholders' Meeting or the Board of Directors are responsible for appointing the Chief Executive Officer.

The liability of the members of the Board of Directors, under the terms and for the acts specified in clause Twenty of the corporate bylaws may be enforced by Proteak and/or by Proteak's shareholders that, individually or in the aggregate hold legal title to voting shares, even those with limited or restricted voting rights, representing at least 5% (five percent) of Proteak's total capital stock, irrespective of the corporate and/or patrimonial rights that said shares may confer on their holders.

Capital Markets

5.1 Share structure

As of December 31, 2022, the paid-in capital stock of TEAK is comprised of 1,119,873,861 fully subscribed and paid-in Ordinary Share Certificates, each comprised of one series "T" registered share and two series "K" registered shares. (373,291,287) Series "T" shares and (746,582,574) Series "K" shares.

Foreign shareholders may not hold an equity interest exceeding 49% of the series T Shares.

The Agrarian Law and the Foreign Investment Law do not permit Foreign Investment to directly hold more than a 49% equity interest in Series "T" Shares, either directly, or through trusts, agreements, social or statutory pacts, pyramid schemes, or any other mechanism that grants control or a greater participation than that established, except as provided in Article 18 of the Foreign Investment Law. Therefore, the participation of investors in Proteak will take place through neutral investment that is made in Mexican companies or trusts authorized by the Ministry of Economy, in this case through a Trust creating an investment instrument in which CPOs (Certificates of Participation) are issued to the Foreign Investor. In the event it is necessary to terminate the Trust as a result of Article 394 of the General Negotiable Instruments and Credit Operations Law or for any other reason, the Shares must be placed in a new trust, similar to the original Trust, in order that all investors may retain their investment in Proteak without violating the provisions of the Agrarian Law and the Foreign Investment Law. Proteak cannot guarantee that in the event a Trust expires, a Trust would be set up that is similar to the original Trust, which would mean that the foreign investors could be directly affected and not be able to retain legal ownership of Series "T" Shares in a proportion that does not exceed the permitted maximum. Notwithstanding the foregoing, in the event that there is foreign investment in more than 49% of the Series "T" Shares, the company intends to apply for the Ministry of Economy's authorization for the CPOs to be issued by the Issuing Trust to be treated as neutral investment instruments. However, Proteak cannot guarantee that said authorization will be obtained.

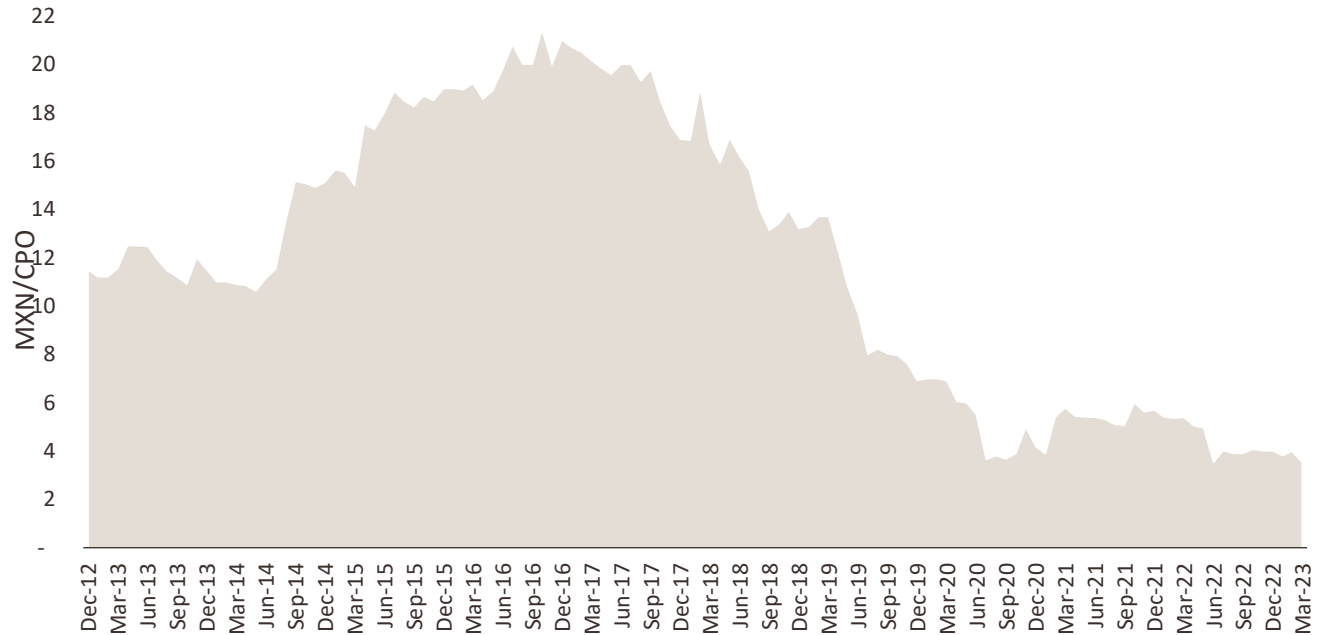
Foreign holders of Proteak's CPOs shall have limited voting rights



Foreign Holders of CPOs may only instruct the Trustee on how to exercise the voting rights derived from the Shares corresponding to the Series “K” Shares, therefore the Trustee will exercise the corporate rights of the corresponding Series “T” Shares that are incorporated into CPOs held by foreign nationals by systematically voting in the same manner as the majority of the Shares of said Series T represented in the meeting in question vote. The foregoing could represent a risk for foreign investors in respect of the decision-making and the representation they may have in Proteak.

5.2 Share Performance on the Securities Exchange

The performance of the TEAK CPO share listed on the BMV from December 2012 to March 2023 is presented below.



Graph 12 Stock Prices
Source: Yahoo Finance

It should be noted that, since it is a long-term investment, Proteak has a low marketability share. The volume traded during 2022 was 11% lower than in 2021 and represents around 1% of the Company's titles.



Month	Maximum Price	Minimum Price	Total Volume Traded	Listed on
mar-23	3.98	3.52	66,378	BMV
feb-23	4.00	3.85	106,038	BMV
ene-23	4.00	3.82	95,254	BMV
4T22	4.12	3.85	5,260,194	BMV
3T22	4.10	3.51	113,923	BMV
2T22	5.39	3.52	536,188	BMV
1T22	6.01	4.85	5,426,507	BMV
4T21	6.35	4.90	1,467,631	BMV
3T21	5.47	4.92	342,013	BMV
2T21	5.69	5.10	1,008,919	BMV
1T21	8.36	3.60	9,904,067	BMV
4T20	5.15	3.75	7,084,847	BMV
3T20	3.80	3.65	1,374,447	BMV
2T20	6.05	6.05	410,782	BMV
1T20	7.16	6.90	14,431	BMV
4T19	8.20	7.95	681,611	BMV
3T19	9.80	8.00	2,052,705	BMV
2T19	12.90	9.60	1,852,435	BMV
1T19	14.40	13.00	225,823	BMV
4T18	14.80	11.60	366,183	BMV
3T18	16.50	12.49	843,689	BMV
2T18	17.19	14.90	2,952,145	BMV
1T18	19.00	16.70	5,455,844	BMV
4T17	19.78	16.09	4,195,242	BMV
3T17	20.30	18.40	1,193,319	BMV
2T17	20.40	19.31	10,571,568	BMV
1T17	21.20	19.92	4,789,995	BMV

Table 32 Performance of TEAK CPO stock
 Source: Mexican Stock Exchange, Investing

5.3 Market Trainer

Currently Proteak has no market trainer.