Financial statements

as at December 31, 2022
and Independent auditor’s report

BAHIA FERROVIAS S.A.

(A free translation of the original in Portuguese)

Index

(A FREE TRANSLATION OF THE ORIGINAL IN PORTUGUESE)

BAMIN

Management’s report

DECEMBER 31, 2022

(IN THOUSANDS OF REAIS)

Context

Bahia Ferrovias S.A. (“BAMIN Ferrovias” or “Company”) is a corporation, incorporated on July 19, 2021, engaged, upon onerous concession and on an exclusive basis, in the construction and rendering of public cargo railway transportation services associated with the exploration of the railway infrastructure of EF-334 for a section that goes from the city of Ilhéus to Caetité, in the state of Bahia, within the terms, deadlines and conditions set in the Subconcession Agreement signed by the Company and the National Agency of Land Transportation (“ANTT”). The Company’s headquarters is located at Avenida Magalhães Neto, 1.752, edifício Lena Empresarial, 13th floor, Pituba, Salvador, Bahia, Brazil.

The Federal Government, represented by ANTT, VALEC Engenharia, Construções and Ferrovias S.A. (“VALEC”), an intervening party and concessionaire, and the Company, as subconcessionaire, signed the Subconcession Agreement for the exploration of the railway infrastructure of EF-334 between the cities of Ilhéus and Caetité, in the state of Bahia, on September 3, 2021. The railway infrastructure is named Ferrovia de Integração Oeste-Leste (“FIOL”). The agreement provides for the construction and rendering of public cargo railway transportation services associated with the exploration of the FIOL infrastructure for a 35-year period, counted as of the executive date, which cannot be extended.

Before the subconcession, VALEC, a public company controlled by the Ministry of Infrastructure (“MINFRA”), undertook the FIOL works. The FIOL complete project provides a stretch from the cities of Ilhéus, state of Bahia, and Figueirópolis, state of Tocantins, with an extension of 1,527 km. The Company will operate in a stretch with an extension of 537 km (“FIOL 1”).

The Company is currently in a pre-operating stage and is using its funds to: (a) review the basic engineering projects; (b) expropriate the areas impacting the conclusion of the infrastructure construction for the railway; and (c) contract services to improve the surveys and undertake economic and financial assessments over the exploration project, which, according to the initial estimates, must be offset by future operating revenues.

The agreement provides a deadline of five years to finish the railway infrastructure construction works and for the operations to start. The five-year term begins as of the date the agreement is signed. BAMIN Ferrovias requested ANTT to postpone the non-financial obligations concerning investments with specific deadlines. ANTT answered the topic in December 2022, stating that the extension right provided by the Railway Law automatically applies to concessions, regardless of any contractual adjustments required. The BAMIN Ferrovias's Management is still assessing and verifying the impacts of the request.

The Company had an accumulated loss of R$ 56,245 (2021 – R$ 20,029) and a net working capital of R$ 428,849 (2021 – R$ 245,395). The Company relies on the intent of ERG S.á r.l Group ("ERG Group"), through the controlling shareholder Bahia Mineração S.A. ("BAMIN"), to provide funds required for the continuity of its activities.

Capital stock

The authorized capital stock is represented by five hundred and ninety-five million, five hundred and two thousand (595,502,000) nominative common shares, in the amount of R$1.00 (one Brazilian Real) each, whose paid-in amount corresponds to R$595,502.

Going concern

Despite the financial year ending on December 31, 2022 being the second time the Company faced the COVID-19 pandemic, the Company maintained its health measures to protect the employees and prevent contagion in its administrative and operating areas, always according to the recommendations from WHO and the Ministry of Health. It is noteworthy that the Company understands there have been no impacts and/or events related to COVID-19 that impaired the preoperational phase of the Company as well as its operational future.

The Company's Management prepared its financial statements assuming the continuity of its operations and considers in its main action the financial support from its controlling shareholder to assure that liquidity is adequate and available to cover contractual obligations and to obtain additional funds when necessary. The occurrence of these events in its entirety, in a reasonable period, is considered critical by the Company's Management.

Management's responsibility

We confirm, to the best of our knowledge, that the financial statements of the Company were prepared and are presented following the Brazilian accounting practices, including the pronouncements of the Committee of Accounting Pronouncements (CPC) and in conformity with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board

(IASB), and fairly present, in all material respects, the financial position of the Company as of December 31, 2022, the results of operations and cash flows, together with the descriptions of the principal risks and uncertainties faced by the Company.

Officers

The officers in office on December 31, 2022, and until the date of signing of the financial statements of 2022 are set forth below.

Sergio Leite
CEO

Gustavo Cota
Officer

Eduardo Ledsham
Officer

Alexandre Aigner
CFO

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A free translation from Portuguese into English of Independent Auditor's Report originally issued in Portuguese

Independent auditor's report on the financial statements

To the Board of Directors and Shareholders of
Bahia Ferrovias S.A.
Salvador – Bahia.

Opinion

We have audited the financial statements of Bahia Ferrovias S.A. (the "Company"), which comprise the statement of financial position as at December 31, 2022, and the statements of profit or loss, of comprehensive income, of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the period ended in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information accompanying the financial statements and the audit report

The Company's Board of Directors is responsible for the other information comprising the management report.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Board of Directors and those charged with Governance for the financial statements

The Company's Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS) issued by the International Accountings Standards Board (IASB) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Board of Directors.

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- Conclude on the appropriateness of the Company's Board of Directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Salvador, May 2, 2023.

ERNST & YOUNG
Auditores Independentes S/S Ltda.
CRC SP-015199/O

Daniel Peixoto

Daniel de Araujo Peixoto
Accountant CRC-BA-025348/O

Balance Sheet

DECEMBER 31, 2022

(IN THOUSANDS OF REAIS)

	Note	2022	2021
Assets			
Current			
Cash and cash equivalents	5	462,982	256,970
Prepaid expenses	6	2,561	2,466
Other assets		137	-
		465,680	259,436
Non-current			
Long-term receivables			
Taxes recoverable	7	4,697	390
Other assets		127	-
		4,824	390
Property, Plant and Equipment	8	74,020	743
Right of use	9	31,483	32,730
Intangible assets	9	81	-
		105,584	33,473
Total assets		576,088	293,299
Liabilities			
Current			
Suppliers	10	27,080	4,966
Tax and Social Obligations	11	7,705	1,778
Related parties	12	2,046	7,297
		36,831	14,041
Total liabilities		36,831	14,041
Equity			
Capital stock	13	595,502	266,557
Advance for future capital increase	13	-	32,730
Accumulated losses		(56,245)	(20,029)
		539,257	279,258
Total liabilities and equity		576,088	293,299

Income Statement

DECEMBER 31, 2022

(IN THOUSANDS OF REAIS)

	Note	2022	2021
General and administrative expenses	14	(74,704)	(26,229)
Other expenses, net		(206)	-
Operating loss		(74,910)	(26,229)
Financial revenues		38,763	6,209
Financial expenses		(69)	(9)
Financial income	15	38,694	6,200
Loss before income tax and social contribution		(36,216)	(20,029)
Tax on profit		-	-
Net loss for the year		(36,216)	(20,029)

Comprehensive income statement

DECEMBER 31, 2022

(IN THOUSANDS OF REAIS)

	2022	2021
Net loss for the year	(36,216)	(20,029)
Other comprehensive results	-	-
Total comprehensive income for the year	(36,216)	(20,029)

Statement of changes in equity

DECEMBER 31, 2022

(IN THOUSANDS OF REAIS)

	Note	Capital Stock	Advance for future capital increase	Accumulated losses	Total
July 19, 2021		-	-	-	-
Paid-in capital	13	266,557			266,557
Advance for future capital increase	13		32,730		32,730
Net loss for the year				(20,029)	(20,029)
December 31, 2021		266,557	32,730	(20,029)	279,258
Paid-in capital	13	296,215			296,215
Advance for future capital increase	13	32,730	(32,730)		-
Net loss for the year				(36,216)	(36,216)
December 31, 2022		595,502	-	(56,245)	539,257

Cash flows statement

DECEMBER 31, 2022

(IN THOUSANDS OF REAIS)

	Note	2022	2021
Cash flow of operating activities			
Loss for the year		(36,216)	(20,029)
Adjustments for conciliation of loss for the year			
Depreciation and amortization	8 and 9	97	-
Changes in working capital			
Taxes recoverable	7	(4,307)	(390)
Prepaid expenses	6	(3,085)	(2,466)
Suppliers	10	22,114	4,966
Tax and social obligations	11	5,927	1,778
Related parties	12	(5,251)	7,297
Other assets and liabilities		(263)	-
Net cash used in operating activities		(20,984)	(8,844)
Cash flow from investment activities			
Acquisition of Property, Plant and Equipment	8	(69,132)	(743)
Acquisition of right of use	9	-	(32,730)
Acquisition of intangible assets		(87)	-
Net cash used in investment activities		(69,219)	(33,473)
Cash flow from financial activities			
Payment of capital		296,215	266,557
Advance for future capital increase		-	32,730
Net cash from financing activities		296,215	299,287
Increase in Cash and cash equivalents		206,012	256,970
Cash and cash equivalents at the beginning of the period	5	256,970	-
Cash and cash equivalents at the end of the period	5	462,982	256,970

Management explanatory notes to financial statements

DECEMBER 31, 2022

(IN THOUSANDS OF REAIS)

1. Operational Context

Bahia Ferrovias S.A. ("BAMIN Ferrovias" or "Company") is a corporation, incorporated on July 19, 2021, engaged, upon onerous concession and on an exclusive basis, in the construction and rendering of public cargo railway transportation services associated with the exploration of the railway infrastructure of EF-334 for a section that goes from the city of Ilhéus to Caetité, in the state of Bahia, within the terms, deadlines and conditions set in the Subconcession Agreement signed by the Company and the National Agency of Land Transportation ("ANTT"). The Company's headquarters is located at Avenida Magalhães Neto, 1.752, edifício Lena Empresarial, 13th floor, Pituba, Salvador, Bahia, Brazil.

(a) Impacts of Covid-19 (Coronavirus)

Despite the financial year ending on December 31, 2022, being the second one the Company faced the impacts of the COVID-19 pandemic, the Company maintained its health measures to protect the employees and prevent contagion in its administrative and operating areas, always according to the recommendations from WHO and the Ministry of Health. The Company understands there have been no impacts and/or events related to COVID-19 that impaired the preoperational phase of the Company as well as its operational future.

(b) Approval of the financial statements

The Company's Executive Board approved these financial statements on May 2, 2023.

2. Accounting policies

The principal accounting policies applied in preparing these financial statements are set out below.

2.1 Preparation basis

The financial statements were prepared per the Brazilian accounting practices, including the standards issued by the Committee of Accounting Pronouncements (CPC) and the International Financial Reporting Standards (IFRS), published by the International Accounting Standards Board (IASB) and evidence all relevant information of the financial statements, and only them, which are consistent with those used by the Management.

The financial statements were prepared considering the original cost as the base of value and adjusted to reflect losses or gains from the fair value of specific financial instruments.

Preparing the financial statements requires using specific critical accounting estimates and judgment by the Company's Management to apply its accounting policies. The areas that require a higher level of assessment or entail greater complexity, and the areas where assumptions and estimates are significant for the financial statements, are disclosed in the accompanying note 3

2.2 New standards, interpretations and revisions issued

IASB has also been working on issuing new pronouncements and reviewing those already existing, to come into force only by January 1, 2023, with the convergence of CPC pronouncements, as follows:

• CPC 50 / IFRS 17 – Insurance Agreement

The Company's Management assessed that there are no practical impacts that these items could have on the financial statements to the extent said standards are regulated.

2.3 Functional currency and conversion into foreign currency

(a) Functional currency and presentation currency

The items included in the financial statements are measured using the currency of the principal economic environment in which the Company operates ("functional currency"). All the interim financial statements presented in Reais ("R$") were rounded to the nearest thousands, except where stated otherwise.

(b) Transactions and balances

The items included in the financial statements are measured using the currency of the principal economic environment in which the Company operates ("functional currency"). All the interim financial statements presented in Reais ("R$") were rounded to the nearest thousands, except where stated otherwise.

(c) Transactions and balances

Operations in foreign currencies are converted into functional currency, using the exchange rates in effect on the dates of the transactions or assessment. Foreign exchange gains and losses incurred on these transactions and the conversion at year-end exchange rates related to the monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Exchange gains and losses related to loans and cash and cash equivalents are presented in the income statement as financial income or expense.

2.4 Financial Instruments

(a) Financial assets

RECOGNITION AND NON-RECOGNITION

The Company classifies, measures and recognizes its financial assets under the "measured at amortized cost" category. The financial assets are usually classified based on the business model adopted and on their characteristics of contractual cash flows.

Regular purchases and sales of financial assets are recognized on the trading date when we agree to buy and sell the asset. The financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and when we have substantially transferred all the risks and benefits of the ownership.

MEASUREMENT

Upon initial recognition, the Company measures a financial asset at fair value plus transaction costs directly attributable to the acquisition of the financial asset. Subsequently, they are measured at amortized cost based on the effective interest rate.

COST OF AMORTIZATION

The assets measured at the cost of amortization must be calculated if both of the following conditions are met: (i) the financial assets are classified on a given business model whose purpose is to maintain them and receive contractual cash flows, (ii) the contractual terms for the financial assets initially date, on specific dates, from a cash flow exclusively comprised of payments of principal and interest over the outstanding principal amount. The Company shall directly acknowledge its revenue from interest and foreign exchange losses, gains, and impairment in the statements.

IMPAIRMENT OF FINANCIAL ASSETS

On a prospective basis, the Company assesses expected credit losses associated with financial assets recorded at amortized cost. The impairment methodology applied depends on if there has been or has not been a significant increase in the credit risk.

(b) Financial liabilities

The financial liabilities are classified under the "financial liabilities at amortized cost" category. Management determines the classification of its financial assets upon initial recognition.

FINANCIAL LIABILITIES AT AMORTIZED COST

The Company classified all its financial liabilities as amortized costs, except those classified at fair value resulting from the revenue, derivatives, liabilities and security agreement. Using the effective interest method, other financial liabilities are subsequently measured at amortized cost. Interest expense and foreign exchange gains and losses are recognized in profit or loss. The Company also has informed its operations with Suppliers as non-derivative financial liabilities.

DERECOGNITION OF FINANCIAL LIABILITIES

Once the financial liability is extinguished, i.e., the obligation specified in the agreement is settled, canceled or terminated, it will be derecognized. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

2.5 Cash and Cash Equivalents

Cash and cash equivalents include current account balances and short-term deposits of high liquidity, with original maturities up to three months as of the contracting date, and which are subject to the irrelevant risk of change of value. They are initially recognized at fair value and then at amortized cost. These balances are maintained to meet the short-term cash commitment nor for further investments or other purposes.

2.6 Taxes recoverable

Recoverable taxes are calculated based on the tax laws enacted, or substantially enacted, on the balance sheet date, of the country where the entity operates and generates taxable income.

2.7 Property, Plant and Equipment

(a) Recognition and measurement

The Property, Plant and Equipment are measured at their historical acquisition or construction cost less accumulated depreciation and impairment losses, when applicable. The cost includes expenditures directly attributable to the acquisition of assets. The costs of assets built by the Company itself includes:

- materials and direct workforce;
- any other costs to transport the asset to a given location and under the conditions required for it to operate as the Company intends properly;
- disassembly and restoration of the area where the assets will be located; and
- borrowing costs on qualifying assets.

The cost of a Property, Plant and Equipment may include reclassification of other comprehensive results from qualifiable cash flow protection instruments concerning acquiring fixed assets in foreign currency. Our purchased software that forms an integral part of the functionality of a given piece of equipment is capitalized as part of that equipment.

Components of our Property, Plant and Equipment with different useful lives are recorded as separate items (major components) of the applicable Property, Plant and Equipment.

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

Gains and losses on the disposition of Property, Plant and Equipment (calculated as the difference between funds obtained from the disposition and the accounting value of fixed assets) are recognized as other operating revenues/expenses in our income statement.

Subsequent expenses are capitalized when there is a probability that we will receive the future economic benefits associated with such expenses. Maintenance costs and recurring repairs are recorded in our statement of income.

(b) Depreciation

Property, plant and equipment are depreciated pursuant to the linear method in our income statement based on each component's estimated economic useful life. Leased assets are depreciated over the lesser of the asset's estimated useful life and the term of the agreement unless it is certain that we will have ownership of the asset at the end of the lease.

In addition, our property, plant and equipment are depreciated from the date they are installed and become available for use, or in case of constructed assets, from the date the construction is completed and the asset is available for use.

2.8 Right of use

In accordance with CPC 06 (R2) / IFRS 16, leases under which the Company assumes the risks and benefits inherent to the property are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. After initial recognition, the asset is recorded in accordance with the accounting policy applicable to the asset.

Other finance leases are operating leases and are not recognized in the Company's balance sheet.

2.9 Intangible assets

Intangible assets acquired separately are measured at cost upon initial recognition. The cost of intangible assets acquired in a business combination corresponds to the fair value on the acquisition date. After initial recognition, intangible assets are presented at cost, less accumulated amortization and accumulated impairment. Intangible assets generated internally, excluding capitalized development costs, are not capitalized, and the cost is reflected in the income statement in the fiscal year in which it is incurred.

The useful life of intangible assets is evaluated as definite or indefinite.

Intangible assets with a definite life are amortized over the economic useful life and evaluated concerning loss on reduction to recoverable value whenever there is an indication of loss of economic value of the asset. The period and method of amortization of intangible assets with a definite life are reviewed at least at the end of each fiscal year. Changes in the estimated useful life or the expected use of the future economic benefits expected from these assets are accounted for by differences in the period or method of amortization, as the case may be, and are treated as changes in accounting estimates. The amortization of intangible assets with stated life is recognized under the statement of income in the category of consistent expense with the usage of intangible asset.

Intangible assets with indefinite useful life are not amortized but are tested annually for losses due to impairment either individually or at the level of the cash-generating unit. The assessment of indefinite useful life is reviewed annually to determine whether this assessment continues to be supportable. Otherwise, the change in useful life from indefinite to finite is made on a prospective basis.

2.10 Suppliers

Suppliers are obligations for assets or services acquired in the ordinary course of business, classified as current liabilities if the payment is due in up to 12 months. Otherwise, accounts payable are recorded as non-current liabilities. They are initially recognized at fair value and, subsequently, measured at amortized cost, under the effective interest rate method.

2.11 Capital stock

Common shares are classified as equity. Additional costs directly attributable to the issuance of stock and stock options are recognized as equity deductions, net of any tax effects. Whenever existing, the required minimum dividends provided by the bylaws are recognized as liabilities.

2.12 Financial revenue

Financial revenue is recognized on the accrual basis of accounting, using the effective interest rate method.

Interest revenue from financial assets at amortized cost calculated using the effective interest rate method is recognized in the income statement as part of interest financial revenue.

Financial revenue is calculated using the effective interest rate at the gross book value of a financial asset, except for financial assets that are subsequently subject to credit loss. For financial assets subject to credit loss, the effective interest rate is applied to the net book value of a financial asset (after the deduction of provision for losses).

3. Critical accounting estimates and judgments

The accounting estimates and judgments are reviewed continuously, including expectations from future events deemed reasonable given the circumstances.

Preparing the financial statements requires using estimates for accounting for certain assets, liabilities and other transactions. Therefore, the Company's financial statements include estimates of losses from the impairment of the recoverable amount of the assets, selection of the useful lives of Property, Plant and Equipment and the definition of terms to amortize the right of use, along with the useful life determined and other similar provisions. The actual results may vary concerning the estimates.

Accounting estimates usually require the Company to decide based on the effect of certain transactions that could impact the Company's equity, i.e., assets, liabilities, revenues and expenses.

Based on the assumptions, we estimate our future. The resulting accounting estimates will, by definition, shall always be as close as possible and seldom equal the related actual amounts.

(a) Going concern

The Company's Management prepared its financial statements assuming the continuity of its operations and considers the non-binding financial support from its controlling shareholder as long as the Company remains an indirect subsidiary from the ultimate controller, ensuring proper liquidity available to cover contractual obligations and obtain additional funds when necessary. The occurrence of these events in its entirety, in a reasonable period, is considered critical judgment by the Company's Management.

(b) Impairment of right to exploit the concession

Every year, the right to exploit the subconcession is reviewed to check for any impairment signs or whenever there are any events or changes to the circumstances pointing out a potential impairment. The difference between the book value of the exceeding asset and the recoverable value will recognize an impairment loss. However, no impairment indicators have been identified for the Company.

(c) Judgments in applying accounting policies of the Company

SUBCONCESSION

The Company must fulfill certain conditions provided in the announcement for privatization tenders and the Subconcession Agreement for the railway network. The assets acquired under the scope of CPC 27 / IAS 16 - "Property, Plant, and Equipment," CPC 06 (R2) / IFRS 16 "Leasing" and OCPC Orientation 05 - "Concession Agreements."

The assets arising from the railroad subconcession agreement are under the CPC 06 (R2) / IFRS 16, where the Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the initial measured value of the lease liability adjusted for any lease payments made up to the commencement date, plus any initial direct costs incurred by the lessee and an estimate of the costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, less any lease incentives received.

The subconcession agreement will be extinguished upon termination of the contractual term, expropriation, forfeiture, cancellation, annulment and bankruptcy or dissolution of the concessionaire.

In case of extinguishment of the subconcession, all the assets will be reverted to VALEC, free and clear of any liens or charges, with the Company no longer holding the rights arising from the Subconcession Agreement.

At the end of the Subconcession Agreement, the assets owned by the Subconcessionaire and those resulting from investments made by it becoming leased assets required to continue with the rendering of railway transportation services, bound to the Subconcession, may become the property of the Federal Government upon reversion and indemnification of the investments made by the Granting Authority according to the Subconcession Agreement.

For these decisions, the Company considered, among other things, a detailed analysis of said technical orientations.

4. Financial risk management

The Company's main financial liabilities are accounts payable to suppliers and related parties. These financial liabilities involve the Company's efforts to obtain funds.

The Company's Management has been overseeing these risks. The proper policies and procedures rule the main activities representing financial risks. The financial risks are identified, assessed and managed according to the Company's policies and willingness to be exposed to them.

The Company's activities expose it to many financial risks: market risk, credit risk, liquidity risk, and interest rate risk. The Company's risk management program focuses on financial market uncertainty and seeks to minimize potential adverse effects on the Company's financial performance.

Management identifies, assesses, and protects the Company against financial risks.

(a) Market risk

Market risk is the risk that the fair value of a financial instrument's future cash flows may fluctuate given changes in market prices. The market prices include three types of risk: interest rate risk, exchange risk and price risk, which may be the prices of commodities and others.

(b) Credit risk

The credit risk is managed corporately. The credit risk results from the failure of a business counterparty to comply with an obligation provided in a financial instrument. The credit risk derives from cash and cash equivalents, deposits in banks and financial institutions.

The credit limit was not exceeded during the years, and management does not expect any default loss from these counterparties.

(c) Liquidity risk

The liquidity risk consists in the event that the Company will not have sufficient resources to fulfill our obligations due to their rights and obligations' settlement terms. To manage the cash liquidity, assumptions for disbursements and future receipts are established and monitored daily by the Treasury area.

(d) Capital management

The Company's objectives in managing its capital are to safeguard its continued capacity to offer returns for its shareholders and benefits to other stakeholders, while maintaining an optimal capital structure for reducing these costs.

(e) Financial instruments by category

The main Financial Instruments of the Company are: Cash and cash equivalents, suppliers and transactions between the related parties.

(IN THOUSANDS OF REAIS)

The fair value of the financial assets and liabilities is included in the value whereby the instrument could be exchanged in the current transaction between the parties interested in the trading and not forced sale or settlement.

As of December 31, 2022, there was no material difference between book values and fair values for the Company's Financial Instruments.

		2022	2021
Asset	**Category**		
Cash and cash equivalents	At amortized cost	462,982	256,970
		462,982	**256,970**
Liabilities	**Category**		
Suppliers	At amortized cost	27,080	4,966
Related parties	At amortized cost	2,046	7,297
		29,126	**12,263**

5. 5. Cash and cash equivalents

	2022	2021
Cash funds	3	1
Bank deposits in cash	43	4,058
Short-term investments	462,936	252,911
	462,982	**256,970**

The financial investments with low credit risk mainly concern those investments in Commitment Transactions, Bank Deposit Certificates (CDB-DI), with daily liquidity (available for withdrawals and transfers), and with profitability related to Interbank Deposit Certificates ("CDI").

(IN THOUSANDS OF REAIS)

6. Prepaid expenses

	2022	2021
Guarantee insurance	2,186	2,075
Civil responsibility insurance	375	391
	2,561	**2,466**

7. Taxes recoverable

	2022	2021
IRRF on financial investments	4,697	390
	4,697	390

The amount of R$ 4,697 (2021, R$ 390) corresponds to the withholding tax resulting from the redemption of the Company's financial investments.

(IN THOUSANDS OF REAIS)

8. Property, Plant and Equipment

	Asset under construction (i)	Other	Total
Cost			
On July 19, 2021	-	-	-
Additions	-	743	743
December 31, 2021	-	743	743
Accounting balance			-
Total cost	-	743	743
December 31, 2021	-	743	743
Cost			
On January 01, 2022	-	743	743
Additions (ii)	69,981	3,388	73,369
December 31, 2022	69,981	4,131	74,112
Accrued depreciation			
Depreciation	-	(92)	(92)
December 31, 2022	-	(92)	(92)
Accounting balance			-
Total cost	69,981	4,131	74,112
Accrued depreciation	-	(92)	(92)
December 31, 2022	69,981	4,039	74,020

(i) Under the sub-concession contract of FIOL, section 1, the Company is obligated to complete the construction of the assets that compose the infrastructure and superstructure of the railroad. Therefore, the Company has been mainly spent its resources on: (a) reviewing the fundamental engineering projects and (b) contracting services to improve the studies and economic-financial evaluations of the exploration project of FIOL, stretch 1. These resources previously mentioned constitute the assets in progress of BAMIN Ferrovias. The term established in the contract for completion of the construction of the infrastructure and superstructure of the railroad is five years from the date of signing the contract

(IN THOUSANDS OF REAIS)

(ii) For asset under construction, R$ 4,237 (2021 - R$ 0) represent additions of capitalization of expenses, with no cash effect, directly linked to the completion of the construction of the assets that compose the infrastructure and superstructure of the railroad. Meanwhile, R$ 69,132 (2021 - R$ 743) represent the total additions to fixed assets with cash effect.

9. Right of use

	Sub-concession grant	Total
Cost		
July 19, 2021	-	-
Additions	32,730	32,730
December 31, 2021	32,730	32,730
Accounting balance		
Total cost	32,730	32,730
December 31, 2021	32,730	32,730
Cost		
January 01, 2022	**32,730**	**32,730**
Additions	-	-
December 31, 2022	**32,730**	**32,730**
Accrued amortization		
Amortization	**(1,247)**	**(1,247)**
December 31, 2022	**(1,247)**	**(1,247)**
Accounting balance		
Total cost	**32,730**	**32,730**
Accrued amortization	**(1,247)**	**(1,247)**
December 31, 2022	**31,483**	**31,483**

(IN THOUSANDS OF REAIS)

10. Suppliers

	2022	2021
Technical consulting and accessory (i)	18,583	1,307
Insurance, facilities and utilities	3,969	715
Third-party indemnities	2,806	-
Corporate events	697	556
Short-Term Leases	194	1,715
Other	831	673
	27,080	4,966

(i) The Company's main business partners are consulting and technical advisory firms that provide support in the activities of (a) review of the fundamental engineering designs and (b) in the services to improve the economic-financial studies and evaluations of the FIOL exploration project. In 2022, BAMIN Ferrovias concentrated its efforts mainly on these previously cited evaluations.

11. Tax and social obligations

	2022	2021
Income interest	4,007	896
Provision for vacation	1,190	235
Taxes withheld on services	1,569	342
Taxes on labor obligations	689	305
Other	250	-
	7,705	1,778

12. Related parties

(a) Transactions and balances

In 2022, the balance of liabilities was R$ 2,046 (2021, R$ 7,297) with related parties, resulting from an agreement specifically signed to reimburse for general and administrative expenses related to sharing material and human resources, incurred by BAMIN, its controlling shareholder. The agreement was signed on September

(IN THOUSANDS OF REAIS)

3, 2021, automatically renewed in 2022, and does not provide for any financial charges.

(b) Compensation of key management

The Company's key personnel are the Company's officers. The compensation paid or to be paid for personnel services, mainly wage and charges, in 2022 was R$ 4,195 (2021, R$ 903).

13. Equity

(a) Capital stock

In 2022, in accordance with the obligations established in the FIOL Subconcession Contract, section 1, the Company increased its capital stock by R$ 328,945 (2021 - R$ 266,557), of which R$ 296,215 was fully paid in in local currency by its controlling shareholder, Bahia Mineração, and R$ 32,730 through an advance for future capital increase. In other words, during the year 2022, the Company converted in its entirety the advance for future capital increase of its controlling shareholder to the Company's capital stock.

In 2022, the authorized capital stock is represented by 595,502 (five hundred and ninety-five million, five hundred and two thousand) nominative ordinary shares, worth R$ 1.00 (one real) each, whose fully paid-up value corresponds to R$ 595,502.

14. General and administrative expenses

	2022	2021
Advisory, consultancies and general services	**32,211**	7,676
Payroll obligations	**31,174**	9,718
Business trips, stays and events	**4,530**	3,341
Short-term leases	**2,281**	3,268
Taxes	**1,882**	385
Other	**2,626**	1,841
	74,704	**26,229**

(IN THOUSANDS OF REAIS)

15. Financial income

	2022	2021
Financial revenues		
Revenues of financial investment	**38,763**	6,209
	38,763	6,209
Financial expenses		
Other financial expenses	**(69)**	(9)
	(69)	(9)
	38,694	6,200

16. Subsequent Event

In April 2023, the ERG Group and BAMIN Ferrovias signed a contract of construction with TCR-10 Consortium, comprised of the Brazilian company Tiisa and the Chinese one, CREC-10, will be in charge of the railway infrastructure and superstructure works for the 1F lot in stretch 1 of FIOL. The 1F lot encompasses 126.4 km and crosses the cities of Ilhéus, Uruçuca, Ubaitaba, Gongogi, Itagiba, Aurelino Leal and Aiquara, in the state of Bahia. The works must start 60 days from the date the agreement is signed. The agreement lasts for 36 months and concerns an investment amount of R$ 1.1 billion.

Board of Executive Office and General Financial Management

DECEMBER 31, 2022

Board of Executive Officer

Sergio Leite
CEO

Alexandre Aigner
CFO

Eduardo Ledsham
Diretor Officer

Gustavo Cota
Officer

General Financial Management

Igor Berbert
Financial General Manager

Rilson Cruz
Accountant
CRC BA 036891/O-5

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