



**Financial &
Economic
Performance
3Q22**



Message from the Administration

Throughout the year we have been reporting on the dramatic effects of the Covid Omicron outbreak, the Ukraine war event, and the outbreak of Covid in China with the imposition of draconian lockdowns in key parts of that country. All these events had very significant effects on our supply chain, greatly affecting manufacturing and transportation times, working capital employed in operations, and the costs of acquiring materials and services.

In this context, the normalization of the production and transportation chains has been occurring gradually, there are still many imperfections but increasingly fewer surprises. However, living with the consequences of the evils of the past is inevitable: delays to be mitigated, unforeseen costs etc.

In the macroeconomic context, the two most relevant issues worth mentioning are the international inflationary eruption and the local economy in the context of the electoral race in Brazil.

The first, as we have mentioned, has implied higher input costs, which affect the margins of the contracts in execution, but which have been passed on in new contracts - that is, it has a transitory effect, since it is a systemic issue and affects all national and international competitors.

The second is a more complex digression. The Brazilian economy grew in 2021 and will grow at a slower pace this year. A probable slowdown in economic activity towards the end of the year has been reported – how much of this is the result of the electoral race, the international scenario, or simply the effects of restrictive monetary policy to contain inflation is hard to quantify. At this moment it is not clear the evolution of the macroeconomic framework in the medium term, but in the short term, it is clear that the environment will be restrictive.

However, even in this pale economic scenario, there are two pieces of good news for Lupatech. The investment rate of the Brazilian economy is high compared to historical standards, approaching 19% of GDP, and the output gap is at low levels, which should sustain the current investment cycle, which is expected to be catalyzed by all the infrastructure projects that have been contracted for the coming years. As manufacturers of products that are closely linked to investment, we should remain optimistic - in fact, customer inquiries and purchases have shown more consistency than hesitation.

The revenues of the Company for the quarter increased from the previous quarter to R\$ 29.2 million versus R\$ 25.4 in the previous period. This growth does not reflect all the potential that could have been realized in the period, given the turbulent operational context by the events described above. Growth was of 35% compared to the accumulated in the nine months of the previous year and of 23% compared to the third quarter. These are expressive growths, but they did not allow us to meet our expectations for the year, which included projects that did not happen, especially those related to the resumption of the Ropes business.

In the sales of the period, it is important to highlight the growth of 68% in revenue in the Ropes and Composites segments compared to the second quarter, and 94% in the year-to-date versus last year. In absolute values the numbers are still modest, but they are already starting to reflect

the work we are doing in the resumption of sales of FRP liners and the introduction of new products such as poles and naval ropes.

The profitability of sales in the third quarter, measured by the gross margin, was 22.2%, down from the previous quarter (26.8%). The main reason for the lower margin in the period was the higher cost of purchasing inputs, partly due to inflationary pressures around the world and partly due to the decision to source certain components and materials locally at a higher cost, avoiding the longer and uncertain transit times of imported items, in order to mitigate delays in deliveries to customers.

Adjusted EBITDA was affected by the drop in Gross Profit explained above. Product Adjusted EBITDA, although lower, remained in positive territory.

For the quarter a net loss of R\$ 18 million was calculated, once again impacted by the effects of the exchange rate variation (R\$ 4.7 million) that results mainly from debt with foreign subsidiaries. This effect in the result has an opposite counterpart in the Net Equity.

The firm order backlog closed the third quarter at R\$ 57 million, the same level as the previous quarter. Subsequently to the end of the quarter, new orders increased the firm order backlog, which totaled 73 million on the date of this report.

Regarding the judicial recovery, the company provided all the necessary information to the Court Trustee so that he could produce the documents required for the Court to evaluate the closing of the case. In turn, the Court Trustee submitted to the records the updated Provisional General Creditors List and a circumstantiated report, in which he submits the facts to the Court with a view to closing the process. There were favorable manifestations of the Public Prosecutor's Office to the closure.

With the advent of the Law 14,375/2022, the company started dealings with the federal tax authority to negotiate Individual Transaction contemplating the new benefits provided for in the Law, which, if granted, would have a significant impact on its recovery. Due to the existing correlation with the restructuring process, the pertinent elements were made known to the respective court.

Rafael Gorenstein

CEO and IRO

Economic-Financial Performance

The Lupatech Group operates in manufacturing (Products segment) mainly producing industrial valves; valves for oil and gas; ropes for deepwater mooring of oil platforms, naval use and cargo lifting; artifacts of composite materials, mainly electricity poles and tubes for lining oil pipelines.

The Company operated in the oil services business (Services segment), of which remain various assets in the process of liquidation and several legacy matters associated with it.

Net Revenue

Net Revenue (R\$ thd)	3Q21	3Q22	2Q22	3Q22	9M21	9M22
Products	23,801	29,264	25,389	29,264	62,670	84,371
Valves	22,985	27,677	24,445	27,677	61,228	81,578
Ropes and Composites	816	1,587	944	1,587	1,442	2,793
Services	-	14	84	14	79	494
Oilfield Services	-	14	84	14	79	494
Total	23,801	29,278	25,473	29,278	62,749	84,865

Consolidated Net Revenue reached R\$ 84.9 million in 9M22, 35.2% higher than the R\$ 62.7 million in 9M21.

Valves

Over the last few months, Net Revenue showed an important evolution, mainly driven by the recovery in the markets where Grupo Lupatech operates. Comparing 3Q22 with 2Q22, it is possible to observe an increase of 14.9%. In the comparison of 3Q22 with 3Q21, the increase is 23.0%.

Ropes and Composites

The reported revenue reflects the gradual resumption of the composites unit, with the supply of liners for oil production pipes.

Services

Transactions carried out in this segment result from the liquidation of inventory balances and other activities related to plants that were demobilized, i.e., they do not arise from ongoing operations.

Order Backlog

As of September 30, 2022, the Company's order backlog in Brazil totaled R\$ 57.4 million. On the same date, the Company had a balance of R\$ 76.4 million in Valves supply contracts, with no purchase obligation. (Note: the figures do not include overdue bids for which the respective orders or contracts have not yet been issued).

Gross Profit and Gross Margin

Gross Profit (R\$ thd)	3Q21	3Q22	2Q22	3Q22	9M21	9M22
Products	7,244	6,485	6,808	6,485	17,434	20,022
<i>Gross Margin - Products</i>	<i>30.4%</i>	<i>22.2%</i>	<i>26.8%</i>	<i>22.2%</i>	<i>27.8%</i>	<i>23.7%</i>
Services	60	5	8	5	(85)	38
<i>Gross Margin - Services</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Total	7,304	6,490	6,816	6,490	17,349	20,060
<i>Gross Margin - Total</i>	<i>30.7%</i>	<i>22.2%</i>	<i>26.8%</i>	<i>22.2%</i>	<i>27.6%</i>	<i>23.6%</i>
Depreciation	1,294	1,569	1,244	1,569	3,872	3,927
Depreciation Products	1,024	1,141	953	1,141	3,037	2,889
Depreciation Services	270	428	291	428	835	1,038
Gross Profit without depreciation	8,598	8,059	8,060	8,059	21,221	23,987
Gross Profit without depreciation Products	8,268	7,626	7,761	7,626	20,471	22,911

*n/a - not applied

Products

Gross Profit in 3Q22 reached R\$ 6.5 million, with a margin of 22.2% against R\$ 7.2 million with a margin of 30.4% in 3Q21, and R\$ 6.8 million with a margin of 26.8 % in 2Q22.

Comparing 9M22 with 9M21, there is a reduction in gross margin of 4.1 percentage points. This reduction in gross margin is due to the increase in costs due to the inflationary surge and the decision to locally acquire some components and materials that would be imported under normal circumstances, in order to ensure faster delivery times.

Services

The results of the services segment do not come from production activities, only from the sale of remaining inventories.

Expenses

Expenses (R\$ thd)	3Q21	3Q22	2Q22	3Q22	9M21	9M22
Total Sales Expenses	2,343	2,596	2,571	2,596	6,348	7,653
Sales Expenses - Products	2,343	2,596	2,571	2,596	6,348	7,653
Sales Expenses - Services	-	-	-	-	-	-
Total Administrative Expenses	5,103	6,027	5,426	6,027	15,860	16,976
Administrative Expenses - Products	2,376	3,381	2,864	3,381	7,159	8,986
Administrative Expenses - Services	2,727	2,646	2,562	2,646	8,701	7,990
Management Compensation	720	1,824	720	1,824	3,079	3,416
Total Expenses	8,166	10,447	8,717	10,447	25,287	28,045

Sales Expenses

The Company's commercial expenses are directly related to sales and are predominantly variable in the form of freight and commissions. In 3Q22 they totaled R\$ 2.6 million against R\$ 2.3 million in 3Q21.

The 3Q22 comparative did not show any significant variation in comparison to 2Q22.

Administrative Expense

Administrative expenses totaled R\$ 6.0 million in 3Q22, while in 2Q22 these expenses totaled R\$ 5.4 million. The increase in expenses is mainly explained by the adjustment of depreciation amounts of certain non-operating equipment and increased municipal taxes, previously exempted.

Management Compensation

The amount presented is composed of fixed and variable remuneration. In the quarter, variable compensation was calculated and credited for the year 2021 and the 2020 Long-Term Incentive Plan.

Other Revenues and Operational (Expenses)

Other Operating (Expenses) (R\$ thd)	3Q21	3Q22	2Q22	3Q22	9M21	9M22
Products	(1,353)	(933)	(70)	(933)	(2,950)	(908)
Expenses with Idleness - Products	(3,770)	(4,708)	(5,681)	(4,708)	(10,363)	(13,343)
Services	2,820	(182)	(1,152)	(182)	(17,436)	(927)
Expenses with Idleness - Services	(33)	(5)	(6)	(5)	(174)	(29)
Total	(2,336)	(5,828)	(6,909)	(5,828)	(30,923)	(15,207)

In 3Q22, R\$ 3.9 million were recorded as "Other Operating Income" against R\$ 9.7 million as "Other Operating Expenses", totaling a net effect of R\$ 5.8 million. The following factors stand out:

- I. R\$ 2.4 million positive effects, corresponding to the recognition of credits resulting from the exclusion of ICMS from the calculation basis of PIS and COFINS;
- II. R\$ 1.1 million corresponding to the positive net effect, related to the impairment adjustments and the result of the sale of fixed assets;
- III. R\$ 4.7 million in idle production expenses;
- IV. R\$ 1.7 million for updates of contingent processes according to the analysis of the legal advisors;
- V. R\$ 1.6 million from tax recognition, credit balance adjustments with customers, and success fees;
- VI. R\$ 1.3 million with obsolescence and extraordinary losses with inventories.

Financial Result

Financial Results (R\$ thd)	3Q21	3Q22	2Q22	3Q22	9M21	9M22
Financial Revenue*	19,963	2,885	11,001	2,885	21,986	16,384
Financial Expense*	(1,257)	(6,453)	(5,138)	(6,453)	(17,993)	(31,210)
Net Financial Results*	18,706	(3,568)	5,863	(3,568)	3,993	(14,826)
Net Exchange Variance	(14,904)	(4,745)	(19,885)	(4,745)	(8,156)	8,541
Net Financial Results - Total	3,802	(8,313)	(14,022)	(8,313)	(4,163)	(6,285)

* Excluding Exchange Variance

The Company's total net financial result in 3Q22 was negative by R\$ 8.3 million. 57.1% of this amount refers to exchange variation and 42.9% has as main effect the updating of interest and fines on taxes, loans, and suppliers.

In the comparison with 3Q21, which had a positive result of R\$ 3.8 million, it is important to mention that in that period there was the recognition of an arbitration award for breach of non-competition agreement signed at the time of the acquisition of the Mooring Cable unit.

It is important to remember that exchange variations are predominantly the result of their incidence on balances between companies of the group abroad. The exchange rate oscillation affects in the opposite direction the translation into Brazilian Reais (BRL) of the equity of these entities, so that there are exchange rate variations recorded directly in the company's equity, without going through income accounts.

The financial result is presented in detail in Note 23.

Adjusted EBITDA from Operations

EBITDA Adjusted (R\$ thd)	3T21	3T22	2Q22	3Q22	9M21	9M22
Products	2,918	1,201	2,767	1,201	5,962	6,081
Margin	12.3%	4.1%	10.9%	4.1%	9.5%	7.2%
Services	(2,258)	(1,976)	(2,807)	(1,976)	(7,517)	(7,196)
Margin	n/a	n/a	n/a	n/a	n/a	n/a
Total	660	(775)	(40)	(775)	(1,555)	(1,115)
Margin	2.8%	-2.6%	-0.2%	-2.6%	-2.5%	-1.3%

Adjusted EBITDA for Products in 3Q22 decreased when compared to 2Q22 and 3Q21, mainly due to lower sales margins. Services Adjusted EBITDA is due to legacy management costs.

Adjusted Ebitda Reconciliation (R\$ thd)	3T21	3T22	2Q22	3Q22	9M21	9M22
Gross Profit	7,304	6,490	6,816	6,490	17,349	20,060
SG&A	(7,446)	(8,623)	(7,997)	(8,623)	(22,208)	(24,629)
Management Compensation	(720)	(1,824)	(720)	(1,824)	(3,079)	(3,416)
Depreciation and Amortization	1,294	1,569	1,244	1,569	3,872	4,120
Other Operating Expenses	(2,336)	(5,828)	(6,909)	(5,828)	(30,923)	(15,207)
Ebitda	(1,904)	(8,216)	(7,566)	(8,216)	(34,989)	(19,072)
Result of disposal or write-off of assets	(113)	(1,189)	2,111	(1,189)	2,608	1,247
Provisions for Legal Proceedings	(840)	1,652	(593)	1,652	(1,095)	458
Idle expenses	3,199	4,200	5,231	4,200	8,867	12,068
Expenses with Restructuring and Other Extraordinary Expenses	318	2,778	777	2,778	23,054	4,184
Adjusted EBITDA	660	(775)	(40)	(775)	(1,555)	(1,115)

3T22

Reconciliation of Adjusted Ebitda (R\$ thd)	Products	Services	Total
Gross Profit	6,485	5	6,490
SG&A	(4,699)	(3,924)	(8,623)
Management Compensation	(1,277)	(547)	(1,824)
Depreciation and Amortization	1,140	429	1,569
Other Operating Expenses	(5,640)	(188)	(5,828)
Ebitda	(3,991)	(4,225)	(8,216)
Result of disposal or write-off of assets	-	(1,189)	(1,189)
Provisions for Legal Proceedings	79	1,573	1,652
Idle expenses	3,693	507	4,200
Restructuring Process and Other Extraordinary Expenses	1,420	1,358	2,778
Adjusted EBITDA	1,201	(1,976)	(775)

Non-recurring expenses in 3Q22 refer mainly to the disposal of assets, update of contingent processes, idle production and extraordinary expenses related to judicial reorganization.

Net Result

Net Result (R\$ thd)	3Q21	3Q22	2Q22	3Q22	9M21	9M22
Result Before Income Tax and Social Contribution	604	(18,098)	(22,832)	(18,098)	(43,024)	(29,478)
Income Tax and Social Contribution - Current	(16)	-	-	-	(41)	(6)
Income Tax and Social Contribution - Deferred	(467)	13	(822)	13	2,411	2,661
Net Profit for the Period	121	(18,085)	(23,654)	(18,085)	(40,654)	(26,823)
Profit (Loss) per 1,000 Shares	0.0473	0.0473	0.4045	0.0473	(1.6948)	(2.8026)

The negative net result obtained in 3Q22 is influenced by the financial result, with direct effect of the exchange rate variation on the Company's consolidated result. It is important to remember that these effects are predominantly results on balances between group companies abroad, which are reflected in the opposite direction in the company's shareholders' equity, due to the translation of the foreign currency balance of the respective subsidiaries.

Working Capital

Working Capital (R\$ thd)	2Q22	3Q22
Accounts Receivable	26,430	25,272
Inventories	46,372	45,530
Advances of suppliers	5,741	5,718
Recoverable taxes	62,847	54,090
Other Accounts Receivable	39,239	50,372
Total Asset	180,629	180,982
Suppliers	15,373	17,639
Advances from Customers	10,377	8,815
Taxes payable	19,360	17,065
Other Accounts Payable	4,244	3,736
Payroll and charges	6,772	7,777
Total Liabilities	56,126	55,032
Working Capital Employed	124,503	125,950
Working Capital Variation	1,095	1,447

Comparing 3Q22 with 2Q22, there is a small increase in working capital employed.

Cash and Cash Equivalents

Cash and cash equivalents (R\$ thd)	2Q22	3Q22
Cash and Cash Equivalents	11,349	12,606
Total	11,349	12,606

The Company's consolidated Cash and Cash Equivalents position in 3Q22 reached R\$ 12.6 million.

Indebtedness

Debts (R\$ thd)	2Q22	3Q22
Short Term	42,841	45,100
Credits subject to Judicial Recovery	3,685	4,050
Credits not subject to Judicial Recovery	39,156	41,050
Long Term	93,477	100,634
Credits subject to Judicial Recovery	93,477	94,715
Créditos não sujeitos à Recuperação Judicial	-	5,919
Total Debts	136,318	145,734
Cash and Cash Equivalents	11,349	12,606
Net Debt	124,969	133,128

The increase in financial indebtedness in the comparison between 3Q22 and 2Q22 is explained by the updating of the Judicial Recovery debt and by the raising of funds with financial institutions to finance the expansion of activity.

Investment

Investments (R\$ thd)	2Q22	3Q22
Others Investments	21,942	21,942
Fixed Assets	144,097	143,557
Intangible Assets	84,221	83,928
Total	250,260	249,427

The variation presented in the balances of investments refers to the disposal of fixed assets, recognition of depreciation and the effect of exchange variations on the fixed assets of foreign subsidiaries.

Anexes

Annex I - Income Statements (R\$ Thousand)

	2Q22	3Q22
Net Revenue From Sales	25,473	29,278
Cost of Goods and Services Sold	(18,657)	(22,788)
Gross Profit	6,816	6,490
Operating Income/Expenses	(15,626)	(16,275)
Selling	(2,571)	(2,596)
General and Administrative	(5,426)	(6,027)
Management Compensation	(720)	(1,824)
Other Operation Income (Expenses)	(6,909)	(5,828)
Net Financial Result	(14,022)	(8,313)
Financial Income	5,207	2,317
Financial Expenses	656	(5,885)
Net Exchange Variance	(19,885)	(4,745)
Results Before Income Tax and Social Contribution	(22,832)	(18,098)
Provision Income Tax and Social Contribution - Deferred	(822)	13
Gain (Loss) for the Period	(23,654)	(18,085)

Annex II – Reconciliation of EBITDA Adjusted (R\$ Thousand)

	2Q22	3Q22
Adjusted EBITDA from Continuing Operations	(40)	(775)
Expenses with Restructuring and Other Extraordinary Expenses	(777)	(2,778)
Provisions for Losses, Impairment and Net Result on Disposal of Assets	(1,517)	(463)
EBITDA from Operations	(2,334)	(4,016)
Depreciation and amortization	(1,244)	(1,569)
Net Financial Result	(14,022)	(8,313)
Income Tax and Social Contribution - Current and Deferred	(822)	13
Idleness Expenses	(5,231)	(4,200)
Net Income (Loss)	(23,654)	(18,085)

Annex III – Consolidated Balance Sheets (R\$ Thousand)

	2Q22	3Q22
Total Asset	501,609	505,207
Current Assets	234,645	238,538
Cash and Cash Equivalents	11,349	12,606
Accounts Receivable	26,430	25,272
Inventories	46,372	45,530
Recoverable Taxes	62,847	54,090
Other Accounts Receivable	39,239	50,372
Prepaid Expenses	657	1,063
Advances to Suppliers	5,741	5,718
Assets Classified as Held for Sale	42,010	43,887
Non-Current Assets	266,964	266,669
Securities-restricted	44	44
Judicial Deposits	9,452	9,273
Tax to be recovered	1,114	1,831
Other Accounts Receivable	6,094	6,094
Investments	21,942	21,942
Property, Plant and Equipment	144,097	143,557
Intangible Assets	84,221	83,928
Total Liabilities and Shareholders Equity	501,609	505,207
Current Liabilities	100,854	104,630
Suppliers - Not Subject to Judicial Recovery	10,270	11,721
Suppliers - Subject to Judicial Recovery - Class I	364	364
Suppliers -Subject to Judicial Recovery	4,739	5,554
Loans and Financing - Not Subject to Judicial Recovery	39,156	41,050
Loans and Financing - Subject to Judicial Recovery	3,685	4,050
Provisions Payroll and Payroll Payable	6,772	7,777
Commissions Payable	329	316
Taxes Payable	19,360	17,065
Obligations and Provisions for Labor Risks - Subject to Judicial Recovery	283	3,011
Advances from Customers	10,377	8,815
Other Accounts Payable	4,244	3,736
Provision for Contratural Fines	1,275	1,171
Non-Current Liabilities	275,813	286,831
Suppliers - Subject to Judicial Recovery	57,911	58,667
Loans and Financing - Subject to Judicial Recovery	93,477	94,715
Loans and financing - not subject to judicial recovery	-	5,919
Taxes Payable	36,389	42,611
Deferred Income Tax and Social Contribution	44,296	44,431
Provision for Contingencies	34,332	34,686
Obligations and Provisions Labor Risks - Subject to Judicial	4,382	2,861
Other Accounts Payable	5,026	2,941
Shareholders' Equity	124,942	113,746
Capital Stock	1,897,431	1,898,871
Capital reserve	3,612	3,612
Capital Transaction Reserve	136,183	136,183
Equity Valuation Adjustment	193,197	198,646
Accumulated Losses	(2,105,481)	(2,123,566)

Annex IV – Statements of the Consolidated Cash Flow (R\$ Thousand)

	2Q22	3Q22
Cash Flow from Operating Activities		
Profit (loss) for the periods	(23,654)	(18,085)
Adjustments:		
Depreciation and Amortization	1,244	1,570
Income from sale of property, plant and equipment	3,121	(40)
Financial charges and exchange variation on financing	24,102	9,897
Reversal (Provision) for loss due to non-recoverability of assets	(3,173)	(1,180)
Deferred Income Tax and Social Contribution	781	135
Inventory obsolescence	(257)	(180)
(Reversal) Estimated losses for doubtful accounts	(78)	(868)
Actual losses with doubtful accounts	70	851
Adjust to present value	(5,794)	(568)
Fair value adjustment	16,014	5,571
Changes in Assets & Liabilities		
(Increase) Decrease in Accounts Receivable	3,568	1,175
(Increase) Decrease in Inventories	(955)	1,022
(Increase) Decrease in Recoverable Taxes	555	8,090
(Increase) Decrease in Other Assets	(3,491)	(10,963)
(Increase) Decrease in Suppliers	(1,534)	1,511
(Increase) Decrease in Taxes Payable	188	1,683
(Increase) Decrease in Others Accounts Payable	(13,453)	(5,507)
Net Cash Flow from Operating Activities	(2,746)	(5,886)
Cash Flow from Investment Activities		
Securities - restricted account	114	79
Resources from the sale of fixed assets	3,387	98
Aquisition of Property, Plant and Equipment	(395)	(437)
Aquisition of Intangible Assets	(4)	-
Net Cash Flow from (Used in) Investment Activities	3,102	(260)
Cash Flow from Financing Activities		
Borrowing and financing	31,729	40,100
Capital increase (decrease)	-	1,440
Payment of loans and financing	(33,144)	(34,137)
Net Cash Flow from Financing Activities	(1,415)	7,403
Net Increase (Decrease) in Cash and Cash Equivalents	(1,059)	1,257
At the Beginning of the Period	-	-
At the End of the Period	(1,059)	1,257

About Lupatech - In Judicial Recovery

Lupatech S.A. - In Judicial Recovery is a Brazilian company with high added value products focused on the oil and gas sector, operating in manufacturing (Products segment) mainly producing industrial valves; valves for oil and gas; ropes for anchoring oil platforms; well completion equipment; artifacts of composite materials, mainly power poles and tubes for coating oil pipelines.