



**Financial &
Economic
Performance
2Q23**



Message from the Administration

During the 2nd quarter of 2023 and until the date of publication of the interim results, we had the following important events for the Company.

The first of these was the final and unappealable conclusion of the Judicial Recovery decreed on March 14, 2023. The recovery request was made on May 25, 2015, so that the effort to restructure the company's liabilities and operations lasted almost 8 years. It is expected, naturally, that the end of the process will have a positive impact on the company's relationship with its customers, suppliers, investors and financiers, in view of the limitations that the company's situation imposed on these partners.

In addition to opening horizons in commercial relations, the end of the judicial reorganization will also provide the necessary environment for the company to advance on other fronts relevant to its upliftment, in particular access to the capital market.

The investment agreement with BPS Capital Gestão de Ativos S.A. ("BPS") was implemented, in accordance with the material fact publications dated February 7 and March 24, 2023. BPS and other investors subscribed and paid in R\$ 10.1 million in debentures, which will be entitled to 17,735,600 Subscription Warrants. Each bonus gives the right to subscribe for one share with credits at 333.33% of the prevailing market price (average of 10 trading sessions) subject to a floor of R\$4.03 per share. This implies that at the floor price, up to BRL 238 million in debt can be converted into capital, which would provide the converted credits with a maximum participation of 36.4% of the capital (considering the share capital at the end of 1Q23 of 31,040,244 shares). Should the stock trade above the floor, a larger amount of debt can be reached for conversion, but in this scenario, the same amount of debt would have a smaller share of equity.

The operation brings two benefits to the Company: the immediate injection of new resources to reinforce the capital structure and the possibility of a significant debt reduction in the medium run, through the exercise of the Subscription Warrants.

On June 28 the Company received an investment proposal, led by the Chief Executive Officer and the Chairman of the Board and their vehicles and co-investors (Proponents), for the acquisition of Subscription Warrants. Upon acceptance of the proposal, the Company started the 4th Issue of Subscription Warrants, with the potential to increase the capital by 6.92 million shares, worth approximately R\$ 20 million at the current share prices, with the commitment of a minimum investment of R\$ 8 million by the Proponents.

The proposal ratifies the confidence in the Company's trajectory and will allow the reinforcement of the capital structure by means of the investment of the Proponents and the shareholders who follow through the exercise of their preemptive rights.

Also worth mentioning the completion of the long arbitration procedure filed 2017 by Lupatech against San Antonio International (SAI), GP Investments and its investment vehicles that participated in the Investment Agreement for the acquisition of San Antonio's Brazilian operations in 2012. In short, the controversy focused on Lupatech's right to indemnities related to non-compliance with contractual obligations by sellers.

Among the main reimbursements determined by the arbitration court were: (1) certain expenses paid by the acquired companies which were responsibility of the sellers, and (2) expenses with the payment of contingencies not declared in the investment agreement, especially civil and labor claims.

The conviction amounted to BRL 37 million, of which BRL 5 million were paid in 2021 against a partial ruling, and the remaining BRL 32 million, approximately, must be paid in 30 days by SAI and the vehicles. The arbitration court determined that in the event of default, the elements required to claim payment from GP Investments in judicial court are present.

The final sentence only covered reimbursement of expenses effectively disbursed until July 2021. Everything that Lupatech spend after this date on liabilities whose responsibility falls on the sellers, as was determined by the court's expert, is also subject to future reimbursement claims – up to the indemnity ceiling of R\$ 115 million.

Regarding the results of the 2nd quarter, we had a small revenue reduction in relation to the 1st quarter and a more expressive reduction in comparison to the same period of the previous year, when we had an FPSO supply contract in progress. The lower performance was due to a tail of operational delays still resulting from the effects of the pandemic, some financial delays by customers that affected the progress of activities, and above all a larger contract which schedule was postponed due to technical changes requested by the client. Such lower revenues caused lesser dilution of fixed costs, with effects on Gross Margin and EBITDA.

The Company's backlog of orders and contracts with purchase obligations (“Order Backlog”) totaled R\$79.1 million. On the same date, the Company had a balance in supply contracts, with no obligation to purchase, of R\$125 million.

Rafael Gorenstein

CEO and IRO

Economic and Financial Performance

Lupatech mainly manufactures (Products segment) 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 used to operate in the oilfield 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)	2Q22	2Q23	1Q23	2Q23	1S22	1S23
Products	25,389	19,626	21,324	19,626	55,107	40,950
Valves	24,445	17,615	20,623	17,615	53,901	38,238
Ropes and Composites	944	2,011	701	2,011	1,206	2,712
Services	84	46	68	46	480	114
Oilfield Services	84	46	68	46	480	114
Total	25,473	19,672	21,392	19,672	55,587	41,064

Products

The reduction observed in net revenue compared to previous periods was substantially due to changes in valve delivery schedules, motivated by: technical changes at the customer's request, operational delays due to the pandemic and payment delays.

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 June 30, 2023, the Company's order backlog in Brazil totaled R\$ 79.1 million. On the same date, the Company had a balance of R\$ 125 million in supply contracts, with no purchase obligation. (Note: the figures do not include bids for which the respective orders or contracts have not yet been issued).

Gross Profit and Gross Margin

Gross Profit (R\$ thd)	2Q22	2Q23	1Q23	2Q23	1S22	1S23
Products	6,808	4,175	5,205	4,175	13,537	9,380
<i>Gross Margin - Products</i>	26.8%	21.3%	24.4%	21.3%	24.6%	22.9%
Services	8	7	15	7	33	22
<i>Gross Margin - Services</i>	n/a	n/a	n/a	n/a	n/a	n/a
Total	6,816	4,182	5,220	4,182	13,570	9,402
<i>Gross Margin - Total</i>	26.8%	21.3%	24.4%	21.3%	24.4%	22.9%
Depreciation	1,244	1,212	1,301	1,212	2,551	2,513
Depreciation Products	953	858	884	858	1,941	1,742
Depreciation Services	291	354	417	354	610	771
Gross Profit without depreciation	8,060	5,394	6,521	5,394	16,121	11,915
Gross Profit without depreciation Products	7,761	5,033	6,089	5,033	15,478	11,122

*n/a - not applied

Products

The gross profit of 1S23 reached R\$ 9.4 million, with a margin of 22.9% against 13.6 million with a margin of 24.6% in 1S22, the decrease of 1.7 percentage points is mainly a reflection of lower revenue, with the lower dilution of fixed costs.

Services

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

Expenses

Expenses (R\$ thd)	2Q22	2Q23	1Q23	2Q23	1S22	1S23
Total Sales Expenses	2,571	2,368	2,470	2,368	5,057	4,838
Sales Expenses - Products	2,571	2,368	2,470	2,368	5,057	4,838
Sales Expenses - Services	-	-	-	-	-	-
Total Administrative Expenses	5,426	6,223	5,554	6,223	10,949	11,777
Administrative Expenses - Products	2,864	3,067	3,071	3,067	5,605	6,138
Administrative Expenses - Services	2,562	3,156	2,483	3,156	5,344	5,639
Management Fees	720	828	898	828	1,592	1,726
Total Expenses	8,717	9,419	8,922	9,419	17,598	18,341

Sales Expenses

The Company's Sales Expenses are predominantly variable in the form of freight and commissions. In 2Q23, the Company's commercial expenses remained at levels similar to the comparative periods.

Administrative Expense

In 2Q23, the Company recognized R\$ 6.2 million in administrative expenses, 14.7% higher than the amount recognized in 2Q22, and 7.6% higher in the half-yearly comparison. Such variations are mainly due to legal expenses (arbitration and observance of corporate obligations) and retroactive salary adjustments from union agreements.

Management Compensation

The amount presented is composed of fixed and variable remuneration.

Other Revenues and Operational (Expenses)

Other Operating (Expenses) (R\$ thd)	2Q22	2Q23	1Q23	2Q23	1S22	1S23
Products	(721)	(483)	(75)	(483)	(626)	(558)
Expenses with Idleness - Products	(5,029)	(4,489)	(5,547)	(4,489)	(7,982)	(10,036)
Services	(1,152)	(180)	3,899	(180)	(746)	3,719
Expenses with Idleness - Services	(6)	-	-	-	(25)	-
Total	(6,908)	(5,152)	(1,723)	(5,152)	(9,379)	(6,875)

In 2Q23, R\$ 1.1 million was booked in "Other Operating Income" against R\$ 6.3 million in "Other Operating Expenses", totaling a net effect of R\$ 5.2 million. Highlighting the following factors:

- I. R\$ 4,5 millions of expenses with idle production;
- II. R\$ 0.6 thousand from the recognition of taxes, recovery of taxes and depreciation of real estate as investment property;

- III. R\$ 0.5 thousand with inventory obsolescence and inventory adjustments;
 IV. R\$ 0.4 thousand corresponds to the positive net effect from updates of contingent liabilities according to the analysis of the legal advisors;

Financial Result

Financial Results (R\$ thd)	2Q22	2Q23	1Q23	2Q23	1S22	1S23
Financial Revenue*	11,001	770	2,393	770	13,499	3,163
Financial Expense*	(5,138)	(14,125)	(12,225)	(14,125)	(24,758)	(26,350)
Net Financial Results*	5,863	(13,355)	(9,832)	(13,355)	(11,259)	(23,187)
Net Exchange Variance	(19,885)	10,277	5,103	10,277	13,286	15,380
Net Financial Results - Total	(14,022)	(3,078)	(4,729)	(3,078)	2,027	(7,807)

* Excluding Exchange Variance

The Company's total net financial result in 2Q23 was negative by R\$ 3.1 million, mainly due to the updates of charges on taxes, suppliers, loans and adjustment to present value referring to the debt under Judicial Reorganization. In addition, the 2Q23 result, compared to 2Q22, was impacted by the valuation of the Real against the US Dollar.

It is important to remember that exchange rate 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 profit and loss accounts.

Adjusted EBITDA from Operations

EBITDA Adjusted (R\$ thd)	2Q22	2Q23	1Q23	2Q23	1S22	1S23
Products	2,767	(95)	649	(95)	4,880	554
Margin	10.9%	-0.5%	3.0%	-0.5%	8.9%	1.4%
Services	(2,807)	(2,525)	(1,945)	(2,525)	(5,220)	(4,470)
Margin	n/a	n/a	n/a	n/a	n/a	n/a
Total	(40)	(2,620)	(1,296)	(2,620)	(340)	(3,916)
Margin	-0.2%	-13.3%	-6.1%	-13.3%	-0.6%	-9.5%

The variation in Adjusted EBITDA of Products in 2Q23 compared to the periods compared is mainly due to the reduction in sales margin.

Adjusted EBITDA from Services comprises legacy management costs.

Adjusted Ebitda Reconciliation (R\$ thd)	2Q22	2Q23	1Q23	2Q23	1S22	1S23
Gross Profit	6,816	4,182	5,220	4,182	13,570	9,402
SG&A	(7,997)	(8,591)	(8,024)	(8,591)	(16,006)	(16,615)
Management Compensation	(720)	(828)	(898)	(828)	(1,592)	(1,726)
Depreciation and Amortization	1,244	1,212	1,301	1,212	2,551	2,513
Other Operating Expenses	(6,909)	(5,152)	(1,723)	(5,152)	(9,379)	(6,875)
Ebitda	(7,566)	(9,177)	(4,124)	(9,177)	(10,856)	(13,301)
Result of disposal or write-off of assets	2,111	(33)	(93)	(33)	2,436	(126)
Provisions for Legal Proceedings	(593)	(387)	(5,195)	(387)	(1,193)	(5,582)
Idle expenses	5,231	4,489	5,547	4,489	7,868	10,036
Expenses with Restructuring and	777	2,488	2,569	2,488	1,405	5,057
Extraordinary Expenses						
Adjusted EBITDA	(40)	(2,620)	(1,296)	(2,620)	(340)	(3,916)

2Q23

Reconciliation of Adjusted Ebitda (R\$ thd)	Products	Services	Total
Gross Profit	4,175	7	4,182
SG&A	(5,435)	(3,156)	(8,591)
Management Compensation	(580)	(248)	(828)
Depreciation and Amortization	858	354	1,212
Other Operating Expenses	(4,972)	(180)	(5,152)
Ebitda	(5,954)	(3,223)	(9,177)
Result of disposal or write-off of assets	-	(33)	(33)
Provisions for Legal Proceedings	(109)	(278)	(387)
Idle expenses	4,489	-	4,489
Restructuring Process and Extraordinary Expenses	1,479	1,009	2,488
Adjusted EBITDA	(95)	(2,525)	(2,620)

Non-recurring expenses in 2Q23 refer mainly to production idleness, obsolescence and extraordinary losses with inventories and expenses related to judicial reorganization.

Net Result

Net Result (R\$ thd)	2Q22	2Q23	1Q23	2Q23	1S22	1S23
Result Before Income Tax and Social Contribution	(22,832)	(13,467)	(10,154)	(13,467)	(11,380)	(23,621)
Income Tax and Social Contribution - Current	-	-	(1)	-	(6)	(1)
Income Tax and Social Contribution - Deferred	(822)	(1,044)	75	(1,044)	2,648	(969)
Net Profit for the Period	(23,654)	(14,511)	(10,080)	(14,511)	(8,738)	(24,591)
Profit (Loss) per 1,000 Shares	0.40	(1.43)	(0.32)	(1.43)	(0.30)	(0.45)

Contributing to the negative result in 2Q23, in addition to current revenues and expenses, was the adjustment to present value referring to the debt under Judicial Reorganization and the net effect of other operating revenues and expenses.

Working Capital

Working Capital (R\$ thd)	1Q23	2Q23
Accounts Receivable	19,202	19,645
Inventories	36,933	36,877
Advances of suppliers	4,106	4,541
Recoverable taxes	44,603	44,167
Other Accounts Receivable	4,574	3,456
Total Asset	109,418	108,686
Suppliers	15,736	16,614
Advances from Customers	8,272	8,220
Taxes payable	24,101	24,292
Other Accounts Payable/Other Obligations	8,028	7,856
Payroll and charges	5,530	6,728
Total Liabilities	61,667	63,710
Working Capital Employed	47,751	44,976
Working Capital Variation	(18,784)	(2,774)

When comparing 2Q23 with 1Q23, there is a reduction in working capital employed. This reduction is mainly due to: (i) variation in other accounts receivable due to the conversion of debentures for settlement of creditors of Class I of the Judicial Reorganization, and (ii) reduction in recoverable taxes resulting from the offset of tax credits.

Cash and Financial Investments

Cash and cash equivalents (R\$ thd)	1Q23	2Q23
Cash and Cash Equivalents	3,881	3,493
Total	3,881	3,493

The Company's consolidated cash position and financial investments in 2Q23 reached R\$ 3.5 million.

Indebtedness

Debt (R\$ thd)	1Q23	2Q23
Short Term	39,897	41,580
Credits subject to Judicial Recovery	4,326	5,157
Credits not subject to Judicial Recovery	35,571	36,423
Long Term	103,871	103,532
Credits subject to Judicial Recovery	97,197	97,917
Credits not subject to Judicial Recovery	6,674	5,615
Total Debt	143,768	145,112
Cash and Cash Equivalents	3,881	3,493
Net Debt	139,887	141,619

The increase in financial indebtedness in the comparison between 2Q23 and 1Q23 is mainly associated with the updating of interest on debt.

Investment

Investments (R\$ thd)	1Q23	2Q23
Others Investments	21,942	21,942
Fixed Assets	136,989	135,533
Intangible Assets	83,510	83,331
Total	242,441	240,806

The variation presented in investment balances mainly refers to the recognition of depreciation, amortization, and balance sheet conversion effect on fixed assets of subsidiaries abroad.

Annexes
Annex I - Income Statements (R\$ Thousand)

	1Q23	2Q23
Net Revenue From Sales	21,392	19,672
Cost of Goods and Services Sold	(16,172)	(15,490)
Gross Profit	5,220	4,182
Operating Income/Expenses	(10,645)	(14,571)
Selling	(2,470)	(2,368)
General and Administrative	(5,554)	(6,223)
Management Fees	(898)	(828)
Other Operation Income (Expenses)	(1,723)	(5,152)
Net Financial Result	(4,729)	(3,078)
Financial Income	2,393	770
Financial Expenses	(12,225)	(14,125)
Net Exchange Variance	5,103	10,277
<u>Loss Before Income Tax and Social Contribution</u>	<u>(10,154)</u>	<u>(13,467)</u>
Provision Income Tax and Social Contribution - Current	(1)	-
<u>Provision Income Tax and Social Contribution - Deferred</u>	<u>75</u>	<u>(1,044)</u>
Loss for the Period	(10,080)	(14,511)

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

	1Q23	2Q23
Adjusted EBITDA from Operations	(1,296)	(2,620)
Expenses with Restructuring and Extraordinary Expenses	(2,569)	(2,488)
Provisions for Losses, Impairment and Net Result on Disposal of Assets	5,288	420
EBITDA from Operations	1,423	(4,688)
Depreciation and amortization	(1,301)	(1,212)
Net Financial Result	(4,729)	(3,078)
Income Tax and Social Contribution - Current and Deferred	74	(1,044)
Idleness Expenses	(5,547)	(4,489)
Net Loss	(10,080)	(14,511)

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

	1Q23	2Q23
Total Asset	546,421	494,157
Current Assets	152,031	148,963
Cash and Cash Equivalents	3,881	3,493
Accounts Receivable	19,202	19,645
Inventories	36,933	36,877
Recoverable Taxes	44,603	44,167
Other Accounts Receivable	4,574	3,456
Prepaid Expenses	985	684
Advances to Suppliers	4,106	4,541
Assets Classified as Held for Sale	37,747	36,100
Non-Current Assets	394,390	345,194
Other Credits	1	1
Securities-restricted	44	44
Judicial Deposits	7,612	7,570
Recoverable Taxes	5,241	5,242
Deferred Income Tax and Social Contribution	103,000	55,823
Other Accounts Receivable	36,051	35,708
Investments	21,942	21,942
Property, Plant and Equipment	136,989	135,533
Intangible Assets	83,510	83,331
Total Liabilities and Shareholders Equity	546,421	494,157
Current Liabilities	103,684	111,849
Suppliers - Not Subject to Judicial Recovery	10,931	11,547
Suppliers -Subject to Judicial Recovery	4,805	5,067
Loans and Financing - Not Subject to Judicial Recovery	35,571	36,423
Loans and Financing - Subject to Judicial Recovery	4,326	5,157
Debentures Convertible into Shares	-	5,939
Provisions Payroll and Payroll Payable	5,530	6,728
Commissions Payable	213	-
Taxes Payable	24,101	24,292
Obligations and Provisions for Labor Risks - Subject to Judicial Recovery	1,286	620
Advances from Customers	8,272	8,220
Other Accounts Payable	6,473	6,107
Other obligations - subject to judicial recovery	1,555	1,749
Provision for Contractual Fines	621	-
Non-Current Liabilities	268,215	225,402
Suppliers - Subject to Judicial Recovery	26,555	26,442
Loans and Financing - Subject to Judicial Recovery	97,197	97,917
Loans and Financing - Not Subject to Judicial Recovery	6,674	5,615
Taxes Payable	23,898	26,289
Deferred Income Tax and Social Contribution	46,133	-
Provision for Contingencies	27,980	27,069
Obligations and Provisions Labor Risks - Subject to Judicial Reorganization	2,287	2,264
Other Accounts Payable	3,105	4,829
Other obligations - subject to judicial recovery	34,386	34,977
Shareholders' Equity	174,522	156,906
Capital Stock	1,899,892	1,904,586
Capital reserve	2,967	2,967
Capital Transaction Reserve	136,183	136,183
Equity Valuation Adjustment	187,437	179,638
Accumulated Losses	(2,051,957)	(2,066,468)

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

	1Q23	2Q23
Cash Flow from Operating Activities		
Loss for the periods	(10,080)	(14,511)
Adjustments:		
Depreciation and Amortization	1,831	1,742
Income from sale of property, plant and equipment	324	(32)
Financial charges and exchange variation on financing	1,706	(7,430)
Reversal (Provision) for loss due to non-recoverability of assets	(418)	-
Inventory obsolescence	(321)	(123)
(Reversal) Estimated losses for doubtful accounts	31	(62)
Actual losses with doubtful accounts	-	91
Adjust to present value	3,552	7,846
Fair value adjustment	(4,125)	(7,798)
Changes in Assets & Liabilities		
(Increase) Decrease in Accounts Receivable	7,782	(366)
(Increase) Decrease in Inventories	2,635	179
(Increase) Decrease in Recoverable Taxes	3,147	435
(Increase) Decrease in Other Assets	1,472	1,303
(Increase) Decrease in Suppliers	(388)	(2,146)
(Increase) Decrease in Taxes Payable	(422)	2,580
(Increase) Decrease in Others Accounts Payable	(644)	9,701
Net Cash Flow from Operating Activities	6,082	(7,622)
Cash Flow from Investment Activities		
Securities - restricted account	60	51
Resources from the sale of fixed assets	101	33
Aquisition of Property, Plant and Equipment	(197)	(100)
Net Cash Flow from (Used in) Investment Activities	(36)	(16)
Cash Flow from Financing Activities		
Borrowing and financing	18,748	20,189
Capital increase (decrease)	1,021	4,694
Debentures Convertible into Shares	-	5,939
Payment of loans and financing	(35,105)	(23,572)
Net Cash Flow from Financing Activities	(15,336)	7,250
Net Increase (Decrease) in Cash and Cash Equivalents	(9,290)	(388)
At the Beginning of the Period	13,171	-
At the End of the Period	3,881	(388)

About Lupatech

Lupatech 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.