Grupo Kaltex, S. A. de C. V. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2022 and 2021, and Independent Auditors' Report Dated November 9, 2023

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Independent Auditors’ Report and Consolidated Financial Statements for 2022 and 2021

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Independent Auditors' Report to the Board of Directors and Stockholders of Grupo Kaltex, S. A. de C. V.

Opinion

We have audited the accompanying consolidated financial statements of Grupo Kaltex, S. A. de C. V. and Subsidiaries (the Entity), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the consolidated statements of loss and other comprehensive income (loss), the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows, for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as of December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor´s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code), together with the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1a to the consolidated financial statements, which indicates that during the years ended December 31, 2022 and 2021, the Entity suffered consolidated net losses of $1,044,219 and $69,860 respectively; in addition, as of December 31, 2022 and 2021 has accumulated deficits of $4,684,319 and $3,851,230 (in thousands of Mexican pesos), respectively, which exceeds two thirds of its capital stock and has negative working capital of $1,190,703 and $4,195,961 (in thousands of Mexican pesos), respectively.

As stated in Note 1a, these events or conditions, along with the non-compliance with the obligation of providing audited financial statements not later than 180 days after yearend, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of Long-Lived Assets

We consider the potential impairment of intangible assets with indefinite useful lives and goodwill as a key audit matter, mainly because impairment tests involve the application of significant judgments and estimates by the Entity’s management to determine the recoverable value of the Cash Generating Units. Every year the Entity performs an impairment analysis according to IAS 36, Impairment of Assets (IAS 36), in which discounted future cash flows are calculated to ascertain whether the value of assets has become impaired. However, a risk exists whereby the assumptions utilized by management to calculate future cash flows may not be fair based on current conditions and those prevailing in the foreseeable future.

The audit procedures we applied to cover the risk of the impairment of long-lived assets include the following:

We verified, according to our knowledge of the business and historical audited information, the regularization of any nonrecurring effect, so as to avoid considering these effects in the projections. We analyzed the assumptions, variables and supporting information used in the impairment test of the Cash Generating Units; estimate a discount rate based on the Weighted Average Cost of Capital (WACC) methodology in order to make a comparison against the discount rate estimated by the Entity; perform a referential sensitivity exercise based on the Entity’s model in relation to the veracity and use of risk analysis. The results derived from the application of our audit tests were reasonable.

Responsibilities of Management’s and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Entity´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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity´s financial reporting process.

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

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Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management´s use of the going concerns 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 Entity'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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors´ report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Affiliated of a Member of Deloitte Touche Tohmatsu Limited

C. P. C. Juan Carlos Reynoso Degollado
November 9, 2023

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2022 and 2021
(In thousands of Mexican pesos)

Assets	Note	2022	2021
Current assets:			
Cash and cash equivalents	5	$ 220,883	$ 225,755
Accounts receivable, net	6	2,230,526	2,488,871
Due from related parties	21	11	2,383
Inventories, net	7	1,949,918	1,861,285
Prepaid expenses		113,616	287,183
Assets available for sale	8	467,869	-
Total current assets		4,982,823	4,865,477
Non-current assets:			
Property, plant and equipment, net	9	9,767,517	8,717,270
Right-of-use assets	11	271,629	333,567
Investment properties	10	856,128	1,015,037
Deferred tax asset	24	94,136	76,923
Other assets, net	12	13,325	3,735
Total non-current assets		11,002,735	10,146,532
Total assets		$ 15,985,558	$ 15,012,009

Liabilities and stockholders' equity	Note	2022	2021
Current liabilities:			
Current portion of long-term debt	13	$ 1,963,930	$ 4,533,422
Accounts payable to suppliers		1,963,762	1,677,881
Short-term lease liability - net	14	86,329	78,552
Due to related parties	21	95,378	488,339
Other accounts payable and accrued liabilities	15	1,943,883	2,087,720
Direct employee benefits		77,991	143,076
Advance payments from customers		42,253	52,448
Total current liabilities		6,173,526	9,061,438
Non- current liabilities:			
Long-term debt	13	2,282,082	-
Accounts payable to related parties	21	2,576,780	2,645,423
Lease liability - net	14	223,774	279,872
Employee retirement benefits	16	525,002	569,630
Labor provision		1,126	-
Deferred tax liability	24	1,414,341	1,458,473
Total non - current liabilities		7,023,105	4,953,398
Total liabilities		13,196,631	14,014,836
Contingencies	25		
Stockholders' equity:			
Capital stock	19	4,435,829	4,017,990
Accumulated deficit		(4,684,319)	(3,851,230)
Other comprehensive income		1,091,361	(556,823)
Controlling interest		842,871	(390,063)
Non-controlling interest	20	1,946,056	1,387,236
Total stockholders' equity		2,788,927	997,173
Total liabilities and stockholders' equity		$ 15,985,558	$ 15,012,009

See accompanying notes to consolidated financial statements.

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Consolidated Statements of Income (Loss) and Other Comprehensive Income (Loss)

For the years ended December 31, 2022 and 2021
(In thousands of Mexican pesos)

	Note	2022	2021
Net sales		$ 11,990,537	$ 13,328,371
Cost of sales	22	11,078,814	11,534,150
Gross profit		911,723	1,794,221
Sales expenses	22	259,366	389,268
Administrative expenses	22	562,277	685,387
Other expenses (income), net	23	605,240	(791,589)
Operating (loss) profit		(515,160)	1,511,155
Interest expense		592,583	694,042
Interest income		(20,022)	(3,200)
Exchange (gain) loss, net		(73,880)	469,736
(Loss) income before tax		(1,013,841)	350,577
Income tax	24	30,378	420,437
Net consolidated loss		(1,044,219)	(69,860)
Other comprehensive income (loss), net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on employee benefits, net of income tax	16	54,460	26,232
Revaluation of lands and buildings		1,481,279	-
Items that may be reclassified subsequently to profit or loss:			
Cumulative translation adjustment		940,195	(597,748)
Other comprehensive income (loss) for the year		2,475,934	(571,516)
Consolidated comprehensive income (loss)		$ 1,431,715	$ (641,376)
Consolidated net loss attributable to:			
Controlling interest		$ (775,289)	$ (125,520)
Non-controlling interest	20	(268,930)	55,660
		$ (1,044,219)	$ (69,860)
Consolidated comprehensive net income (loss) attributable to:			
Controlling interest		$ 872,895	$ (697,036)
Non-controlling interest		558,820	55,660
		$ 1,431,715	$ (641,376)

See accompanying notes to consolidated financial statements.

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2022 and 2021
(In thousands of Mexican pesos)

			Other comprehensive income (loss)					
	Capital stock	Accumulated deficit	Cumulative translation adjustment	Actuarial gain on employee benefits	Revaluation effects for lands and building	Controlling interest	Non-controlling interest	Total stockholders' equity
Balances as of January 1, 2021	$ 4,017,990	$ (2,926,080)	$ (50,142)	$ 64,835	$ -	$ 1,106,603	$ 1,331,576	$ 2,438,179
Comprehensive loss for the year	-	(125,520)	(597,748)	26,232	-	(697,036)	55,660	(641,376)
Loss on sale of subsidiary to shareholders	-	(799,630)	-	-	-	(799,630)	-	(799,630)
Balances as of December 31, 2021	4,017,990	(3,851,230)	(647,890)	91,067	-	(390,063)	1,387,236	997,173
Increase in capital stock	417,839	-	-	-	-	417,839	-	417,839
Comprehensive income for the year	-	(775,289)	491,607	54,460	1,102,117	872,895	558,820	1,431,715
Dividends paid	-	(57,800)	-	-	-	(57,800)	-	(57,800)
Balances as of December 31, 2022	$ 4,435,829	$ (4,684,319)	$ (156,283)	$ 145,527	$ 1,102,117	$ 842,871	$ 1,946,056	$ 2,788,927

See accompanying notes to consolidated financial statements.

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2022 and 2021
(In thousands of Mexican pesos)

	2022	2021
Cash flows from operating activities:		
Consolidated net loss	$ (1,044,219)	$ (69,860)
Adjustments for:		
Income tax recognized in net loss	30,378	420,437
Loss (gain) on disposal of property, plant and equipment	114,392	(8,866)
Gain on sale of subsidiary to shareholders	-	(954,920)
Depreciation and amortization	429,515	430,736
Depreciation of right-of-use asset	19,274	18,865
Impairment of machinery and equipment	66,459	-
Fair value adjustment of investment properties	67,898	25,497
Interest income	(20,022)	(3,200)
Interest expense	592,583	694,042
Unrealized foreign exchange, net	933,747	442,977
	1,190,005	995,708
Changes in working capital:		
(Increase) decrease in:		
Accounts receivables	258,345	(258,949)
Inventories	(88,633)	328,377
Prepaid expenses	173,567	(34,996)
Assets available for sale	(467,869)	2,399,630
Other assets	(9,590)	20,764
Increase (decrease) in:		
Accounts payable to suppliers	285,881	(255,001)
Accounts payable to related parties, net	(390,589)	(1,364,562)
Other accounts payable and accrued liabilities	(251,816)	(122,734)
Direct employee benefits	12,715	80,261
Advance payments from customers	(10,195)	33,595
Income taxes paid	(518,004)	(306,821)
Retirement employee benefits	(44,628)	(7,909)
Labor provision	1,126	31,370
Net cash flows generated by operating activities	140,317	1,538,733
Cash flows from investing activities:		
Interest received	20,022	3,200
Acquisition of property, plant and equipment	(120,186)	(147,709)
Sale of property, plant and equipment	114,392	221,660
Increase in capital stock	417,839	-
Net cash flows generated by investing activities	464,849	77,151

	2022	2021
Cash flows from financing activities:		
Proceeds from debt	4,298,739	-
Payments of debt	(4,358,722)	(2,158,186)
Proceeds from related parties	-	1,542,908
Payments of related parties	(19,051)	(381,419)
Lease payments	(19,012)	(71,527)
Interest paid	(454,190)	(505,596)
Dividends paid	(57,800)	-
Net cash flow used in financing activities	(610,036)	(1,573,820)
Net (decrease) increase in cash and cash equivalents	(4,872)	42,064
Effects of exchange rate changes on the balance of cash held in foreign currencies	-	3,299
Cash and cash equivalents at the beginning of the year	225,755	180,392
Cash and cash equivalents at the end of the year	$ 220,883	$ 225,755

See accompanying notes to consolidated financial statements.

1. Activities and significant events

Activities

Grupo Kaltex, S. A. de C. V. and Subsidiaries ("Kaltex" or the "Entity") is the majority shareholder of a group of entities principally engaged in the manufacturing and distribution of yarns and fabrics of all kinds of natural and synthetic fibers, the maquila and marketing of clothing and bedding for home, logistics services, as well as the operation of clothing stores.

The Corporate address of the Entity is Av. Ingenieros Militares No. 2, Colonia Empleado Municipal, C.P. 53380, Naucalpan de Juárez, Estado de México, México.

a. ***Material uncertainty related to going concern***

As stated in Note 3.a, the consolidated financial statements have been prepared assuming that the Entity will continue as a going concern.

During the years ended December 31, 2022 and 2021, the Entity suffered consolidated net losses of $1,044,219 and $69,860, respectively; in addition, as of December 31, 2022 and 2021 has accumulated deficits of $4,684,319 and $3,851,230, which exceeds two thirds of its capital stock and has negative working capital of $1,190,703 and $4,195,961, respectively.

These events or conditions, along with the non-compliance with the obligation of providing audited financial statements not later than 180 days after yearend, which is described in Note 13, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

To address this uncertainty, Entity's management will continue to execute strategies to reduce costs and expenses annually and will continue with its restructuring plan initiated in 2022. The strategic plans designed by the Entity's management for 2023 and subsequent years are as follows:

- The plan to improve liquidity levels is to capitalize the Entity through an increase of its capital stock by its shareholders.

- Additionally, the majority shareholder has expressed through a letter of financial support its clear intention to support the Entity, in the event that any negotiation is not completed.

- Additionally, the Entity seeks to increase sales in the medium term with its current customers portfolio.

- For 2024–2026 period, the Entity's growth plan is aligned to the growth expectations in the textile industry in Mexico and in the United States.

b. ***Implications resulted from business situation -*** Net sales in 2022 decreased by 10% to $11,990,537, compared to $13,328,371 (in thousands of Mexican pesos) the previous year. This decrease is mainly due to the decrease in sales volume with clients.

Earnings before taxes plus / minus interest, exchange rate fluctuations, and the effect of derivatives on financial costs, depreciation and amortization (EBITDA) in 2022 decreased 103% to reach $(66,371), compared to $1,960,756 the previous year. The decrease in EBITDA of $2,027,127 was mainly due to the decrease in the generation of EBITDA in all business segment of the Entity.

c. ***Debt restructuring*** - On April 11, 2022, Kaltex defaulted on the principal of the Senior Bonds ("Bonds"), which constituted a default event. The total amount of this debt was reclassified in the short term in the Consolidated Statement of Financial Position as of December 31, 2021 for an amount of $4,533,422, causing short-term liabilities to significantly exceed current assets at that date.

On December 28, 2022, the Entity completed a debt restructuring, which included a partial payment of the Senior Bonds balance through the cash obtained from a bank loan for USD 100 million dollars and an agreement with the bondholders for the issuance of new bonds for USD 118 million dollars in exchange of the remaining Senior Bonds balance, as described below:

Part A - ***Bank Loan*** - In order to be able to face the partial liquidation of the Senior Bonds, the Entity requested and obtained a bank loan for a term of 10 years with 3 months of grace, for an amount of USD 100 million dollars, comprised of a Tranche A of $40 million dollars at an interest rate of 3 month SOFR + 625 basis points and a Tranche B of $60 million dollars, in Mexican Pesos at an interest rate of TIIE at 91 days + 285 basis points, with quarterly payments.

During the term of the bank loan contract, the Entity must comply with the following points:

- Verification of resources and accounting movements;
- The Entity may contract financial liabilities and/or pay dividends as long as it has the prior written approval of the Financial Institution;
- Submit quarterly internal financial statements (March, June, September and December) under IFRS signed by the legal representative;
- Submit audited annual financial statements in accordance with IFRS within 180 calendar days after the end of the year;
- Monitoring and rating will be done on the Consolidated Financial Statements of Manufacturas Kaltex and its subsidiaries;
- Keep insured the assets that guarantee the credit up to 100% of the value recognized for coverage purposes;
- Submit bank appraisals of the guarantees of movable and immovable property which must be updated every two years from the date of contracting and validity of the credit;
- It will be cause for early maturity when the Entity, without prior written consent from the Financial Institution, modifies its shareholding structure and the foregoing implies that the current majority shareholders cease to control 51% of the shares.

Part B Agreement with Bondholders -The remaining USD 118 million dollars were replaced through a rollover of the previous debt with the exchange of a new bond issuance. The main points of the new bonds are the following:

- The new bond matures on September 30, 2025.
- Interest on the new bonds will accrue at the rate of 14.500% per annum and will be payable semi-annually in arrears on each April 11 and October 11, commencing on April 11, 2023.
- The new bonds will be secured by first priority liens consisting of Entity's land, buildings and machinery located in Tepeji del Río, State of Hidalgo, México and San Juan del Río, State of Querétaro, Mexico and as of the date of the issuance of new bonds the collateral amounted $4.8 billion Mexican Pesos based upon appraisals conducted in December 2021.

d. ***Significant events***

- ***Changes in the accounting policies and disclosures*** – As of December 31, 2022, the Entity changed its accounting policy to subsequent measure its land, buildings and facilities. As a consequence, the Entity stopped to recognize them at cost and start to recognize it at their revaluated amounts. The Entity considers revaluated amount model represents the real conditions in the industry of these assets and improve the financial situation of the Entity. As under this approach the entity does not restate comparative information in its financial statements.

- ***Sale*** of ***Milano*** - On January 4, 2021, Kaltex sold its investment in its subsidiary Grupo Milano, S.A. de C.V. to a related party MCM, S.A. de C.V., whose principal shareholders are also shareholders of Kaltex. The sale price of the shares was US $80 million, which were paid in 2021. The sale of Milano qualifies as a discontinued operation as it represented a major segment of the Entity's business. With the resources obtained from said sale, the Entity reduced the debt balance from USD $320 to USD $260 million as of June 30, 2021.

- ***Sale*** of ***Revman -*** On June 30, 2021, the holding company Kaltex Northamerica, Inc., a subsidiary of Kaltex sold the investment in its subsidiary Revman International, Inc. to a third party for US $66 million, which were paid in June US $40 million and in September US $26. Given that Revman does not represent a major segment of the Entity, it has not been presented as a discontinued operation and the decision to sell the investment was made subsequent to December 31, 2020 and therefore the assets and liabilities have not been presented as held for sale of such date.

2. Adoption of new and revised International Financial Reporting Standards

Application of new and revised International Financing Reporting Standards ("IFRSs" or "IAS") and interpretations that are mandatorily effective for the current year

During the year, the Group has applied amendments to IFRS issued by the International Financial Reporting Standards Board (IASB) that are mandatory for accounting periods beginning on or after January 1, 2022. Its adoption did not have a material impact on the disclosures or amounts reported in these financial statements.

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	*Property, Plant and Equipment - before being used*
Annual Improvements to IFRS Standards 2018-2020	IFRS 9 *Financial Instruments* and IFRS 16 *Leases*

Amendments to IFRS 3 Reference to the Conceptual Framework

The Group has adopted the amendments to IFRS 3 Business Combinations for the first time in the current year. The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Amendments to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use

The Group has adopted the amendments to IAS 16 Property, Plant and Equipment for the first time in the current year. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

Annual Improvements to IFRS Accounting Standards 2018-2021 Cycle

The Group has adopted the amendments included in the Annual Improvements to IFRS Accounting Standards 2018-2021 Cycle for the first time in the current year. The Annual Improvements include amendments to four standards:

- ***IFRS 1 First-time Adoption of International Financial Reporting Standards***

  The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

- ***IFRS 9 Financial Instruments***

  The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

- ***IFRS 16 Leases***

  The amendment removes the illustration of the reimbursement of leasehold improvements.

At the date of authorization of these financial statements, the Group has not applied the following new and revised IFRS Accounting Standards that have been issued.

IFRS 17 (including the June 2020 and December 2021 amendments to IFRS 17)	Insurance Contracts.
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IAS 1 and IFRS Practice Statement	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

IFRS 17 Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It considers market interest rates and the impact of policyholders' options and guarantees.

In June 2020, the IASB issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the IASB issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) that extends the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023.

In December 2021, the IASB issued Initial Application of IFRS 17 and IFRS 9 - Comparative Information (Amendment to IFRS 17) to address implementation challenges that were identified after IFRS 17 was published. The amendment addresses challenges in the presentation of comparative information.

IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

Amendments to IAS 1 Presentation of Financial Statements - Classification of Liabilities as Current or Noncurrent

The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted. The IASB is currently considering further amendments to the requirements in IAS 1 on classification of liabilities as current or non-current, including deferring the application of the January 2020 amendments.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements - Disclosure of Accounting Policies

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term ‘significant accounting policies’ with ‘material accounting policy information’. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The IASB has also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”.

The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error.
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The IASB added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the Standard. The IASB has deleted one example (Example 3) as it could cause confusion in light of the amendments. The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

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

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The IASB also adds an illustrative example to IAS 12 that explains how the amendments are applied.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with:

    - Right-of-use assets and lease liabilities.
    - Decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the cost of the related asset.

- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

3. Significant accounting policies

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards released by IASB.

The Entity's management has, at the time of approving the financial statements, a reasonable expectation that the Entity has the necessary resources to continue operating in the foreseeable future. Therefore, they continue to adopt the Going Concern accounting basis when preparing the financial statements.

b. *Basis of measurement*

The Entity's consolidated financial statements have been prepared on the historical cost basis, except for the investment properties, lands and buildings, that they are valued at revalued amounts at the end of each period, as explained in the accounting policies included below.

i. *Historical cost*

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

ii. *Fair value*

Orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

c. ***Basis of consolidation of the financial statements***

The consolidated financial statements incorporate the financial statements of the Entity and entities controlled by the Entity and its subsidiaries. Control is achieved when the Entity:

- Has power over the invested;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Entity has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Entity considers all relevant facts and circumstances in assessing whether or not the Entity’s voting rights in an investee are sufficient to give it power, including:

- The size of the Entity holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Entity, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meetings.

Consolidation of a subsidiary begins when the Entity obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Entity and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Entity’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Entity are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Entity's equity therein.

Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquirer's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Entity's ownership interests in existing subsidiaries

Changes in the Entity's ownership interests in subsidiaries that do not result in the Entity losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Entity.

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 - Financial Instruments, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

The Entity's main subsidiaries are:

	Participation		
Entity	**2022**	**2021**	**Activity**
Kaltex Textiles, S.A. de C. V. and subsidiaries	81.75%	73.7%	Majority stockholder of a group of entities principally engaged in the manufacture and distribution of yarns and fabrics all kinds of natural and synthetic fibers, as well as the maquila and marketing of clothing and bedding for home.
Kaltex Comercial, S. A. de C. V. and subsidiaries	100%	100%	Majority stockholder of a group of entities principally engaged in buy and selling of bedding for home and clothing and operation of clothing stores.
Kaltex Internacional, S. A. de C. V. and subsidiaries	60.26%	60.26%	Majority stockholder of a group of foreign subsidiaries principally engaged in manufacturing of all kinds of fabrics, threads and marketing of apparel and bedding for home.

Entity	Participation 2022	Participation 2021	Activity
Kaltex Energía, S. A. de C. V. and subsidiaries	100%	100%	Majority stockholder of a group of entities principally engaged in the supply of energy to the manufacturing facilities of Manufacturas Kaltex, S. A. de C.V. and Kaltex Fibers, S. A. de C.V., related parties

d. ***Translation of financial statements of foreign subsidiaries***

To consolidate the financial statements of foreign subsidiaries, the accounting policies of the foreign entity are converted to IFRS based on the transaction recording currency. The financial statements are translated into Mexican pesos (presentation currency), considering the following methodology:

Foreign operations with a functional currency different from the local currency and the reporting currency translate their financial statements from the recording currency to the functional currency, using the following exchange rates: 1) the closing exchange rate in effect at the statement of financial position date for monetary assets and liabilities; 2) historical exchange rates for non-monetary assets and liabilities and stockholders' equity; and 3) the rate on the date of accrual of revenues, costs and expenses, except those arising from non-monetary items that are translated using the historical exchange rate for the related non-monetary item; translation effects are recorded exchange (loss) gain, net, within results. Subsequently, to translate the financial statements from the functional currency to Mexican pesos, the following exchange rates are used: 1) the closing exchange rate in effect at the statement of financial position date for assets and liabilities; 2) historical exchange rates for stockholders' equity, and 3) the rate on the date of accrual of revenues, costs and expenses. The effects of translation are recorded in stockholders' equity.

The recording and functional currencies of foreign operations as well as the exchange rates used in the different translation processes are as follows:

Entity	Recording currency	Functional currency
Kaltex North America, Inc.	U.S. Dollar	U.S. Dollar
Kaltex America, Inc.	U.S. Dollar	U.S. Dollar
Kaltex Latino América, S.A.S.	Colombian Peso	Colombian Peso
Kaltex Colombia, S. A. S.	Colombian Peso	Colombian Peso
Coltejer, S. A.	Colombian Peso	Colombian Peso
Kaltex-Argus, S. A.	Nicaraguan Cordoba	U.S. Dollar

e. ***Financial instruments***

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

f. ***Financial assets***

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:

- The Entity may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (ii) below); and
- The Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iii) below).

(i) ***Amortized cost and effective interest method***

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset.

If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Entity recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit impaired.

Interest income is recognized in profit or loss and is included in the "finance income - interest income."

Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called ‘accounting mismatch’) that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period.

Impairment of financial assets

The Entity recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Entity always recognizes lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Entity's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Entity recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Entity measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) ***Significant increase in credit risk***

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Entity compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition.

In making this assessment, the Entity considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Entity's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Entity's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Entity presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 60 days past due, unless the Entity has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Entity assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(1) The financial instrument has a low risk of default,
(2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
(3) Adverse changes in economic and business conditions in the longer term may but will not necessarily; reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Entity considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

For financial guarantee contracts, the date that the Entity becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Entity considers the changes in the risk that the specified debtor will default on the contract.

The Entity regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) ***Definition of default***

The Entity considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Entity, in full (without taking into account any collateral held by the Entity).

Irrespective of the above analysis, the Entity considers that default has occurred when a financial asset is more than 90 days past due unless the Entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) ***Credit-impaired financial assets***

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) Significant financial difficulty of the issuer or the borrower;
(b) A breach of contract, such as a default or past due event (see (ii) above);
(c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

(e) The disappearance of an active market for that financial asset because of financial difficulties.

(iv) ***Write-off policy***

The Entity writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Entity's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

(v) ***Measurement and recognition of expected credit losses***

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Entity's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Entity in accordance with the contract and all the cash flows that the Entity expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

The Entity recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

(vi) ***Derecognition of financial assets***

The Entity derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

g. ***Financial liabilities***

All financial liabilities are measured subsequently at amortized cost using the effective interest method.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Entity, are measured in accordance with the specific accounting policies set out below.

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the ‘other gains and losses’ line item in profit or loss for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognized in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

The Entity derecognizes financial liabilities when, and only when, the Entity’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Entity exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Entity accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

If a hedging relationship fails to meet the hedge effectiveness requirement related to the hedging relationship, but the risk management objective for that designated hedging relationship remains the same, the Entity adjusts the hedging relationship of the hedging relationship. coverage (that is, rebalances the coverage) so that it meets the qualification criteria again.

The Entity designates the complete change in the fair value of a forward contract (that is, it includes the forward elements) as the hedging instrument for all its hedging relationships that involve forward contracts.

The Entity designates only the intrinsic value of the option contracts as a hedged item, that is, excluding the time value of the option. Changes in the fair value of the time value of the option are recognized in other comprehensive income and are accumulated in the cost of the hedge reserve. If the hedged item is related to the transaction, the time value is reclassified to profit or loss when the hedged item affects the profit or loss. If the hedged item is related to the period of time, then the accumulated amount in the cost of the hedge reserve is reclassified to profit or loss in a rational manner: The Entity applies amortization in a straight line.

These reclassified amounts are recognized in profit or loss in the same item as the hedged item. If the hedged item is a non-financial item, the accumulated amount in the cost of the hedge reserve is eliminated directly from the equity and is included in the initial carrying amount of the recognized non-financial item. In addition, if the Entity expects that part or all of the accumulated loss in the cost of the hedge reserve will not be recovered in the future, that amount will be reclassified immediately to results.

Fair value hedges

The change in the fair value of qualified hedging instruments is recognized in profit or loss, except when the hedging instrument covers an equity instrument designated at fair value through other comprehensive income, in which case it is recognized in other comprehensive income.

The carrying amount of a hedged item that has not yet been measured at fair value is adjusted for the change in fair value attributable to the hedged risk with a corresponding entry in results. For debt instruments measured at fair value through other comprehensive income, the book value is not adjusted since it is at fair value, but the gain or loss of coverage is recognized in profit or loss instead of another result integral. When the hedged item is an equity instrument designated at fair value through other comprehensive income, the gain or loss of coverage remains in other comprehensive income to coincide with that of the hedging instrument.

When the gains or losses of coverage are recognized in results, they are recognized in the same item as the hedged item.

The Entity interrupts hedge accounting only when the hedge relationship (or a part of it) fails to meet the rating criteria (after rebalancing, if applicable). This includes the cases in which the hedging instrument expires or is sold, canceled or exercised. The suspension is accounted for prospectively.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the ‘other gains and losses’ line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item.

However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Entity expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Entity discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised.

The discontinuation is accounted for prospectively. Any gain or loss recognized in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

h. ***Cash and cash equivalents***

Consist mainly of bank deposits in checking accounts and investments in short-term securities, highly liquid, easily convertible into cash and have maturities of three months from the date of purchase and not subject to material risk of changes in value. Cash is stated at nominal value and cash equivalents are measured at fair value; fluctuations in value are recognized in earnings. The cash equivalents are represented by investments in money market funds, investment funds, bank and governmental bonds, as well as investments on demand in Mexican pesos and US dollars.

i. ***Inventories***

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

j. ***Assets available for sale –***

Non-current assets held for sale Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

k. ***Property, plant and equipment***

Land and buildings, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any accumulated depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property’s revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed.

A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property's revaluation reserve relating to a previous revaluation of that asset. Depreciation on revalued buildings is recognized in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property's revaluation reserve is transferred directly to retained earnings.

Properties (except land and buildings and installations) in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Entity's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation of property, plant and equipment is recognized in profit or loss.

Land is not depreciated.

Depreciation is recognized so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

	Useful live (years)	**Remaining useful live (years)**
Buildings and installations:		
Infrastructure	80	46
Electric, hydraulic and related installations	40	6
Building finishes	20	-
Industrial machinery and equipment	Between 20 to 30	Between 5 to 11
Office furniture and equipment	10	Between 3 to 9
Transportation equipment	4 and 5	Between 1 to 4
Computer equipment	3	3

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The change in accounting policy for subsequent metering of land and buildings will cause:

- The change in accounting policy will provide the Entity's management with more reliable and relevant financial information about the business;
- The Entity will not reformulate its Financial Statements in accordance with IAS 8 paragraph 17, by incorporating the first revaluation in its Financial Statements on the date on which the first valuation is determined;
- The Entity must determine the regularity with which the appraisals will be carried out to determine the fair value of Land and Buildings, to ensure that the book amount, at all times, does not differ significantly from that which could be determined using the fair value at the end of the year. reporting period;
- The Entity must cumulatively recognize the revaluation surplus in a separate item in stockholders' equity; and, it will recognize any decrease in the carrying amount of an asset in the same item, to the extent that there is a surplus. The effects of any surplus will only be recognized in the results of the year when it is a reversal of a decrease previously recorded in results, or when there is a decrease in the value of the revalued assets up to the amount that exceeds the value of the previously recognized surplus. in the capital; and,

- o With regard to the derecognition of assets subject to revaluation, whether due to disuse or disposal, the Entity will reclassify the accumulated amount of surplus for said assets to accumulated results on the same date of derecognition.

l. ***Investment properties***

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. All of the Entity's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

m. ***Intangible assets***

1. *Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

2. *Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3. *Derecognition of intangible assets*

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

n. ***Impairment of tangible and intangible assets other than goodwill***

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

o. ***Goodwill***

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Entity's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

p. ***Leases***

The Entity as lessee

The Entity evaluates whether a contract contains a lease at its source. The Entity recognizes a right-of-use asset for use rights and a corresponding lease liability with respect to all the lease agreements in which it is a lessee, except for short-term leases (12 months or less) and those for low-value assets. For these leases, the Entity recognizes rental payments as an operating expense under the straight-line method throughout the period of the lease, unless another method is more representative of the pattern of time in which the economic benefits from consumption of leased assets.

The lease liability is initially measured at the present value of the rent payments that are not paid on the start date, discounted by the rate implicit in the contract. If this rate cannot be easily determined, the Entity uses incremental rates.

The rent payments included in the measurement of the lease liability consist of:

- Fixed rent payments (including fixed payments in substance), less any lease incentives received;
- Variable income payments that depend on an index or rate, initially measured using the index or rate on the start date;
- The expected amount to be paid by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; y
- Payments for penalties resulting from the termination of the lease, if the lease period reflects the exercise of a lease termination option.

The lease liability is presented as a separate concept in current and long-term liabilities in the consolidated statement of financial position. The contractual maturities of the obligations for this concept are shown in Note 13.

The lease liability is subsequently measured by increasing the book value to reflect the interest accrued by the lease liability (using the effective interest method) and reducing the book value to reflect the rent payments made.

The Entity reevaluates the lease liability (and adjusts the corresponding asset for relative use rights) provided that:

- The lease term is modified or there is a significant event or change in the circumstances of the lease resulting in a change in the evaluation of the purchase option exercise, in which case the lease liability is measured by discounting the updated rental payments using an updated discount rate.

- The rent payments are modified as a consequence of changes in indexes, rate or in the expected payment under a guaranteed residual value, in which cases the lease liability is re-evaluated by discounting the updated rent payments using the same discount rate (unless that the change is due to a change in the variable interest rate, in which case an updated discount rate is used).

- A lease is amended and the modification of the lease is not accounted for as a separate lease, in which case the lease liability is re-evaluated based on the lease term of the modified lease, discounting updated rental payments using a discount rate updated to the effective date of the modification.

Assets for rights of use consist of the initial measurement of the corresponding lease liability, the rent payments made on or before the commencement date, less any lease incentives received and any direct initial cost. Subsequent valuation is cost less accumulated depreciation and impairment losses.

If the Entity incurs an obligation arising from the costs of dismantling and removing a leased asset, restoring the bond in which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, a provision measured in accordance with IAS 37. To the extent that costs are related to an asset for rights of use, costs are included in the asset for rights of related use, unless such costs are incurred to generate inventories.

In some cases, rights-of-use assets are depreciated over the shorter period between the lease period and the useful life of the underlying asset. If a lease transfer's ownership of the underlying asset or the cost of the asset for use rights reflects that the Entity plans to exercise a purchase option, the asset for use rights will be depreciated over the useful life. Depreciation begins on the start date of the lease.

Assets for rights of use are presented as a separate concept in the consolidated statement of financial position.

The Entity applies IAS 36 to determine if an asset for use rights is impaired and accounts for any impairment loss identified as described in the Property, plant and equipment policy.

Variable income leases that do not depend on an index or rate are not included in the measurement of the lease liability and the asset for use rights. Related payments are recognized as an expense in the period in which the event or condition that triggers the payments occurs and are included in operating expenses in the consolidated statement of Income (Loss) (see Note 10).

The Entity as lessor

As of January 1, 2019, the Entity, in those cases where it acts as a lessor, maintains its accounting policy consistent with that in effect during the year ended December 31, 2018, considering the new definition of lease established by IFRS 16.

Leases for which the Entity is considered a lessor are classified as financial or operating. As long as the lease terms transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. The other leases are classified as operating leases.

Revenues arising from operating leases are recognized in straight-line over the term of the corresponding lease. The initial direct costs incurred in the negotiation and the organization of an operating lease are added to the book value of the leased asset and are recognized in a straight line over the term of the lease. Revenues arising from financial leases are recognized as accounts receivable for the amount of the net investment of the Entity in the leases.

q. ***Foreign currencies***

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are generally recognized in profit or loss in the period in which they arise except for:

- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Entity's foreign operations are translated into Currency Units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Entity's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Entity are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Entity losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Entity losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

r. ***Employee benefits***

Retirement benefits costs from termination benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment.

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement.

The Entity presents the first two components of defined benefit costs in profit or loss in the line item cost of sales, sales expenses or administrative expenses, according to the level of the personnel to which the cost is related. Gains and losses for reduction of service are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Entity's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Short-term and other long-term employee benefits and statutory employee profit sharing ("PTU")

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Entity in respect of services provided by employees up to the reporting date.

Statutory employee profit sharing ("PTU")

PTU is recorded in the results of the year in which it is incurred and is presented in operating expenses line item in the consolidated statement of Income (Loss) and other comprehensive loss.

As result of the 2014 Income Tax Law, as of December 31, 2021 and 2020, PTU is determined based on taxable income, according to Section I of Article 9 of the that Law. Workers must be paid 10% of the company's profits in accordance with the provisions of the current legal framework.

Only when this amount exceeds 90 days (three months) of the worker's salary, 90 days of salary are established as the maximum limit for PTU payment, unless the average PTU paid by the company to workers according to their category in the last three years is greater than 90 days, then invariably said average amount must be paid, since this amount is more beneficial for the worker.

s. ***Income taxes***

Income tax expense represents the sum of the tax currently payable and deferred tax.

– *Current tax*

Current income tax ("ISR") is recognized in the results of the year in which is incurred.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognized for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Entity supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

– *Deferred income tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The management of the Entity reviewed the Entity's investment property portfolios and concluded that none of the Entity's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, management has determined that the 'sale' presumption set out in the amendments to IAS 12 is not rebutted. As a result, the Entity has not recognized any deferred taxes on changes in fair value of the investment properties, as the Entity is not subject to any income taxes on the fair value changes of the investment properties on disposal.

– *Current and deferred tax for the year*

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

t. ***Cash flow statements***

The Entity reports cash flows from operating activities using the indirect method, by means of which the consolidated net income is adjusted for the effects of transactions other than cash; any deferral or past or future accumulation of cash inflows or outflows and income or expense items associated with cash flows from investment or financing activities are also considered.

Interest expense and interest and dividend income are generally classified as financing and investment activities, respectively.

u. ***Provisions***

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

v. ***Revenue recognition***

Revenue comprises the fair value of the consideration received or receivable for the sale of goods or services in the normal course of operations, which occurs when control has been transferred to customers in exchange for the consideration to which the Entity considers, have the right to change said goods or services.

The Entity recognizes income according to the following:

- *Sale of goods - Textile Segment*

  Revenue from the sale of goods refers to the variety of yarns and fabrics of all kinds of natural and artificial fibers, including yarn, denim and non-denim, as well as clothing for the home and clothing. Revenues are recognized when the control of the assets has been transferred to the clients in exchange for the consideration to which the Entity considers to be entitled in exchange for said goods.

  When control of the goods is not transferred to the customer mainly through export sales, the revenue is not recognized until delivery is made to the customer.

  The Entity has different commercial conditions agreed with each client, depending on the sector of the corresponding product. To reduce the risk when granting credit, the Entity asks its clients for a credit insurance. Additionally, Mexican clients are subjected to a risk analysis where they are requested information on guarantees, payment experience, commercial references verification and credit bureaus. Once the required information is received by the client, the credit is authorized by the Entity's credit committee. The payment terms granted by the Entity range from 60 to 90 days.

- *Sale of goods - International Segment*

  Revenues include the distribution of cloth, garments, and high-quality home decoration products, mainly in the United States, which are given directly to the client at the different points of sale, where the payment for the transaction price is received.

Additionally, the production and distribution of fabrics for the fashion industry of products that are delivered to the Entity's warehouses or to the Entity's wholesale clients, located in South America, essentially in countries such as Colombia and Nicaragua, for which an account receivable is recognized by the Entity when the goods are delivered to wholesale customers because it represents the point in time in which the right of consideration becomes unconditional, since only the passage of time is required for the payment to be made.

- *Rendering of services*

  Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

  The types of revenues described above comply with the conditions for the recognition of income and include the following:

  - The contract or contracts are identified with the customer.
  - The obligations to be performed in the contract are identified.
  - The transaction price is determined.
  - The transaction price is allocated among the different obligations to be performed in the contract.
  - The revenues are recognized when the Entity fulfills each of the obligations involved.

4. Critical accounting judgments and key sources of estimation uncertainty

To apply the accounting policies, the Entity’s Management uses its judgment, estimates, and assumptions regarding certain asset and liability amounts in the consolidated financial statements. The associated estimates and assumptions reflect a quantitative and qualitative analysis based on an understanding of the various businesses that compose the Entity. Actual results may differ from such estimates.

The estimates and assumptions are reviewed regularly. Amendments to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

a. *Critical judgments in applying accounting policies*

The following are the critical judgments, apart from those involving estimations, that the management of the Entity has made in the process of applying the Entity’s accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

- ***Significant increase in credit risk***

  As explained in note 6, the Expected Credit Loss “ECL” are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Entity takes into account qualitative and quantitative reasonable and supportable forward-looking information.

- ***Discount rate and lease renewals***

  Management defines the lease term as the period for which there is a contractual payment commitment, considering the non-cancelable period of the contract, as well as the renewal and early termination options that are probable to be exercised.

Management participates in lease contracts that do not have a defined non-cancellable term, a defined renewal period (in case it contains a renewal clause), or automatic annual renewals, so, to measure the lease liability, it estimates the contracts´ terms considering their contractual rights and limitations, their business plan, as well as Management's intentions for the use of the underlying asset.

Management estimates the discount rate to use in the determination of the lease liability, based on the incremental borrowing rate. Management uses a three-tier model, with which it determines the three elements that comprises the discount rate: (i) reference rate, (ii) credit risk component and (iii) adjustment for characteristics of the underlying asset. In this model, Management also considers its policies and practices to obtain financing, distinguishing between the one obtained at the corporate level (that is, the holding Entity), or at the level of each subsidiary.

b. ***Key sources of estimation uncertainty***

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- ***Inventory reserves***

  The factors that the Entity considers in inventory reserves are the sales volumes and movements in the age of the inventories.

- ***Calculation of allowance for credit loss***

  When measuring ECL the Entity uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

  Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

  Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- ***Property, plant and equipment***

  The Entity reviews useful lives of property, plant and equipment at least once a year, which are defined based on technical studies prepared by internal specialized personnel which also involve external experts. The degree of uncertainty about the estimated useful lives is affected by changes in the market, production volumes and technological developments.

- ***Investment properties***

  The fair value of the investment properties is estimated in the technical knowledge of independent experts specialized in real estate, including factors such as cap and discount rates for the investment properties.

- ***Impairment of non-current assets***

  The carrying value of non-current assets is reviewed for impairment if any situations or changes in circumstances indicate that the carrying value is not recoverable. If there is evidence of impairment, the asset is reviewed to determine if the carrying value exceeds its recoverable amount, in which case the asset is determined to be impaired. When evidence of impairment is identified, the Entity estimates the value in use assigned to its property, plant and equipment, and cash-generating units in the case of certain assets.

The calculations of value in use require an entity to determine the future cash flows that should arise from the cash-generating units and appropriate discount rate to calculate the present value. The Entity uses cash flow projections of revenue using estimates of market conditions, pricing, and production and sales volumes.

- ***Employee retirement benefits***

Assumptions are used to determine the best estimate of these benefits annually. Such estimates, as well as assumptions, are established jointly with independent actuaries annually.

These assumptions include demographic assumptions, the discount rates and expected increases in salaries and future permanence, among others. A change in these assumptions could affect the value of assets liabilities associated with employee benefits and the income statement and other comprehensive income in the period in which such changes occur.

- ***Fair value measurements and valuation processes***

Some of the Entity's assets and liabilities are measured at fair value for financial reporting purposes. The Entity's Board of Directors has set up a valuation committee, which is headed up by the Entity's Financial Director, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or liability, the Entity uses market-observable data to the extent it is available. When level 1 inputs are not available, the Entity engages third party qualified appraisers to perform the valuation.

The valuation committee works closely with the qualified external appraiser to establish the appropriate valuation techniques and inputs to the model. Every three months, the Financial Director reports the findings of the valuation committee to the Entity's board of directors to explain the causes of fluctuations in the fair value of assets and liabilities. Information about the valuation techniques and inputs used in the determining the fair value of various assets and liabilities are disclosed Note 17.

5. Cash and cash equivalents

	2022	2021
Cash	$ 220,596	$ 225,487
Cash equivalents - Investment funds	287	268
Total	$ 220,883	$ 225,755

6. Accounts receivable

	2022	2021
Trade receivables	$ 1,301,307	$ 1,784,404
Allowance for doubtful accounts	(56,079)	(41,810)
	1,245,228	1,742,594
Sundry debtors	150,573	56,295
Recoverable income tax	66,545	16,343
Recoverable value-added tax	761,262	335,040
Other recoverable tax	6,918	338,599
	$ 2,230,526	$ 2,488,871

Accounts receivable from customers and wholesalers

The average credit term on the sale of goods is 60 days. The Entity has recognized an allowance for doubtful accounts for 4.31% of all accounts receivable with an aging of 91 days or more, due to the fact that due to prior experience, accounts receivable due more than 91 days are not recovered. For accounts receivable that are between 31 and 90 days old, an allowance is recognized for doubtful accounts based on expected loss determined by experiences of default of the counterparty and an analysis of its current financial position.

Before accepting any new client, the Entity uses an external credit rating system to evaluate the credit quality of the potential client and defines the limit of credit per client. The limits and ratings attributed to clients are reviewed twice a year. 77% of the accounts receivable from customers that are not due or impaired, have the best attributable credit rating according to the external credit rating system used by the Entity.

Accounts receivable from customers include amounts that are due at the end of the reporting period (see the aging analysis below), but for which the Entity has not recognized any estimates for uncollectible accounts because there has been no significant change in credit quality and amounts (which include accrued interest after the accounts are 60 days) are still considered recoverable.

Age of receivables that are past due but not impaired

A summary of accounts receivable shows customers due, but not yet as impaired:

	2022	2021
1 to 30 days	$ 161,008	$ 94,394
31 to 60 days	23,637	24,789
61to 90 days	11,670	2,953
Over the 90 days	108,877	50,116
Total	$ 305,192	$ 172,252

	Trade receivables - days past due				
December 31, 2022	**<30**	**31 - 60**	**61 - 90**	**>91**	**Total**
Expected credit loss rate	4.31%	4.31%	4.31%	4.31%	
Estimated total gross carrying amount at default	1,157,123	23,637	11,670	108,877	1,301,307
Lifetime ECL	(49,865)	(1,019)	(503)	(4,692)	(56,079)

	Trade receivables - days past due				
December 31, 2021	**<30**	**31 - 60**	**61 - 90**	**>91**	**Total**
Expected credit loss rate	2.38%	3.50%	4.35%	33.03%	
Estimated total gross carrying amount at default	1,339,435	82,525	62,072	300,372	1,784,404
Lifetime ECL	(31,879)	(2,888)	(2,700)	(4,343)	(41,810)

The following table shows the movement in lifetime ECL that has been recognized for trade and other receivables in accordance with the simplified approach set out in IFRS 9

		Total
Balances as of January 1, 2021	$	(129,884)
Applications of provision		88,074
Balances as of December 31, 2021		(41,810)
Increase of provision		(14,889)
Cancellations and applications		620
Balances as of December 31, 2022	$	(56,079)

For the determination of the estimation of doubtful accounts, the Entity performs an aging analysis of balances by client and is assigned based on experience an estimation percentage. This first analysis gives an indication of impairment; Subsequently, an analysis of the financial situation of all the clients included is carried out to determine which are the accounts that present an impairment according to the expected credit loss model and on these the corresponding estimate is recorded.

7. Inventories

		2022		2021
Raw materials and others	$	500,145	$	509,900
Work in progress		378,374		523,564
Finished goods		1,040,433		812,706
		1,918,952		1,846,170
Merchandise in transit		30,966		15,115
	$	1,949,918	$	1,861,285

The Entity estimates possible impairment losses on inventories for obsolescence and for slow moving inventories, which are determined, based on the age of the inventory.

The movements in the allowance for obsolescence and slow-moving inventory reduction are presented below:

		2022		2021
Balance at the beginning of the year	$	(52,232)	$	(62,540)
Estimation for the period		(22,457)		(11,803)
Cancellations and applications		18,646		22,111
Balance at the end of the year	$	(56,043)	$	(52,232)

The movements in the allowance for obsolescence are classified into finished goods.

The cost of inventories recognized as a cost during the year in respect of continuing operations was $11,078,814 and $11,534,150 for the years ended December 31, 2022 and 2021, respectively.

8. Assets available for sale

As of December 31, 2022, the Entity has recognized as assets available for sale the land and building and installations resulting from the sale negotiation for a real estate project for 51,639.12 m2 of land:

	Assets available for sale
Land	$ 391,545
Building and installations	76,324
Total	$ 467,869

9. Property, plant and equipment

Reconciliation of beginning and ending balances as of December 31, 2022 and 2021, is as follows:

	Balance as of January 1, 2022	Additions	Disposals	Revaluation	Transferred assets	Impairment	Translation effect	Balances as of December 31, 2022
Investment:								
Land	$ 2,427,788	$ -	$ -	$ 716,650	$ (38,570)	$ -	$ -	$ 3,105,868
Building and facilities	4,065,132	-	-	1,462,201	4,174	-	(2,564)	5,528,943
Industrial machinery and equipment	23,160,997	28,534	(239,559)	-	140,903	66,459	34,330	23,191,664
Office furniture and equipment	85,306	314	-	-	1,444	-	(8,765)	78,299
Transportation equipment	75,618	3,742	(3,330)	-	-	-	73	76,103
Computer equipment	223,470	11,624	(603)	-	2,929	-	(21)	237,399
Preoperative expenses	-	10,396	-	-	69,186	-	-	79,582
Projects-in-progress	842,946	65,576	(176)	-	(360,590)	-	1,593	549,349
Total investments	30,881,257	120,186	(243,668)	2,178,851	(180,524)	66,459	24,646	32,847,207
Depreciation:								
Building and installations	(2,082,709)	(90,428)	-	(486,884)	-	-	2,025	(2,657,996)
Industrial machinery and equipment	(19,745,694)	(322,444)	26,215	-	-	-	(23,527)	(20,065,450)
Office furniture and equipment	(65,726)	(2,047)	-	-	-	-	527	(67,246)
Transportation equipment	(70,326)	(4,296)	3,132	-	-	-	(203)	(71,693)
Computer equipment	(195,521)	(10,300)	361	-	-	-	(919)	(206,379)
Preoperative expenses	(4,011)	-	-	-	-	-	(6,915)	(10,926)
Total accumulated depreciation	(22,163,987)	(429,515)	29,708	(486,884)	-	-	(29,012)	(23,079,690)
Investment net	$ 8,717,270	$ (309,329)	$ (213,960)	$ 1,691,967	$ (180,524)	$ 66,459	$ (4,366)	$ 9,767,517

	Balance as of January 1, 2021	Additions	Disposals	Segments of sales	Transferred assets	Translation effect	Balances as of December 31, 2021
Investment:							
Land	$ 2,674,686	$ -	$ (12,126)	$ (159,977)	$ -	$ (74,795)	$ 2,427,788
Building and installations	5,650,643	-	-	(1,754,702)	1,838	167,353	4,065,132
Industrial machinery and equipment	32,825,625	81,326	(34,267)	-	(53,850)	(9,657,837)	23,160,997
Office furniture and equipment	746,963	96	-	(686,619)	-	24,866	85,306
Transportation equipment	93,597	1,646	(5,817)	(13,515)	595	(888)	75,618
Computer equipment	476,189	11,425	(2,559)	(304,114)	8,316	34,213	223,470
Water treatment plants	17,885	-	-	-	-	(17,885)	-
Transfers available for sale	(2,633,643)	-	-	2,633,643	-	-	-
Projects-in-progress	918,245	53,216	-	(325)	(128,160)	(30)	842,946
Total investments	40,770,190	147,709	(54,769)	(285,609)	(171,261)	(9,525,003)	30,881,257
Depreciation:							
Building and installations	(3,467,198)	(75,638)	-	1,528,631	-	(68,504)	(2,082,709)
Industrial machinery and equipment	(28,795,231)	(335,531)	5,525	-	-	9,379,543	(19,745,694)
Office furniture and equipment	(494,625)	(2,948)	-	453,732	-	(21,885)	(65,726)
Transportation equipment	(75,139)	(7,163)	5,817	6,604	-	(445)	(70,326)
Computer equipment	(396,979)	(8,806)	1,894	225,500	-	(17,130)	(195,521)
Water treatment plants	(15,626)	(650)	-	-	-	12,265	(4,011)
Transfers available for sale [(1)]	1,923,350	-	-	(1,923,350)	-	-	-
Total accumulated depreciation	(31,321,448)	(430,736)	13,236	291,117	-	9,283,844	(22,163,987)
Investment net	$ 9,448,742	$ (283,027)	$ (41,533)	$ 5,508	$ (171,261)	$ (241,159)	$ 8,717,270

As of December 31, 2022, the date of the revaluation, the fair value of land and buildings and installations was determined by independent appraisers with experience in the industry. The independent appraisers applied the fair value method to determine the valuation of land and buildings and installations. As of December 31, 2022, the amounts of the revaluation for land and buildings and installations were $716,650 and $1,462,201 thousand pesos, respectively, and were recognized in Other Comprehensive Income within the consolidated statements of Income (Loss) and other comprehensive loss.

10. Investment properties

Fair value of investment properties is as follows:

	2022	2021
Land	$ 779,739	$ 940,570
Building and installations	76,389	74,467
Total	$ 856,128	$ 1,015,037

The fair value of investment properties is determined by independent appraisers who have applied the market approach and the residual method to determine the valuation of land and the replacement method for buildings and installations. The method used is as follows:

a. The market approach was determined by examining the supply and demand of similar land, operations performed and valuations in the sector and similar areas, the study of land values with comparable properties considering, potential development and localization, and consulting the database of the Market Estate Association (Colombian rated entity).

b. The residual method was applied by estimating the value that a builder who develops a project, in the light of existing regulations and taking into account market factors, would be willing to pay.

c. The replacement method is based on the cost of building an asset with similar characteristics, considering actual physical conditions of the asset.

The movements presented in investment properties are as follows:

	Balances as of January 1, 2022	Additions	Fair value adjustment	Translation effect	Balances as of December 31, 2022
Land	$ 940,570	$ 38,200	$ (74,548)	$ (124,483)	$ 779,739
Building and installations	74,467	6,280	6,650	(11,008)	76,389
Total	$ 1,015,037	$ 44,480	$ (67,898)	$ (135,491)	$ 856,128

	Balances as of January 1, 2021	Additions	Fair value adjustment	Translation effect	Balances as of December 31, 2021
Land	$ 1,344,814	$ (257,287)	$ (1,442)	$ (145,515)	$ 940,570
Building and installations	222,243	(112,193)	(24,055)	(11,528)	74,467
Total	$ 1,567,057	$ (369,480)	$ (25,497)	$ (157,043)	$ 1,015,037

The lease income (expenses) generated by investment properties in 2022 and 2021 were $11,970 and $21,245, respectively. To keep the investment properties in working condition, improvements and maintenance were necessary, resulting in expenditures of $1,898 and $1,302, in 2022 and 2021, respectively.

11. Right-of-use assets - net

The Entity leases various assets, including real estate, plant and equipment, technology equipment and transportation equipment. The average lease term is 15 years.

The Entity has the option to purchase certain manufacturing equipment for a nominal amount at the end of the lease period. The Entity's obligations are insured by the lessor's title to the assets leased in said leases.

	Building	Shops	Total
Cost:			
Balances as of January 1, 2022	$ 557,022	$ -	$ 557,022
Additions	964	-	964
Disposals	(54,860)	-	(54,860)
Balances as of December 31, 2022	$ 503,126	$ -	$ 503,126

The Entity has the option to purchase certain manufacturing equipment for a nominal amount at the end of the lease period. The Entity's obligations are insured by the lessor's title to the assets leased in said leases.

	Building	Shops	Total
Accumulated depreciation:			
Balances as of January 1, 2022	$ (223,455)	$ -	$ (223,455)
Depreciation for the year	(19,274)	-	(19,274)
Disposals	11,232	-	11,232
Balances as of December 31, 2022	$ (231,497)	$ -	$ (231,497)
	$ 271,629	$ -	$ 271,629
Cost:			
Balances as of January 1, 2021	$ 855,097	$ 56,341	$ 911,438
Additions	11,315	-	11,315
Disposals	(309,390)	(56,341)	(365,731)
Balances as of December 31, 2021	$ 557,022	$ -	$ 557,022
Accumulated depreciation:			
Balances as of January 1, 2021	$ (204,590)	$ (4,512)	$ (209,102)
Depreciation for the year	(18,865)	-	(18,865)
Disposals	-	4,512	4,512
Balances as of December 31, 2021	$ (223,455)	$ -	$ (223,455)
	$ 333,567	$ -	$ 333,567

Amounts recognized as expenses in results:

Amounts recognized in the consolidated statement of Income (Loss)	2022	2021
Depreciation right-of-use asset	$ 19,274	$ 18,865
Interest on lease liability	5,823	17,833
Lease payments	19,012	71,527

Total cash outflows for leases amounted was $44,109 and $53,694 in 2022 and 2021, respectively.

The discount rates used by Management to determine the right-of-use assets are as follows:

Building	10.80% and 7.23%
Shops	10.00%

12. Other assets

	2022	2021
Guarantee deposits	$ 3,538	$ 3,735
Other assets	3,281	-
Other permanent investments	6,506	-
Total	$ 13,325	$ 3,735

13. Long-term debt

As of December 31, 2022 and 2021, long-term debt consists of the following:

Bank	Type	Currency	Rate	Maturity	2022	2021
Senior Notes due 2022 (a)	Offering Notes	US dollars	8.875%	2022	$ -	$ 4,528,370
BNP Paribas Fortis Bank SA/ NV	Simple credit	US dollars	LIBOR plus 2.47%	2022	-	15,884
Senior Notes due 2025 (b)	Offering Notes	US Dollar	14.500%	2025	2,282,082	-
Banco Nacional de Comercio Exterior (c)	Simple credit	USD Dollar	SOFR, plus 6.25%	2032	774,460	-
Banco Nacional de Comercio Exterior (c)	Simple credit	Mexican Peso	TIIE, plus 2.85%	2032	1,189,470	-
					4,246,012	4,544,254
			Less - Current portion of long-term debt		1,963,930	4,544,254
			Less - Current portion of debt issuance expenses		-	(10,832)
			Current portion of long-term debt, net		1,963,930	4,533,422
			Long-term debt, net		$ 2,282,082	$ -

a. Notes for US $220 million, accruing interest at a fixed rate of 8.875%, issued in April 2017, and maturing in April 2022. Accrues interest every 180 days in the months of April and October. Notes are guaranteed by the Subsidiaries: Manufacturas Kaltex, S.A. de C.V., Kaltex Fibers, S.A. de C.V., Kaltex Energía, S.A. de C.V., Energía MK KF, S.A. de C.V. Kaltex Textiles, S.A. de C.V., Kaltex Comercial, S.A. de C.V, Kaltex Internacional, S.A. de C.V. and Kaltex America, Inc.

b. Agreement with Bondholders of $118 million US dollars will be substituted through a "rollover" of the prior debt with the exchange of a new bond issuance, accruing interest at a fixed rate of 14.5% and maturing in September 2025. The Entity identified five main bondholders, which jointly hold approximately 45% of the current bond. This bondholder group ("Ad Hoc Group") came together to negotiate refinancing terms. Notes are guaranteed by the Subsidiaries: Manufacturas Kaltex, S.A. de C.V., Kaltex Fibers, S.A. de C.V., Kaltex Energía, S.A. de C.V., Energía MK KF, S.A. de C.V. Kaltex Textiles, S.A. de C.V., Kaltex Comercial, S.A. de C.V., Kaltex Internacional, S.A. de C.V. and Kaltex America.

c. Bank loan of $100 million US dollars for a ten-year term with a three-month grace period, composed by a Tranche A of $40 million dollars at a rate of 3-month SOFR + 625 basis points and a Tranche B of $60 million dollars in Mexican pesos at a 91-day TIIE rate + 285 basis points, with quarterly payments.

d. Most of these loans are guaranteed by property, plant and equipment owned by the Entity and its subsidiaries.

e. Long-term debt maturities as of December 31, 2022 are as follows:

Year	**2022**
2025	$ 2,282,082

f. The Entity must comply with certain covenants, which were complied with as of December 31, 2022. However, there are some obligations, which at the date of the issuance of these consolidated financial statements the Entity has no complied, specifically, the Entity did not provide to the bank not later than 180 days of yearend these audited consolidated financial statements. Consequently, as established by IAS 1 "*Presentation of Financial Statements*", the long-term has been classified as current because the Entity does not have the right to defer settlement for at least 12 months after the reporting period.

g. The Entity as of December 31, 2021 defaulted on some obligations and the long-term debt was *reclassified* as a current liability.

h. In the debt contract carried out at the end of fiscal year 2022, the shareholders guaranteed a total amount of collateral for USD $397,648 million, subdivided as follows:

- USD $241,022 guaranteed to bondholders for its restructuring.
- USD $156,626 guaranteed to Bancomext for the financing that will be granted to settle part of the debt with the bondholders.

i. Reconciliation of liabilities arising from financing activities.

The table below details changes in the Entity's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Entity's consolidated statement of cash flows as cash flows from financing activities.

	As of January 1, 2022	Proceeds from borrowings	Repayments from borrowings	Other (i)	As of December 31, 2022
Senior Notes	$ 4,517,538	$ 2,334,809	$ (4,342,838)	$ (227,427)	$ 2,282,082
Bank loans	15,884	1,963,930	(15,884)	-	1,963,930
Loans from related parties (Note 20)	2,662,482	-	(19,051)	(66,651)	2,576,780
	$ 7,195,904	$ 4,298,739	$ (4,377,773)	$ (294,078)	$ 6,822,792

	As of January 1, 2021	Proceeds from borrowings	Repayments from borrowings	Other (i)	As of December 31, 2021
Senior Notes	$ 6,383,584	$ -	$ (2,103,558)	$ 237,512	$ 4,517,538
Bank loans	70,512	-	(54,628)	-	15,884
Loans from related parties (Note 20)	1,615,244	1,542,908	(381,419)	(114,251)	2,662,482
	$ 8,069,340	$ 1,542,908	$ (2,539,605)	$ 123,261	$ 7,195,904

(i) Other changes include exchange fluctuation and expenses associated with issuance costs recognized in accordance with the effective cost method.

14. Lease liability

	2022	2021
Maturity analysis:		
Year 1	$ 86,329	$ 78,552
Year 2	88,614	75,807
Year 3	89,176	74,294
Year 4	42,941	20,650
Onwards	43,892	125,649
	350,952	374,952
Less: unearned interest	(40,849)	(16,528)
	$ 310,103	$ 358,424
Analyzed as:		
Current	$ 86,329	$ 78,552
Non-current	223,774	279,872
	$ 310,103	$ 358,424

Amounts recognized in the consolidated statement income	2022	2021
Depreciation expense of the asset for use rights	$ 19,274	$ 18,865
Finance expense caused by lease liabilities	5,823	17,833

The Entity does not face a significant liquidity risk regarding its lease liabilities. Lease liabilities are monitored through the Entity's Treasury Department.

15. Other accounts payable and accrued liabilities

Balances as of December 31, are as follows:

	2022	2021
Payables for services	$ 545,217	$ 635,472
Payables for machinery	123,012	104,643
Provisions (i)	292,345	98,378
Other taxes payable	920,673	1,078,614
Interest payable	62,636	170,613
	$ 1,943,883	$ 2,087,720

(i) Provisions represent amounts accrued during 2022 and 2021, or contracted services of the following nature, attributable the financial year, which are expected to be paid within a period not exceeding one year. The final amounts to be paid and the timing of those outflows of economic resources involve uncertainties and could therefore vary.

	2022			
	Opening Balance	Additions	Reductions	Closing Balance
Social security and other benefits	$ 25,634	$ 45,634	$ (8,610)	$ 58,421
Labor provision	21,851	35,375	(40,153)	16,903
Other	50,893	215,687	(53,966)	217,021
	$ 98,378	$ 296,696	$ (102,729)	$ 292,345

	2021			
	Opening Balance	Additions	Reductions	Closing Balance
Social security and other benefits	$ 45,718	$ 8,100	$ (28,184)	$ 25,634
Labor provision	38,971	6,876	(23,996)	21,851
Other	33,170	41,219	(23,496)	50,893
	$ 117,859	$ 56,195	$ (75,676)	$ 98,378

16. Retirement employee benefits

Defined benefit plans

The Entity handles a plan that covers seniority premiums, which consist of a single payment of 12 days per every year worked based on final salary, limited to twice the minimum wage established by law year. The related liability and annual benefits costs are calculated by an independent actuary on the bases defined in the plans using the projected unit credit method.

The plans typically expose the Entity to actuarial risks such as interest rate risk, longevity risk and salary risk.

Interest risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The risk relating to benefits to be paid to the dependents of plan members (widow and orphan benefits) is re-insured by an external insurance Entity.

No other post-retirement benefits are provided to these employees.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of December 31, 2022 by independent actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2022	**2021**
	%	**%**
Discount rate	9.57	7.25
Expected rate of salary increase	7.06	4.75
Inflation rate	3.78	3.75

Amounts recognized in comprehensive income in respect of these defined benefit plans are as follows.

	2022	**2021**
Service cost:		
Labor cost of current service	$ 16,915	$ 21,875
Net interest expense	37,039	30,500
Components of defined benefit costs recognized in profit or loss	$ 53,954	$ 52,375
Remeasurement on the net defined benefit liability:		
Actuarial gains arising from changes in financial assumptions	$ (77,803)	$ (37,474)
Components of defined benefit costs recognized in other comprehensive income	$ (77,803)	$ (37,474)

Components of defined benefit costs recognized in other comprehensive income:

	2022	**2021**
Remeasurement on the net defined benefit liability	$ (77,803)	$ (37,474)
Deferred tax	23,343	11,242
Components of defined benefit costs recognized in other comprehensive income	$ (54,460)	$ (26,232)

The current service cost and the net interest expense for the year are included in the employee benefits expense in profit or loss and other comprehensive loss within administrative expenses.

The remeasurement of the net defined benefit liability is included in other comprehensive loss.

The amount included in the consolidated statements of financial position arising from the Entity's obligation in respect of its defined benefit plans is as follows:

	2022	2021
Present value of funded defined benefit obligation	$ 525,002	$ 569,630

Movements in the present value of the defined benefit obligation in the current year were as follows.

	2022	2021
Opening defined benefit obligation	$ (569,630)	$ (577,539)
Current service cost	(16,915)	(21,875)
Interest cost	(37,039)	(30,500)
Remeasurement gains	77,803	37,474
Benefits paid	20,779	22,810
Closing defined benefit obligation	$ (525,002)	$ (569,630)

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the expected salary growth increases (decreases) by 1%, the defined benefit obligation would not have significant changes.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

17. Financial instruments

The Entity is exposed to market risks such as interest rate risk and foreign currency risk, as well as credit risk and liquidity risk, all of which are managed centrally by the corporate treasury. Compliance with these policies and exposure limits are reviewed by internal audit on an ongoing basis.

a. ***Classes of financial instruments***

The different categories of financial instruments and their amounts as of December 31, 2022 and 2021 are shown below:

		2022		2021
Financial assets:				
Cash and cash equivalents	$	220,883	$	225,755
Accounts receivable, net		1,245,228		1,742,594
Accounts receivable from related parties		11		2,383
Financial liabilities:				
At amortized cost:				
Bank loans, current and long-term debt	$	4,246,012	$	4,533,422
Accounts payable to suppliers		1,963,762		1,677,881
Accounts payable to related parties		2,672,158		3,133,762
Other accounts payable and accrued liabilities		730,865		910,728

b. ***Management of capital risk***

The Entity manages its capital to ensure that it will continue as an ongoing business, while also maximizing the return to its shareholders through optimization of its capital balance through continuous monitoring of the debt/capital structure. The Entity's capital structure consists of net debt (bank loans as detailed in Note 12) and the Entity's equity (comprising issued contributed capital, reserves and deficit accumulated in Note 18). The Entity is not subject to any externally imposed capital requirements.

The Entity's management reviews its capital structure and borrowing costs and their relation to EBITDA (earnings before taxes plus / minus interest, exchange rate fluctuations, the effect of derivatives on financial costs, depreciation and amortization) on a monthly basis, at the time it presents financial projections as part of the business plan to the Board of Directors and shareholders of Entity.

The rate of net indebtedness of the Entity is as follows:

		2022		2021
Debt with financial institutions and Senior Notes	$	4,246,012	$	4,533,422
Cash and cash equivalents		(220,883)		(225,755)
Net debt with financial institutions	$	4,025,129	$	4,307,667
EBITDA	$	(66,371)	$	1,960,756
Net debt to EBITDA	$	(60.65)	$	2.20
EBITDA	$	(66,371)	$	1,960,756
Interest incurred on debt	$	592,583	$	694,042
Interest coverage index		(8.93)		0.35

c. ***Financial risk management objectives***

The Entity Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Entity through internal risk reports, which analyses exposures by degree and magnitude of risks.

These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, and liquidity risk.

The Entity seeks to minimize the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Entity's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

d. ***Market risk***

The Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There has been no change to the Entity's exposure to market risks or the manner in which these risks are managed and measured.

i) ***Foreign currency risk management***

The functional currency of the majority of the subsidiaries of the Entity is the Mexican peso. The Entity is exposed to foreign exchange risk related to the Mexican peso as a result of financing obtained in U.S. dollars.

The Entity also has monetary assets and liabilities denominated in foreign currencies, mainly the US dollar, Euro, Nicaraguan Cordoba, Colombian peso and Swiss Franc, which exposes it to currency risk. However, this risk is hedged by the operations of the Entity in those respective countries.

Carrying values of assets and liabilities denominated in foreign currencies to which the Entity is mainly exposed are as follows (in thousands):

	Liabilities		Assets	
	2022	**2021**	**2022**	**2021**
U.S. Dollar	289,138	449,115	111,742	144,146
Euro	2,558	2,786	3,206	3,082
Colombian peso	34,474,792	60,936,202	6,450,060	6,814,132
Swiss Franc	346	97	149	219

The following table details the Entity's sensitivity to an increase and decrease of 10% in pesos against the relevant foreign currencies. The 10% is the sensitivity rate used when foreign exchange risk is reported internally to key management personnel and represents management's assessment of the reasonably possible change in exchange rates. The sensitivity analysis includes only outstanding monetary items denominated in foreign currency and adjusts their translation at the end of the period for a 10% change in exchange rates.

A positive number (as shown in the table below) indicates an increase in the results where the peso is strengthened by 10% against the relevant currency. If a weakening of 10% of the peso with respect to the reference currency is presented, then it will have a comparable impact on the results and the following balances would be negative (amounts in thousands):

	2022	**2021**
U.S. Dollar	343,465	627,732
Euro	(1,349)	6,889
Colombian peso	(11,072)	24,724
Swiss franc	416	2,742

Exchange rates	2022	2021	November 9, 2023
U.S. Dollar	$ 19.3615	$ 20.4672	$ 18.0368
Euro	$ 20.6519	$ 23.2753	$ 19.2218
Colombian peso	$ 246.1517	$ 198.5850	$ 228.5600

ii) ***Interest rate risk management***

The Entity is exposed to interest rate risk because it has financial debt that accrues interest at variable rates. The Entity has short-term loans mainly for working capital as well as for certain projects, the proceeds of which will be used to pay the related debt.

Exposure of the Entity to interest rate risk relates primarily to the LIBOR on financial liabilities. Sensitivity analyses are prepared by the Entity based on the net exposure to floating interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, net income (loss) ended December 31, 2022 and 2021, would increase/decrease $818 and $4,503, respectively.

e. ***Credit risk management***

The note 6 details the Entity's maximum exposure to credit risk and the measurement bases used to determine ECL.

In order to minimize credit risk, the Entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Have low credit risk for the purpose of impairment assessment. The credit rating information is supplied by independent rating agencies where available and, if not available, the Entity uses other publicly available financial information and its own trading records to rate its major customers. The Entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Before accepting any new customer, a dedicated team responsible for the determination of credit limits uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed and approved twice a year by the risk management committee. The 80% of the trade receivables have the best credit scoring attributable under the external credit scoring system used by the Entity.

Credit approvals and other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts.

Furthermore, the Entity reviews the recoverable amount of each trade debt and debt investment on an individual basis at the end of the reporting period to ensure that adequate loss allowance is made for irrecoverable amounts. In this regard, the directors of the Entity consider that the Entity's credit risk is significantly reduced.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

(i) ***Overview of the Entity’s exposure to credit risk***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Entity. As of December 31, 2022 the Entity maximum exposure to credit risk without taking into account any collateral held or other credit enhancements, which will cause a financial loss to the Entity due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Entity arises from:

- The carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position; and
- The maximum amount the entity would have to pay if the financial guarantee is called upon, irrespective of the likelihood of the guarantee being exercised.

The Entity's exposure and the credit ratings of its counterparties are continuously monitored and the accumulated value of the completed transactions is distributed among the approved counterparties. The credit exposure is controlled by the counterparty limits that are reviewed and approved by the Entity Credit Committee.

Accounts receivable from customers are composed of a large number of clients distributed through different industries and geographic areas. Before granting credit to any client, a financial evaluation is performed and credit references are requested; finally, the continuous evaluation of the credit is made on the financial condition of the accounts receivable, when appropriate. The Entity considers that its potential credit risk is adequately covered by its allowance for doubtful accounts, which represents its estimate of expected credit losses due to impairment with respect to accounts receivable (see Note 6).

The Entity’s current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognizing expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL - not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Entity has no realistic prospect of recovery	Amount is written off

The tables below detail the credit quality of the Entity’s financial assets, contract assets and financial guarantee contracts, as well as the Entity’s maximum exposure to credit risk by credit risk rating grades:

December 31, 2022	Internal credit rating	12-month or lifetime ECL	Gross carrying amount (i)	Loss allowance	Net carrying value
Accounts receivable	Performing	12-month	1,301,307	(56,079)	1,245,228
Sundry debtors	Performing	12-month	150,573	-	150,573
Accounts receivable from related parties	Performing	12-month	11	-	11

December 31, 2021	Internal credit rating	12-month or lifetime ECL	Gross carrying amount (i)	Loss allowance	Net carrying value
Accounts receivable	Performing	12-month	1,784,404	(41,810)	1,742,594
Sundry debtors	Performing	12-month	56,295	-	56,295
Accounts receivable from related parties	Performing	12-month	2,383	-	2,383

For trade receivables, the Entity has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Entity determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix.

f. ***Liquidity risk management***

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Entity's short-, medium- and long-term funding and liquidity management requirements. The Entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. This note sets out details of additional undrawn facilities that the Entity has of its disposal to further reduce liquidity risk.

The following tables detail the Entity's remaining expected maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Entity can be required to pay. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Entity may be required to pay:

As of December 31, 2022	Weighted average effective interest Rate	1 year	1 - 3 year	More than 3 years	Total
Bank loans and long term - debt	12.78%	$ 1,963,930	$ 2,282,082	$ -	$ 4,246,012
Interest payable		62,634	-	-	62,634
Accounts payable to suppliers	-	1,963,762	-	-	1,963,762
Due to related parties	-	95,378	2,576,780	-	2,672,158
Lease liability	-	86,329	179,882	43,892	310,103
Other financial liabilities	-	668,229	-	-	668,229
Total		$ 4,840,262	$ 5,038,744	$ 43,892	$ 9,922,898

As of December 31, 2021	Weighted average effective interest Rate	1 year	1 - 3 year	More than 3 years	Total
Bank loans and long term - debt	8.43%	$ 4,533,422	$ -	$ -	$ 4,533,422
Interest payable		281,546	-	-	281,546
Accounts payable to suppliers	-	1,677,881	-	-	1,677,881
Due to related parties	-	488,339	2,662,482	-	3,150,821
Lease liability	-	78,552	232,775	125,649	436,976
Other financial liabilities	-	740,115	-	-	740,115
Total		$ 7,799,855	$ 2,895,257	$ 125,649	$ 10,820,761

18. Fair value measurements of financial instruments

Except as detailed in the following table, the Entity's management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximates their fair value due to their short-term maturities.

a. The carrying and fair value of long-term debt is as follows as of December 31:

	2022		2021	
	Carrying value	Fair value	Carrying value	Fair value
Debt	$ 4,246,012	$ 4,246,012	$ 4,533,422	$ 4,533,422

b. Fair value hierarchy

There are no financial instruments that are measured at fair value subsequent to initial recognition. However, the fair value of financial instruments measured at amortized cost is presented in the table above. A description on the extent to which the fair value is observable below:

- Level 1 are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 are those derived from inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

During the period, there were no transfers between Level 1, 2 and 3.

The fair value of long-term debt is calculated using a discounted cash flow method with an approximated market rate of the current debt cost based on comparable information in the market for entities with a similar risk profile. The level of fair value calculation is level 2.

19. Stockholders' equity

a. As of December 31, 2022 and 2021, capital stock is represented by:

	2022		2021	
	Number of shares	Amount	Number of shares	Amount
Fixed portion:				
Series "A"	50,000	$ 50	50,000	$ 50
Variable portion:				
Series "B"	4,435,778,600	4,435,779	4,017,940,410	4,017,940
	4,435,828,600	$ 4,435,829	4,017,990,410	$ 4,017,990

Capital stock consists of common registered shares with a par value of one peso per share. Mexican citizens can only acquire Shares of Series "A". Variable capital is unlimited.

b. At the Ordinary General Stockholders' Meeting held on December 8, 2022, a dividend payment of $57,800 was approved, which was applied to retained earnings.

c. At the Ordinary General Stockholders' Meeting held on July 27, 2022, an increase in capital stock of $417,839 was approved.

d. The legal reserve may not be distributed during the existence of the Entity unless the Entity is dissolved.

e. Stockholders' equity, except for restated paid-in capital and tax retained earnings will be subject to ISR payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years.

f. The balances of the stockholders' equity tax accounts as of December 31, are as follows:

	2022	2021
Contributed capital account	$ 9,416,633	$ 8,336,051
Net account tax profit at the end 2013 (CUFIN)	1,073,428	959,456
Total	$ 10,490,061	$ 9,295,507

20. Equity and earnings of non-controlling interest

a. The following table lists the subsidiaries in which a significant non-controlling interest exists. The amounts shown as of December 31, 2022 and 2021, are presented before eliminations:

		Proportion of the non-controlling interests with voting rights		(Loss) income of the period allocated to non-controlling interests		Equity of non-controlling interests	
Subsidiary	Location	2022	2021	2022	2021	2022	2021
Coltejer, S.A.	Colombia	39.74%	39.74%	$ (244,282)	$ (16,122)	$ 1,016,644	$ 477,615
Kaltex Textiles, S.A. de C.V.	Mexico	18.43%	26.30%	(24,648)	71,782	929,412	909,621
Total				$ (268,930)	$ 55,660	$ 1,946,056	$ 1,387,236

b. Subsidiaries condensed financial statements in which a material non-controlling interest exists:

	2022	2021
Coltejer, S.A.:		
Total assets	$ 4,856,966	$ 3,941,364
Total liabilities	$ 2,298,726	$ 2,739,513
Net assets	$ 2,558,240	$ 1,201,851
Total revenues	$ 14,927	$ 95,132
Net loss for the year	$ (614,700)	$ (635,841)
Kaltex Textiles, S.A. de C.V.:		
Total assets	$ 16,040,111	$ 14,811,375
Total liabilities	$ 10,997,184	$ 11,361,551
Net assets	$ 5,042,927	$ 3,449,824
Total revenues	$ 12,221,735	$ 11,696,209
Net gain (loss) for the year	$ (133,741)	$ 272,937

21. Balances and transactions with related parties

Balances and transactions between the Entity and its subsidiaries, which are related parties of the Entity, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Entity and other related parties are disclosed below.

a. Balances to related parties are as follows:

	2022	2021
Accounts receivable:		
Operadora Circulo CCK, S.A. de C.V.	$ 11	$ 2,088
Other	-	295
	$ 11	$ 2,383
Accounts payable:		
Kaltex Inmobiliaria, S.A. de C.V.	$ -	$ 307,116
Inmobiliaria Los Mejia, S.A. de C.V.	74,384	74,930
Inmobiliaria Emilio Castelar, S.A. de C.V.	-	40,519
Inmobiliaria Baz Rivera, S.A. de C.V.	-	13,912
Rancho Los Mejias, S.A. de C.V.	19,893	20,980
Inmobiliaria Barrientos, S.A. de C.V.	-	20,342
Inmobiliaria Mago, S.A. de C.V.	1,101	3,669
Inmobiliaria Tochtli Centeotl, S.A. de C.V.	-	6,871
	$ 95,378	$ 488,339

	2022	2021
Long-term accounts payable-		
Grupo MCM Colombia, S.A. (1)		
Long-term debt	$ 1,558,882	$ 1,543,599
Mosjak, S.A. de C.V. (2)		
Long-term debt	1,017,898	1,101,824
	$ 2,576,780	$ 2,645,423

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior years for bad or doubtful receivables in respect of the amounts owed by related parties.

(1) As of December 31, 2022 and 2021, the balance payable in the long term to Grupo MCM Colombia, S.A., composed of loan for a principal US $65 million, accruing interests at a rate of 10%, with maturity in 2025.

(2) As of December 31, 2022 and 2021, the long-term balance payable to Mosjak, S.A. de CV, is composed loan for a principal amount of US $4.35 million, and for the acquisition of the non-controlling of Grupo Milano for US $12.7 million, accruing interest at a rate of 3.10%, with a maturity in 2025.

b. Transactions with related parties, carried out in the ordinary course of business were as follows:

	2022	2021
Revenues-		
Other income	$ 5,590	$ 21,040
Expenses-		
Lease income	$ 5,656	$ 19,439
Interest expense	28,500	13,422

22. Costs and expenditures by nature

	2022	2021
Cost of sales:		
Wages and salaries	$ 1,277,149	$ 1,180,465
Employee benefits	764,229	778,765
Profit sharing	59,513	108,685
Raw material	6,603,364	6,736,536
Manufacturing expenses	20,552	-
Freight	192,255	100,468
Maintenance	358,709	380,374
Leasing	32,310	3,310
Electricity	363,833	897,004
Fuels and lubricants	427,902	318,484
Logistics services	33,140	48,408
Customs charges	75,848	68,006
Other	445,729	505,036
Subtotal	10,654,533	11,125,541
Depreciation and amortization	418,313	403,241
Depreciation of right-of-use assets	5,968	5,368
Total	$ 11,078,814	$ 11,534,150
Sales expenses:		
Wages and salaries	$ 83,647	$ 148,750
Employee benefits	20,919	37,496
Profit sharing	5,531	12,262
Publicity	1,301	11,325
Travel expenses	4,462	2,986
Insurance	7,510	7,447
Freight	150	-

	2022	2021
Sales expenses:		
Fees	5,684	6,200
Maintenance	3,440	4,068
Leasing	292	7,712
Electricity	341	1,029
Water	-	216
Bank commissions	28,046	17,329
Royalties	25,030	81,283
Sales commissions	29,447	31,785
Other	21,771	2,922
Subtotal	237,571	372,810
Depreciation and amortization	8,489	2,961
Depreciation of right-of-use assets	13,306	13,497
Total	$ 259,366	$ 389,268
Administrative expenses:		
Wages and salaries	$ 155,414	$ 221,283
Employee benefits	31,460	62,989
Profit sharing	7,226	13,823
Travel expenses	2,920	2,249
Insurance	17,852	16,468
Freight	19	92
Fees	251,234	81,456
Maintenance	28,944	48,815
Leasing	11,437	76,063
Phone	13,268	14,601
Electricity	5,266	3,233
Bank commissions	1,466	1,647
Other	33,058	118,134
Subtotal	559,564	660,853
Depreciation and amortization	2,713	24,534
Total	$ 562,277	$ 685,387

23. Other (income) expenses

	2022	2021
Loss (income) on sale of machinery and equipment	$ 147,174	$ (8,866)
Fair value adjustment of investment properties	67,898	25,497
Lease income	(11,970)	(21,245)
(Income) loss from sales of waste	(23,504)	78,441
Recovery of insurance	(6,005)	(12,262)
Tax and surcharge update	376,954	-
Impairment of machinery and equipment	66,459	-
Amortization of debt issuance costs	-	30,808
Income on sale of REVMAN	-	(954,920)
Other (income) expenses	(11,766)	70,958
	$ 605,240	$ (791,589)

24. Income taxes

The Entity and some of its subsidiaries are located in Mexico; certain other subsidiaries are located throughout the United States of America (USA), Colombia and Nicaragua. It is important to mention that although the tax laws and regulations applicable in the different countries may differ considerably, there are similar permanent elements, such as non-deductible and non-taxable items. As a result, the Entity has decided to use the Mexican income tax (ISR) rate of 30% to reconcile its effective tax rate, due to the fact that the majority of the earnings are taxed in Mexico through its direct subsidiary, Kaltex Textiles, S. A. de C. V. and Kaltex Comercial, S.A. de C.V.

Colombia

The Entity calculates income tax based on its presumptive income as defined in the Colombian tax law. The current income tax rate (IRC) is 33%.

Nicaragua

According to Decree No. 46-91 "Ley de Zonas Francas" Art. 20, the Entity has the following tax benefits:

a) 100% exemption from payment of tax on income generated by their activities in the “Zona Franca” (Free Zone) during the first ten years of operation and 60% from the eleventh year.

b) Exemption from payment of tax on sale of property under any title, including the tax on capital gains, if any, provided that the company closed its operations in this area, and the property continues to affect the regime Zona Franca.

c) Exemption from all taxes and customs duties and import-related consumption, applicable to the introduction into the country of raw materials, materials, equipment, machinery, matrix, or spare parts intended to enable the company for its operations in Zona Franca.

d) Exemption from customs duties on transport equipment, other vehicles loading passengers or service intended for normal use of the company in the Zona Franca.

e) Full exemption from excise taxes on sales or selective consumption.

f) Full exemption from municipal taxes.

g) Full exemption from export taxes on processed goods in the Zona Franca.

United States of America

In 2022 and 2021, the Entity was subject to a 21% income tax rate.

a. ***Income tax recognized in profit or loss***

	2022	2021
ISR:		
Current	$ 325,754	$ 463,592
Deferred tax benefit	(295,376)	(43,155)
Income tax recognized in profit or loss	$ 30,378	$ 420,437

Deferred tax recognized in other comprehensive income:

	2022	2021
Actuarial gain on employee benefits	$ (23,343)	$ (11,242)
Revaluation of lands and buildings	(210,688)	-
	$ (234,031)	$ (11,242)

b. ***Deferred tax balances:***

	2022	2021
Deferred income asset:		
Reserves and provisions	$ 58,348	$ 57,726
Employee benefits	157,501	170,889
PTU	23,397	42,923
Tax loss carryforwards	60,518	341
Customer prepayments	12,676	10,837
Investment properties	256,838	30,936
Other	53,369	97,589
Deferred income tax asset	622,647	411,241
Deferred income liability:		
Property, plant and equipment	(1,897,225)	(1,757,033)
Lease liability	(11,542)	(7,457)
Other	(34,085)	(28,301)
Deferred income liability	(1,942,852)	(1,792,791)
Net deferred ISR liability	$ (1,320,205)	$ (1,381,550)

c. ***Deferred tax in statement of financial position***

The following is the analysis of deferred tax assets (liabilities) included in the consolidated statements of financial position:

	2022	2021
Deferred tax asset	$ 94,136	$ 76,923
Deferred tax liability	(1,414,341)	(1,458,473)
Net deferred tax liability	$ (1,320,205)	$ (1,381,550)

The movements of net deferred tax liabilities during the year are as follows:

	2022	2021
Beginning balance	$ (1,381,550)	$ 1,435,947
Deferred income tax recognized in profit or loss	295,376	(43,155)
Deferred income tax recognized in other comprehensive income	(234,031)	(11,242)
Ending balance	$ 1,320,205	$ 1,381,550

d. Following is a reconciliation of the statutory income tax rate and the effective rate on the income from continuing operations before income taxes:

	2022 %	2021 %
Income tax at statutory rate	30	30
Add (deduct) the effect of permanent differences:		
Non-deductible items	(2)	2
Adjustment for inflation	(1)	(1)
Deferred adjustment in subsidiary	-	5
Tax losses	(30)	84
Effective rate	(3)	120

e. In determining deferred income taxes as of December 31, 2022 and 2021, the effects of tax loss carryforwards were included for $201,727 and $1,136, respectively.

Year of Expiration	Tax loss Expiration
2024	$ 1,783
2025	82,592
2026	475,867
2027	178,340
2028	252,553
2029	64,218
2030	839,604
2031	2,702,577
2032	172,045
	4,769,580
Tax loss of foreign entities without maturity	4,394
	$ 4,773,974

25. Contingencies

At the date of these consolidated financial statements, the Entity has legal proceedings pending and taxes pending to pay before the competent authorities. The legal proceedings pending are mainly related to foreign trade operations related to the recovery of accounts receivable and labor lawsuits. The taxes pending to pay are mainly federal taxes including its updates.

26. Subsequent events

The Entity has received loans from shareholders for $245 million. Additionally, made loans to shareholders of $64 million.

27. Segment information

The information reported to the chief operating decision maker ("CODM") for the purposes of resource allocation and assessment is based on three segments as follows:

- Textile: manufacture and distribution of yarns and fabrics of all kinds of natural and synthetic fibers.
- International: distribution for home products in USA, manufacture, and distribution in Colombia for the fashion industry and our fabric and yarn distributor for South America.

a. The following segment information is presented based on the management approach as follows.

	2022			
	International	Textile	Eliminations	Total Consolidated
Net sales	$ 5,703,275	$ 14,432,850	$ (8,145,588)	$ 11,990,537
Gross profit	233,007	787,196	(108,480)	911,723
Sales expense	124,798	142,445	(7,877)	259,366
Administrative expenses	84,605	623,421	(145,749)	562,277
Other (income) expenses, net	288,792	271,302	45,146	605,240
Depreciation and amortization	17,088	412,427	-	429,515
Depreciation of right-of-use asset	13,146	6,128	-	19,274
EBITDA	(234,954)	168,583	-	(66,371)
Interest expenses, net	52,927	519,634	-	572,561
Exchange gain, net	320,240	(394,120)	-	(73,880)
Income tax	(92,572)	122,950	-	30,378
Consolidated net loss of continuing operations	(545,783)	(498,436)	-	(1,044,219)
Total assets	$ 6,824,266	$ 34,800,756	$ (25,507,703)	$ 16,117,319
Total liabilities	$ 2,915,063	$ 19,765,788	$ (9,352,459)	$ 13,328,392

	2021			
	International	Textile	Eliminations	Total Consolidated
Net sales	$ 6,677,701	$ 14,228,359	$ (7,577,689)	$ 13,328,371
Gross profit	531,073	1,469,052	(205,904)	1,794,221
Sales expense	345,522	164,467	(120,721)	389,268
Administrative expenses	346,068	489,538	(150,219)	685,387
Other (income) expenses, net	(616,656)	(232,419)	57,486	(791,589)
Depreciation and amortization	38,947	391,789	-	430,736
Depreciation of right-of-use asset	-	18,865	-	18,865
EBITDA	495,086	1,458,120	7,550	1,960,756
Interest expenses, net	134,244	452,879	103,719	690,842
Exchange gain, net	(227,403)	(191,263)	(51,070)	(469,736)
Income tax	66,113	354,324	-	420,437
Consolidated net loss of continuing operations	28,379	49,000	(147,239)	(69,860)
Total assets	$ 6,128,548	$ 14,811,375	$ (5,927,914)	$ 15,012,009
Total liabilities	$ 3,558,153	$ 11,361,551	$ (904,868)	$ 14,014,836

28. Authorization to issue the consolidated financial statements

On November 9, 2023, the issuance of the accompanying consolidated financial statements was authorized by C.P. Carlos Avelar Guerrero, the Entity’s Legal Representative; consequently, they do not reflect events occurred after that date, and are subject to the approval at the Stockholders’ ordinary meeting, where they may be modified, in accordance with the provisions of the Mexican General Corporate Law.

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