



# **Sustainability Financing Framework**

January 2023

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## 1. Introduction

The journey of Paracel S.A. (“Paracel” or the “Company”) began with two companies – Zapag Group and Girindus Investment – independent of each other – located on different continents, but sharing the same vision: to have a positive impact on society and to encourage an increase in demand for biodegradable products.

The Zapag Group is a Paraguayan leader in the import and distribution of fuel. Always attentive to global and regional trends, the group saw an opportunity in the growth of products derived from pulp and decided to acquire land that was destined for forestation. The choice to acquire these lands considered factors such as degraded land, soil suitability and good conditions for biological growth, logistics; and the possibility of providing work to thousands of people in the region.

Meanwhile, Girindus Investments is a group of companies based in Sweden, which has extensive experience in the research and development of the pulp business throughout its production chain: from sustainable forestation to producing pulp. In the search to expand the business in a competitive environment, Girindus was interested in participating in the development of a new project that met all criteria for a state-of-the art sustainable pulp mill.

In this way, the combination of the vision of Zapag Group and Girindus Investments led to the creation of Paracel, a Paraguayan company in the process of becoming a world class producer of eucalyptus pulp with its own forest plantations in the Concepción region in Paraguay using the best available technological solutions for highest sustainability standards. Paracel’s focus is on the construction and operation of a state-of-the-art bleached Kraft pulp mill, which will be supplied with Forest Stewardship Council (“FSC”) certified wood from its own sustainable plantations and the market. Its design capacity is 1.8 million tons per year (the “Project”).

Paracel will build and operate its mill with the highest standards of global sustainability. The mill and supporting facilities have been designed in accordance with Good International Industrial Practice (“GIIP”) and processes are traditionally characterized by the formation of waste streams and malodorous compounds. Paracel will be one of the most competitive producers of pulp in the world, supplying the global market. Today the Company owns more than 185,000 hectares of land, of which 98,000 hectares are plantable and more than 60,000 hectares are set-asides for conservation and restoration, within an average distance of 130 km to the mill.

The company also expects to contribute to Paraguay's socioeconomic progress by creating around 4,000 direct jobs at the industrial plant, port and plantations, and 36,000 new indirect and indirect-indirect jobs for people in the department of Concepción, one of the areas with the highest poverty rates in the country.

The Project conducted an extensive engagement with 10 indigenous communities in the area of influence and achieved Free, Prior and Informed Consent. Conservation and protection projects include 90,000 hectares of native forests and wetlands

- **Vision:** “Inspire in sustainable production, showing the world the best ways to generate value for this and future generations”;
- **Mission:** “Promote a more sustainable, inclusive and safe ecosystem, with solutions for the needs of humanity and the world”;

- **Purpose:** “Create better forms of coexistence between the needs of human beings and the planet”.

Paracel provides documentation highlighting its various sustainability policies and initiatives on Paracel website<sup>1</sup>.

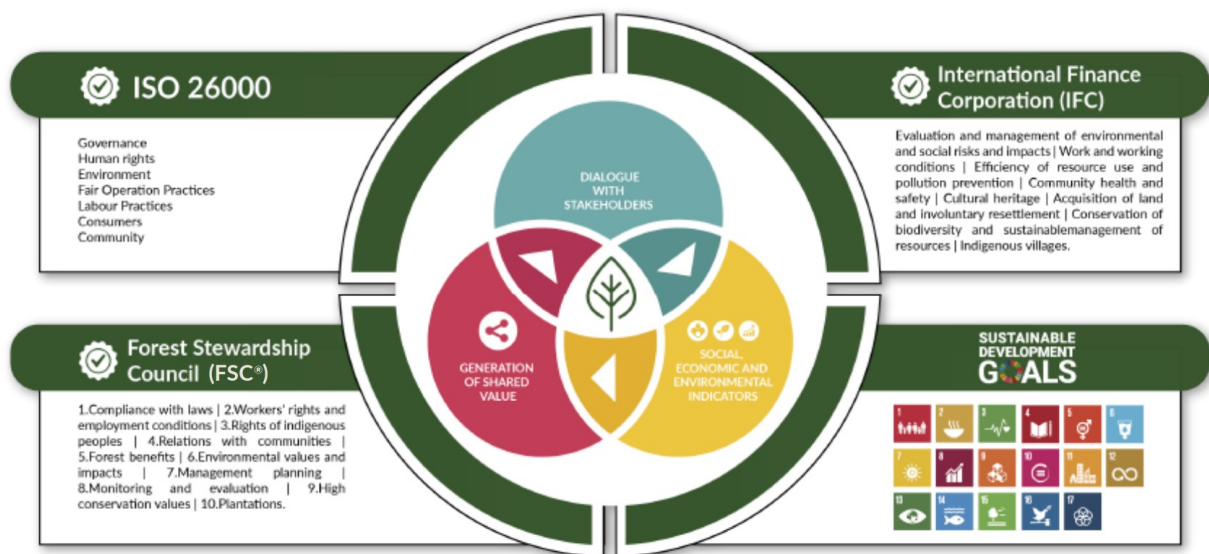


<sup>1</sup> <https://paracel.com.py/en/documents/>

## 2. Parcel's Approach to Sustainability

Parcel is committed to managing and developing its business with the highest international standards of environmental, social and economic sustainability. There is an awareness that this is not only achieved by providing products that satisfy customers, but that production must be done by operating in a socially friendly way, without endangering the environment.

Parcel demonstrates its strong commitment to the development of the Concepción region in Paraguay and its people through its Sustainability Strategy, which fully incorporates national and international regulations and norms, such as ISO 26000, the FSC Standard, the International Finance Corporation (“IFC”) Performance Standard, and the 17 United Nations' Sustainable Development Goals (“SDGs”). For the Company, sustainability is a strategic issue that guides the decisions of the members of the organization, through an integrated vision with the social, environmental and economic dimensions, considering the generation of value of the Company and its competitiveness without disturbing the well-being of society, the planet and the Company.



Parcel has also developed a comprehensive series of policies, plans, programs and supporting documents which constitute the Health, Safety, Environmental and Social (“HSES”) management plans.

### Environmental programs

Among its operations and within the area of influence surrounding its mill site and plantation properties, Parcel has developed numerous environmental programs. Such programs do not only monitor and control environmental impacts, but also ensure positive gains, especially among biodiversity management.



Within Paracel's forestry activities, the plantation properties are located in a transition zone where three ecoregions meet: Cerrado from the north, Humid Chaco to the south and west, and Upper Paraná Atlantic Forest ecoregions to the east and south, resulting in the presence of a high level of characteristic transitional biodiversity.

Paracel leadership understands the Project is operating in the high biodiversity and threatened Cerrados de Concepción ecosystem, which is the southernmost tongue of the Cerrado biome extending south from Brazil. Even though the area has suffered different degrees of anthropogenic modification since colonial time, mainly cattle ranching during the last century and a half, Paracel is developing a Biodiversity Net Gain Strategy in collaboration with international and national experts in ecology, biodiversity management and conservation. The strategy is to attain a biodiversity Net Gain position through a combination of on-site restoration (from historic illegal deforestation) and averted-loss offsets, among other programs. Paracel will strive to recreate ecological corridors, providing connectivity in between regional conservation zones incorporated within the plantation matrix of Paracel's properties and protected sites from illegal deforestation.

Paracel aims to meet global best practice for the environmental outcomes of its operations. Trees need carbon dioxide ("CO<sub>2</sub>") to grow and therefore capture CO<sub>2</sub> from the air to generate biomass, while releasing oxygen. In addition to FSC certification for its cellulose product and the IFC Performance Standards applied to all construction and operations, the Company also obtained certification under Verra's VCS and CCB Standards for its carbon credits, generated from sustainable forest management and afforestation/restoration.

In addition, the mill will produce 220 MW of renewable energy from forest biomass, a non-fossil fuel that will fuel mill's energy consumption and more. Excess energy will be available to the electricity grid and will therefore provide clean energy for the peripheral region. As an example, the excess clean energy, which will be around 100 MW, is equivalent to the consumption of around 500,000 Paraguayans.



## Social programs



For Paracel, it is vitally important that the activities will have a positive effect on the living standards of the people of the region. It is expected that, in addition to creating 4,000 direct jobs, another 16,000 indirect jobs (trucks, workshops, farmers, etc.) and 20,000 indirect-indirect jobs (hotels, taxis, restaurants, etc.) will be created. In this way, Paracel could be a labor source for 40,000 people in the region reach.

Through its entire value chain, Paracel will seek to foster positive long-term relationships with its different stakeholders, putting a greater focus on those with a high degree of vulnerability, such as the indigenous communities of Paraguay.

These environmental and social programs, in conjunction with Paracel broad sustainability strategy, align with the following highlight United Nations' SDGs:

<b>3</b>	Good Health and Well-Being
<b>4</b>	Quality Education
<b>5</b>	Gender Equality
<b>6</b>	Clean Water and Sanitation
<b>7</b>	Affordable and Clean Energy
<b>8</b>	Decent Work & Economic Growth
<b>9</b>	Industry, Innovation and Infrastructure
<b>10</b>	Reduced Inequalities
<b>11</b>	Sustainable Cities and Communities
<b>12</b>	Responsible Consumption & Production
<b>13</b>	Climate Action
<b>15</b>	Life on Land
<b>17</b>	Partnership of the Goals

### 3. Paracel's Sustainability Financing Framework

Paracel has established a Sustainability Financing Framework (the "Framework") as part of the Company's Sustainability Strategy. The Framework is developed to be in line with the Sustainability Bond Guidelines ("SBG") administered by the International Capital Markets Association ("ICMA"). The SBG recommends alignment of Sustainability Bonds with the four core components of both Green Bond Principles, 2021 ("GBP") and Social Bond Principles, 2021 ("SBP"), collectively known as the "Principles". Additionally, this Framework aligns with the Green Loan Principles ("GLP"), 2021, and the Social Loan Principles ("SLP"), 2021, published by the Loan Market Association, Asia Pacific Loan Market Association, and Loan Syndications & Trading Association. This Framework is aligned with the following four key pillars of the Principles:

1. Use of proceeds
2. Process for project evaluation and selection
3. Management of proceeds
4. Reporting

In addition, the Company intends to follow best practice recommendations on transparency of both the Green and Social Bond Principles by publishing this Sustainability Financing Framework and committing to external verification.

This Sustainability Financing Framework functions as the reference document for any Green or Sustainability financing of all Paracel's entities, subsidiaries, and refinanced vehicles.

#### 3.1. Use of Proceeds

The use of proceeds from any Green or Sustainability Bonds (including senior secured and unsecured notes and commercial paper) or Loans (each, a "Sustainability Financing") will be used to finance or refinance, in whole or in part, new or existing Eligible Green and Sustainability Expenditures (together, the "Eligible Expenditures"). Such expenditures include investments in assets with a beneficial environmental impact or programs and initiatives with a specific positive social outcome by Paracel or any of its subsidiaries that meet the criteria described below.



Table 1: Eligible Social Categories












Eligible Categories	Eligibility Criteria	Target Population	SDG Alignment
Socioeconomic Advancement and Empowerment	<p>Expenditures related to the promotion of local employment and entrepreneurship opportunities:</p> <ul style="list-style-type: none"> <li>• Training and education programs for youth, women, Micro, Small and Medium-sized Enterprises (“MSMEs”), local indigenous communities</li> <li>• Assistance programs to formalize MSMEs and regional and local suppliers</li> </ul>	Local and regional suppliers, youth, women, MSMEs, indigenous communities	   

Table 2: Eligible Green Categories

Eligible Categories	Eligibility Criteria	SDG Alignment
Renewable Energy	<p>Expenditures related to related to the design, development, construction, operation, upgrade and/or maintenance of renewable energy and associated infrastructure:</p> <ul style="list-style-type: none"> <li>• Biomass boiler and power generation facility utilizing wood waste as feedstock, meeting the following criteria: <ul style="list-style-type: none"> <li>i. FSC-certified plantations; and</li> <li>ii. Plantations managed with a Biodiversity net gain (BNG) approach</li> </ul> </li> <li>• Transmission line infrastructure to connect grid generation plants from renewable sources to transmission grid</li> </ul>	 
Sustainable Water and Wastewater Management	<p>Expenditures related to the design, development, construction, operation, upgrade and/or maintenance of technologies and systems that improve water efficiency and sustainable water management.</p> <p>Wastewater treatment projects and facilities</p> <ul style="list-style-type: none"> <li>▪ Water treatment plants and infrastructure such as condensate treatments, lime kiln purge</li> <li>▪ Water quality monitoring systems</li> </ul> <p>Water reduction, recycling or reuse infrastructure</p>	 

	<ul style="list-style-type: none"> <li>▪ Equipment to reduce the consumption of water in industrial processes such as systems facilitating reuse of closed circuit of water</li> <li>▪ Storm water capture and reuse infrastructure</li> </ul>	
Pollution Prevention and Control	<p>Expenditures related to the design, development, construction, operation, upgrade and/or maintenance of technologies, systems, equipment and projects that reduce and prevent industrial waste.</p> <p>Waste prevention, reduction and management from post-industrial processes</p> <ul style="list-style-type: none"> <li>▪ Infrastructure for atmospheric emissions reduction, gas capture and incineration in production facilities</li> <li>▪ Sewer system infrastructure systems and operational controls to eliminate spills</li> <li>▪ Waste monitoring technologies</li> </ul> <p>Waste and residual processing and reuse from post-industrial processes</p> <ul style="list-style-type: none"> <li>▪ Sludge dryer and dewatering centrifugal equipment</li> <li>▪ Systems to divert solid waste from landfill to recycle, compost or transform into sub-products such as soil correctives and fertilizer</li> </ul>	 
Environmentally Sustainable Management of Living Natural Resources and Land Use	<p>Investments and expenditures that are part of Paracel's Biodiversity Management program and promote sustainable forestry and use of terrestrial use of ecosystems:</p> <ul style="list-style-type: none"> <li>▪ Projects promoting the restoration and protection of native and riparian forest cover, and other areas of conservation<sup>2</sup></li> <li>▪ Projects promoting the protection and conservation of masto, herp, and avifauna</li> </ul>	

## Exclusionary Criteria

Paracel will ensure that it reviews the Eligible Expenditures for any exclusionary criteria, as follows:

- **Fossil Fuels:** *Green Eligible Expenditures will not be used for projects, technologies, processes and/or operations that primarily run on fossil fuels.*

<sup>2</sup> Local tree species will be used in reforestation activities

## Definitions of Target Populations

- **Indigenous communities:** The indigenous peoples in the following communities that are within the Project area of influence: Redención Jeguahaty, Vy'a Renda, Takuarendyju, Takuarita, Sati – Pai Renda Chiru Poty, Guyra Ñeengatu Amba, Mberyvo Jaguarmi, Yvyty Rovi and Apyka Jegua
- **Local and regional suppliers:** Local suppliers that are located within the regions of Concepción, San Pedro and Amambay; regional suppliers located within Paraguay
- **MSME:** In Paraguay, Law No. 4.457/2012 establishes the classification criteria for MSMEs taking into account the number of workers employed and the amount of gross annual turnover of the previous fiscal year. The criteria are summarized in the following table:

**Cuadro 1. Clasificación de las MIPYMES**

<b>Clasificación de la empresa</b>	<b>Cant. de ocupados</b>	<b>Facturación anual (Decreto N° 3.698/20)</b>
Microempresa	Hasta 10 personas*	Hasta G. 646.045.491 (USD 104 mil)
Pequeña empresa	Hasta 30 personas	Hasta G. 3.230.227.453 (USD 518 mil)
Mediana empresa	Hasta 50 personas	Hasta G. 7.752.545.886 (USD 1,2 millones)

\* Incluidos el propietario y familiares que trabajen en ella.

**Fuente:** Ley N° 4.457/2012, y Decreto N° 3.698/20

Undertakings engaged in financial intermediation, insurance, real estate business or professional services will not be regarded as MSMEs as long as the activity is regulated by a specific law in force.

- Microenterprise: For the purposes of the Law, they will be identified with the acronym "MIE" and are those formed by up to a maximum of ten people, in which the owner works personally or members of his family and has an annual turnover of up to the equivalent of G. 646.045.491 .
- Small enterprise: For the purposes of the Law, they will be identified with the acronym "PE" and will be considered as such if they invoice annually up to G. 3.230.227.453 and employs up to thirty workers.
- Medium enterprises: Up to G. G. 7.752.545.886 of annual turnover and employs up to fifty workers.

The above classification parameters shall be concurrent, and in case of doubt, the level of annual turnover shall take precedence.

- **Youth:** Persons aged from 15-24 in line with statistical definition of the United Nations<sup>3</sup>

<sup>3</sup> Decree No. 3.698/2020, amendment of Article 5 of Law No. 4.457/ 2012 for Micro, Small and Medium-sized Enterprises (MSMEs); <https://www.mtess.gov.py/formalizacion/formalizacion-mipymes/micro-pequenas-y-medianas-empresas>

### 3.2. Process for Project Management and Selection

Project evaluation, management and selection is a key process in ensuring that any potential Sustainability Financing meet the criteria in the Framework. As such, Paracel will establish a Sustainability Financing Working Group (“the Working Group”) to oversee the allocation and selection process. This Working Group will consist of representatives from the following teams within Paracel: Finance, Environment & Licensing, Social and Communications and Project Management (including procurement) teams.

The Working Group may review the list of Eligible Expenditures on an ongoing basis to ensure relevance with the Framework. Eligible Criteria and Expenditures are subject to evaluation and modification by the Working Group, which shall meet quarterly. A majority of those present during the meeting shall approve relevant decisions.

#### Environment & Social Due Diligence

Paracel will be following risk-mitigating measures to ensure selected Eligible Expenditures are in line with what is required of a category ‘A’ project in the Equator Principles and the IFC Performance Standards. Paracel is fully aware of the challenges and committed to developing a sustainable project aligned with the IFC Performance Standards (2012), which will serve a landmark project in the region.

The Project Sponsor has produced an Cumulative Impact Assessment (CIA) in line with IFC Performance Standards 1 which has been reviewed by an independent E&S consultant, ERM, during the lenders’ E&S due diligence. As a result of this assessment, ERM concluded that Paracel has provided a mill design in accordance with good international industrial practice. Eligible Expenditures will be held to the standard of both Paraguayan legal requirements and with IFC Environmental, Health and Safety (EHS) General Guidelines and the IFC EHS Guidelines for Pulp and Paper Mills. ERM found that the overall environmental and social assessments and management plans align with the applicable standards. ERM conducted an additional TCFD asset level screening of physical climate risks and concluded there are no significant climate change risks in the 2030 or 2025 timeframes. Mill Emissions have been compared to IFC General EHS Guidelines, IFC EHS Guidelines for Pulp and Paper Mills, and local Paraguayan Regulation, SEAM 222/2002 and are within the specified limits.

Eligible Expenditures will be in line with Paracel’s policies on Human Rights<sup>4</sup> and will not negatively impact surrounding biodiversity. Paracel has engaged Nature Positive, a well-respected biodiversity consultancy specializing in the application of IFC Performance Standard 6, Biodiversity Conservation and Sustainable Management of Living Natural Resources (2012; Guidance Note update June 2019).

Paracel has also developed a comprehensive series of policies, plans, programs and supporting documents, which constitute the health, safety, environmental and social management plans. These documents are used to introduce staff and contractors to the HSES requirements and maintain project integrity.

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<sup>4</sup> Embedded in Paracel’s Social Management Program, Communication Plan, Stakeholder Engagement Plan, Internal Management Program for Land Affection and risks by External Agents, Awareness and Follow-Up Program for Contractors and Workers Regarding Compliance with Regulations, Corporate Security Management Manual, Supplier Code of Conduct and Paracel’s policies (Recruitment and Selection, Equal Opportunity and Non-Discrimination and Linkage with Indigenous Peoples)

### 3.3. Management of Proceeds

In accordance with this Framework, an amount at least equivalent to the net proceeds from any Sustainability Financing issued by Paracel will be earmarked for allocation to the Eligible Green and/or Social Expenditures.

Specifically, for any Green or Sustainability Project Finance Loans, net proceeds can be allocated to Eligible Expenditures incurred by Paracel in the period up to 12 months prior to a drawdown of any financing and up to 12 months following such drawdown, as long as an amount equivalent to the net proceeds of such Sustainability Financing are fully allocated within 12 months after the last drawdown under such Loan.

For any Green or Sustainability Bond issued in accordance with this Framework, Paracel aims to allocate an amount equivalent to the net proceeds of such issuance to Eligible Expenditures incurred by Paracel in the 24 months period prior to issuance of the Green or Sustainability Bond or the 36 months following the date of such financing.

Pending full allocation of an amount equal to the net proceeds, proceeds can be held temporarily in cash or cash equivalents. Net proceeds from each Sustainability Financing will be tracked and managed by Paracel's Finance team.

### 3.4. Reporting

Paracel intends to publish a public annual report on the allocation and impact from its Green or Sustainability Bonds and/or Loans, every year until full allocation on its website.

Paracel's allocation report will include:

1. Amount of net proceeds raised from each Green or Sustainability Bond or Loan
2. Amount of net proceeds allocated to Eligible Categories, either individually or by category
3. Balance of unallocated amount at the end of each of the reporting period
4. Amount of net proceeds that are financed vs. refinanced where applicable
5. Impact metrics, where feasible and practical, on a best effort basis, and
6. A selection of brief project descriptions

In addition, in the case of any issues with an Eligible Expenditure, Paracel will use reasonable efforts to substitute any material Eligible Expenditure that is no longer eligible as soon as practicable upon identifying an appropriate substitute Eligible Expenditure.

Examples of impact metrics include the following:

Eligible Categories - Social			Example of impact metrics
Socioeconomic Empowerment	Advancement	and	<ul style="list-style-type: none"><li>• # of training / assistance programs</li><li>• # of local suppliers included in the Paracel value chain</li></ul>

Eligible Categories - Green	Example of impact metrics
Renewable Energy	<ul style="list-style-type: none"> <li>• Renewable energy generation in MWh</li> <li>• Steam generation t/h</li> </ul>
Sustainable Water and Wastewater Management	<ul style="list-style-type: none"> <li>• Volume of treated water and effluent, in m<sup>3</sup>/ADtB;</li> <li>• Reduction of Suspended solid waste content in effluent, in mg/l or percent;</li> <li>• Reduction of DBO in effluent, in mgO<sub>2</sub>/lt;</li> <li>• Reduction of DQO in effluent, in mgO<sub>2</sub>/lt;</li> </ul>
Pollution Prevention and Control	<ul style="list-style-type: none"> <li>• Generation of Effluent, in m<sup>3</sup>/ADtB;</li> <li>• Generation of solid waste, in m<sup>3</sup>/ADtB;</li> <li>• Air emissions <ul style="list-style-type: none"> <li>• - CO, in mg/Nm<sup>3</sup>;</li> <li>• - NO<sub>x</sub>, in mg/Nm<sup>3</sup>;</li> <li>• - SO<sub>2</sub>, in mg/Nm<sup>3</sup>;</li> <li>• - Dust in flue gas, in mg/Nm<sup>3</sup>;</li> <li>• - Total Reduced Sulfur, in mg/Nm<sup>3</sup>;</li> </ul> </li> </ul>
Energy Efficiency	<ul style="list-style-type: none"> <li>• Reduction of energy consumption, in MWh/ADtB;</li> <li>• Reduction in oil consumption, in Kg/ADtB;</li> <li>• Tons of CO<sub>2</sub> emissions avoided, in tons CO<sub>2</sub>/year;</li> </ul>

### 3.5. External Review

#### Second-Party Opinion

Paracel has obtained a Second-Party Opinion from Sustainalytics on this Sustainability Financing Framework.

The Second Party Opinion and the Sustainability Financing Framework will be available on Paracel's website: <https://paracel.com.py/documents/>

#### External verification

An external auditor will verify the allocation of the bond and/or loan proceeds and the conformance with the Framework of the selected Eligible Green and Social Categories and provide a third-party assurance on an annual basis.

#### Amendments to this Framework

We may review this Framework from time to time, including its alignment to updated versions of the relevant principles as and when they are released, with the aim of adhering to best practices in the market. The updates, if not minor in nature, will be subject to the prior approval of any qualified provider of Second

Party Opinions. The updated Framework, if any, will be published on our website and will replace this Framework.

## 4. Disclaimer

PARACEL S.A. (“PARACEL”) is presenting this information to the recipient in connection with its prospective investment (the “Potential Transaction”) in a contemplated pulp mill in Paraguay (the “Project”).

This document may contain forward-looking statements [within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act)] that merely reflect the expectations of PARACEL’ management. Such terms as “anticipate”, “believe”, “expect”, “forecast”, “intend”, “plan”, “project”, “seek”, “should”, along with similar or analogous expressions, are used to identify such forward-looking statements. These predictions evidently involve risks and uncertainties, whether foreseen or not by PARACEL. Therefore, the future results described herein may differ from current expectations, and readers must not base their expectations exclusively on the information presented herein.

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Additional information on the Project is available at <https://paracel.com.py/>.