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Financial statements and Independent auditor's report

Zydus Pharmaceuticals México, S. A. de C. V.

December 31, 2021 and 2020

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Independent auditor's report

To the Stockholders of

Zydus Pharmaceuticals México, S. A. de C. V.:

Opinion

We have audited the accompanying financial statements of **Zydus Pharmaceuticals México, S. A. de C. V.** (the Company), which comprise the statements of financial position as of December 31, 2021 and 2020, and the statements of profit or loss, changes in equity and cash flows, for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Zydus Pharmaceuticals México, S.A de C.V. as of December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Mexican Financial Reporting Standards (NIF for its acronym in Spanish).

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 Financial Statements" section of our report, and the following "Exhibit". We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Mexico in accordance with the Instituto Mexicano de Contadores Públicos A.C.'s Code of Professional Ethics (IMCP Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA and IMCP Codes. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company´s ability to continue as a going concern and using the going concern basis of accounting, or otherwise, making the appropriate disclosures.

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Auditor's responsibility for the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of Zydus Pharmaceuticals México, S. A. de C. V. 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. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

SALLES, SAINZ – GRANT THORNTON, S.C.

C.P.A. Guadalupe Saldivar Olivares
Partner

Mexico City, Mexico
April 22, 2022.

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Exhibit of the Independent Auditor’s Report

Additional description of our responsibilities on the audit of the financial statements
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

We communicate with Management 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.

Statements of financial position

As of December 31, 2021 and 2020

(Stated in Mexican Pesos)

	Note	2021	2020
ASSETS			
Current			
Cash		$ **19,077,055**	$ 40,745,482
Accounts receivable, net	**5**	**41,188,893**	50,341,953
Related parties receivable	**14**	**2,111,168**	-
Inventories, net	**6**	**28,023,120**	15,540,851
Prepaid expenses		**1,827,176**	1,056,747
Total currents assets		**92,227,412**	107,685,033
Non-current assets			
Furniture, equipment and leasehold improvements, net	**7**	**1,428,133**	1,015,181
Right-of-use asset	**8**	**22,111,865**	2,296,280
Other assets		**-**	36,979
Guarantee deposit	**18**	**10,663,992**	-
Total assets		$ **126,431,402**	$ 111,033,473
LIABILITIES AND EQUITY			
Liabilities			
Short-term			
Accounts payable		$ **18,282,457**	$ 6,921,389
Short-term lease liability	**8**	**6,506,624**	1,830,644
Related parties	**14**	**143,287,888**	164,985,935
Taxes payable	**11**	**2,711,192**	831,309
Employee profit sharing payable	**13**	**1,809,789**	-
Accruals	**18**	**9,091,370**	9,091,370
Total short term liabilities		**181,689,320**	183,660,647
Long-term			
Long-term lease liability	**8**	**13,959,764**	723,587
Employee benefits	**12**	**4,278,909**	-
Total liabilities		**199,927,993**	184,384,234
Equity	**15**		
Capital stock		**169,315,138**	169,315,138
Accumulated losses		**(242,811,729)**	(242,665,899)
Total Equity		**(73,496,591)**	(73,350,761)
Total liabilities and Equity		$ **126,431,402**	$ 111,033,473

The accompanying notes are an integral part of these statements of financial position.

Statements of profit or loss

For the years ended December 31, 2021 and 2020

(Stated in Mexican Pesos)

	Note	2021	2020
Net sales		$ 232,376,516	$ 186,283,896
Other income		626,576	53,463
		233,003,092	186,337,359
Cost of sales		124,354,984	83,125,396
Gross profit		108,648,108	103,211,963
Operating expenses:			
Wages and salaries	1	27,187,390	-
Selling and marketing expenses	16	19,296,421	20,456,352
Regulation expenses		7,713,295	4,515,691
Administrative expenses	16	46,014,854	70,519,532
Distribution expenses		5,899,869	5,516,831
Total expenses		106,111,829	101,008,406
Operating profit		2,536,279	2,203,557
Comprehensive result of financing:			
Interest expense		(495,682)	(730,830)
Financial cost on leases	8	(344,196)	(724,448)
Exchange loss, net	4 and 17	(1,842,231)	(26,057,465)
		(2,682,109)	(27,512,743)
Loss before income tax		(145,830)	(25,309,186)
Deferred income tax	10	-	22,068,342
Net loss for the year		$ (145,830)	$ (47,377,528)

The accompanying notes are an integral part of these financial statements.

Statements of changes in equity

For the years ended December 31, 2021 and 2020

(Stated in Mexican Pesos)

	Note		2021		2020
Capital stock at beginning and at end of year	15	$	169,315,138	$	169,315,138
Accumulated losses at beginning of year		$	(242,665,899)	$	(195,288,371)
Net loss for the year			(145,830)		(47,377,528)
Accumulated losses at end of year		$	(242,811,729)	$	(242,665,899)
Total equity		$	(73,496,591)	$	(73,350,761)

The accompanying notes are an integral part of these financial statements.

Statements of cash flows

For the years ended December 31, 2021 and 2020

(Stated in Mexican Pesos)

	Note	2021	2020
Operating:			
Loss before income tax		$ **(145,830)**	$ (25,309,186)
Non-cash adjustments			
Items related to investing activities:			
Depreciation	**7 and 8**	**3,402,501**	4,240,680
Financing activities items:			
Financial cost on leases	**8**	**344,196**	724,448
Interest expense		**495,682**	730,830
		4,096,549	(19,613,228)
Changes in:			
Accounts receivable		**9,153,060**	(255,762)
Related parties		**15,735,195**	39,391,544
Inventories		**(12,482,269)**	3,563,833
Prepaid expenses		**(770,429)**	(847,109)
Other assets		**36,979**	-
Accounts payable		**11,361,068**	8,313,759
Taxes payable		**1,879,883**	713,585
Employee benefits		**4,278,909**	-
Employee profit sharing		**1,809,789**	-
Guarantee deposit		**(10,663,992)**	-
Net cash flows from operating activities		**24,434,742**	31,266,622
Investing:			
Acquisitions of furniture and equipment		**(892,066)**	(774,096)
Net cash flows from investing activities		**(892,066)**	(774,096)
Financing:			
Lease payments		**(5,322,497)**	(4,777,760)
Related parties		**(39,544,410)**	(7,981,396)
Interest paid		**(344,196)**	(724,448)
Net cash flows from financing activities		**(45,211,103)**	(13,483,604)
Net (decrease) increase in cash during the year		**(21,668,427)**	17,008,922
Cash at beginning of year		**40,745,482**	23,736,560
Cash at end of year		$ **19,077,055**	$ 40,745,482

The accompanying notes are an integral part of these financial statements.

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Zydus Pharmaceuticals México, S.A. de C.V.

Notes to the financial statements

December 31, 2021 and 2020

(Amounts stated in Mexican Pesos)

1 NATURE OF OPERATIONS

Zydus Pharmaceuticals México, S. A. de C.V. (the Company), was incorporated in Mexico on July 21, 2010. The Company's main activities are the import and distribution of a wide range of pharmaceutical products.

The Company is a subsidiary of Zydus International Private Limited, Ireland (ZIPL).

Company's office is located at Carretera Picacho Ajusco 154 601 B, Jardines de la Montaña, Mexico City, Mexico.

For the year 2020 and up to July 15, 2021, the Company had no employees; therefore, all services required to manage and operate were provided by the related party Zydus Pharmaceuticals México Service Company, S.A. de C.V. and, it was not subject to labor requirements or obligations; except for those arising from non-compliance of labor or tax pronouncements over the administrative and operational services being provided.

On April 23, 2021, a decree was published that modifies various federal laws concerning the subcontracting of personnel services, thereby prohibiting subcontracting, and only allowing those that qualify as specialized services or execution of a specialized work. These modifications contemplate a maximum limit for the payment of Employee Profit Sharing (PTU – for its acronym in Spanish), corresponding to the highest amount between the equivalent of three months of the employee's salary or the average paid for PTU in the last three years. In order to comply with the new provisions on July 15, 2021, the Company received the personnel from its related party who had worked for them, thereby carrying out the employer substitution and recognizing the seniority and benefits acquired of those employees. Pursuant to the foregoing, the Company recognized the labor liabilities related to postemployment benefits in conformity with NIF D-3 'Employee benefits', and the corresponding cost recorded in Wages and salaries expenses in the amount of $4,278,909. The movements and balance of this liability are shown in Note 12.

On March 11, 2020, the World Health Organization ('WHO') declared COVID-19 a pandemic, and worldwide governments, including Mexico, have implemented a range of policies and actions to combat it. The Company has fulfilled all the Government rules and regulations of Mexico to join hands to combat the pandemic. During 2021 and 2020, the Company had no effect derived by the Pandemic. Therefore, the Company continued to supply the essential pharmaceutical products to all the stakeholders maintaining all the health protocols of the country.

2 APPROVAL AND BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with the Financial Reporting Standards (NIFs, for its Acronym in Spanish) issued by the Mexican Board of Financial Reporting Standards (CINIF, for its Acronym in Spanish). Likewise, they have been prepared under the assumption that the Company operates on a going concern basis.

The accompanying financial statements were authorized to be issued on April 22, 2022 by Prasanta Paul, Finance Head, consequently, they do not reflect events beyond that date.

The General Corporate Law and the by-laws of the Company grant stockholders the possibility to amend the financial statements after their release. The accompanying financial statements will be submitted for approval at the General Stockholders' Annual Meeting.

3 CHANGES IN ACCOUNTING POLICIES

a) New standards adopted on January 1, 2021

As of January 1, 2021, some new standards, interpretations and modifications became effective, the effect of which was not significant for the financial position and results of the Company.

- INIF 23 'Recognition of the effect of rent concessions related to the COVID-19 pandemic (INIF 23)'
- Early adoption of the improvement to NIF D-3 'Employee benefits' – effects of the labor reform on the determination of deferred PTU.

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these financial statements, several new standards and amendments to existing standards have been published by the CINIF, that will be effective on January 1, 2022. None of these standards and amendments have been adopted early by the Company. The following is a description of those expected to be relevant to the Company's financial statements.

<u>NIF's Improvements 2022</u>

The CINIF issued the 'NIF's Improvements 2022', which will become effective for periods beginning as of January 1, 2022, its early application is permitted. Those amendments are not expected to have a significant effect on the Company's financial statements.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used to prepare these financial statements are summarized as follows:

a. Functional and presentation currency

The financial statements are presented in the currency "peso", which is also the functional currency of the Company.

The functional currency is the one in which the Company primarily generates and uses its cash flows corresponding to its sales, costs and expenses, as well as the financing obtained and other transactions.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognized in profit or loss.

b. Statements of profit or loss

The statements of profit or loss present costs and expenses based on their function as the Company is a commercial entity, and also that this presentation is consistent with corporate accounting policies.

c. Statements of cash flows

The Company decided to present the statement of cash flows using the indirect method. By utilizing this method, profit or loss before income tax provision is firstly presented, and then reconciled by the changes in working capital, investing activities, and finally financing activities.

d. Impact of inflation

The financial statements as of December 31, 2021 and 2020, are prepared under historical cost basis. In accordance with NIF B-10, the Company does not recognize the effects of inflation as it operates in a non-inflationary economic environment since its beginning of operations and in virtue that accumulated inflation for the last three years prior to the date of the financial statements is less than 26%.

Annual inflation in 2020, 2019 and 2018, was 3.15%, 2.83% and 4.83%, respectively; therefore, accumulated inflation for the prior three year period was 11.19%.

e. Cash

Cash comprises cash on hand and bank deposits in checking accounts.

f. Inventories

Inventories are valued at the lower of cost or net realization value. The cost of inventories includes all expenses directly attributable to the commercialization process. The allocation formula to assign the unit cost of inventories is the average cost. The net realization value is the estimated selling price in the normal course of operations, less any applicable selling expense.

The Company records the necessary estimates to recognize turndowns in inventory value due to impairment, obsolescence, slow-moving, and other causes which indicate the use or realization of such inventory will be lower than its carrying value.

The cost of sales represents the cost of inventories at the time of sale, increased, if applicable, by the reductions in the net realizable value of inventories during the year.

g. Prepayments

Prepayments represent benefits for which, the receiving goods or services, including their inherent risk, have not yet been delivered and/or transferred to the Company.

h. Furniture, equipment and leasehold improvements

Furniture and equipment and leasehold improvements are recorded at acquisition cost. Depreciation of furniture and equipment is calculated based on the carrying value of fixed assets less estimated residual value, using the straight-line method based on the useful life thereof at the following rates:

Furniture and equipment	10%
Computer equipment	30%

Amortization of leasehold improvements is calculated based on the terms of the lease agreement, considering the period in which the Company expects to rent the facilities.

Maintenance and recurring maintenance costs are charged to operating expenses as they are incurred.

Gains or losses on disposal of furniture and equipment arise from the difference between the disposal proceeds and the carrying amount of the assets, and are recognized in profit or loss for the year.

i. Leases

The Company as a lessee

The Company makes the use of leasing arrangements principally for the provision of the main corporate offices and motor vehicles.

The rental contracts for offices are typically negotiated for terms of between 3 and 5 years and some of these have extension terms. Lease terms for motor vehicles have lease terms of between 3 and 4 years without any extension terms. The Company does not enter into sale and leaseback arrangements. All the leases are negotiated on an individual basis and contain a wide variety of different terms and conditions such as purchase options and escalation clauses.

The Company assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for a consideration.

Measurement and recognition of leases as lessee

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which consists of the initial measurement of the lease liability, of the initial direct costs incurred by the Company, of an estimate of any cost of dismantling and removal of the asset at the end of the contract of lease and any lease payments made prior to the commencement date of such lease (net of any incentive received).

The Company depreciates the right-of-use assets in a straight line from the commencement date of the lease to the end of the useful life of the right-of-use asset or the end of the lease term, whichever is less. The Company also evaluates the impairment of the right-of-use asset when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the payments pending at that date, discounted using the interest rate implicit in the lease, if such rate is easily determinable, the incremental financing rate of the Company or the risk-free rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including fixed payments in substance), variable payments based on an index or rate, amounts expected to be settled under a residual value guarantee and payments derived from options with reasonable certainty of being exercised.

After the initial measurement, the liability will decrease with the payments made and will be increased by interest. The liability is remeasured to reflect any reevaluation or modification, or if there are changes in payments that are substantially fixed.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset or in profit or loss if the right-of-use asset has already been reduced to zero.

The Company has chosen to account for short-term leases and low-value asset leases using practical solutions. Instead of recognizing a right-of-use asset and a lease liability, related payments are recognized in a straight line as an expense in profit or loss during the lease term.

In the statement of financial position, the assets for use rights are presented in a separate line item in the long-term assets and the lease liabilities have been included separately as short and long-term.

j. Long-lived assets value assessment

Values of long-lived assets are reviewed at least once a year, or when certain events or changes in the circumstances indicate that such values may not be recovered. In order to compute the impairment loss, the recoverable value must be determined which is defined as the greater of the net selling price of a cash generating unit and its value in use that is determined by the sum of discounted cash flows such unit can generate in the future, at an adequate rate of discount.

As of December 31, 2021, and 2020, the Company has identified impairment conditions over its long-lived assets in use due to the accumulated losses presented in the statements of changes in equity in the amount of $ (242,811,729) and $(242,665,899), respectively. However, the recoverable value of such assets is greater than their current net carrying amount because the financial and operational support that the corporation provides to the Company; therefore, no impairment loss has been determined.

k. Financial instruments

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets and liabilities represent contractual rights and obligations, respectively, in relation to monetary economic resources.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

The classification is determined both by the business model of the Company on the management of the financial asset, as well as the contractual characteristics of the cash flow of the financial asset. Financial assets are classified in the following categories:

- Trade receivables
- Financial instruments to collect its principal and interest
- Financial instruments to collect or sell
- Financial instruments to trade

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with NIF D-1 “Revenue from Contracts with Customers”, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within operating expenses.

Subsequent measurement of financial assets

<u>Trade receivables and financial instruments to collect its principal and interest (IFCPI *for its Acronym in Spanish*)</u>

Financial assets (IFCPI) are measured at amortized cost if the assets meet the following conditions and were not designated as fair value through profit or loss (FVTPL).

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and

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

Measurement at amortized cost is carried out by using the effective interest method, discounting is omitted where the effect of discounting is immaterial. The Company's cash, trade and other receivables, that do not contain a significant financing component, fall into this category of financial instruments and are measured at amortized cost.

As of December 31, 2021 and 2020, the Company has no financial assets measured at fair value.

Impairment of financial assets

According with the 'expected credit loss (ECL) model', impairment evaluation for financial assets uses more forward-looking information to recognize expected credit losses.

This replaces the previous 'incurred loss model'. Instruments within the scope of the new requirements included trade receivables, including contract assets measured under NIF D-1, loans and other debt-type financial assets measured at amortized cost and/or fair value through other comprehensive income (FVTOCI), as well as loan commitments and some financial guarantee contracts (for the issuer) that are not measured at FVTPL.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1');
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2'); and
- financial instruments that have objective evidence of impairment at the reporting date ('Stage 3').

The '12-month expected credit losses' are recognized for the Stage 1 while 'lifetime expected credit losses' are recognized for the Stages 2 and 3.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

<u>Trade and other receivables and contract assets</u>

The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

Classification and measurement of financial liabilities

The Company's financial liabilities include borrowings, trade and other payables.

Financial liabilities are initially measured at fair value and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

l. Provisions, contingent assets and liabilities

Provisions represent present obligations resulting from past events and are recognized when there is a probability of cash outflows, and amounts can be reliably estimated; but they can still be uncertain. A present obligation arises from legal or contractual commitments resulting from past events such as warranties, legal disputes, or onerous contracts. Provisions are not recognized for future operating losses.

Any estimated reimbursement from a third party with respect to the obligation, is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

When the cash outflow of a present obligation is considered improbable or remote, no liability is recognized.

Company's probable economic benefit inflows, that do not yet meet the asset recognition criteria, are considered contingent assets.

m. Income tax and profit sharing, prepaid or deferred

Provisions for income tax (ISR for its acronym in Spanish) and profit sharing (PTU for its acronym in Spanish) are recorded in income for the year they become payable. Also, a deferred tax related to these two items is included, arising from temporary differences resulting from comparing book and tax values of assets and liabilities, including the benefit of tax loss carryforwards. A deferred tax asset is recorded only when there is a high likelihood that it can be recovered. Deferred taxes are determined using enacted tax rates that are estimated will be effective on the dates temporary items shall be reversed or realized. In relation to the foregoing, as of fiscal year 2021, for the purposes of deferred PTU, the Company evaluates whether the enacted rate will be lower than the incurred rate, by virtue of the limits established in current legislation for the payment of PTU, and if so, it determines the rate that it expects to accrue either through financial projections or based on the PTU rate incurred in the current fiscal year. Current and deferred PTU is considered an ordinary expense associated to employee benefits.

n. Employee benefits

As a result of the event mentioned in Note 1, on July 15, 2021, the Company carried out the employer substitution, recognizing the accumulated seniority and acquired benefits of the employees. Termination or post-employment benefits established in the Federal Labor Law in Mexico refer mainly to seniority premiums payable to employees who have completed fifteen or more years of service, and indemnifications for voluntary or involuntary separation.

The Company recognizes the liability for employee benefits as follows:

Direct benefits such as salaries, overtime, and vacation among others, are recognized in exchange for services rendered in the period in which they are accrued at their face value and are classified in the short- or long-term whether these benefits occur or not within the following twelve months.

Termination benefits paid to employees prior to retirement while not having pre-existing conditions are recognized in the year's profit or loss at the time of payment.

Post-employment benefits that include seniority premium, and indemnification payments with pre-existing conditions of the legal type are determined based on actuarial calculations for personnel years of service, providing with a defined benefit obligation (DBO) in the long-term liabilities.

o. Equity

Share capital represents the nominal (par) value of shares that have been issued (see Note 15).

Accumulated losses include all current and prior period losses.

p. Revenue recognition

Revenue arises from the sale of a wide range of health products.

To determine whether to recognize revenue, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is recognized either at a point in time or over time, when (or as) the Company satisfies performance obligations by transferring the promised goods to its customers.

The Company recognizes contract liabilities for the consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Company satisfies a performance obligation before it receives the consideration, the Company recognizes either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Company's sales of products do not contemplate customization processes nor are subject to significant integration services with other products or services, so the performance obligation corresponds to the products sold by the Company; the control is transferred at the moment in which the customer receives the products obtaining the capacity to direct their use and obtain substantially all the benefits of the products. Sales operations generally do not contemplate variable payments, financing or any other relevant agreement that affects the transaction price.

The Company recognizes the revenues at a point in time when the control of the products has been transferred to its customers, the most relevant indicators considered to define the moment of the transfer of control are, among others, that the customer: i) has the physical and legal possession of the asset, ii) assumes the significant risks and benefits, iii) is entitled to the payment, and iv) has accepted the products.

q. Contract acquisition costs

In obtaining contracts, the Company incurs a number of incremental costs, such as commissions paid to sales staff.

r. Operating expenses

Operating expenses are recognized in profit or loss upon utilization of the service or as incurred.

s. Significant management judgement in applying accounting policies and estimation uncertainty

Significant management judgements

The following are the judgements made by management in applying the accounting policies of the Company that have the most significant effect on the financial statements.

<u>Recognition of deferred tax assets</u>

The extent to which deferred tax assets can be recognized is based on an assessment of the probability that future taxable income will be available against which the deferred tax assets of the Company can be utilized. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions (see Note 10).

Estimation uncertainty

Information about estimates and assumptions that may have the most significant effect on recognition and measurement of assets, liabilities, income, and expenses is provided below. Actual results may be substantially different.

Inventories

Management estimates the net realizable values of inventories, considering the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future research and development or other market-driven changes that may reduce future selling prices.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment.

Impairment of non-financial assets

In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Defined benefit obligation (DBO)

Management's estimate of the DBO is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses (as analyzed in Note 12).

t. Comprehensive loss

The amount of comprehensive loss is the result of the total performance of the Company during the years ended December 31, 2021 and 2020. Comprehensive loss is basically represented by net loss for the year as shown in the statements of profit or loss.

5 ACCOUNTS RECEIVABLE

		2021		2020
Trade receivables:				
Trade receivables	**$**	**55,070,462**	$	55,338,317
Less -				
Allowance for doubtful accounts		**(1,695,592)**		(3,149,831)
Allowance for discounts		**(3,279,528)**		(1,165,027)
Allowance for sales returns		**(14,649,919)**		(7,623,035)
Total of trade receivables, net		**35,445,423**		43,400,424
Other receivables:				
Value added tax recoverable		**4,622,814**		5,820,873
Income tax withholding from third parties		**1,120,656**		1,120,656
Total of other receivables		**5,743,470**		6,941,529
	$	**41,188,893**	$	50,341,953

From January to December of 2021, Mexican Tax authorities reimbursed value added tax in the amount of $9,734,494, this amount was generated during 2020 and 2021.

From January to December of 2020, Mexican Tax authorities reimbursed value added tax in the amount of $14,892,630, this amount was generated during 2019 and 2020.

The activity in the allowances accounts is as follows:

Allowance for doubtful accounts		2021		2020
Opening loss allowance as of January 1st	$	**(3,149,831)**	$	(1,481,908)
Increase of the year		**-**		(1,667,923)
Loss allowance unused and reversed during the year		**1,454,239**		-
Allowance as of December 31st	$	**(1,695,592)**	$	(3,149,831)

Allowance for discounts		2021		2020
Opening allowance balance as of January 1st	$	**(1,165,027)**	$	(745,180)
Increase of the year		**(11,208,011)**		(8,845,265)
Write-offs during the year		**9,093,510**		8,425,418
Balance as of December 31st	$	**(3,279,528)**	$	(1,165,027)

Allowance for sales returns		2021		2020
Opening allowance balance as of January 1st	$	**(7,623,035)**	$	(2,554,598)
Increase of the year		**(19,050,922)**		(12,463,626)
Write-offs during the year		**12,024,038**		7,395,189
Balance as of December 31st	$	**(14,649,919)**	$	(7,623,035)

6 INVENTORIES

		2021		2020
Finished products	$	**29,906,083**	$	15,933,952
Less – Allowance for obsolete and slow-moving inventories		**(1,882,963)**		(393,101)
	$	**28,023,120**	$	15,540,851

The increase in allowance for obsolete and slow-moving inventories, is mainly due to products that have had a slow turnover.

7 FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

		2021		2020
Furniture and equipment	$	**780,303**	$	780,303
Computer equipment		**3,908,574**		3,016,509
Leasehold improvements		**1,397,773**		1,397,773
		6,086,650		5,194,585
Less – Accumulated depreciation and amortization		**(4,658,517)**		(4,179,404)
	$	**1,428,133**	$	1,015,181

8 LEASES

Right-of-use asset

		2021		2020
Building leasing agreement	$	**4,169,028**	$	1,911,253
Transportation equipment leasing agreements		**20,866,224**		8,045,159
Less – Accumulated depreciation		**(2,923,387)**		(7,660,132)
Total right-of-use asset	$	**22,111,865**	$	2,296,280

Lease liabilities

Lease liabilities are presented in the statement of financial position as follows:

	2021	2020
Short-term	**$ 6,506,624**	$ 1,830,644
Long-term	**13,959,764**	723,587
	$ 20,466,388	$ 2,554,231

The Company has lease agreements with Inmobiliaria Camino al Ajusco and ALD Automotive, for the office facilities and transportation equipment, with the exception of short-term leases and low-value underlying asset leases, each lease is reflected in the balance sheet as a right-of-use asset and a total liability.

Each lease imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to a third party, the right-of-use asset may only be used by the Company. Leases are non-cancellable or can only be canceled if a significant termination penalty is incurred. Some leases contain the option to extend the lease for a longer term. The Company is prohibited from selling or pledging the underlying asset.

The table describes the nature of the Company's leasing activities by type of right-of-use asset recognized in the statement of financial position, as shown below:

	Right-of-use asset	
	Building and installations	Transportation equipment
No. of right-of-use assets leased	1	79
Average remaining lease term	1.5 years	3 years
No. of leases with termination options	1	79

Right-of-use assets are included in the same asset class that would have been presented if the underlying assets were owned by the Company.

Payments of leases not recognized as liabilities

The Company has chosen not to recognize liabilities for short-term leases (leases with an expected term of 12 months or less) or for leases of low-value assets. Payments made under these lease agreements are recognized in profit or loss on a straight-line basis. Due to, certain variable lease payments are not allowed to be recognized as lease liabilities. As of December 31, 2021 and 2020, the amount corresponding to low-value asset leasing amounted to $148,006 and $132,262, respectively.

9 FINANCIAL INSTRUMENTS

Categories of financial assets and financial liabilities

Note 4k provides a description of each category of financial assets and financial liabilities and the related accounting policies. The carrying amounts of financial assets and financial liabilities in each category are as follows:

	2021	2020
Financial assets		
Amortized cost		
Cash	**$ 19,077,055**	$ 40,745,482
Trade receivables	**35,445,423**	43,400,424
Accounts receivable from related parties	**2,111,168**	-
Total financial assets	**56,633,646**	84,145,906

Financial liabilities				
Amortized cost				
Accounts payable		**18,282,457**		6,921,389
Borrowing from related party		**58,550,596**		98,095,006
Accounts payable to related parties		**84,737,292**		66,890,929
Total financial liabilities	**$**	**161,570,345**	$	171,907,324

A description of the Company's financial instrument risks, including risk management objectives and policies is given in Note 17.

Related party borrowings

As of December 31, 2021 and 2020, the debt represents a loan from Zydus International Private Limited (Parent) at the interest rate of LIBOR EURO + agreed spread as described in the Note 14.

10 INCOME TAX

For the year ended December 31, 2021 and 2020, the Company had a taxable income in amount of $19,218,984 and $24,981,072, respectively, which differs from the net loss before taxes, mainly to the effects shown below:

		2021		2020
Loss before income taxes	**$**	**(145,830)**	$	(25,309,186)
Temporary items:				
Tax over book depreciation		**(26,227)**		(27,278)
Leases		**(1,466,242)**		579,141
Advance payments		**(983,841)**		(613,272)
Accruals (a)		**17,329,878**		48,947,763
Other		**1,594,901**		(120,065)
Permanent items:				
Annual adjustment for inflation		**751,518**		434,791
Non-deductible expenses		**2,269,398**		1,142,641
Other		**(104,571)**		(53,463)
Net effect		**19,364,814**		50,290,258
Taxable income	**$**	**19,218,984**	$	24,981,072

(a) During 2021, the Company deducted an accrual derived from the importation of inventory in an amount $59,290,580, such accrual arose from transfer pricing adjustments from prior years. This accrual was paid in 2021, covering the respective import taxes.

The taxable profits for 2021 and 2020 were fully offset against tax loss carryforwards from prior years.

According to the current income tax law, the rate for 2021, 2020 and subsequent years is 30%.

During 2017, 2016 and 2015 the Parent Company, Cadila Healthcare LTD made an income tax withholding in the amount of $1,114,989, which can be applied against future taxable income during the following ten fiscal years from the year of occurrence, according to Article 5 of the Mexican Income Tax Law.

Deferred income tax

As of December 31, 2021 and 2020 the deferred income tax asset derived from the difference between book and tax value of assets and liabilities, is summarized as follows:

	2021	2020
Deferred tax assets:		
Allowance for doubtful accounts	**$ 1,695,592**	$ 3,149,831
Allowance for discounts	**3,279,528**	1,165,027
Allowance for sales returns	**14,649,919**	7,623,035
Allowance for obsolete and slow-moving inventories	**1,882,963**	393,101
Right-of-use asset, net	**-**	257,951
Provisions and other (transfer pricing adjustments)	**9,172,885**	57,840,021
Tax loss carryforwards	**188,914,643**	195,211,446
Total deferred tax assets	**219,595,530**	265,640,412
Deferred tax liabilities:		
Prepaid expenses	**(1,666,847)**	(684,885)
Right-of-use asset, net	**(2,322,083)**	-
Fixed assets	**(38,183)**	(39,968)
Total deferred tax liabilities	**(4,027,113)**	(724,853)
	215,568,417	264,915,559
Income tax rate	**30%**	30%
	64,670,525	79,474,668
Less: Valuation allowance	**(64,670,525)**	(79,474,668)
Deferred income tax asset	**$ -**	$ -

As of December 31, 2021 and 2020, this net deferred income tax asset is mainly generated by the tax loss carryforwards, reserves of assets and provisions. However, the Company has decided to recognize a valuation allowance for this deferred income tax asset in the amount of $(64,670,525) and $(79,474,668), respectively, based on its projections.

Tax loss carryforwards

Tax loss carryforwards can be offset against future taxable income during the following ten fiscal years. Those tax losses may be restated by using the NCPI, as of the first month of the second half of the fiscal year in which the tax loss was incurred and up to the last month of the first half of the fiscal year in which the tax loss is realized.

As of December 31, 2021, tax loss carryforwards restated at that date are summarized below:

Year incurred	Restated amount	Year of expiration
2013	$ 19,277,186	2023
2014	82,836,651	2024
2015	81,444,159	2025
2016	542,111	2026
2019	4,814,536	2029
	$ 188,914,643	

11 TAXES PAYABLE

		2021		2020
VAT withholding	**$**	**98,348**	$	762,893
Income tax withholding		**44,790**		68,416
Payroll taxes		**2,568,054**		-
	$	**2,711,192**	$	831,309

12 EMPLOYEE BENEFITS

Pursuant to the labor reform discussed in Note 1, on July 15, 2021, the Company carried out an employer substitution and recognized the seniority and benefits acquired of the employees; therefore, it recognized the obligations for those benefits as of that date. As of December 31, 2020, the Company did not have employees.

As of December 31, 2021, the actuarial study shows the following information:

	2021					
		Indemnification		**Seniority Premium**		**Total**
Defined benefit obligations (DBO)	$	4,080,353	$	198,556	$	4,278,909
Liability recognized in the statement of financial position	$	4,080,353	$	198,556	$	4,278,909
Current labor service cost	$	845,003	$	51,674	$	896,677
Interest cost on defined benefit obligation		284,734		14,115		298,849
Net cost for the period	$	1,129,737	$	65,789	$	1,195,526

	2021
Actuarial assumptions used, in absolute terms:	
Discount rate	**7.70%**
Rate of compensation increase	**5.05%**
Rate of minimum wage increase	**3.50%**

13 EMPLOYEE PROFIT SHARING

As of the effectiveness of the decree discussed in Note 1, the manner of calculating the payment of PTU to workers was modified. The determination of PTU requires that a 10% rate be applied to the base calculated for that profit sharing, in accordance with the Income Tax Law. This amount determined must be allocated to each employee based on the provisions of the Federal Labor (LFT for its acronym in Spanish). However, the amount allocated to each employee may not exceed the greater between the equivalent of 3 months of the employee's current salary or the average of PTU received by the employee in the previous three years.

When PTU determined in conformity with the income Tax Law exceeds PTU allocated to each and every one of the employees, according to the limits discussed, PTU allocated to employees is considered PTU due for the period. The LFT considers that the difference between both amounts does not incur a payment obligation neither in the current period nor in future periods. PTU determined in conformity with the Income Tax Law, which is lower than or equal to the PTU allocated to each and every one of the employees, will be PTU due for the period.

For the year ended as of December 31, 2021, the Company generated a PTU base in the amount of $18,097,891, in accordance with the Income Tax Law. Its PTU due amounting to $1,809,789 was considered final, since that amount was below the limits set forth in the LFT. The PTU base differs from the income tax base of each year, since employee profit sharing paid and the amount of other benefits paid to employees are not totally deductible for purposes of the Income Tax Law. For the year ended December 31, 2020, the Company did not have employees, therefore, did not have to calculate and pay profit sharing. The current law rate for PTU is 10%.

As of December 31, 2021, deferred PTU shown as follows:

		2021
Excess of book over tax value of assets and liabilities for income tax, net, without tax loss carryforwards	**$**	**25,694,585**
Rate		**10%**
Deferred PTU asset		**2,569,459**
Less: Valuation Allowance		**(2,569,459)**
Deferred profit-sharing tax asset	**$**	**-**

14 RELATED PARTIES' TRANSACTIONS AND BALANCES

During the years ended December 31, 2021 and 2020, the Company carried out transactions and had balances with related parties as shown below:

	2021							
Related parties		**Balance receivable**		**Balance payable**		**Purchases and expenses**		**Income**
Zydus Pharmaceuticals México Service Company, S.A. de C.V. (Affiliated) (a)	**$**	**2,111,168**	**$**	**-**	**$**	**22,888,359**	**$**	**2,112,168**
Zydus International Private Limited (Parent) (b)		**-**		**58,550,596**		**148,975**		**-**
Cadila Healthcare LTD (c)		**-**		**84,737,292**		**108,067,510**		**1,998,881**
	$	**2,111,168**	**$**	**143,287,888**	**$**	**131,104,844**	**$**	**4,111,049**

	2020			
Related parties		Balance payable		Purchases and expenses
Zydus Pharmaceuticals México Service Company, S.A. de C.V. (Affiliated) (a)	$	6,001,806	$	49,684,689
Zydus International Private Limited (Parent) (b)		98,095,006		459,543
Cadila Healthcare LTD (c)		60,889,123		70,760,047
	$	164,985,935	$	120,904,279

a) As of December 31, 2021 and 2020, the balance receivable and payable to Zydus Pharmaceuticals México Service Company, S.A. de C.V., respectively, is related to administrative and personnel services and other expenses incurred during the year and are included within selling and marketing expenses.

b) As of December 31, 2021 and 2020, the balance payable to Zydus International Private Limited (Parent) in the amount of $57,124,521 and $94,990,038, was mainly generated from a loan received at the interest rate of LIBOR EURO + agreed spread. As of December 31, 2021 and 2020, the interests accrued amounts to $1,426,075 and $3,104,968, respectively.

c) As of December 31, 2021 and 2020, the balance payable to Cadila Healthcare LTD, arises from supply of goods in the amounts of $11,398,888 and $9,767,078, respectively and transfer pricing to be billed by Cadila Healthcare LTD in the amount of $73,338,404 and $51,122,045, respectively (see Note 15 e).

As of December 31, 2021 and 2020, the Company has a transfer pricing study, which supports that the prices utilized in the related-party transactions are comparable to those that would be utilized with or between independent parties.

15 EQUITY

a. Capital stock

As of December 31, 2021 and 2020, the Company's nominal capital stock is represented by two common shares, one of them in the amount of $50,000, which represents the minimum fixed nominal capital, and the other one in the amount of $169,265,138, which represents the nominal variable capital, with a par value of one peso each.

b. Legal reserve

Net profit for the year is subject to the legal provision which requires appropriating 5% of that profit to a legal reserve until that reserve equals 20% of the capital stock. The balance of the legal reserve may not be distributed to the stockholders, except as stock dividends. At December 31, 2021 and 2020, the Company has not yet created any legal reserve.

c. Distribution of earnings

Net taxable income account (CUFIN, for its Acronym in Spanish)-
As of December 31, 2021 and 2020, there is no balance in the "net taxable income account" (CUFIN), which if it existed no income tax could be assessed on dividends or earnings distributed to stockholders up to the balance of such account.

Effective January 1, 2014, dividends paid to individuals or foreign residents are subject to an income tax at a 10% rate. This income tax is considered as a final payment and should be withheld by the Company distributing the dividends or earnings. This new rule applies only to the distribution of dividends or earnings generated beginning January 1, 2014. The Company has no earnings available to be distributed as dividends.

In the case of non-CUFIN dividends, in addition to the above, they will continue to be subject to the payment of income tax payable by the entity, determined based on the general rate of law, which has the characteristic of being final and may be credited against Income tax for the year and the following two.

The balance of this account may be restated up to the date such dividends are distributed, by using the National Consumer Price Index (NCPI).

d. Capital Reductions

As of December 31, 2021 and 2020, the balance of the Restated Contributed Tax Account (CUCA for its acronym in Spanish) amounts to $242,179,346 and $225,597,798, respectively. Any reimbursement to the stockholders that exceeds the foregoing amount should be treated as a distributed earning for tax purposes.

Likewise, in the event that stockholders' equity should exceed the balance of the CUCA, the spread will be considered as a dividend or distributed earning subject to the payment of income tax. However, if such assessed earning distribution or dividend does not exceed the CUFIN balance, there will be no tax payable for the capital decrease or reimbursement.

e. Going concern

As of December 31, 2021 and 2020, the Company has accumulated operating losses with a consequent deficit in Partners' equity by $(73,496,591) and $(73,350,761), respectively, and as of those dates, the Company´s current liabilities (represented by related parties, mainly) exceeded its total current assets by $89,461,908 and $75,975,614, respectively. These conditions indicate that may cast significant doubt on the Company´s ability to continue as a going concern. However, Cadila Healthcare LTD the ultimate parent company, has indicated its intention to maintain the necessary financial support, to allow the Company to continue as a going concern.

After ten years of commencing operations, the Company has been gradually penetrating the pharmaceutical market, achieving a 25% in sales during 2021 as compared to 2020. Furthermore, Cadila Healthcare LTD signed a Supply Agreement with the Company since 2016, to ensure that the Company earns an arm's length margin which was determined by an expert which was equivalent to a 1.09% over the revenues as of December 31, 2021 and 1.18% of the earnings before interests and taxes, as of December 31, 2020, as shown in the statements of profit or loss for 2021 and 2020. The Company is expected to continue to generate operating profits based on this agreement and further actions that would be taken.

16 ADMINISTRATIVE AND SELLING AND MARKETING EXPENSES

As of December 31, 2021 and 2020, the administrative and selling and marketing expenses are summarized as shown below:

	Administrative expenses		Selling and marketing expenses	
	2021	2020	**2021**	2020
Administrative services	**$ 26,414,140**	$ 49,684,689	**$ -**	$ -
Employee profit sharing	**1,809,789**	-	**-**	-
Maintenance	**143,381**	398,665	**-**	3,231
Depreciation and amortization	**3,402,501**	4,240,680	**-**	-
Electricity and gas	**44,834**	52,923	**-**	-
Telephone	**170,577**	221,524	**791,518**	789,464
Consulting fees	**1,916,355**	1,998,491	**2,074,563**	2,592,715
Subscriptions	**640**	640	**286,823**	30,000
Advertising	**169,778**	158,305	**12,572,599**	6,544,598
Taxes and contributions	**6,356,282**	9,091,976	**3,380**	7,473
Other	**5,586,577**	4,671,639	**3,567,538**	10,488,871
	$ 46,014,854	$ 70,519,532	**$ 19,296,421**	$ 20,456,352

17 FINANCIAL INSTRUMENTS RISKS

Risk management objectives and policies

The Company is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarized in Note 9. The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management is coordinated at its headquarters, in close cooperation with the board of directors, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to volatile financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes, nor does it write options. The most significant financial risks to which the Company is exposed are described below.

Market risk analysis

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities.

Foreign currency sensitivity

Most of the Company's transactions are carried out in pesos. Exposures to currency exchange rates arise from the Company's purchases abroad, which are primarily denominated in US dollars (USD). The Company also holds an USD loan, which has been used to fund its operation.

To mitigate the Company's exposure to foreign currency risk, non-parent´s currency cash flows are monitored in accordance with the Company's risk management policies. Generally, the Company's risk management procedures distinguish short-term foreign currency cash flows (due within six months) from longer-term cash flows (due after six months).

Financial assets and liabilities denominated in foreign currency that are exposed to a risk of foreign currency sensitivity at the closing dates are as shown below:

	USD	EUR
As of December 31, 2021		
Financial assets	149,517	-
Financial liabilities	(3,945,807)	(2,455,648)
Net position	(3,796,290)	(2,455,648)
As of December 31, 2020		
Financial assets	336,444	-
Financial liabilities	(857,909)	(4,016,054)
Net position	(521,465)	(4,016,054)

As of December 31, 2021 and 2020, and April 22, 2022, date of issuance of the accompanying financial statements, the exchange rates of the currencies with which the Company has balances and operations are as follows:

	USD	EUR
As of December 31, 2021	20.5157	23.2463
As of December 31, 2020	19.9352	24.4228
As of April 22, 2022	20.1802	21.9753

Interest rate sensitivity

The Company's policy is to minimize interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At December 31, 2021 and 2020, the Company is exposed to changes in market interest rates through related party borrowings at fixed interest rates.

Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. The Company is exposed to credit risk from financial assets including cash held at banks, trade, and other receivables.

Credit risk management

The credit risk is managed on a group basis based on the Company's credit risk management policies and procedures.

The credit risk in respect of cash balances held with banks and deposits with banks are managed via diversification of bank deposits and are only with major reputable financial institutions.

The Company continuously monitors the credit quality of customers based on a credit rating scorecard. Where available, external credit ratings and/or reports on customers are obtained and used. The Company's policy is to deal only with credit worthy counterparties. The credit terms range between 30 and 90 days. The credit terms for customers as negotiated with customers are subject to an internal approval process which considers the credit rating scorecard. The ongoing credit risk is managed through regular review of ageing analysis, together with credit limits per customer.

Trade receivables consist of a large number of customers in various industries and geographical areas.

Security

Trade receivables consist of a large number of customers in various geographical areas. The Company does not hold any security on the trade receivables balance.

In addition, the Company does not hold collateral relating to other financial assets (e.g. derivative assets, cash held with banks).

Trade receivables

The Company applies the simplified model in the standard for recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location of customers.

The expected loss rates are based on the payment profile for sales over the past 48 months before December 31, 2021 and January 1, 2021 respectively as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding.

The Company has identified gross domestic product (GDP) and unemployment rates of the countries in which the customers are domiciled to be the most relevant factors and according adjusts historical loss rates for expected changes in these factors. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

Trade receivables are written off (i.e. derecognized) when there is no reasonable expectation of recovery. Failure to make payments within 360 days from the invoice date and failure to engage with the Company on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

On the above basis the expected credit loss for trade receivables as at December 31, 2021 and January 1, 2021 was determined as follows:

	Trade receivables days past due				
	Current	**From 30 up to 360 days**	**More than 360 days**	**More than 540 days**	**Total**
As of December 31, 2021	**$ 41,381,212**	**$ 11,979,504**	**$ 28,309**	**$ 1,681,437**	**$ 55,070,462**
Expected credit loss rate	**0%**	**0%**	**50%**	**100%**	
Gross carrying amount	**$ -**	**$ -**	**$ 14,155**	**$ 1,681,437**	**$ 1,695,592**

	Trade receivables days past due				
	Current	From 30 up to 360 days	More than 360 days	More than 540 days	Total
As of January 1, 2021	$ 39,828,153	$ 11,656,613	$ 1,407,440	$ 2,446,111	$ 55,338,317
Expected credit loss rate	0%	0%	50%	100%	
Gross carrying amount	$ -	$ -	$ 703,720	$ 2,446,111	$ 3,149,831

Liquidity risk analysis

Liquidity risk is that the Company might be unable to meet its obligations. The Company manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business.

Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows that available borrowing facilities are expected to be sufficient over the lookout period.

The Company's objective is to maintain cash and marketable securities to meet its liquidity requirements for 30-day periods at a minimum. This objective was met for the reporting period. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Company's existing cash resources and trade receivables significantly exceed the current cash outflow requirements.

18 CONTINGENCIES

a) On April 30, 2018, the Tax Authority established a tax credit to the Company for an amount of $6,959,806, after exhausting all defense instances, a Judge resolved to partially protect the Company regarding the way in which the tax credit was imposed. As a result of the resolution of the tax credit, the authority has documented again its review and determined a new tax credit for an amount of $9,091,370, which was increased with respect to the previous one due to updates and surcharges. Currently, the Company plans to re-interpose the defense instances again using the same arguments previously offered. By virtue of there exist a reasonable certainty that they will have to reimburse these amounts, a provision has been created for an amount of $9,091,370.

   The company filed a document on September 8, 2021, which was registered under number 11472, offering the endorsement of a bond number 1392-00251-3, issued by Aseguradora Aserta, S.A. de C.V. in an amount of $10,663,992. The tax authority accepted the guarantee and suspended the corresponding procedures until the final resolution.

b) In accordance with currently enacted tax legislation, the authorities have the power to review up to the five fiscal years prior to the last income tax return filed by the Company.

c) In accordance with the Income Tax Law, companies that carry out domestic or foreign resident related party transactions are subject to limitations and tax obligations, with respect to the determination of prices agreed upon.

Such prices should be comparable to prices that would be used with or between independent parties in arm's length transactions. In the event that the tax authorities should review the prices and reject the amounts determined, they could impose fines on the omitted contributions, in addition to collecting the pertinent taxes and related charges (restatement and surcharges), which could be as much as 100% of the restated amount of the contributions. In the event of the tax authorities would not be agreed with the agreement mentioned in the Note 15 e). the authorities would impose fines on the omitted contributions.

19 SUBSEQUENT EVENTS

In February 2022 Cadila Healthcare LTD (the holding Company) changed its name to Zydus Lifesciences LTD.

No adjusting or significant non-adjusting events have occurred between the December 31, 2021 reporting date and the date of authorization.