Salles Sainz
Grant Thornton

Financial statements and Independent auditor's report

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

December 31, 2019 and 2018

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Independent auditor's report

To the Stockholders of:

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

Opinion
We have audited the accompanying financial statements of **Zydus Pharmaceuticals México Service Company, S. A. de C. V.** (the "Company") which comprise the statements of financial position as of December 31, 2019 and 2018, 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 and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Zydus Pharmaceuticals México Service Company, S.A. de C.V., as of December 31, 2019 and 2018 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 audit 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.

Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of Zydus Pharmaceuticals México Service Company, 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.C. Guadalupe Saldivar Olivares
Partner

Mexico City, Mexico
March 6, 2020.

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 judgment 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, 2019 and 2018

(Stated in Mexican Pesos)

	Notes	2019	2018
ASSETS			
Current assets			
Cash		$ **3,338,234**	$ 3,763,573
Other accounts receivable	5	**1,533,712**	1,139,128
Related parties	12	**3,351,096**	3,313,366
Prepaid expenses		**969,126**	1,055,328
Total current assets		**9,192,168**	9,271,395
Non-current assets			
Deferred income tax	10	**1,101,692**	1,150,581
Deferred employee profit sharing	11	**375,224**	433,286
Total assets		$ **10,669,084**	$ 10,855,262
LIABILITIES AND EQUITY			
Liabilities			
Short-term			
Accounts payable to employees	6	$ **4,112,527**	$ 4,297,134
Suppliers		**196,201**	140,182
Taxes payable		**3,748,770**	3,812,644
Employee profit sharing payable	11	**117,643**	158,809
Total short-term liabilities		**8,175,141**	8,408,769
Liabilities long-term			
Employee benefits	7	**2,630,933**	3,104,639
Total liabilities		**10,806,074**	11,513,408
EQUITY			
Capital stock	8	**5,600,991**	5,600,991
Accumulated losses		**(5,737,981)**	(6,259,137)
Total equity		**(136,990)**	(658,146)
Total liabilities and equity		$ **10,669,084**	$ 10,855,262

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

Statements of profit or loss

For the years ended December 31, 2019 and 2018

(Stated in Mexican Pesos)

	Notes		2019		2018
Income from services	**12**	**$**	**49,709,789**	$	50,286,492
Cost of services:					
Payroll and benefits employees services			**38,547,130**		39,465,280
Social security contributions			**6,627,540**		6,502,957
Insurance			**2,480,971**		2,551,181
Professional services			**394,201**		428,994
Services and comissions			**76,464**		71,588
Legal fees			**20,000**		15,000
Statutory employee profit sharing	**11**		**94,138**		139,257
Other			**4,955**		340
			48,245,399		49,174,597
Operating profit			**1,464,390**		1,111,895
Profit before taxes on income			**1,464,390**		1,111,895
Income tax	**9**		**894,345**		1,017,837
Deferred income tax	**10**		**48,889**		(127,772)
			943,234		890,065
Net profit for the year		**$**	**521,156**	$	221,830

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

Statements of changes in equity

For the years ended December 31, 2019 and 2018

(Stated in Mexican Pesos)

		2019		2018
Capital stock at beginning and at end of year	$	**5,600,991**	$	5,600,991
Accumulated losses at beginning of year	$	**(6,259,137)**	$	(6,480,967)
Net profit for the year		**521,156**		221,830
Accumulated losses at end of year	$	**(5,737,981)**	$	(6,259,137)
Total equity	$	**(136,990)**	$	(658,146)

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

Statements of cash flows

For the years ended December 31, 2019 and 2018

(Stated in Mexican Pesos)

		2019		2018
Operating:				
Profit before income tax	**$**	**1,464,390**	$	1,111,895
Changes in:				
Other accounts receivable		**(394,584)**		(788,349)
Related parties		**(37,730)**		4,185,220
Prepaid expenses		**86,202**		(19,805)
Accounts payable to employees		**(184,607)**		396,506
Suppliers		**56,019**		140,182
Employee profit sharing payable		**(41,166)**		37,093
Employee benefits		**(473,706)**		65,294
Taxes payable		**(958,219)**		(1,679,487)
Deferred employee profit sharing		**58,062**		(32,963)
Net cash flows from operating activities		**(425,339)**		3,415,586
(Decrease) increase in cash during the year		**(425,339)**		3,275,404
Cash at beginning of year		**3,763,573**		488,169
Cash at end of year	**$**	**3,338,234**	$	3,763,573

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

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

Notes to the financial statements
As of December 31, 2019 and 2018

(Stated in Mexican Pesos)

1 NATURE OF OPERATIONS

Zydus Pharmaceuticals México Service Company, S. A. de C. V. (the Company) was incorporated on August 31, 2010. The Company's main activity is to render administrative and personnel services to its affiliated Zydus Pharmaceuticals México, S. A. de C. V.

The Company is wholly owned subsidiary of Zydus International Private Limited (ZIPL).

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

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), 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 March 6, 2020, 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

The Company has adopted the accounting changes resulting from improvements to NIFs effective as of January 1, 2019, as describe in the following page.

New standards adopted on January 1, 2019

NIF's Improvements 2019
As a result of being effective the "NIF's Improvements 2019" as of January 1, 2019, the Company adopted some of these improvements, the effect of which was not significant for the financial position and results of the Company.

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, various new standards and amendments to existing standards have been published by the CINIF, that will be effective on January 1, 2020, and subsequent years. The following is a description of those expected to be relevant to the Company's financial statements.

NIF's Improvements 2020

In January 2020, the CINIF issued the 'NIF's Improvements 2019', which will become effective for periods beginning as of January 1, 2020. Its early application is permitted as of January 1, 2019. These improvements, among other things, include the following aspects:

- *NIF D-4 'Tax on Income' and NIF D-3 'Employee benefits' - uncertain tax treatment* - these improvements incorporate the evaluation that Management must make as to whether or not the determination of taxes on earnings and PTU (employee profit sharing), both current and deferred, is accepted by the tax authorities, who may require, if applicable, the calculation of the estimate of the corresponding effect on current and deferred taxes, as well as the disclosures deemed appropriate in terms of the provisions set forth in those standards.

As of December 31, 2019, Management does not foresee NIF D-4 amendment will be relevant to the Company's financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES

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

a. Foreing currency transactions

The financial statements of the Company are prepared in the currency of the primary economic environment in which the Company (its functional currency) operates. For purposes of these financial statements, the results and financial position are expressed in Mexican pesos, which is the functional currency of the Company and the presentation currency of financial statements.

In preparing the financial statements, transactions in a currency other than the functional currency of the Company (foreign currency) are recognized using the exchange rates prevailing at the dates in which operations are conducted. Exchange gains or losses form part of the comprehensive results of financing, affecting net profit or loss.

b. Statements of profit or loss

The statements of profit or loss, presented in a single statement, show costs and expenses based on their nature, according to administrative services rendered.

c. Statement 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

Pursuant to NIF B-10, beginning 2008, the companies incorporated before that date suspended recognition of the effects of inflation in view that they now operate in a non-inflationary economic environment. Since the Company commenced operations in 2010, it has not exceeded the threshold of 26% to recognize the effects of inflation. Accumulated inflation for the three years prior to the date of the financial statements is less than 26%.

Annual inflation in 2018, 2017, and 2016 was 4.8300%, 6.7730% and 3.3603%, respectively; therefore, accumulated inflation for the prior three-year period was 15.6900%.

e. Cash

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

f. Prepayments

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

g. 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 entity 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

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

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 accounts receivable and accounts payable, 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, 2019 and 2018, the Company has not financial assets measured at fair value.

Impairment of financial assets

According with the ‘expected credit loss (ECL) model’, impairment evaluation for financial assets use 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, other debt-type financial assets measured at amortized cost and/or FVTOCI.

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 accounts receivable and contract assets</u>

As of December 31, 2019 and 2018, all revenues are obtained from related parties, Management does not deemed necessary to create a loss allowance.

Classification and measurement of financial liabilities

The Company's financial liabilities include trade and accounts 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.

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

h. Employee benefits

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 Post-employment benefits that include seniority premium, is determined based on actuarial calculations for personnel years of service, covering the defined benefit obligation in the long-term liabilities

i. Income tax and employee profit sharing, prepaid or deferred

Provisions for income tax (ISR for its acronym in Spanish) and employee profit sharing (PTU for its acronym in Spanish) are recorded in profit or loss 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 and tax credits. 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.

The current and deferred PTU is considered an ordinary expense associated to employee benefits.

j. Revenue recognition

Revenue arises from providing administrative and operative services to its related party Zydus Pharmaceuticals México, S.A. de C.V.

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 on services when these have been rendered and accepted by the client.

The Company recognizes contract liabilities for 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 administrative and operative services do not contemplate customization processes nor are subject to significant integration services with other products or services, so the performance obligation corresponds to the services rendered by the Company; the control is transferred at the moment in which the customer receives the services. Sales operations generally do not contemplate variable payments, financing or any other relevant agreement that affects the transaction price.

k. Operating expenses

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

l. 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.

Recognition of deferred tax assets and deferred employee profit sharing

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 (see notes 10 and 11).

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.

Reserve for employee benefits

Management obtains from an actuary an estimate of its post-employment benefits such as retirement benefits and termination benefits. The overall actuarial assumptions used must be unbiased and mutually compatible and represent the best estimate of the variables determining the ultimate post-employment benefit cost.

m. 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.

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. Timing and cash outflows can still remain 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.

n. Comprehensive income

The amount of comprehensive income is the result of the total performance of the Company during the years ended December 31, 2019 and 2018. Comprehensive income is basically represented by net income for the year as shown in the statement of profit or loss.

5 OTHER ACCOUNTS RECEIVABLE:

		2019		2018
Income tax recoverable	**$**	**161,916**	$	21,681
Value added tax recoverable		**49,399**		31,278
Sundry debtors		**1,322,397**		1,086,169
	$	**1,533,712**	$	1,139,128

6 ACCOUNTS PAYABLE TO EMPLOYEES:

		2019		2018
Bonus	**$**	**1,555,272**	$	1,745,347
Personnel savings fund		**1,883,679**		2,111,012
Vacations		**440,775**		440,775
Salaries		**232,801**		-
	$	**4,112,527**	$	4,297,134

7 EMPLOYEE BENEFITS:

As of December 31, 2019, the actuarial study information shows the following information:

		Indemnifications		Seniority Premium		Total
Defined benefit obligations (DBO)	$	2,515,825	$	115,108	$	2,630,933
Liability recognized in the financial position	$	2,515,825	$	115,108	$	2,630,933

Current labor service cost	$	(456,187)	$	14,766	$	(441,421)
Remeasurements recycling recogniced in OCI		595,175		19,842		615,017
Benefits paid directly by Company		-		-		-
Net cost of the period	$	138,988	$	34,608	$	173,596

Actuarial assumptions used in absolute terms:	
Discount rate	8.80%
Rate of compensation increase	5.00%
Rate of minimum wage increase	3.75%

As of December 31, 2018, the actuarial study information shows the following information:

	Indemnifications	Seniority Premium	Total
Defined benefit obligations (DBO)	$ 2,954,923	$ 149,716	$ 3,104,639
Liability recognized in the financial position	$ 2,954,923	$ 149,716	$ 3,104,639
Current labor service cost	$ (6,670)	$ 12,031	$ 5,361
Remeasurements recycling recogniced in OCI	(57,512)	(13,143)	(70,655)
Benefits paid directly by Company	-	-	-
Net cost of the period	$ (64,182)	$ (1,112)	$ (65,294)

Actuarial assumptions used in absolute terms:	
Discount rate	8.80%
Rate of compensation increase	5.00%
Rate of minimum wage increase	3.75%

Indemnifications

As of December 31, 2019, and 2018, a reserve for this concept amounted to $2,515,825 and $2,954,923, respectively.

Seniority premium

As of December 31, 2019, and 2018, a reserve for this concept amounted to $115,108 and $149,716, respectively.

8 EQUITY

a. Capital stock

As of December 31, 2019, and 2018, the Company's nominal capital stock is represented by two common shares, one of them with value in the amount of $50,000 which represents the minimum fixed capital and the other one in the amount of 5,550,991, which represents the nominal variable capital, with a par value of one peso each.

b. Legal reserve

Net income for the year is subject to the legal provision which requires appropriating 5% of that income 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. As of December 31, 2019 and 2018 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, 2019, and 2018, the balance of the "net taxable income account" (CUFIN) has not been determined by the Company, 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 st, 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 1st, 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, 2019 and 2018, the balance of the Restated Contributed Capital Account (CUCA for its acronym in Spanish) amounts to $7,222,830 and $7,024,733. 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.

9 INCOME TAX

For the year ended December 31, 2019 and 2018, the Company determined taxable profit in the amount of $2,981,150 and $3,392,791, respectively, which differs from the profit before taxes on income of each year, due mainly to the non-deductible expenses and the provisions.

10 DEFERRED INCOME TAX

As of December 31 2019 and 2018, the asset resulting from the cumulative effect of deferred income tax, is analysed as follows:

	2019	2018
Excess of tax value over book value of assets and liabilities, net	**$ 3,672,307**	$ 3,835,270
Income tax rate	**30%**	30%
Deferred income tax asset	**$ 1,101,692**	$ 1,150,581

As of December 31, 2019 and 2018, this deferred income tax asset is mainly generated by provisions and reserve for employee benefits.

11 EMPLOYEE PROFIT SHARING (PTU)

For the year ended December 31, 2019 and 2018, the Company generate a basis for employee profit sharing in amount of $941,380 and $1,392,570, respectively, which differs from the income tax basis due to employee profit sharing paid, and the amount of other benefits paid to employees which are not fully deductible for income tax purposes. As of December 31, 2019 and 2018, there were remainder amounts of employee profit sharing not paid from prior years in amount of $23,505 and $19,552, respectively.

As of December 31, 2019 and 2018 the asses resulting from the cumulative effect of deferred employee profit sharing is analysed as follows:

		2019		2018
Excess of tax value over book value of assets and liabilities, net	**$**	**3,752,240**	$	4,332,860
Employee profit sharing rate		**10%**		10%
Deferred employee profit sharing tax asset	**$**	**375,224**	$	433,286

12 RELATED PARTIES TRANSACTIONS AND BALANCES

For the years ended December 31, 2019 and 2018, the Company carried out transactions and had balances with Zydus Pharmaceuticals México, S.A. de C.V. (Affiliated); revenues in the amount of $49,709,789 and $50,286,492, respectively and receivable balances in the amount of $3,351,096 and $3,313,366, respectively. As of December 31, 2019, and 2018, those accounts are related to administrative and personnel services and other expenses incurred during the years (See Note 1).

As of December 31, 2019 and 2018, 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.

13 FINANCIAL INSTRUMENTS

Categories of financial assets and financial liabilities

Note 4 g 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:

		2019		2018
Financial assets				
Amortized cost				
Cash	**$**	**3,338,234**	$	3,763,573
Accounts receivable from related parties		**3,351,096**		3,313,366
Total financial assets	**$**	**6,689,330**	$	7,076,939

		2019		2018
Financial liabilities				
Amortized cost				
Suppliers	**$**	**196,201**	$	140,182
Total financial liabilities	**$**	**196,201**	$	140,182

A description of the Company's financial instrument risks, including risk management objectives and policies is given in the following Note 14.

14 FINANCIAL INSTRUMENTS RISK

Risk management objectives and policies

The Company is exposed to liquidity and credit risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarized in Note 13.

The Company's risk management is coordinated 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.

Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. The Company is slightly exposed to credit risk from financial assets including cash held at banks and accounts receivable from related party.

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.

Accounts receivable from related party consist of one customer (Zydus Pharmaceuticals México, S.A. de C.V.) as noted on note 12 above.

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 related party's account receivable. The Company's existing cash resources and related party's account receivable significantly exceed the current cash outflow requirements.

15 CONTINGENCIES AND COMMITMENTS

a) 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.

b) 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.

16 SUBSEQUENT EVENTS

No adjusting or significant non-adjusting events have occurred between the 31 December, 2019 reporting date and the date of authorization.