



Salles Sainz

Grant Thornton

Financial statements and independent auditor's report

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

December 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

Emphasis of matter

As mentioned in Note 5, the financial statements as of December 31, 2019, has been reformulated in order to recognize the accumulated effect of currency fluctuation correction in the balance from the loan payable to its related parties, the effect amounted to \$9,125,196.

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 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
March 5, 2021.

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, 2020 and 2019

(Stated in Mexican Pesos)

	Note	2020	2019
ASSETS			
Current			
Cash		\$ 40,745,482	\$ 23,736,560
Accounts receivable, net	6	50,341,953	50,086,191
Inventories, net	7	15,540,851	19,104,684
Prepaid expenses		1,056,747	209,638
Total currents assets		107,685,033	93,137,073
Non-current assets			
Furniture, equipment and leasehold improvements, net	8	1,015,181	580,142
Right-of-use asset	9	2,296,280	5,309,488
Other assets		36,979	36,979
Deferred income tax	13	-	22,068,342
Total assets		\$ 111,033,473	\$ 121,132,024
LIABILITIES AND EQUITY			
Liabilities			
Short-term			
Accounts payable		\$ 6,921,389	\$ 7,699,000
Short-term lease liability	9	1,830,644	3,938,712
Related parties	5 and 16	164,985,935	133,575,787
Taxes payable	15	831,309	117,724
Accruals	19	9,091,370	-
Total liabilities		183,660,647	145,331,223
Long-term			
Long-term lease liability	9	723,587	1,774,034
Total liabilities		184,384,234	147,105,257
Equity			
Capital stock	17	169,315,138	169,315,138
Accumulated losses		(242,665,899)	(195,288,371)
Total Equity		(73,350,761)	(25,973,233)
Total liabilities and Equity		\$ 111,033,473	\$ 121,132,024

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

Statements of profit or loss

For the years ended December 31, 2020 and 2019

(Stated in Mexican Pesos)

	Note	2020	2019
Net sales	4n	\$ 186,283,896	\$ 147,033,814
Other income		<u>53,463</u>	<u>35,778</u>
		186,337,359	147,069,592
Cost of sales		83,125,396	51,764,400
Gross profit		<u>103,211,963</u>	<u>95,305,192</u>
Operating expenses:			
Selling and marketing expenses		20,456,352	21,868,512
Regulation expenses		4,515,691	6,503,613
Administrative expenses		70,519,532	59,730,923
Distribution expenses		5,516,831	5,496,552
Total expenses		<u>101,008,406</u>	<u>93,599,600</u>
Operating profit		2,203,557	1,705,592
Comprehensive result of financing:			
Interest expense		(730,830)	(766,794)
Financial cost on leases	9	(724,448)	(1,094,878)
Exchange loss, net	5 and 11	(26,057,465)	(16,096,916)
		<u>(27,512,743)</u>	<u>(17,958,588)</u>
Loss before income tax		(25,309,186)	(16,252,996)
Deferred income tax	12 and 13	<u>22,068,342</u>	<u>(278,571)</u>
Net loss for the year		\$ <u>(47,377,528)</u>	\$ <u>(15,974,425)</u>

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

Statements of changes in equity
For the years ended December 31, 2020 and 2019
 (Stated in Mexican Pesos)

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Capital stock at beginning and at end of year	16	\$ <u>169,315,138</u>	\$ <u>169,315,138</u>
Accumulated losses at beginning of year		\$ (195,288,371)	\$ (179,313,946)
Net loss for the year		<u>(47,377,528)</u>	<u>(15,974,425)</u>
Accumulated losses at end of year		\$ <u>(242,665,899)</u>	\$ <u>(195,288,371)</u>
Total equity		\$ <u>(73,350,761)</u>	\$ <u>(25,973,233)</u>

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

Statements of cash flows

For the years ended December 31, 2020 and 2019

(Stated in Mexican Pesos)

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Operating:			
Loss before income tax		\$ (25,309,186)	\$ (16,252,996)
Non-cash adjustments			
Items related to investing activities:			
Depreciation	8 and 9	4,240,680	3,927,370
Financing activities items:			
Financial cost on leases	9	724,448	1,094,878
Interest expense		730,830	766,794
		<u>(19,613,228)</u>	<u>(10,463,954)</u>
Changes in:			
Accounts receivable		(255,762)	(13,274,229)
Related parties		31,410,148	39,549,514
Inventories		3,563,833	(3,884,042)
Prepaid expenses		(847,109)	22,190
Accounts payable		8,313,759	1,273,186
Taxes payable		713,585	40,982
Net cash flows from operating activities		<u>23,285,226</u>	<u>13,263,647</u>
Investing:			
Acquisitions of furniture and equipment		<u>(774,096)</u>	<u>(288,827)</u>
Net cash flows from investing activities		<u>(774,096)</u>	<u>(288,827)</u>
Financing:			
Lease payments		(4,777,760)	(3,355,251)
Interest paid		(724,448)	(1,094,878)
Net cash flows from financing activities		<u>(5,502,208)</u>	<u>(4,450,129)</u>
Net increase in cash during the year		17,008,922	8,524,691
Cash at beginning of year		23,736,560	15,211,869
Cash at end of year	\$	<u>40,745,482</u>	<u>\$ 23,736,560</u>

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

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

Notes to the financial statements

December 31, 2020 and 2019

(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 does not have employees and all the required services for its management and operation, are provided by Zydus Pharmaceuticals México Service Company, S.A. de C.V. through a service rendering contract, and accordingly, it is not subject to labor requirements or obligations, except for those arising from non-compliance with labor or tax pronouncements, over the administrative and operational services being provided.

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.

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 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 March 5, 2021 by Prasanta Paul Prasanta, 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 effective on January 1, 2020

Various new regulations, interpretations and modifications to existing regulations came into force on January 1, 2020, which had no effect on the financial position or results of the Company.

NIF's Improvements 2020

In January 2020, the CINIF issued the 'NIF's Improvements 2020'. These improvements, among other things, include the aspects shown as follows:

NIF D-5 'Leases' - risk free rate - this improvement incorporates the possibility for the lessee to use a risk free rate to discount future lease payments, thereby recognizing the lease liability. This option is applicable provided that the interest rate implicit in the lease cannot be readily determined.

Toward that end, the Company used a risk free rate to discount the future lease payments, thereby recognizing the lease liability with regard to its lease agreements of the offices and facilities, insofar as the interest rate implicit in the lease could not be readily determined.

NIF D-4 'Tax on Income' - these improvements incorporate the evaluation that Management must make as to whether or not the determination of income tax, 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, 2020, the Company did not recognize any effect into the financial statements.

b) Standards, modifications, improvements and interpretations of existing standards that are not yet adopted and that have not been adopted in advance by the Company

As of the authorization date of these financial statements, various new standards, interpretations and modifications to the existing standards have been published by the CINIF, which come into effect on January 1, 2021 and subsequent years. It is estimated will not have a significant effect on the financial position or results of the Company.

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, 2020 and 2019, 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 2019, 2018 y 2017, was 2.8300%, 4.8300% y 6.7730%, respectively; therefore, accumulated inflation for the prior three year period was 14.4330%.

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 first-in, first-out method. 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 (although the Company currently has no 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 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 results 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 results during the lease term.

In the statement of financial position, the assets for use rights are presented in a separate 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, 2020, and 2019, 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 that exceed the capital stock in the amount of \$73,350,761 and \$25,973,233, 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

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 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, 2020 and 2019, 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 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, 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.

Trade and other receivables and contract assets

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, prepaid or deferred

Provisions for income tax (ISR for its acronym in Spanish) are recorded in income for the year they become payable. Also, a deferred tax related to this item 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.

n. 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.

Contract acquisition costs

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

o. Operating expenses

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

p. 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

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 13).

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.

q. Comprehensive loss

The amount of comprehensive loss is the result of the total performance of the Company during the years ended December 31, 2020 and 2019. Comprehensive loss is basically represented by net loss for the year as shown in the statements of profit or loss.

5 FINANCIAL STATEMENTS REFORMULATION

The financial statements as of December 31, 2019, has been reformulated in order to recognize the accumulated effect of currency fluctuation correction in the balance of the loan payable to its related parties, the effect amounted to \$9,125,196, the effect shown as follows:

Description	Amounts before reformulation	Reformulation effects Debit (Credit)	Reformulated amounts
<u>Liabilities</u>			
Related parties	\$ 124,450,591	\$ 9,125,196	\$ 133,575,787
<u>Equity</u>			
Accumulated losses	\$ (186,163,175)	\$ (9,125,196)	\$ (195,288,371)
<u>Profit or loss</u>			
Net loss for the year	\$ (6,849,229)	\$ (9,125,196)	\$ (15,974,425)

6 ACCOUNTS RECEIVABLE

	2020	2019
<u>Trade receivables:</u>		
Trade receivables	\$ 55,338,317	\$ 48,099,310
Less -		
Allowance for doubtful accounts	(3,149,831)	(1,481,908)
Allowance for discounts	(1,165,027)	(745,180)
Allowance for sales returns	(7,623,035)	(2,554,598)
Total of trade receivables, net	<u>43,400,424</u>	<u>43,317,624</u>
<u>Other receivables:</u>		
Value added tax recoverable	5,820,873	5,694,814
Income tax withholding from third parties	1,120,656	1,073,753
Total of other receivables	<u>6,941,529</u>	<u>6,768,567</u>
	<u>\$ 50,341,953</u>	<u>\$ 50,086,191</u>

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.

From January to September of 2019, Mexican Tax authorities reimbursed value added tax in the amount of \$13,990,193, this amount was generated during 2019.

The activity in the allowances accounts is as follows:

	2020	2020
<u>Allowance for doubtful accounts</u>		
Opening loss allowance as of January 1 st	\$ (1,481,908)	\$ (2,227,833)
Increase of the year	(1,667,923)	-
Loss allowance unused and reversed during the year	-	745,925
Allowance as of December 31 st	<u>\$ (3,149,831)</u>	<u>\$ (1,481,908)</u>

	<u>2020</u>	<u>2019</u>
<u>Allowance for discounts</u>		
Opening allowance balance as of January 1 st	\$ (745,180)	\$ (894,098)
Increase of the year	(8,845,265)	(3,516,325)
Write-offs during the year	8,425,418	3,665,243
Balance as of December 31 st	<u>\$ (1,165,027)</u>	<u>\$ (745,180)</u>

	<u>2020</u>	<u>2019</u>
<u>Allowance for sales returns</u>		
Opening allowance balance as of January 1 st	\$ (2,554,598)	\$ (3,614,691)
Increase of the year	(12,463,626)	(4,813,728)
Write-offs during the year	7,395,189	5,873,821
Balance as of December 31 st	<u>\$ (7,623,035)</u>	<u>\$ (2,554,598)</u>

7 INVENTORIES

	<u>2020</u>	<u>2019</u>
Finished products	\$ 15,933,952	\$ 19,683,549
Less – Allowance for obsolete and slow-moving inventories	(393,101)	(578,865)
	<u>\$ 15,540,851</u>	<u>\$ 19,104,684</u>

The decrease in allowance for obsolete and slow-moving inventories, is mainly due to returned products not in conditions to be sold again.

8 FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 780,303	\$ 780,303
Computer equipment	3,016,509	2,242,413
Leasehold improvements	1,397,773	1,397,773
	<u>5,194,585</u>	<u>4,420,489</u>
Less - Accumulated depreciation and amortization	(4,179,404)	(3,840,347)
	<u>\$ 1,015,181</u>	<u>\$ 580,142</u>

9 LEASES

Right of use asset

	<u>2020</u>	<u>2019</u>
Building leasing agreement	\$ 1,911,253	\$ 1,911,253
Transportation equipment leasing agreements	8,045,159	7,156,744
Less – Accumulated depreciation	(7,660,132)	(3,758,509)
Total right of use asset	<u>\$ 2,296,280</u>	<u>\$ 5,309,488</u>

Lease liabilities

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

	<u>2020</u>	<u>2019</u>
Short-term	\$ 1,830,544	\$ 3,938,712
Long-term	723,587	1,774,034
	<u>\$ 2,554,131</u>	<u>\$ 5,712,746</u>

The Company has leases 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	1.8 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, 2020 and 2019, the amount corresponding to Low-value asset leasing amounted to \$132,262 and \$113,760, respectively.

10 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:

	2020	2019
Financial assets		
<u>Amortized cost</u>		
Cash	\$ 40,745,482	\$ 23,736,560
Trade receivables	43,400,424	43,317,624
Total financial assets	<u>84,145,906</u>	<u>67,054,184</u>
Financial liabilities		
<u>Amortized cost</u>		
Accounts payables	6,921,389	7,699,000
Borrowing from related party	98,095,007	106,076,402
Accounts payable to related parties	66,890,928	27,499,385
Total financial liabilities	<u>\$ 171,907,324</u>	<u>\$ 141,274,787</u>

A description of the Company's financial instrument risks, including risk management objectives and policies is given in Note 18.

Related party borrowings

As of December 31, 2020 and 2019, 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 16.

11 FOREIGN CURRENCY POSITION

Financial assets and liabilities denominated in foreign currency that are exposed to a risk of foreign currency sensitivity (mentioned in Note 18 below) at the closing dates are as shown below:

	<u>USD</u>	<u>EUR</u>
As of December 31, 2020		
Financial assets	336,444	-
Financial liabilities	<u>(857,909)</u>	<u>(4,016,054)</u>
Net position	<u>(521,465)</u>	<u>(4,016,054)</u>
As of December 31, 2019		
Financial assets	355,386	-
Financial liabilities	<u>(879,836)</u>	<u>(5,224,492)</u>
Net position	<u>(524,450)</u>	<u>(5,224,492)</u>

As of December 31, 2020 and 2019, and March 5, 2021, 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:

	<u>USD</u>	<u>EUR</u>
As of December 31, 2020	19.9352	24.4228
As of December 31, 2019	18.8727	21.1154
As of March 5, 2021	20.8498	25.0927

12 INCOME TAX

For the year ended December 31, 2020 and 2019, the Company had a taxable income (loss) in amount of \$24,981,072 and \$(4,256,006), respectively, which differs from the net loss before taxes, mainly to the following effects:

	<u>2020</u>	<u>2019</u>
Loss before income taxes	<u>\$ (25,309,186)</u>	<u>\$ (16,252,996)</u>
Temporary items		
Tax over book depreciation	(27,278)	(23,629)
Leases	579,141	-
Advance payments	(613,272)	21,320
Accruals	48,947,763	9,722,202
Other	(120,065)	(835,270)
Permanent items		
Annual adjustment for inflation	434,791	1,170,830
Non-deductible expenses	1,142,641	1,977,315
Other	(53,463)	(35,778)
Net effect	<u>50,290,258</u>	<u>11,996,990</u>
Taxable income (loss)	<u>\$ 24,981,072</u>	<u>\$ (4,256,006)</u>

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.

13 DEFERRED INCOME TAX

As of December 31, 2020 and 2019 the deferred income tax asset derived from the difference between book and tax value of assets and liabilities, is summarized as shown below:

	2020	2019
Allowance for doubtful accounts	\$ 3,149,831	\$ 1,481,908
Allowance for discounts	1,165,027	745,180
Allowance for sales returns	7,623,035	2,554,598
Allowance for obsolete and slow-moving inventories	393,101	578,865
Fixed assets	(39,968)	16,799
Right-of-use asset, net	257,951	403,260
Provisions and other (transfer pricing adjustments)	57,840,021	19,485,771
Prepaid expenses	(684,885)	(69,734)
Excess of tax over book value of assets and liabilities, net	<u>69,704,113</u>	25,196,647
Tax loss carryforwards	<u>195,211,446</u>	214,046,861
	264,915,559	239,243,508
Income tax rate	30%	30%
Deferred income tax asset	<u>79,474,668</u>	71,773,052
Less: Valuation allowance	<u>(79,474,668)</u>	(49,704,710)
	<u>\$ -</u>	<u>\$ 22,068,342</u>

As of December 31, 2020 and 2019, this net deferred income tax asset is mainly generated by the tax loss carryforwards, reserves of assets and provisions. However, considering the new conditions of the Company (see Note 17 e), its projections and its actual taxable income, the Company management has decided to recognize a valuation allowance for this deferred income tax asset in the amount of \$(79,474,668) and \$(49,704,710), respectively.

14 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, 2020, tax loss carryforwards restated at that date are summarized as follows:

Year incurred	Restated amount	Year of expiration
2013	\$ 36,542,490	2023
2014	75,391,829	2024
2015	74,121,836	2025
2016	493,367	2026
2019	5,131,069	2029
	<u>\$ 195,211,446</u>	

15 TAXES PAYABLE

	<u>2020</u>	<u>2019</u>
Retained VAT	\$ 762,893	\$ 75,692
Retained income tax	68,416	42,032
	<u>\$ 831,309</u>	<u>\$ 117,724</u>

16 RELATED PARTIES' TRANSACTIONS AND BALANCES

During the years ended December 31, 2020 and 2019, the Company carried out transactions and had balances with related parties as follows

Related Parties	<u>2020</u>	
	<u>Balance payable</u>	<u>Transactions Purchases and expenses</u>
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. (Ultimate Parent) (c)	60,889,123	70,760,047
	<u>\$ 164,985,935</u>	<u>\$ 120,904,279</u>
	<u>2019</u>	
	<u>Balance payable</u>	<u>Transactions Purchases and expenses</u>
Zydus Pharmaceuticals México Service Company, S.A. de C.V. (Affiliated) (a)	\$ 3,351,096	\$ 49,709,788
Zydus International Private Limited (Parent) (b)	106,076,402	478,051
Cadila Healthcare, LTD. (Ultimate Parent) (c)	24,148,289	49,966,073
	<u>\$ 133,575,787</u>	<u>\$ 100,153,912</u>

- a) As of December 31, 2020 and 2019, the balance payable to Zydus Pharmaceuticals México Service Company, S.A. de C.V., 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, 2020 and 2019, the balance payable to Zydus International Private Limited (Parent) in the amount of \$94,990,038 and \$101,896,232, was mainly generated from a loan received at the interest rate of LIBOR EURO + agreed spread. As of December 31, 2020 and 2019, the interests accrued amounts to \$3,104,968 and \$4,180,170, respectively.
- c) As of December 31, 2020 and 2019, the balance payable to Cadila Healthcare Limited, arising from supply of goods in the amounts of \$9,767,078 and \$5,533,562, respectively and transfer pricing to be billed by Cadila in the amount of 51,122,045 and 18,614,727, respectively (see Note 17 e).

As of December 31, 2020 and 2019, 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.

17 EQUITY

a. Capital stock

As of December 31, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, the balance of the Restated Contributed Tax Account (CUCA for its acronym in Spanish) amounts to \$225,597,798 and \$218,708,481, 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, 2020 and 2019, the Company has accumulated operating losses with a consequent deficit in Partners' equity by \$(73,350,761) and \$(25,973,233), respectively, and as of those dates, the Company's current liabilities (represented by related parties, mainly) exceeded its total current assets by \$76,699,201 and \$53,968,184, respectively. These conditions indicate that may cast significant doubt on the Company's ability to continue as a going concern. However, Cadila Healthcare Limited, India (CHL) 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 nine years of commencing operations, the Company has been gradually penetrating the pharmaceutical market, achieving a 26% increase in sales during 2020 as compared to 2019. Furthermore, Cadila Healthcare Limited, India (CHL) 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 of 1.18% over the revenues as of December 31, 2020 and 1.16% of the earnings before interests and taxes, as of December 31, 2019, as shown in the statements of profit or loss for 2020 and 2019. The Company is expected to continue to generate profits based on this agreement and further actions that would be taken.

18 FINANCIAL INSTRUMENTS RISK

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 10.

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).

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed in Note 11 above.

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, 2020 and 2019, 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, 2020 and January 1, 2020 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, 2020 and January 1, 2020 was determined as follows:

	Trade receivables days past due				Total
	Current	From 30 up to 360 days	More than 360 days	More than 540 days	
As of December 31, 2020	\$ 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

	Trade receivables days past due				Total
	Current	From 30 up to 360 days	More than 360 days	More than 540 days	
As of December 31, 2019	\$ 22,637,225	\$ 23,875,585	\$ 209,184	\$ 1,377,316	\$48,099,310
Expected credit loss rate	0%	0%	50%	100%	
Gross carrying amount	\$ -	\$ -	\$ 104,592	\$ 1,377,316	\$ 1,481,908

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.

19 CONTINGENCIES

- 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 the will have to reimburse these amounts, a provision has been created for an amount of \$9,091,370.
- 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.
- 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 17 e). the authorities would impose fines on the omitted contributions.

20 SUBSEQUENT EVENTS:

No adjusting or significant non-adjusting events have occurred between the December 31, 2020 reporting date and the date of authorization.