



Salles Sainz
Grant Thornton

Financial statements and Independent auditor's report

Zydus Pharmaceuticals México, 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, 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, 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.

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

Responsibilities of management for the financial statements

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

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

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.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 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, 2019 and 2018
(Stated in Mexican Pesos)

	Notes	2019	2018
ASSETS			
Current			
Cash		\$ 23,736,560	\$ 15,211,869
Accounts receivable, net	5	50,086,191	36,811,962
Inventories, net	6	19,104,684	15,220,642
Related parties	14	-	32,285,253
Prepaid expenses		209,638	231,828
Total current assets		93,137,073	99,761,554
Non-current assets			
Furniture, equipment and leasehold improvements, net	7	580,142	460,176
Right-of-use asset	8	5,309,488	-
Other assets		36,979	36,979
Deferred income tax	12	22,068,342	21,789,771
Total assets		\$ 121,132,024	\$ 122,048,480
LIABILITIES AND EQUITY			
Liabilities			
Short-term			
Accounts payable		\$ 7,699,000	\$ 6,425,814
Short-term lease liability	8	3,938,712	-
Related parties	14	124,450,591	125,544,732
Taxes payable		117,724	76,742
Total liabilities		136,206,027	132,047,288
Long term			
Long-term lease liability	8	1,774,034	-
Total long-term liabilities		1,774,034	-
Equity			
Capital stock	15	169,315,138	169,315,138
Accumulated losses		(186,163,175)	(179,313,946)
Total Equity		(16,848,037)	(9,998,808)
Total liabilities and Equity		\$ 121,132,024	\$ 122,048,480

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)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Net sales		\$ 147,033,814	\$ 121,877,671
Other income		<u>35,778</u>	<u>9,663,698</u>
		<u>147,069,592</u>	<u>131,541,369</u>
Cost of sales		<u>51,764,400</u>	<u>33,190,779</u>
Gross profit		<u>95,305,192</u>	<u>98,350,590</u>
Operating expenses:			
Selling and marketing expenses		21,868,512	23,352,628
Regulation expenses		6,503,613	5,924,288
Administrative expenses		59,730,923	60,043,165
Distribution expenses		<u>5,496,552</u>	<u>5,824,506</u>
Total expenses		<u>93,599,600</u>	<u>95,144,587</u>
Operating profit		1,705,592	3,206,003
Comprehensive result of financing:			
Interest expense		(766,794)	(622,724)
Financial cost on leases	8	(1,094,878)	-
Exchange loss, net		<u>(6,971,720)</u>	<u>(1,743,476)</u>
		<u>(8,833,392)</u>	<u>(2,366,200)</u>
(Loss) profit before income tax		(7,127,800)	839,803
Deferred income tax	11 y 12	<u>(278,571)</u>	<u>947,689</u>
Net loss for the year		<u>\$ (6,849,229)</u>	<u>\$ (107,886)</u>

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)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Capital stock at beginning and at end of year	15	\$ <u>169,315,138</u>	\$ <u>169,315,138</u>
Accumulated losses at beginning of year		\$ (179,313,946)	\$ (179,206,060)
Net loss for the year		<u>(6,849,229)</u>	<u>(107,886)</u>
Accumulated losses at end of year		\$ <u>(186,163,175)</u>	\$ <u>(179,313,946)</u>
Total equity		\$ <u>(16,848,037)</u>	\$ <u>(9,998,808)</u>

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)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Operating:			
(Loss) profit before income tax		\$ (7,127,800)	\$ 839,803
Non-cash adjustments			
Items related to investing activities:			
Depreciation	7 and 8	3,927,370	177,850
Financing activities items:			
Financial cost on leases	8	1,094,878	-
Interest expense		<u>766,794</u>	<u>622,724</u>
		<u>(1,338,758)</u>	<u>1,640,377</u>
Changes in:			
Accounts receivable		(13,274,229)	8,525,358
Related parties		30,424,318	5,577,696
Inventories		(3,884,042)	(7,569,060)
Prepaid expenses		22,190	236,289
Accounts payable		1,273,186	1,722,605
Provisions		-	(1,755,798)
Taxes payable		<u>40,982</u>	<u>(17,958)</u>
Net cash flows from operating activities		<u>13,263,647</u>	<u>8,359,509</u>
Investment:			
Acquisitions of furniture and equipment		<u>(288,827)</u>	<u>(125,243)</u>
Net cash flows from Investment activities		<u>(288,827)</u>	<u>(125,243)</u>
Financing:			
Lease payments		(3,355,251)	-
Interest paid		<u>(1,094,878)</u>	<u>-</u>
Net cash flows from financing activities		<u>(4,450,129)</u>	<u>-</u>
Net change in cash		8,524,691	8,234,266
Cash at beginning of year		<u>15,211,869</u>	<u>6,977,603</u>
Cash at end of year		<u>\$ 23,736,560</u>	<u>\$ 15,211,869</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, 2019 and 2018

(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 health products.

The Company started its commercial operations in June 2013; its top ten clients represent 92% of total sales.

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.

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 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 new standards and improvements to NIFs that became effective in the current year, as described on the following page.

New standards adopted on January 1, 2019

NIF D-5 ‘Leases’ (NIF D-5)

NIF D-5 replaces Bulletin D-5 ‘Leases’ and the supplementary application of the IFRIC 4 ‘Determining whether an Arrangement contains a Lease’ of the International Financial Reporting Standards. In accordance with the requirements of the NIF D-5, leases are recognized in the statement of financial position of the lessee as a right-of-use asset and related lease liability in relation to all previous operating leases, except those identified as low value or with a remaining lease term of less than 12 months from the date of initial application.

The Company has adopted this new standard under the partial retrospective option, as well as with the alternative of valuing the right-of-use asset at an amount equal to the lease liability at the date of adoption. As a result of the foregoing, it was not required to recognize any effect from the adoption of this standard in the initial balance of accumulated earnings. Finally, for the comparative periods, its reformulation was not required.

For the determination of the lease liabilities recognized under NIF D-5, in the adoption, the Company applied the implicit interest rate of 11%.

The Company has benefited from the use of previous experience to determine the lease term when considering the options to extend and terminate the lease agreements.

For contracts in effect on the date of initial application, the Company has chosen to apply the definition of lease in MFRS D-5 and has not applied MFRS D-5 to agreements or contracts that had not previously been identified as leases in accordance with MFRS D-5

In the adoption, for leases that were previously accounted for as operating with a remaining lease term of less than 12 months and for low-value leases, the Company has applied the optional exemptions from not recognizing the right-of-use assets, but to account for the rental expense in a straight line during the remaining term.

Instead of conducting a review of impairment of right-of-use assets at the date of initial application, the Company has relied on its historical evaluation to determine if the leases were onerous immediately before the initial date of application of the MFRS D-5.

The following is a reconciliation of total operating lease commitments as of December 31, 2018 (as disclosed in the financial statements as of December 31, 2018) with recognized lease liabilities as of January 1, 2019:

Liabilities for operating leases	
as of December 31, 2018 before discounted	\$ 11,091,976
Discount using the incremental interest rate	(2,023,979)
Reasonably certain extension options	-
Financial leasing obligations	-
Total lease liabilities recognized under	_____
MFRS D-5 as of January 1, 2019	\$ 9,067,997

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 in the following years. None of these standards and amendments have been adopted early by the Company. The following is a description of those expected to be relevant to the Company’s financial statements

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-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 will be applicable provided that the interest rate implicit in the lease cannot be readily determined.
- *NIF D-4 'Tax on Income' - uncertain tax treatment* - these improvements incorporate the evaluation that Management must make as to whether or not the determination of taxes on earnings, 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 tax, as well as the disclosures deemed appropriate in terms of the provision set forth in those standards.

As of December 31, 2019, Management does not foresee the NIF D-4 'Tax on Income' 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. 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

Pursuant to NIF B-10, beginning 2008, the recognition of the effects of inflation was suspended in view that operation takes place in a non-inflationary economic environment. 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. Satatements of cash flows

Statements of cash flows have been prepared using the indirect method, which consists of first presenting pre-tax profit or loss, and further presenting changes in working capital, investing activities, and finally financing activities.

f. Cash

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

g. 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.

h. 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.

i. 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.

j. Leases

Operating leases

Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Accounting policy applicable from January 1, 2019

The Company as lessee

For any contract entered into as of January 1, 2019, the Company considers whether a contract is or contains a lease. A lease is defined as "a contract, or part of a contract, that grants the right to use an asset (the underlying asset) for a period of time in exchange for a payment." To apply this definition, the Company assesses whether the contract meets three key evaluations, as described below:

- the contract contains an identified asset, which is specified either explicitly in the contract or implicitly when identified at the time the asset is made available to the Company;
- the Company has the right to obtain substantially all the economic benefits derived from the use of the identified asset during the period of use, considering its rights within the scope defined in the contract; and
- The Company has the right to direct the use of the identified asset during the period of use. The Company assesses whether it has the right to direct the 'how and for what purpose' the asset is used during the period of use.

Measurement and recognition of leases as lessee

On the lease start 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.

On 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.

k. 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, 2019, and 2018, the Company has not identified impairment conditions on its long-lived assets.

l. 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, 2019, and 2018, 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.

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.

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.

n. 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.

o. 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. Since the amortization period of these costs, if capitalized, would be less than one year, the Company makes use of the practical expedient in NIF D-1 and expenses them as they incur.

p. Operating expenses

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

q. 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 12).

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.

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.

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.

r. Comprehensive loss

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

5 ACCOUNTS RECEIVABLE

	<u>2019</u>	<u>2018</u>
<u>Trade receivables:</u>		
Trade receivables	\$ 48,099,310	\$ 36,990,338
Less -		
Allowance for doubtful accounts	(1,481,908)	(2,227,833)
Allowance for discounts	(745,180)	(894,098)
Allowance for sales returns	(2,554,598)	(3,614,691)
Total of trade receivables, net	<u>43,317,624</u>	<u>30,253,716</u>
Other receivables:		
Value added tax recoverable	5,694,814	5,301,140
Income tax withholding from third parties	1,073,753	1,237,956
Miscellaneous	-	19,150
Total of other receivables	<u>6,768,567</u>	<u>6,558,246</u>
	<u>\$ 50,086,191</u>	<u>\$ 36,811,962</u>

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.

From July to December 2018, Mexican Tax Authorities reimbursed value added tax in the amount of \$25,396,528, this amount was generated during 2018 and 2017.

The activity in the allowances accounts is as follows:

<u>Allowance for doubtful accounts</u>	<u>2019</u>	<u>2018</u>
Opening loss allowance as of January 1 st	\$ (2,227,833)	\$ (717,441)
Loss allowance recognized during the year	-	(1,510,392)
Receivables written off during the year	-	-
Loss allowance unused and reversed during the year	745,925	-
Loss allowance as of December 31 st	<u>\$ (1,481,908)</u>	<u>\$ (2,227,833)</u>
<u>Allowance for discounts</u>	<u>2019</u>	<u>2018</u>
Opening allowance balance as of January 1 st	\$ (894,098)	\$ (365,517)
Allowance recognized during the year	(3,516,325)	(1,982,078)
Write-offs during the year	3,665,243	1,453,497
Allowance unused and reversed during the year	-	-
Closing allowance balance as of December 31 st	<u>\$ (745,180)</u>	<u>\$ (894,098)</u>
<u>Allowance for sales returns</u>	<u>2019</u>	<u>2018</u>
Opening allowance balance as of January 1 st	\$ (3,614,691)	\$ (2,644,657)
Allowance recognized during the year	(4,813,728)	(2,796,337)
Write-offs during the year	5,873,821	1,826,303
Allowance unused and reversed during the year	-	-
Closing allowance balance as of December 31 st	<u>\$ (2,554,598)</u>	<u>\$ (3,614,691)</u>

6 INVENTORIES

	<u>2019</u>	<u>2018</u>
Finished products	\$ 19,683,549	\$ 18,343,765
Less – Allowance for obsolete and slow-moving inventories	<u>(578,865)</u>	<u>(3,123,123)</u>
	<u>\$ 19,104,684</u>	<u>\$ 15,220,642</u>

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

7 FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 780,303	\$ 748,171
Computer equipment	2,242,413	1,985,717
Leasehold improvements	<u>1,397,773</u>	<u>1,397,774</u>
	<u>4,420,489</u>	<u>4,131,662</u>
Less - Accumulated depreciation and amortization	<u>(3,840,347)</u>	<u>(3,671,486)</u>
	<u>\$ 580,142</u>	<u>\$ 460,176</u>

8 LEASES

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

	<u>2019</u>
Short-term	\$ 3,938,712
Long-term	<u>1,774,034</u>
	<u>\$ 5,712,746</u>

The company has leases 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 below describes the nature of the Company's leasing activities by type of right-of-use asset recognized in the statement of financial position:

	<u>Right-of-use asset</u>	
	<u>Building and installations</u>	<u>Transportation equipment</u>
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

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.

	<u>December 31, de 2019</u>
Short-term leases	\$ -
Low-value asset leasing	113,760
Variable lease payments	-
	<u>\$ 113,760</u>

As of December 31, 2019, the Company had commitments on short-term leases whose total amount as of that date was \$113,760.

As of December 31, 2019, the Company has no commitments related to variable leases.

As of December 31, 2019, the Company had no lease commitments that had not yet started.

Below is additional information on right-of-use assets by asset class:

	Book value January 1st, 2019	Depreciation 2019
Building leasing agreement	\$ 1,911,253	\$ 739,840
Transportation equipment leasing agreements	7,156,744	3,018,669
Right-of-use assets	\$ 9,067,997	\$ 3,758,509

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.

9 FINANCIAL INSTRUMENTS

Categories of financial assets and financial liabilities

Note 4I 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:

	<u>2019</u>	<u>2018</u>
Financial assets		
<u>Amortized cost</u>		
Cash	\$ 23,736,560	\$ 15,211,869
Trade receivables	43,317,624	30,253,716
Accounts receivable from related parties	-	32,285,253
Total financial assets	<u>\$ 67,054,184</u>	<u>\$ 77,750,838</u>

	<u>2019</u>	<u>2018</u>
Financial liabilities		
<u>Amortized cost</u>		
Accounts payables	\$ 7,699,000	\$ 6,425,814
Borrowing from related party	96,951,206	122,231,366
Accounts payable to related parties	27,499,385	3,313,366
Total financial liabilities	<u>\$ 132,149,591</u>	<u>\$ 131,970,546</u>

A description of the Company's financial instrument risks, including risk management objectives and policies is given in Note 16.

Related party borrowings

As of December 31, 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 14.

10 FOREIGN CURRENCY POSITION

As of December 31, 2019, 2018 and March 6, 2020, date of issuance of the accompanying financial statements, exchange rates per one US dollar were \$18.8727, \$19.6566 and \$19.8095, respectively.

As of December 31, 2019 and 2018, the following assets and liabilities are denominated in US dollars:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Assets	37,085	2,407,337
Liabilities	(756,624)	(839,229)
Net Position	<u>(719,539)</u>	<u>1,568,108</u>

As of March 6, 2020, the foreign currency position of the Company (unaudited) is similar to the position as of December 31, 2019.

11 INCOME TAX

For the year ended December 31, 2019 and 2018, the Company had a taxable income of \$4,869,203 and \$6,911,117, respectively, which differs from the net loss for the year, due mainly to the net effect of the provisions, allowance for doubtful accounts, allowance for obsolete inventory and non-deductible expenses. Taxable income was fully offset by operating tax loss carryforwards.

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.

12 DEFERRED INCOME TAX

As of December 31, 2019 and 2018 the deferred income tax asset derived from the difference between book and tax value of assets and liabilities, is summarized as shown in the following page.

	2019	2018
Allowance for doubtful accounts	\$ 1,481,908	\$ 2,227,833
Allowance for discounts	745,180	894,098
Allowance for sales returns	2,554,598	3,614,691
Allowance for obsolete and slow-moving inventories	578,865	3,123,123
Fixed assets	16,799	39,484
Right-of-use asset, net	403,260	-
Provisions and other (transfer pricing adjustments)	17,562,429	1,706,313
Prepaid expenses	(69,734)	(32,056)
Excess of tax over book value of assets and liabilities, net	23,273,305	11,573,486
Tax loss carryforwards	209,072,485	208,192,991
	232,345,790	219,766,477
Income tax rate	30%	30%
Deferred income tax asset	69,703,737	65,929,943
Less: Valuation allowance	(47,635,395)	(46,140,172)
	<u>\$ 22,068,342</u>	<u>\$ 21,789,771</u>

As of December 31, 2019 and 2018, 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 15e), 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 (\$47,635,395) and (\$46,140,172), respectively.

13 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, 2019, tax loss carryforwards restated at that date are summarized as follows:

Year incurred	Restated amount	Year of expiration
2012	\$ 22,174,011	2022
2013	38,049,335	2023
2014	74,808,553	2024
2015	73,551,014	2025
2016	489,572	2026
	<u>\$ 209,072,485</u>	

14 RELATED PARTIES TRANSACTIONS AND BALANCES

During the years ended December 31, 2019 and 2018, the Company carried out transactions and had balances with related parties as shown in the following page.

	2019			
	Balance payable	Transactions		
		Revenues	Purchases and expenses	
Zydus Pharmaceuticals México Service Company, S.A. de C.V. (Affiliated) (a)	\$ 3,351,096	\$ -	\$ 49,709,788	
Zydus International Private Limited (Parent) (b)	96,951,206	-	766,794	
Cadila Healthcare, LTD. (Ultimate Parent) (c)	<u>24,148,289</u>	<u>25,755,429</u>	<u>40,766,924</u>	
	<u>\$124,450,591</u>	<u>\$ 25,755,429</u>	<u>\$91,243,506</u>	

	2018			
	Balance receivable	Balance payable	Transactions	
			Revenues	Purchases and expenses
Zydus Pharmaceuticals México Service Company, S.A. de C.V. (Affiliated) (a)	\$ -	\$ 3,313,366	\$ -	\$ 50,286,492
Zydus International Private Limited (Parent) (b)	-	122,231,366	-	622,724
Cadila Healthcare, LTD. (Ultimate Parent) (c)	<u>32,285,253</u>	<u>-</u>	<u>9,606,146</u>	<u>32,188,417</u>
	<u>\$ 32,285,253</u>	<u>\$ 125,544,732</u>	<u>\$ 9,606,146</u>	<u>\$83,097,633</u>

- a) As of December 31, 2019, and 2018, 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, 2019, and 2018, the balance payable to Zydus International Private Limited (Parent) in the amount of \$92,771,036 and \$115,902,736, was mainly generated from a loan received at the interest rate of LIBOR EURO + agreed spread. As of December 31, 2019 and 2018, the interests accrued amounts to \$4,180,170 and \$6,328,630, respectively.
- c) As of December 31, 2019, the balance payable to Cadila Healthcare Limited amounts to \$24,148,289 arising mainly from transfer pricing to be billed by Cadila (see Note 17).

As of December 31, 2018, the balance receivable from Cadila Healthcare Limited amounts to \$32,285,253, which is mainly comprised of accounts receivable from: i) remainder balance related to the same concept from prior years in the amount of \$30,972,711, net of the transfer pricing billed to Cadila which amounts to \$10,704,323 and the account payable arising from purchase of goods in the amount of \$9,391,781.

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.

15 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 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, 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, 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, 2019 and 2018, the balance of the Restated Contributed Tax Account (CUCA for its acronym in Spanish) amounts to \$218,708,481 and \$212,710,057, 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, 2019 and 2018, the Company has accumulated operating losses with a consequent deficit in Partners' equity by \$(15,770,737) and \$(9,998,808), respectively, and as of those dates, the Company's current liabilities (represented by related parties, mainly) exceeded its total current assets by \$41,991,654 and \$32,285,734, 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 six and a half years of commencing operations, the Company has been gradually penetrating the pharmaceutical market, achieving a 21% increase in sales during 2019 as compared to 2018. 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 1.16% over the revenues as of December 31, 2019 and 1.2% of the earnings before interests and taxes, as of December 31, 2018, as shown in the statements of profit or loss for 2019 and 2018. The Company is expected to continue to generate profits based on this agreement and further actions that would be taken.

16 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 9. The main types of risks are market risk, credit risk and liquidity risk.

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

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

Market risk analysis

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

Foreign currency sensitivity

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

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

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed in note 10 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, 2019 and 2018, 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 industries and 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 and cash equivalents 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, 2019 and January 1, 2019 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, 2019 and January 1, 2019 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, 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

On the above basis the expected credit loss for trade receivables as at December 31, 2018 and January 1, 2018 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, 2018	\$18,136,927	\$16,481,603	\$ 287,950	\$2,083,858	\$ 36,990,338
Expected credit loss rate	0%	0%	50%	100%	
Gross carrying amount	-	-	\$ 143,975	\$2,083,858	\$ 2,227,833

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.

17 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.

- c) The Company has entered into contract agreements in order to lease an office, warehouse and automobiles utilized for its sales under an operating lease. The future minimum lease payments as of December 31, 2019 and 2018 are as follows:

	Minimum lease payments due		
	within 1 year	1 to 5 years	Total
31 December 2019	4,787,466	4,710,869	9,498,335

	Minimum lease payments due		
	within 1 year	1 to 5 years	Total
31 December 2018	4,279,617	13,205,615	17,485,232

Lease expense during the 2019 and 2018 amounted to \$4,422,930 and \$4,383,717, respectively, representing the minimum lease payments.

18 SUBSEQUENT EVENTS:

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