



Salles Sainz

**Grant Thornton**

Financial statements and Independent auditor's report

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

December 31, 2023 and 2022

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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, 2023 and 2022, and the statements of comprehensive income, 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, 2023 and 2022, 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

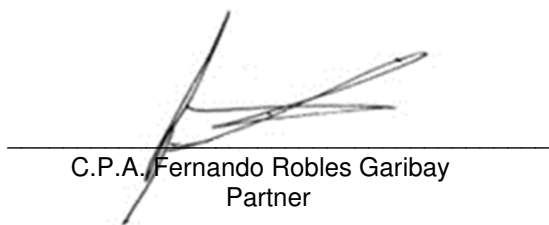
Management is responsible for the preparation and fair presentation of these financial statements in accordance with NIFs and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud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

Mexico City, Mexico  
May 16, 2024.

## 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, 2023 and 2022

(Stated in Mexican Pesos)

	Note	2023	2022
<b>ASSETS</b>			
<b>Current</b>			
Cash		\$ 8,220,897	\$ 7,667,309
Accounts receivable, net	5	63,829,259	50,527,195
Related parties receivable	14	2,111,200	2,126,950
Inventories, net	6	61,577,741	43,447,130
Prepaid expenses		2,187,660	2,730,690
<b>Total currents assets</b>		<b>137,926,757</b>	<b>106,499,274</b>
<b>Non-current assets</b>			
Furniture, equipment and leasehold improvements, net	7	2,986,662	1,446,247
Right-of-use asset	8	14,901,065	16,766,719
Guarantee deposit	18	12,450,615	11,808,732
<b>Total assets</b>		<b>\$ 168,265,099</b>	<b>\$ 136,520,972</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
<b>Short-term</b>			
Accounts payable		\$ 26,634,564	\$ 20,295,311
Short-term lease liability	8	6,252,149	3,723,721
Related parties	14	133,849,018	136,135,995
Taxes payable	11	3,140,590	2,804,278
Employee profit sharing payable	13	4,278,666	3,789,285
Accruals	18	12,316,468	9,091,370
<b>Total short term liabilities</b>		<b>186,471,455</b>	<b>175,839,960</b>
<b>Long-term</b>			
Long-term lease liability	8	7,798,975	14,918,748
Employee benefits	12	6,078,941	5,151,212
<b>Total liabilities</b>		<b>200,349,371</b>	<b>195,909,920</b>
<b>Equity</b>			
Capital stock	15	169,315,138	169,315,138
Accumulated losses		(201,240,845)	(228,811,566)
Other comprehensive (loss) income		(158,565)	107,480
<b>Total Equity</b>		<b>(32,084,272)</b>	<b>(59,388,948)</b>
<b>Total liabilities and Equity</b>		<b>\$ 168,265,099</b>	<b>\$ 136,520,972</b>

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

Statements of comprehensive income  
For the years ended December 31, 2023 and 2022  
(Stated in Mexican Pesos)

	Note	2023	2022
Net sales		\$ 386,455,650	\$ 289,188,392
Other income		161,888	83,815
		<u>386,617,538</u>	<u>289,272,207</u>
<b>Cost of sales</b>		<u>240,567,422</u>	158,133,722
<b>Gross profit</b>		<u>146,050,116</u>	<u>131,138,485</u>
<b>Operating expenses:</b>			
Wages and salaries		51,196,099	46,805,440
Selling and marketing expenses	16	38,099,600	31,460,098
Regulation expenses		8,001,018	11,497,519
Administrative expenses	16	34,557,022	32,587,609
Distribution expenses		8,434,815	5,556,933
<b>Total expenses</b>		<u>140,288,554</u>	<u>127,907,599</u>
Operating profit		5,761,562	3,230,886
<b>Comprehensive result of financing:</b>			
Interest earned, net		819,714	351,278
Financial cost on leases	8	96,969	(2,896,372)
Exchange gain, net	4a and 17	20,892,476	13,314,371
		<u>21,809,159</u>	<u>10,769,277</u>
<b>Net profit for the year</b>		<u>\$ 27,570,721</u>	<u>\$ 14,000,163</u>
<b>Other comprehensive income</b>			
Remeasurements recycling recognized	12	(266,045)	107,480
		<u>(266,045)</u>	<u>107,480</u>
<b>Comprehensive income for the year</b>		<u>\$ 27,304,676</u>	<u>\$ 14,107,643</u>

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

**Statements of changes in equity**  
**For the years ended December 31, 2023 and 2022**  
 (Stated in Mexican Pesos)

	<u>Note</u>	<u>2023</u>	<u>2022</u>
<b>Capital stock at beginning and at end of year</b>	15	\$ <u>169,315,138</u>	\$ <u>169,315,138</u>
<b>Accumulated losses at beginning of year</b>		(228,811,566)	(242,811,729)
Net profit for the year		<u>27,570,721</u>	<u>14,000,163</u>
<b>Accumulated losses at end of year</b>		\$ <u>(201,240,845)</u>	\$ <u>(228,811,566)</u>
<b>Other comprehensive income at beginning of year</b>		107,480	-
Remeseaurements recycling recognized		<u>(266,045)</u>	<u>107,480</u>
<b>Other comprehensive (loss) income at end of year</b>		\$ <u>(158,565)</u>	\$ <u>107,480</u>
<b>Total equity</b>		\$ <u><u>(32,084,272)</u></u>	\$ <u><u>(59,388,948)</u></u>

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



Statements of cash flows  
For the years ended December 31, 2023 and 2022  
(Stated in Mexican Pesos)

	Note	2023	2022
<b>Operating:</b>			
Net profit for the year		\$ 27,570,721	\$ 14,000,163
Non-cash adjustments			
Items related to investing activities:			
Depreciation	7 and 8	6,449,545	7,237,424
Interest earned		(819,714)	(351,278)
Financing activities items:			
Financial cost on leases	8	(96,969)	2,896,372
		<u>33,103,583</u>	<u>23,782,681</u>
Changes in:			
Accounts receivable		(13,302,064)	(9,338,302)
Related parties		(2,271,227)	51,382,921
Inventories		(18,130,611)	(15,424,010)
Prepaid expenses		543,030	(903,514)
Accounts payable		6,339,253	2,012,854
Taxes payable		336,312	93,086
Employee benefits		661,684	979,783
Employee profit sharing		489,381	1,979,496
Guarantee deposit		(641,883)	(1,144,740)
Accruals		3,225,098	-
Net cash flows from operating activities		<u>10,352,556</u>	<u>53,420,255</u>
<b>Investing:</b>			
Acquisitions of furniture and equipment		(2,353,933)	(706,224)
Interest collected		819,714	351,278
Net cash flows from investing activities		<u>(1,534,219)</u>	<u>(354,946)</u>
<b>Financing:</b>			
Lease payments		(8,264,749)	(5,924,459)
Related parties		-	(58,550,596)
Net cash flows from financing activities		<u>(8,264,749)</u>	<u>(64,475,055)</u>
Net increase (decrease) in cash during the year		553,588	(11,409,746)
Cash at beginning of year		7,667,309	19,077,055
Cash at end of year		<u>\$ 8,220,897</u>	<u>\$ 7,667,309</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, 2023 and 2022**

(Amounts stated in Mexican Pesos)

### **1 NATURE OF OPERATIONS**

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

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

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

#### **Labor reform on holidays**

On December 27, 2022, the Decree reforming articles 76 and 78 of the Federal Labor Law regarding vacations was published in the Official Gazette of the Federation, which is effective on January 1, 2023. The main change derived from this reform is to extend the vacation periods for employees by increasing the minimum period by 6 additional days, and to adjust the mechanics of subsequent annual increases. The effect of the aforementioned modification was not significant for the financial position and results of the Company.

### **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 May 16, 2024 by Sancheet Suresh Wagle, Finance Head, consequently, they do not reflect events beyond that date.

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

### **3 CHANGES IN ACCOUNTING POLICIES**

#### **a) New standards adopted on January 1, 2023**

As of January 1, 2023, some new standards and amendments to existing standards became effective, the effect of which was not significant for the financial position and results of the Company.

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

At the date of authorization of these financial statements, several new standards and amendments to existing standards have been published by the CINIF, that will be effective on January 1, 2024 and in the following years. Which it is estimated will not have a significant effect on the Company's financial position and results.

**NIF's Improvements 2024**

The CINIF issued the 'NIF's Improvements 2024', which will become effective for periods beginning as of January 1, 2024, its early application is permitted. Those amendments are not expected to have a significant effect on the Company's financial statements.

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

**4 SIGNIFICANT ACCOUNTING POLICIES**

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

**a. Foreign currency translation**

**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. Impact of inflation**

The financial statements as of December 31, 2023 and 2022, 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 2022, 2021 and 2020 was 7.82%, 7.36% and 3.15%, respectively; therefore, accumulated inflation for the prior three year period was 19.39%.

**c. Statements of comprehensive income**

The statements of comprehensive income, presented in a single statement, show costs and expenses based on their function as the entity is a commercial, which allows identifying the gross profit.

The amount of comprehensive income is the result of the total performance of the Company during the years ended December 31, 2023 and 2022, is basically represented by net profit for the year and the items of other comprehensive income of actuarial (losses) gains.

**d. Statements of cash flows**

The 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.

**e. Cash**

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

**f. Inventories**

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

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

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

**g. Prepayments**

Prepayments represent benefits for which, the receiving goods or services, including their inherent risk, have not yet been delivered and/or transferred to the Company. These prepayments relate to advances to suppliers and insurance premiums.

**h. Furniture, equipment and leasehold improvements**

Furniture and equipment and leasehold improvements are recorded at acquisition cost.

Depreciation of furniture and equipment is calculated based on the carrying value of fixed assets less estimated residual value, using the straight-line method based on the useful life thereof at the following rates:

Furniture and equipment	10%
Computer equipment	30%

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

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

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

**i. Leases**

**The Company as a lessee**

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

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

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

*Measurement and recognition of leases as lessee*

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

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

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

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

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

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

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

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

**j. Long-lived assets value assessment**

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

As of December 31, 2023, and 2022, the Company has identified impairment conditions over its long-lived assets in use due to the accumulated losses presented in the statements of changes in equity in the amount of \$(28,274,876) and \$(13,083,496), 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, 2023 and 2022, the Company has no financial assets measured at fair value.

### **Impairment of financial assets**

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

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

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

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

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

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

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

### **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, trade and other payables.

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

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

**l. Provisions, contingent assets and liabilities**

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

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

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

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

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

**m. Income tax and employee profit sharing, prepaid or deferred**

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

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

**n. Employee benefits**

Termination or post-employment benefits established in the Federal Labor Law in Mexico refer mainly to seniority premiums payable to employees who have completed fifteen or more years of service, and indemnifications for voluntary or involuntary separation.

The Company recognizes the liability for employee benefits as follows:

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

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

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



**o. Equity**

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

Accumulated losses include all profit and prior periods losses.

**p. Revenue recognition**

Revenue arises mainly 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.

**q. Operating expenses**

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

**r. 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 10).

#### **Estimation uncertainty**

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

#### 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.

#### Impairment of non-financial assets

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

#### Defined benefit obligation (DBO)

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

### **5 ACCOUNTS RECEIVABLE**

	<u>2023</u>	<u>2022</u>
<u>Trade receivables:</u>		
Trade receivables	\$ 80,215,493	\$ 69,604,159
Less -		
Allowance for doubtful accounts	(1,681,622)	(1,900,777)
Allowance for discounts	(1,676,024)	(1,319,370)
Allowance for sales returns	(24,569,986)	(25,048,717)
Total of trade receivables, net	<u>52,287,861</u>	<u>41,335,295</u>
<u>Other receivables:</u>		
Value added tax recoverable	10,420,742	8,071,244
Income tax withholding from third parties	1,120,656	1,120,656
Total of other receivables	<u>11,541,398</u>	<u>9,191,900</u>
	<u>\$ 63,829,259</u>	<u>\$ 50,527,195</u>

From January to December of 2023, Mexican Tax authorities reimbursed value added tax in the amount of \$9,966,060, this amount was generated during 2022 and 2023.

From January to December of 2022, Mexican Tax authorities reimbursed value added tax in the amount of \$6,373,974, this amount was generated during 2021 and 2022.

The activity in the allowances accounts is as follows:

	<u>2023</u>	<u>2022</u>
<b><u>Allowance for doubtful accounts</u></b>		
Opening loss allowance as of January 1 <sup>st</sup>	\$ (1,900,777)	\$ (1,695,592)
Increase of the year	(662,949)	(639,985)
Loss allowance unused and reversed during the year	882,104	434,800
Allowance as of December 31 <sup>st</sup>	<u>\$ (1,681,622)</u>	<u>\$ (1,900,777)</u>

	<u>2023</u>	<u>2022</u>
<b><u>Allowance for discounts</u></b>		
Opening allowance balance as of January 1 <sup>st</sup>	\$ (1,319,370)	\$ (3,279,528)
Increase of the year	(20,176,165)	(8,552,330)
Write-offs during the year	19,819,511	10,512,488
Balance as of December 31 <sup>st</sup>	<u>\$ (1,676,024)</u>	<u>\$ (1,319,370)</u>

	<u>2023</u>	<u>2022</u>
<b><u>Allowance for sales returns</u></b>		
Opening allowance balance as of January 1 <sup>st</sup>	\$ (25,048,717)	\$ (14,649,919)
Increase of the year	(5,580,156)	(21,682,088)
Write-offs during the year	6,058,887	11,283,290
Balance as of December 31 <sup>st</sup>	<u>\$ (24,569,986)</u>	<u>\$ (25,048,717)</u>

## 6 INVENTORIES

	<u>2023</u>	<u>2022</u>
Finished products	\$ 63,369,270	\$ 46,655,241
Less – Allowance for obsolete and slow-moving inventories	(1,791,529)	(3,208,111)
	<u>\$ 61,577,741</u>	<u>\$ 43,447,130</u>

The decrease in allowance for obsolete and slow-moving inventories, is mainly due to products that have been sold or written off.

## 7 FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	<u>2023</u>	<u>2022</u>
Furniture and equipment	\$ 1,349,364	\$ 780,303
Computer equipment	5,155,045	4,614,798
Leasehold improvements	2,642,398	1,397,773
	<u>9,146,807</u>	<u>6,792,874</u>
Less – Accumulated depreciation and amortization	(6,160,145)	(5,346,627)
	<u>\$ 2,986,662</u>	<u>\$ 1,446,247</u>

## 8 LEASES

### Right-of-use asset

	2023	2022
Building leasing agreement	\$ 3,629,680	\$ 3,650,631
Transportation equipment leasing agreements	16,907,412	19,665,402
Less – Accumulated depreciation	(5,636,027)	(6,549,314)
<b>Total right-of-use asset</b>	<b>\$ 14,901,065</b>	<b>\$ 16,766,719</b>

### Lease liabilities

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

	2023	2022
Short-term	\$ 6,252,149	\$ 3,723,721
Long-term	7,798,975	14,918,748
	<b>\$ 14,051,124</b>	<b>\$ 18,642,469</b>

The Company has lease agreements with Inmobiliaria Camino al Ajusco, Emprevi, Sincronia Logistica 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	2	94
Average remaining lease term	1.5 years	3 years
No. of leases with termination options	2	94

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, 2023 and 2022, the amount corresponding to low-value asset leasing amounted to \$196,052 and \$171,282, respectively.

## 9 FINANCIAL INSTRUMENTS

### Categories of financial assets and financial liabilities

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

	<u>2023</u>	<u>2022</u>
<b>Financial assets</b>		
<u>Amortized cost</u>		
Cash	\$ 8,220,897	\$ 7,667,309
Trade receivables	52,287,861	41,335,295
Accounts receivable from related parties	2,111,200	2,126,950
Total financial assets	<u>62,619,958</u>	<u>51,129,554</u>
<b>Financial liabilities</b>		
<u>Amortized cost</u>		
Accounts payable	26,628,590	20,295,311
Accounts payable to related parties	133,854,992	136,135,995
Total financial liabilities	<u>\$ 160,483,582</u>	<u>\$ 156,431,306</u>

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

## 10 INCOME TAX

For the years ended December 31, 2023 and 2022, the Company determined taxable profit in the amount of \$40,158,477 and \$38,365,848, respectively, which differs from book profit before taxes, mainly to the effects shown below:

	<u>2023</u>	<u>2022</u>
Profit before income taxes	\$ 27,570,721	\$ 14,000,163
Temporary items:		
Tax over book depreciation	(81,391)	(80,162)
Leases	(5,723,796)	2,034,450
Advance payments	289,593	(707,507)
Accruals	9,830,720	9,384,044
Other	231,399	2,128,913
Permanent items:		
Annual adjustment for inflation	2,836,956	5,796,303
Non-deductible expenses	5,365,819	5,893,459
Other	(161,544)	(83,815)
Net effect	<u>12,587,756</u>	<u>24,365,685</u>
Taxable income	<u>\$ 40,158,477</u>	<u>\$ 38,365,848</u>

The taxable profits for 2023 and 2022 was fully amortized in the application of the tax losses of previous years.

According to the current income tax law, the rate for 2023, 2022 and subsequent years is 30%.

During 2017, 2016 and 2015 the Parent Company, Zydus Lifesciences Limited made an income tax withholding in the amount of \$1,070,372, which can be applied against future taxable income during the following ten fiscal years from the year of occurrence, according to Article 5 of the Mexican Income Tax Law.

### Deferred income tax

As of December 31, 2023 and 2022 the deferred income tax asset derived from the difference between book and tax value of assets and liabilities, is summarized as follows:

	<u>2023</u>	<u>2022</u>
<b>Deferred tax assets:</b>		
Allowance for doubtful accounts	\$ 1,681,622	\$ 1,900,777
Allowance for discounts	1,676,024	1,319,370
Allowance for sales returns	24,569,986	25,048,717
Allowance for obsolete and slow-moving inventories	1,791,529	3,208,111
Right-of-use asset, net	-	2,897,361
Fixed assets	775,434	639,793
Provisions and other (transfer pricing adjustments)	15,876,212	10,118,189
Tax loss carry forwards	124,643,656	163,906,559
<b>Total deferred tax assets</b>	<u>171,014,463</u>	<u>209,038,877</u>
<b>Deferred tax liabilities:</b>		
Prepaid expenses	(2,084,761)	(2,374,354)
Right-of-use asset, net	(849,941)	-
<b>Total deferred tax liabilities</b>	<u>(2,934,702)</u>	<u>(2,374,354)</u>
	<b>168,079,761</b>	206,664,523
Income tax rate	<u>30%</u>	<u>30%</u>
	<b>48,369,637</b>	61,999,357
Less: Valuation allowance	<u>(48,369,637)</u>	<u>(61,999,357)</u>
Deferred income tax asset	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2023 and 2022, this net deferred income tax asset is mainly generated by the tax loss carryforwards, reserves of assets and provisions. However, the Company has decided to recognize a valuation allowance for this deferred income tax asset in the amount of \$(48,369,637) and \$(61,999,357), respectively, based on its projections.

### Tax loss carryforwards

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

As of December 31, 2023, tax loss carryforwards, restated at that date, are summarized below:

<u>Year incurred</u>	<u>Restated amount</u>	<u>Year of expiration</u>
2014	\$ 32,140,272	2024
2015	91,891,731	2025
2016	611,653	2026
	<u>\$ 124,643,656</u>	

## 11 TAXES PAYABLE

	<u>2023</u>	<u>2022</u>
VAT withholding	\$ 123,400	\$ 91,263
Income tax withholding	64,924	37,450
Payroll taxes	2,952,266	2,675,565
	<u>\$ 3,140,590</u>	<u>\$ 2,804,278</u>

## 12 EMPLOYEE BENEFITS

As of December 31, 2023 and 2022, the actuarial study shows the following information:

	<u>2023</u>		
	<u>Indemnification</u>	<u>Seniority Premium</u>	<u>Total</u>
Defined benefit obligations (DBO)	\$ 5,817,003	\$ 261,938	\$ 6,078,941
Liability recognized in the statement of financial position	<u>\$ 5,817,003</u>	<u>\$ 261,938</u>	<u>\$ 6,078,941</u>
Current labor service cost	\$ 888,463	\$ 54,846	\$ 943,309
Net financial cost on DBO	377,357	14,463	391,820
Remeasurements of DBO recognized in profit	249,995	16,050	266,045
Net cost for the period	<u>\$ 1,515,815</u>	<u>\$ 85,359</u>	<u>\$ 1,601,174</u>
	<u>2022</u>		
	<u>Indemnification</u>	<u>Seniority Premium</u>	<u>Total</u>
Defined benefit obligations (DBO)	\$ 4,914,829	\$ 236,383	\$ 5,151,212
Liability recognized in the statement of financial position	<u>\$ 4,914,829</u>	<u>\$ 236,383</u>	<u>\$ 5,151,212</u>
Current labor service cost	\$ 845,003	\$ 51,674	\$ 896,677
Net financial cost on DBO	284,734	14,115	298,849
Remeasurements of DBO recognized in profit	(86,334)	(21,146)	(107,480)
Net cost for the period	<u>\$ 1,043,403</u>	<u>\$ 44,643</u>	<u>\$ 1,088,046</u>

	<u>2023</u>	<u>2022</u>
<b>Actuarial assumptions used, in absolute terms:</b>		
Discount rate	<b>9.10%</b>	9.20%
Expected salary increase rate	<b>5.05%</b>	5.05%
Rate of UMA	<b>3.50%</b>	3.50%

### 13 EMPLOYEE PROFIT SHARING

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

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

For the year ended as of December 31, 2023 and 2022, the Company generated a PTU base in the amount of \$40,737,535 and \$37,892,850, respectively, in accordance with the Income Tax Law. In both years, the PTU due amounting to \$4,073,754 and \$3,789,285 was considered final, since that amount was below the limits set forth in the LFT. The PTU base differs from the income tax base of each year, since employee profit sharing paid and the amount of other benefits paid to employees are not totally deductible for purposes of the Income Tax Law.

For both years, the current law rate for PTU is 10%.

As of December 31, 2023, and 2022, deferred PTU is as follows:

	<u>2023</u>	<u>2022</u>
Excess of book over tax value of assets and liabilities for income tax, net, without tax loss carryforwards	\$ 39,224,039	\$ 38,969,518
Rate	10%	10%
Deferred PTU asset	<u>3,922,404</u>	3,896,952
Less: Valuation Allowance	<u>(3,922,404)</u>	(3,896,952)
Deferred profit-sharing tax asset	<u>\$ -</u>	<u>\$ -</u>

### 14 RELATED PARTIES' TRANSACTIONS AND BALANCES

During the years ended December 31, 2023 and 2022, the Company carried out transactions and had balances with related parties as shown below:

Related parties	<u>2023</u>			
	<u>Balance receivable</u>	<u>Balance payable</u>	<u>Purchases and expenses</u>	<u>Income</u>
Zydus Pharmaceuticals México Service Company, S.A. de C.V. (Affiliated) (a)	\$ 2,111,200	\$ 198,602	\$ 123,468	\$ -
Zydus Lifesciences Limited (b)	-	133,650,416	218,701,468	2,620,620
	<u>\$ 2,111,200</u>	<u>\$ 133,849,018</u>	<u>\$ 218,824,936</u>	<u>\$ 2,620,620</u>



Related parties	2022			
	Balance receivable	Balance payable	Purchases and expenses	Income
Zydus Pharmaceuticals México Service Company, S.A. de C.V. (Affiliated) (a)	\$ 2,111,200	\$ 65,080	\$ 132,909	\$ -
Zydus Lifesciences Limited (b)	-	136,070,915	148,954,752	4,662,820
Alidac Healthcare Limited	15,750	-	-	-
	<u>\$ 2,126,950</u>	<u>\$ 136,135,995</u>	<u>\$ 149,087,661</u>	<u>\$ 4,662,820</u>

- a) As of December 31, 2023 and 2022, the balance receivable and payable to Zydus Pharmaceuticals México Service Company, S.A. de C.V., respectively, is related to administrative and personnel services and other expenses incurred during the year 2022 and are included within selling and marketing expenses.
- b) As of December 31, 2023 and 2022, the balance payable to Zydus Lifesciences Limited, arises from supply of goods in the amounts of \$47,504,492 and \$33,964,521, respectively and transfer pricing to be billed by Zydus Lifesciences Limited in the amount of \$86,145,924 and \$102,106,394, respectively (see Note 15 e).

As of December 31, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, 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.

Distribution of dividends or profits to the shareholders that come from the CUFIN, will not generate income tax to legal entities resident in the country, until said account is zero. Dividends paid to individuals and legal entities resident abroad, on profits generated from January 1, 2014 and onwards, are subject to a 10% tax, which has the character of final payment. 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 NCPI.

**d. Capital reductions**

As of December 31, 2023, and 2022, the balance of the Restated Contributed Capital Account (CUCA for its Acronym in Spanish) amounts to \$273,260,513 and \$261,093,553, respectively. Any reimbursement to the stockholders that exceeds the foregoing amount should be treated as a distributed earning for tax purposes.

In the event that stockholders' equity should exceed the balance of the CUCA, such excess will be considered as a dividend or distributed earning subject to 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. Otherwise, it should be treated as dividend or distributed earnings.

**e. Going concern**

As of December 31, 2023 and 2022, the Company has accumulated operating losses with a consequent deficit in Partners' equity by \$(32,084,727) and \$(59,388,948), respectively, and as of those dates, the Company's current liabilities (represented by related parties, mainly) exceeded its total current assets by \$48,544,698 and \$69,340,686, respectively. These conditions indicate that may cast significant doubt on the Company's ability to continue as a going concern. However, Zydus Lifesciences Limited 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 twelve years of commencing operations, the Company has been gradually penetrating the pharmaceutical market, achieving a 34% increase in sales during 2023 as compared to 2022. Furthermore, Zydus Lifesciences Limited signed a Supply Agreement with the Company since 2016, to ensure that the Company earns an arm's length margin which was determined by an expert which was equivalent to a 1.50% over the revenues as of December 31, 2023 and 1.12% over the revenues as of as of December 31, 2022, as shown in the statements of comprehensive income for 2023 and 2022. The Company is expected to continue to generate operating profits based on this agreement and further actions that would be taken.

**16 ADMINISTRATIVE AND SELLING AND MARKETING EXPENSES**

As of December 31, 2023 and 2022, the administrative and selling and marketing expenses are summarized as shown below:

	Administrative expenses		Selling and marketing expenses	
	2023	2022	2023	2022
Administrative services	\$ 931,460	\$ 1,099,210	\$ -	\$ -
Employee profit sharing	4,073,754	3,763,874	-	-
Maintenance	599,127	273,475	-	-
Depreciation and amortization	10,040,375	10,522,272	-	-
Electricity and gas	86,612	65,573	-	-
Telephone	176,356	170,275	770,813	768,826
Consulting fees	1,527,344	1,641,740	1,272,735	1,909,074
Subscriptions	640	640	8,074,856	4,924,670
Advertising	369,115	438,769	13,763,904	13,430,946
Taxes and contributions	10,378,278	10,267,438	6,312	2,074
Gasoline	200	174,666	3,924,766	2,965,731
Other	6,373,761	4,169,677	10,286,214	7,458,777
	<u>\$ 34,557,022</u>	<u>\$ 32,587,609</u>	<u>\$ 38,099,600</u>	<u>\$ 31,460,098</u>

## 17 FINANCIAL INSTRUMENTS RISKS

### Risk management objectives and policies

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

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

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

### Market risk analysis

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

#### *Foreign currency sensitivity*

Most of the Company's transactions are carried out in pesos. Exposures to currency exchange rates arise from the Company's purchases abroad, which are primarily denominated in US dollars (USD).

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

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

	<u>USD</u>
<b>As of December 31, 2023</b>	
Financial assets	556,681
Financial liabilities	<u>(8,415,343)</u>
<b>Net position</b>	<b><u>(7,858,662)</u></b>
	<u>USD</u>
<b>As of December 31, 2022</b>	
Financial assets	524,240
Financial liabilities	<u>(7,495,429)</u>
<b>Net position</b>	<b><u>(6,971,189)</u></b>

As of December 31, 2023 and 2022, and May 16, 2024, 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>
As of December 31, 2023	19.8935
As of December 31, 2022	19.3615
As of May 16, 2024	16.6893

### 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, 2023 and 2022, the Company does not have a borrowing balance.

### **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, 2023 and January 1, 2023 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, 2023 and January 1, 2023 was determined as follows:

	Trade receivables days past due				
	Current	From 30 up to 360 days	More than 360 days	More than 540 days	Total
<b>As of December 31, 2023</b>					
<b>Expected credit loss rate</b>	\$ 47,223,636	\$ 31,237,071	\$ 146,328	\$ 1,608,458	\$ 80,215,493
<b>Gross carrying amount</b>	0%	0%	50%	100%	
	\$ -	\$ -	\$ 73,164	\$ 1,608,458	\$ 1,681,622
	Trade receivables days past due				
	Current	From 30 up to 360 days	More than 360 days	More than 540 days	Total
<b>As of January 1, 2023</b>					
<b>Expected credit loss rate</b>	\$ 44,579,186	\$ 22,821,764	\$ 604,865	\$ 1,598,344	\$ 69,604,159
<b>Gross carrying amount</b>	0%	0%	50%	100%	
	\$ -	\$ -	\$ 302,433	\$ 1,598,344	\$ 1,900,777

### Liquidity risk analysis

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

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

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

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

## 18 CONTINGENCIES

- 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.

In writing from the tax authority dated September 14, 2022, the endorsement of a bond number 1392-00251-3, published by Aseguradora Aserta, S.A. de C.V. for an amount of \$10,663,992 is increased by \$1,144,740, leaving a total guarantee of \$11,808,732. The tax authority showed the guarantee and suspended the corresponding procedures until the final resolution.

On October 24, 2023, the Company filed a direct defense against the tax credit, which is pending sending and filing to a Tribunal Colegiado de Circuito in Mexico City for study and resolution, therefore. This matter is pending resolution in the second instance. By virtue of there exist a reasonable certainty that they will have to reimburse these amounts, a provision has been created for an amount of \$9,091,370. As of December 31, 2023, the amount of said provision is \$12,316,468 for updates and surcharges.

On November 15, 2023, the endorsement of a bond number 1392-00251-3, published by Aseguradora Aserta, S.A. de C.V. leaving a total guarantee of \$12,316,468.

- b) In accordance with currently enacted tax legislation, the authorities have the power to review up to the five fiscal years prior to the last income tax return filed by the Company.
- c) In accordance with the Income Tax Law, companies that carry out domestic or foreign resident related party transactions are subject to limitations and tax obligations, with respect to the determination of prices agreed upon.

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

## **19 SUBSEQUENT EVENTS**

No adjusting or significant non-adjusting events have occurred between the December 31, 2023 reporting date and the date of authorization.