GLENMARK PHARMACEUTICALS

ECUADOR S.A.

Financial Statements and Independent Auditor´s Report

At March 31, 2020

INDEPENDENT AUDITORS REPORT

To shareholders
GLENMARK PHARMACEUTICALS ECUADOR S.A.

Opinion

We have audited the financial statements of the **GLENMARK PHARMACEUTICALS ECUADOR S.A.** (an company incorporated in Ecuador), which comprise the statement of financial position statement as of March 31, 2020, and the statements of comprehensive operations, statement of changes in shareholder equity and statement of cash flow for the year then ended, and notes for 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 GLENMARK **PHARMACEUTICALS ECUADOR S.A.** as of March 31, 2020; and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Bases for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the **GLENMARK PHARMACEUTICALS ECUADOR S.A.** 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 Ecuador, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going concern

As described in note 1 b) and c) to the accompanying financial statements, the Company has accumulated losses of US $1,867,643, which 16% corresponds to the last period, because sales did not allow it to reach breakeven as explained in the note mentioned above. In order to eliminate negative equity for losses and the cash flow deficit for its operations, the main company made cash contributions for capital increases in US $ 2,839,600 to mitigate these situations and eliminate the negative equity situation, however, the contributions made will not allow to cover the losses; this situation and the effects of the "Coronavirus - COVID 19" pandemic; which cannot be measured to date, they cause some uncertainty in operations and results; so the accompanying financial statements should be read considering the circumstances described in the aforementioned note.

Other information presented in addition to the separated financial statements

The management of the Company is responsible for the preparation of the other additional information, which includes the annual report of the Administration to the Shareholders' Meeting. It is expected that this information will be made available to us after the date of this report. In relation to our audit of the financial statements, our responsibility is to read the other Additional Information, when it is available at the date of issuance of our report, and, in doing so, consider whether there are significant inconsistencies with respect to the financial statements or the knowledge obtained by us during the audit or if it otherwise seemed to have important inconsistencies.

Our opinion about the financial statements of GLENMARK PHARMACEUTICALS ECUADOR S.A. does not cover the other additional information and we will not express any form of assurance or conclusion about it.

Management responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements Audit

Our objective are to obtain reasonable assurance about whether the financial statements 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

We communicate with those charged with governance 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.

Quito, May 22, 2020

RUSSELL BEDFORD ECUADOR S.A.	**Ramiro Pinto F.**
R.N.A.E. No. 337	Partner
	Professional License No. 17-352

GLENMARK PHARMACEUTICALS ECUADOR S.A.

Statement of Financial Position
As of March 31, 2020, with comparative figures of 2019
(Expressed in United States dollars)

	Note	2020	2019
Shareholder equity:			
Share capital	8	2,839,600	1,689,800
Contributions future capitalizations		-	650,000
Accumulated deficits		(1,867,643)	(1,570,495)
Other comprehensive results		(46,113)	(42,886)
Total shareholder´s equity		**925,844**	**726,418**
Assets and liabilities:			
Non-current assets:			
Gross block	9	148,495	141,134
Intangible assets		1,992	-
Depreciation	9	(64,638)	(40,337)
Asset for use rights	10	487,064	-
Deferred tax assets		3,360	-
Total non - current assets		576,274	100,797
Current assets:			
Inventories	11	302,075	426,069
Accounts receivable commercial and sundry debtors	12	1,794,738	1,758,537
Cash and cash equivalents	13	375,644	30,641
Prepaid expenses		3,050	5,777
Total current assets		2,475,506	2,221,025
Non-current liabilities:			
Employer retirement and eviction bonus	18	(108,747)	(90,852)
Liability for use rights	10	(415,957)	-
Total non - current liabilities		(524,703)	(90,852)
Current liabilities::			
Suppliers accounts payable	14	(115,955)	(378,394)
Related accounts payable	15	(1,057,033)	(896,734)
Liability for use rights	10	(71,107)	-
Current taxes payable	16	(156,711)	(20,480)
Provisions	17	(198,795)	(197,277)
Other accounts payable		(1,632)	(11,667)
Total current liabilities		(1,601,232)	(1,504,551)
Net assets		**925,844**	**726,418**

Douglas Cadena Country Manager	Silvia Moreno General Accountant	Alex Hernández Financial Controller

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

GLENMARK PHARMACEUTICALS ECUADOR S.A.

Statement of Comprehensive Operations
For the year ended March 31, 2020, with comparative figures of the year 2019
(Expressed in United States dollars)

	Note	2020	2019
Icome:			
Sales	18	3,833,346	3,497,665
Other income		-	33,630
		3,833,346	3,531,295
Expenses:			
Cost of sales	19	976,664	946,930
Operating and selling expenses	20	3,128,025	3,253,039
Depreciation and amortisation	20	25,805	23,713
		4,130,494	4,223,682
Deficit/Profit of the year		**(297,148)**	**(692,387)**

Douglas Cadena	Silvia Moreno	Alex Hernández
Country Manager	General Accountant	Financial Controller

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

GLENMARK PHARMACEUTICALS ECUADOR S.A.

Statement of Cash Flows
For the year ended March 31, 2020, with comparative figures of the year 2019
(Expressed in United States dollars)

	2020	2019
Cash flow from operating activities:		
Recived from clients	3,844,157	2,518,129
Payments to suppliers and other	(2,667,493)	(2,379,504)
Payment to employees	(1,400,945)	(1,150,165)
Taxes and interests paid	78,349	-
Net cash used for operating activities	(145,932)	(1,011,540)
Net cash used for investing activities - Additions of furniture and equipment	(8,866)	(11,266)
Cash provided by financing activities - Cash contribution from de shareholders	499,800	650,000
Net increase in cash and cash equivalents	345,002	(372,806)
Cash and cash equivalents at the beginning of the year	30,641	403,447
Cash and cash equivalents at the end of the year	375,644	30,641

Douglas Cadena	Silvia Moreno	Alex Hernández
Country Manager	General Accountant	Financial Controller

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

GLENMARK PHARMACEUTICALS ECUADOR S.A.

Statement of Changes in Shareholders' Equity
For the year ended March 31, 2020, with comparative figures of the year 2019
(Expressed in United States dollars)

	Social capital	Contributions future capitalizations	Other comprehensive results	Accumulated deficits	Total
Balance at March 31, 2018	1,689,800	-	(51,321)	(878,108)	760,371
Transference to accumulated results	-	-	-	-	-
Contributions for future capitalizations	-	650,000	-	-	650,000
Increase in capital	-	-	-	-	-
Actuarial profit (loss)	-	-	8,435	-	8,435
Deficit of the year	-	-	-	(692,387)	(692,387)
Balance at March 31, 2019	1,689,800	650,000	(42,886)	(1,570,495)	726,418
Transference to accumulated results	-	-	-	-	-
Contributions for future capitalizations	-	(650,000)	-	-	(650,000)
Increase in capital	1,149,800	-	-	-	1,149,800
Actuarial profit (loss)	-	-	(2,173)	-	(2,173)
Deferred tax	-	-	(1,054)	-	(1,054)
Deficit of the year	-	-	-	(297,148)	(297,148)
Balance at March 31, 2020	2,839,600	-	(46,113)	(1,867,643)	925,844

Douglas Cadena Country Manager	Silvia Moreno General Accountant	Alex Hernández Financial Controller

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

NOTE 1 – OPERATIONS AND ECONOMIC ENVIROMENT

a) <u>Corporate Purpose</u>

"GLENMARK PHARMACEUTICALS ECUADOR S.A." was incorporated in Quito on March 10, 2017 with the corporate purpose of importing, distributing, buying, selling, manufacturing, marketing, commissioning, manufacturing, processing and exporting chemical, biological, pharmaceutical, cosmetic and hospital products. The products commercialized by the company are sold in the national market in private and public companies.

The principal domicile of the Company is the city of Quito, Republic of Ecuador, and it has significant shareholders in Glenmark Pharmaceuticals Limited (Hindu Society), with 100% participation.

b) <u>Operational facts</u>

b.1) Global aspects

The global economy in March 2020 began a process of global recession after the World Health Organization "WHO" declared the outbreak of Coronavirus "COVID-19" as a pandemic, this situation caused governments to take strict measures to contain and / or delay the spread of the virus, among which are the suspension of most activities, with the restriction of those activities that involve a food and sanitary emergency.

Actions taken in response to the spread of COVID-19 have resulted in a significant disruption to commercial operations and a significant increase in economic uncertainty, due to volatility in the prices of inputs and in financial instruments and a marked decrease in long-term interest rates in developed economies.

The main impacts to stop the spread and contagion of COVID - 19 are:

1. **Impact on production** due to the closure of manufacturing operations in various sectors, both in the raw materials and finished products sector; causes a slowdown in exports; as well as imports from countries that depend on raw materials.

2. **Effect on the supply chain** due to the fact that the manufacturing sector depends on raw materials, as do companies that depend on intermediate goods for production and final marketing; Whose sales help to achieve the financial goals of companies and their shareholders. The slowdown in production and commercial activities, and added transport restrictions worldwide, have an impact on the profitability of all sectors and in the manufacturing sector, the impact may be greater in those companies that cannot easily change the source of supply.

3. **Financial effect on companies and the financial market** the effects on the production of goods and services, may strain some companies, especially those that go through insufficient liquidity.

   The financial sector may or may not adequately foresee or understand which companies are vulnerable due to this effect, which increases the risk in companies, due to the fact that one or more financial market agents adopt unprofitable investment positions under current conditions, which it will weaken confidence in financial instruments and markets.

Decreasing demand in the stock and corporate bond markets would affect potential alternative sources of liquidity for companies, as investors may prefer to invest their securities in government instruments due to the uncertainty created by the pandemic.

The reduction in manufacturing operations and transportation services led to lower demand for oil and its derivatives; so oil prices fell dramatically after major producers were unable to agree on production cuts at their March 2020 meeting.

The economic impact depends on how quickly the virus outbreak disappears and the indirect economic effects caused by the pandemic are:

1) Decrease in the economic activity of its main trading partners;
2) Fall in the prices of primary products;
3) Disruption of global value chains;
4) Lower demand for tourism services;
5) Increase in the unemployment rate;
6) Fall in purchasing power of people;
7) Reduction of remittances;
8) Increase in risk aversion; and;
9) Weakening of global financial conditions.

Businesses related to transport and tourism will face losses that are probably not recoverable, and small and medium-sized companies will have greater difficulties in surviving due to the effects of this pandemic.

b.2) <u>Ecuadorian Economic aspects</u>

The Ecuadorian economy until the first half of 2019 and before the economic emergency caused by COVID 19 had a relative stability due to: (i) the increase in the price of a barrel since the second half of 2018, the price of oil exceeded the US $ 50 per barrel, which allowed the government some additional revenue stream; and, (ii) for the actions that the Government has taken and that are described in the following paragraphs:

The Government has declared that it has a high level of indebtedness and that it does not have the necessary resources to continue with its Government plans; compliance with obligations to suppliers; and, the payments of the debt tranches. In this situation, the Government issued additional paper debt obligations and took certain additional credits to meet some debt payments from previous years and to suppliers; and, in addition, through the promulgation of the Organic Law of Productive Development and the Organic Law of Economic Reactivation and Strengthening, it established certain tax reforms for certain transactions and to attract new investments in strategic and geographic sectors in which tax exemptions and for job creation and reinvestment of profits. Additionally, it eliminated the indefinite reelection of popularly elected positions and made the change in some control authorities and in the area of justice.

The Government in the first quarter of 2019 signed with the International Monetary Fund "IMF", an agreement of intention, with the objective of stabilizing the Ecuadorian economy and which granted a line of credit until 2021, this situation also facilitated the obtaining additional credits from multilateral organizations until 2021, which would allow it to stabilize the Ecuadorian economy and support the economic plan and budgets until 2021; Among the main premises that the Government agreed with the IMF are:

a) Reduction of the fiscal deficit;
b) Additional tax collection;
c) Obtain additional resources through the concession of certain strategic activities such as oil, mining, telecommunications and energy;
d) Reduction of the size of the state and,
e) Elimination of fuel subsidies.

The Government's plan and the agreements resulting from the signing of the agreement with the IMF aim to create a dynamic and sustainable economy and whose main objective is to: (i) boost competitiveness and job creation; (ii) protect the poor and most vulnerable; (iii) strengthen fiscal sustainability and dollarization; and (iv) improve transparency and strengthen the fight against corruption.

The elimination of subsidies to diesel and low-octane gasoline in October 2019, caused a social imbalance and in the Ecuadorian economy, due to the discontent of the most vulnerable population and which left billions of losses in all economic sectors , which have a major impact on the economy.

The Government to mitigate the fiscal deficit at the end of December 2019 carried out certain additional tax reforms to increase revenues and began the process of granting the strategic sectors and has increased the production and export of oil, these actions and the disbursement of credits Obtained by the firm in accordance with the IMF, will allow it to count additional resources to reduce the fiscal deficit in 2020 and 2021 and promote some government plans.

The aforementioned situations and the economic emergency caused by COVID 19, the drop in the price of a barrel of oil, which is one of the sources of financing for the budget; the little foreign investment; the fiscal deficit caused by excessive current spending; high indebtedness; and the lack of obtaining additional resources have not allowed the Government to promote the realization of new infrastructure investments and to attend timely payments to providers, especially in the health sector.

The aforementioned requires fiscal, monetary and international cooperation policy actions. In fiscal matters, budgets must be reorganized to implement fiscal stimulus packages for the business sector and to strengthen health systems, in order to protect income and minimize the contraction of the economy. In monetary matters, it is necessary to stabilize and preserve the solvency and functioning of the financial sector. Additionally, it is necessary to encourage international cooperation, for which low-interest loan policies and the support of international organizations must be reconsidered; as well as the deferral of the debt service.

The aforementioned issues, the global economic recession due to the outbreak of COVID - 19; failure to comply with IMF agreements to obtain additional agreed loans; and, in the event that the additional resources are not obtained to reduce the fiscal deficit and to support the economic sectors, it generates uncertainty in the growth of the Ecuadorian economy.

c) <u>Branch operational aspects</u>

The Company began operations in May 2017 and as of March 31, 2020, it accumulated losses of US $ 1,867,643, which 16% corresponds to the last period and which is mainly due to: (i) the volumes of Sales did not go to the states, due to competition in the pharmaceutical sector; and, to the decrease of the purchases of the Ecuadorian Government and the Ecuadorian Institute of Social Security, which added to the discounts that it must grant in sales until achieving a position in the market; and, to the high fixed costs that the operations have when starting their activities.

The Company in 2019 has significantly increased its sales and results, due to the following:

1) The Company signed a distribution contract with Leterago del Ecuador S.A., through which greater coverage was achieved in the market.
2) The Company established competitive business plans through discounts, bonuses and credit terms.
3) The Company controlled and reduced operating expenses.

Although the aforementioned actions had a significant effect on the results and a profit before income tax, however, this generated a loss in the year.

The Headquarters made contributions of US $ 1,689,000 in 2017, US $ 650,000 as of March 31, 2019, and 1,149,800 as of March 31, 2020, to cover the effects of losses that include negative equity and cash flow, without However, as of December 31, 2019, these contributions do not allow it to cover 30% of the accumulated losses, as established in Article 377 of the Companies Law, for this reason the Headquarters will continue to make the necessary contributions since it is not in the plans to close operations in Ecuador.

In addition to the aforementioned, the events and conditions of the economy worldwide and Ecuadorian due to the COVID pandemic, could have an impact on:

1) The valuation of assets that are not financial instruments.
2) The impacts they have on the fair value of financial assets – recovery of accounts receivable.
3) The relevant considerations of the going concern, due to the reduction of its operations - income and impact on your cash flow.
4) The liabilities presented and difficulties in financing the terms and payments.
5) To the recognition of employee benefits, due to the impacts of a possible reduced operations.
6) Adjustment or changes in lease contracts.

The Company to locally mitigate this situation has launched a series of actions in order to continue operations as normal as possible without neglecting the protection of employees and for which it has implemented the following actions:

a) Telework application for all collaborators.
b) Review of ministerial agreements and new resolutions issued by the different control authorities.
c) Constant contact with our strategic partners (Distributor and Logistics Operator) to monitor the operation and attention to our clients.
d) Digital communication campaigns with our clients and medical panel to maintain the presence of the brand in the market.
e) Coronavirus-related prevention campaigns.
f) Constant meetings of the management team to monitor the daily events in the country.

The global economic slowdown that COVID -19 is causing in all economic sectors and the lack of evidence to establish the effects on the Company's operations and the equity deficiency to eliminate the cause of dissolution, generate uncertainty on the feasibility that the operations generate a balance point and continue as a going concern.

NOTE 2 – BASES OF PRESENTATION

The summary of the bases for the preparation and presentation of the financial statements are as follows:

a) <u>Compliance declaration</u>

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The main accounting policies adopted by the Company in the preparation of the financial statements have been defined in accordance with the IFRS in force as of March 31, 2020 and have been applied consistently to all the presented periods.

The financial statements for the period ended March 31, 2020 in accordance with IFRSs were approved by management. It is estimated that the financial statements will be approved without modifications by the shareholders.

b) <u>Measurement basis</u>

The financial statements have been prepared on the historical cost basis; allowance for impairment of accounts receivable, the provisions for obsolescence of inventories that are performed according to the estimates of the Company and the obligations and labor long-term liabilities that are recognized at fair value as determined by a specialist.

The historical cost is generally the fair value of the consideration given in exchange for goods and services.

c) <u>Functional Currency</u>

The financial statements are presented in United States of America Dollars "US$" which is the functional and presentation currency of the Company. The information in the notes and financial statements is presented in the aforementioned currency, except when there are balances or transactions in other currencies.

d) <u>Classification of current and non-current items</u>

The Company presents assets and liabilities in the statement of financial position classified as current and non-current.

An asset is classified as current when the Company:

- Expects to realize the asset, or intends to sell or consume it in its normal operating cycle;
- Holds the asset primarily for trading purposes;
- Expects to realize the asset within twelve months after the period reported; or
- The asset is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the close of the reporting period.

All other assets are classified as non-current.

A liability is classified as current when the Company:

- Expects to settle the liability in its normal operating cycle;
- Holds the liability primarily for trading purposes;
- Liabilities should be settled within twelve months after the closing date of the reporting period is presented; or
- Does not have an unconditional right to defer settlement of the liability for at least the following twelve months after the closing date of the reporting period.

All other liabilities are classified as non-current.

Assets and liabilities by deferred tax are classified as non-current assets and liabilities in all cases.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies applied by the Company in the preparation of the financial statements are as follows:

a) Reasonable Values Measuring

The Company for the measurement of the fair values of the accounts of the financial assets and liabilities; of the non-financial; and, from various accounting estimates required by IFRS, it uses the provisions of these Standards for its accounting policies in its: (i) initial recognition; (ii) disclosure in the financial statements and notes; and, (iii) to recognize the adjustments when there are indications of impairment of the financial and long-lived assets.

The Company in the measurement of fair values uses information from observable markets, always when it is reliable, as required by IFRS. As required by the IFRS, fair values are classified at different levels within their fair value hierarchy and which are based on the variables or valuation techniques, as follows:

1) **Market Values:** Quoted prices (unadjusted) in active markets for identical or similar assets or liabilities

2) **Different information from market prices of the previous level**: which are equal for an asset or liability, which come from values directly (prices of recent transactions) or indirectly (derived from prices determined by specialists based on studies or reference prices).

3) **Information from the use of financial techniques:** applicable to the internal data of the asset or liability and that does not come from market value or information.

The information or variables that are used to measure the fair value of an asset or liability, can be classified in one of the levels detailed above, then the measurement of the fair value can be classified in the same level of hierarchy of the fair value of the variable of the level lower that is significant for the total measurement of assets and liabilities.

The Company periodically reviews whether it is necessary to transfer the assets and liabilities that are recognized in the financial statements at fair value between the aforementioned hierarchy levels, for which it evaluates the categories (based on the input of the lowest level that is significant to measure the fair value as a whole). Changes between levels of fair value hierarchy are recognized at the end of each period in which the change was originated.

The additional information on the assumptions or facts to measure the fair values are summarized in note 6.

b) Cash and cash equivalents

Cash and cash equivalents for purposes of statement of cash flows constitute available balances in cash, banks, deposits and financial investments whose term is less than 90 days and are subject to immediate disposal.

c) Financial Instruments

The financial instruments of financial assets and liabilities are classified according to the characteristics of each financial instrument, as required by IFRS 9 "Financial Instruments (the change in the accounting policy is described in note 5). The classification depends on the purpose for which the assets are generated or acquired or the liabilities were contracted.

Financial Assets

Initial measurement

Financial assets are instruments that generate cash flow for the Company, in accordance with its activities or the purchase of these instruments.

Financial assets are initially recorded generally at acquisition cost plus any cost attributable to the transaction and that must be recognized as part of the asset and are recorded as assets at fair value. The difference between the acquisition cost and the fair value will be recognized as a gain or loss only in cases where the fair value is of a reliable active market.

The main financial asset of the Company is the commercial debtors generated by the transactions it carries out in the normal course of its operations and other accounts receivable, which are fixed and determinable payments and do not have a stock market quotation. These assets constitute the Company's main source of cash flows.

Subsequent Measurement

Financial assets subsequent to their initial measurement are classified according to their business model and the contractual characteristics of the cash flow of financial assets and in accordance with IFRS 9 and classified into: (i) amortized cost; (ii) fair value with changes in other comprehensive income; and, (iii) fair value with changes in profit and loss.

Financial assets are recorded as described below:

- **Amortized cost**

  Financial assets - commercial debtors and the other non-commercial accounts receivable that comply with the characteristics of a financial instrument are recorded at amortized cost; When the expiration dates are met, the implicit interest for which the effective interest rate method is used will be calculated.

  The balances of accounts receivable whose contractual term of collection up to one year or less are classified as current assets and those whose terms are greater than one year are classified as non-current assets.

  The calculation of the implicit interest is made according to the interest rate of the financing liabilities of the Company or that published by the Central Bank of Ecuador in its official bulletins for loans granted by the Ecuadorian financial system.

- **Fair value with changes in other comprehensive income "OCI"**

  Financial assets with changes in the "OCI" mainly constitute financial and equity financial instruments whose intention and financial capacity is to maintain them until they end their maturity and their cash flows correspond to the recovery of the capital and its interests. These instruments are adjusted to fair value and their effect is recognized in equity as part of the "OCI" until their realization or sale, except when there is a permanent deterioration.

- **Fair value with changes in results**
  Financial assets at fair value constitute own securities or accounts receivable in which there is an intention to negotiate them or recover liquidity in short terms; these financial assets are updated at fair values and the adjustment for the update is recognized in the income statement of the period in which the variation originates.

Interest and discounts earned on financial assets are recorded as financial income in the income statement as explained in the revenue recognition policy.

Financial assets suppression

A financial asset is written off when:

(i) The rights to receive the cash flows of the asset have ended;
(ii) Company transfers its rights to receive cash flows from the asset or has assumed an obligation to pay all cash flows received immediately to a third party under a transfer agreement; and,
(iii) The Company has transferred substantially all the risks and benefits of the asset or, if it has not transferred or retained substantially all the risks and benefits of the asset, if it has transferred its control.

Financial liabilities

Recognition and initial measurement

Liabilities are recognized when there is a contractual agreement and are recorded at the agreed value of payment plus the attributable costs - fair value.

Financial liabilities comprise: payable accounts with suppliers and other payable accounts, which comply with the characteristic of financial instrument, which correspond to transactions for goods or services acquired from the normal course of business that are pending payment and are classified as current liabilities when the payment term is one year or less and as non-current liabilities when the term exceeds more than one year.

Financial liabilities are recorded: (a) at fair value; and, (b) at amortized cost.

Financial liabilities at amortized cost mainly correspond to:

a) Loans at fixed interest rates and which do not contemplate any periodic readjustment.
b) Payable accounts whose payment term is greater than 90 days and do not include any interest rate.

The amortized cost is calculated using the effective interest rate method, which includes any discount or premium on the issue and the costs that are an integral part of the effective interest rate.

Subsequent Measurement

The financial liabilities at fair value are adjusted subsequently, which, together with the interest, is recorded in the period results.

The difference between the nominal value and amortized cost is recognized in the results by the interest method; while the gains or losses in the cancellation of financial liabilities are recognized in the results when the liabilities are canceled or written off.

Financial liabilities suppression

A financial liability is written off when the payment obligation is terminated, canceled or expires.

When an existing financial liability is replaced by another of the same borrower under significantly different conditions, or the conditions are modified significantly, this replacement or modification is treated as a recognition of the original liability and the recognition of a new liability, recognizing the difference between both in the results of the period.

Financial instruments compensation

The financial assets and liabilities subject to offset of balances are presented in the balance sheet at net value, when there is a legal right to offset them and the Company intends to settle them through this procedure.

d) Provision for impairment of financial assets

The Company periodically performs an evaluation for the calculation of the impairment for the possible expected losses in its book value and for which it does the following:

- In the financial assets generated by the Company and in which there is no third-party rating (objective and competent evidence if an asset or groups of assets are impaired), the calculation of the expected losses is made using the simplified method, which considers the following indicators:

  (i) procrastination rate
  (ii) existence of guarantees or insurance coverage;
  (iii) financial difficulties of the debtors by economic sector;
  (iv) deterioration of the macroeconomic indices;
  (v) the value of money over time; and,
  (vi) probability of bankruptcy, debt restructuring.

- Trade accounts receivable and other accounts receivable in which there is an appropriate external qualification (specific evidence of impairment) and competent that the risk of collection or there is a decrease in flows to receive the provision is determined based on this information.

The Company, based on the aforementioned, recognizes the provision for the expected losses, as mentioned below:

- The estimation of the expected credit losses is determined based on the present value of the shortfalls of the future cash flows, estimated according to the effective interest rate of the financial assets plus the procrastination and macroeconomic indices of the effective sector (the value of the difference between the cash flow owed to the entity in accordance with the terms of collection and the cash flows that the Company expects to receive). The estimate is recognized in the provision account and in the income statement for the year.

- The estimation of the expected losses of an asset in which there is an external source of information is recognized by the difference between the carrying amount of the asset and the value estimated by the external entity.

- Estimates of expected financial assets accounted for at fair value with a charge to Other Comprehensive Income "OCI" are recorded in the equity accounts of OCI and are recognized in the results at the time they are made, written off and when there are no real probabilities of recovery (permanent deterioration) and there are no real guarantees that cover the impaired asset.

- The write-offs of the assets are reduced from the provision and if there are surpluses, they are recorded in the results in the period in which it is determined

- Recoveries in the value of financial assets whose value was reduced are recorded in the results when said event occurs.

Interest earned on impaired financial assets is accrued on the reduced carrying amount of the asset, the value of expected or estimated losses, using the interest rate used to discount future cash flows in order to measure the impairment loss.

e) Inventories

The inventories are recorded as follows:

- The pharmaceutical products acquired at acquisition cost and adjusted at the closing of the financial statements at the Net Realization Value "NRV"
- Inventories in transit are accounted for at the cost of amounts incurred.

The cost of inventories and products consumed is determined by the weighted average method.

The Company constitutes a provision charged to the results of the year for the losses in the expired inventories and for the possible losses of the products in which it is estimated that they will not be sold due to the slow turnover of the inventory, which, once the requirements established by the health authorities have been met, they are destroyed and their carrying amount is reduced from the provision constituted.

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The net realizable value (NRV) is determined based on the replacement price plus the estimated termination and sale costs and the adjustment is recognized in the results of the period.

The Company makes a provision for those slow-moving inventories in which the adjustment to the NVR cannot be estimated, this provision is made based on the historical experience and seniority of the products.

f) Furniture and equipment

Measurement and recognition

Furniture and equipment are carried at historical cost and the net value of accumulated depreciation is presented.

Cost includes the disbursements directly attributable to the acquisition or construction of the asset. Disbursements subsequent to the purchase or acquisition are only capitalized when it is probable that future economic benefits will flow to the Company and can be reasonably measured.

Subsequent costs

Disbursements for repairs and maintenance incurred to repair or maintain the future economic benefit expected from property, plant and equipment is recognized as an expense when incurred, while improvements or maintenance of importance which extend the useful life of the asset are capitalized provided and when it is probable that future economic benefits will flow to the Company and can be measured reasonably.

Depreciation method

Furniture and equipment are depreciated by the straight-line method based on the estimated useful life whose years of life are as follows:

Type	Years
Facilities	10
Furniture and office equipment	10
Computer equipment	3

The depreciation method, the useful life and the equipment system, the equipment, the reviewed articles, the model and the closing date of the financial statements.

Retirement and sale

The cost and accumulated depreciation of property, plant and retired equipment are reduced from the respective accounts and the difference is recognized in the results of the year in which the transaction originates.

When the value in books of a fixed asset exceeds its recoverable amount, it is immediately reduced to its recoverable amount.

g) Leases

Accounting policy applicable before January 1, 2019

The determination of whether an agreement contains a lease is based on and substance of the agreement on the start date. The agreement is evaluated to determine if compliance depends on the use of a specific asset (or assets) and the agreement conveys a right to use the asset (or assets), even if that asset (or those assets) is not explicitly specified in an arrangement. The Company is not a lessor in any transaction, it is only a lessee.

(A) Financial lease

Financial leases, which transfer substantially all the risks and benefits related to the property of the leased item, the Company capitalizes at the beginning of the lease at the fair value of the leased property or, if less, at the present value of the minimum lease payments of the property. The lease payments are distributed between the financial expenses and the reduction of the lease debt to achieve a constant interest rate on the remaining balance of the liability.

Financial expenses are recognized in financial expenses in the statement of profit or loss and other comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term, the asset is amortized at the lower value between the estimated useful life of the asset and the lease term.

(B) Operating leases

Operating lease payments are recognized as an operating expense in the income statement, and other comprehensi ve income on a straight-line basis over the term of the lease.

(C) Integrated leases

Contracts that have a purchase option are reviewed at the outset to determine if they contain any integrated lease; in the case of integrated leases, they are evaluated as financial or operating leases and are accounted for accordingly.

Accounting policy applicable from January 1, 2019

The Company, at the beginning of the lease, to determine if these qualify as a lease, evaluates whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company is not a lessor in any transaction, it is only a lessee.

(A) Financial lease

The Company applies a single measurement and recognition approach to all leases, except short-term leases and low-value asset leases. The Company recognizes lease liabilities to make lease payments and right-of-use assets that represent the right to use the underlying assets.

(i) Assets for right of use

The Company recognizes the right-of-use assets on the commencement date of the lease (as of the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any new measurement of lease liabilities.

The cost of the right-of-use assets and includes the amount of the lease liabilities recognized for the initial direct costs (lease plus additional fixed costs) incurred and the lease payments made on or before the start date, less the incentives of lease received. Right-of-use assets are depreciated on a straight-line basis over the shortest term of the lease and the estimated useful life of the assets, as follows:

If ownership of the leased asset is transferred to the Company at the end of the lease term or the cost includes the value of the purchase option, the depreciation is calculated using the estimated useful life of the asset (see note 3).

Right-of-use assets are also subject to impairment.

(ii) Lease liabilities

On the lease start date, the Company recognizes the lease liabilities measured at the present value of the lease payments to be made during the lease term. Lease payments include fixed payments (in some cases fixed payments plus additional costs and adjustments established in the contract that are easily determinable) less any lease incentives receivable.

Leases whose fees are adjusted or depend on an index or rate that is not easily quantifiable, have not been adjusted and the amounts expected to be paid have been determined based on the current amounts. Lease payments that include a reasonably safe purchase option to be exercised by the Company and payments of fines for termination of the lease, if the lease term reflects that the Company may terminate the contract, have been included in the amount of the obligations. Variable lease payments that depend on an index or rate are recognized as expenses (unless incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of the lease payments, the Company uses its effective interest rate on the lease commencement date. After the start date, the amount of the lease liabilities is increased to reflect the accrual of interest and is reduced by the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a change, a change in the lease term, a change in the lease payments, or a change in the valuation of an option to purchase the underlying asset.

The Company's lease liabilities are included as accounts payable.

(iii) Short-term leases and low-value asset leases

The Company applies the short-term lease recognition exemption to its short-term equipment leases (that is, those leases that have a lease term of 12 months or less from the start date and do not contain a purchase option).

Payments for leases for short-term leases and leases of low-value assets are recognized as expenses on a straight-line basis over the term of the lease.

h) Revenue recognition

Income is recognized to the extent that the economic benefits are likely to flow to the Company and the revenues can be measured reliably, regardless of when the payment is received. Revenues are measured at the fair value of the consideration received or receivable, taking into account contract terms defined contractually and without including taxes or duties.

The criteria for the recognition of income are described below:

<u>Product Sales</u>

Revenues from the sale of products in the ordinary course of business are recognized at the fair value of the consideration received or receivable, net of refunds, discounts and discounts or commercial rebates. Revenues are recognized when there is evidence that the risk and significant property benefits have been transferred to the buyer, the recovery of the consideration due, the associated costs and possible returns of the goods sold are likely and the amount of the income may be measured reliably.

<u>Discounts</u>

Discounts and other expenses on sales that can be estimated reliably are recognized as revenue reduction when sales are recognized.

<u>Bonuses</u>

The Company grants product bonuses to its customers, which are recognized as part of the cost at the time of sale.

i) Obligations for post-employment benefits

The obligations for post-employment benefits constitute short-term provisions, defined benefit plans and benefits for early termination.

Short-term benefits

Short-term social benefits are other benefits in addition to wages and salaries paid on a monthly basis and that are legally established in labor contracts or by labor laws and that are required within the current year, which are accumulated and accounted for in the results of the period and are reduced by the payments or by the excess in the provisions, which are recorded in the results of the period.

In addition to the aforementioned, the labor provisions in force establish that employees and workers are entitled to a 15% share of the profits of the year, this provision is recorded with a charge to the results of the year in which it accrues.

Defined Benefit plans

The labor code of the Republic of Ecuador establishes the obligation on the part of employers to grant the following benefits:

i. Employer retirement to all employees who have completed a minimum of 25 years of service in the same company.

ii. A compensation of 25% of the salary for each year of service, which is calculated based on the salary or salary in force at the time of retirement.

The Company establishes reserves for these benefits based on actuarial studies carried out by a specialized company. The actuarial method used by the specialist for the calculation is the "projected unit credit costing" and the provisions are calculated based on the remuneration of the employee and other parameters established in the Labor Code.

Assumptions to determine the actuarial study include discount rate determinations of the corporate bonds of the circulation currency in the country, variations in salaries and wages, mortality rates, age, sex, years of service, increase in the amount minimum of retirement pensions, among others. Due to the long term that characterizes the reserve for retirement benefit obligations, the estimate is subject to variations that could be significant.

The increase in labor cost and interest on these provisions is recorded in the results of the year and the positive or negative effect on the level of reserves derived from changes in estimates is recorded in equity as other comprehensive income and payments they are deducted from the provision.

Severance pay

The benefits for severance pay as recorded at the moment in which the employer decides to terminate the contract for the provision of labor services in advance. The Company makes provision when there is a real possibility of a decrease in its activities or a restructuring of its operations; in the event that it does not originate from the aforementioned events and in fortuitous cases, the benefits established in the labor laws for severance pay are recorded in the results at the time they originate.

j) Provisions – accumulated liabilities

The Company recognizes the provisions when: (i) it has a present obligation, whether legal or implicit, as a result of current or past events related to its activities, (ii) it is probable that an outflow of resources will be required to settle a current obligation in the future; and, (iii) the amount has been estimated reliably.

The amounts recognized as a provision constitute the best estimate of the Company, at the closing date of the financial statements, of the disbursements necessary to settle the obligation.

Long-term provisions are determined by discounting the expected future cash flows at a market interest rate related to the time value of money. The update of the discount of the provisioned values is recognized as financial expense.

The remaining interest costs are recognized in results in the year in which they are incurred.

k) Income tax

The income tax includes the current and deferred tax in accordance with the tax laws in force in the Republic of Ecuador.

Current income tax

The current income tax is calculated using the applicable rates, for the different taxes; that are determined in the law, regulations and tax provisions in force as of the cut-off date of the financial statements on which they are reported and these are accounted for in the results of the period.

Deferred income tax

Deferred income tax is recognized using the asset and liability as a result of the temporary differences arising between the carrying amounts of the assets and liabilities in the financial statements in accordance with IFRSs and the fiscal base of accounting, at the closing date of the period in which it is reported.

Deferred tax assets are recognized for all deductible temporary differences that are estimated to be compensable in the future and deferred tax liabilities are recognized for all taxable temporary differences.

The value of deferred tax assets accounted for is reviewed at the closing of the financial statements about which it is reported and are reduced at the moment when it is determined that there are no future taxable profits that allow these deferred tax assets to be used in full or partially.

Deferred tax assets not recognized in the financial statements are evaluated at each closing date of the financial statements and are recognized to the extent that there is evidence of future taxable profits that would allow the recovery of such deferred tax assets not previously recognized

Deferred tax assets and liabilities are measured at the income tax rates in effect on the date on which the existence of the temporary differences is determined and which are in force in the Organic Law of the Internal Tax Regime, its regulations and other provisions legal tax laws.

The deferred tax related to the items recognized outside profit or loss is recognized outside the latter. Deferred tax items are recognized in a relationship with the underlying transaction, either in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset assets and liabilities for current income tax and if deferred taxes are related to the same entity subject to taxes and the same tax jurisdiction.

Deferred tax assets and liabilities are not discounted at their current value and classified as non-current.

Other taxes

Sales tax for revenue from ordinary activities, expenses and assets are recognized excluding the amount of any sales tax (ex: value added tax), except:

- When the sales tax incurred in an acquisition of assets or in the provision of services is not recoverable by the tax authority, in which case this tax is recognized as part of the acquisition cost of the asset or as part of the expense, as appropriate;
- Accounts receivable and payable that are already expressed, including the amount of sales taxes.

The net amount of sales tax that is expected to be recovered or to be paid, is presented as an account receivable or payable in the statement of financial position, as applicable.

Others

The Company reviews the closing of its financial statements: (i) the decisions made in the tax returns of previous years referring to those situations in which the applicable tax legal provisions are subject to interpretation; and (ii) the cases in which the tax authorities determined additional values for taxes and that are in the process of being challenged. In the events that it deems necessary, it constitutes provisions when appropriate.

l) Recognition of operating costs and expenses

The costs and operating expenses are recognized in the results by the accrued method and when the products and services are provided, regardless of when they are paid.

The company presents its costs and expenses by its nature. This information is more reliable and relevant than the method of the function of the expenditure due to the nature of the entity, sector in which it works and use of comparable historical information reported in previous years.

m) Financial Expenses

Interest expenses directly attributable to the construction of an asset that necessarily require a substantial period of time for its use are capitalized as part of the cost of the respective assets. All other costs for loans are accounted for as expenses in the period in which they are incurred.

n) Comprehensive result per share

The integral result by ordinary participation is calculated considering the weighted average of outstanding shares during the year. The average number of outstanding shares in 2020 and 2019 were 2,839,600 of US $ 1 by each one.

NOTE 4 – USE OF JUDGMENTS, ESTIMATES AND SIGNIFICANT ACCOUNTING ASSUMPTIONS

The policies established by the Company note 2 and according to IFRS requires the Administration to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements, and the amounts disclosed as revenue and expenses during the period of the report. Estimates and assumptions are continuously evaluated and are based on Administration's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates, by definition, can rarely be equal to actual results.

The estimates, judgments and assumptions that have a significant risk that may result in a material adjustment to the carrying amounts within the financial period are as follows:

- **Provisions for the impairment of financial assets.**

  The Company performs a review of the value of financial assets on an annual basis and assesses whether there are risks to their recovery and, based on this analysis, an estimate is made for possible losses in the recovery.

  The Company considers that at the date of preparation of the financial statements for financial assets it is not necessary to make a provision for this concept.

- **Provisions for inventory obsolescence**

  The Company performs an annual adjustment of the inventories to the "Net Realizable Value - NRV" and additionally makes a review of the age and rotation of the inventories and based on this analysis, a provision is made for the inventories of slow turnover whose seniority is greater than one year.
  The Company considers that the amount of the provision at the date of preparation of the financial statements for the inventories is reasonable.

- **Estimation of the useful lives of depreciation of facilities, furniture, and equipment.**

  The facilities, furniture and equipment are accounted for at cost and depreciated by the straight-line method and based on the estimated useful lives, which are reviewed annually, technological changes, extensive use, among other factors can change the Estimates of the depreciation method and useful lives can affect these estimates.

  The Company considers that the depreciation method and useful lives are reasonable and there is no evidence of any technological deterioration.

- **Impairment of long-lived assets**

  At the end of each accounting period, the Company analyzes its results and operations to validate the value of long-lived assets and determine if there are indications that said assets have suffered an impairment loss. If there is any indication, an estimate of the recoverable amount of said asset is made, for which the cash flows (use value) are estimated independently; then the recoverability of the cash generating unit to which the asset belongs.

  The calculation of value in use requires the Company to determine the future cash flows that should arise from the cash-generating units and an appropriate discount rate to calculate the present value.

  In the event that the recoverable amount is lower than the net book value of the asset, the corresponding impairment loss is recorded, charged to results and reversed in the results when there is a change in the estimates.

- **Post-employment benefits**

  The actuarial calculation made by an external specialist is based on the method of the projected credit unit to determine the present value of its obligations for defined benefits. Demographic and financial assumptions are used in the calculation.

  - Demographic assumptions about the characteristics of current and past employees who may receive benefits. The demographic assumptions are: (i) average long-term salary rate; (ii) current interest rate; (iii) financial discount rate; (iv) annual inflation rate; (v) rate of return on plan assets.
  - Financial assumptions are related to the following elements: (a) the discount rate; and, (b) the levels of benefit to be paid to employees and future wages

- **Estimate to cover litigation**

  The Company recognizes obligations of those events of a legal or implicit nature for the Company; these events are recognized when:

  - The Company has an obligation on the date on which it is reported as a result of a past event.
  - When it is probable that the Company has to divest itself of resources or economic benefits, to liquidate the obligation; and,
  - The amount of the obligation can be estimated reliably.

  The provision is recognized as a liability in the statement of financial position and as an expense in the income statement for the period.

- **Provisions**

  The determination of the amount to be provisioned is based on the best estimate of the disbursements that will be necessary to pay for the corresponding obligation, taking into consideration all the information available at the closing date, including the opinion of independent experts such as legal advisors and consultants.

NOTE 5 – ACCOUNTING POLICIES CHANGES

The main standards and interpretations issued by the International Accounting Standards Board ("IASB"), which are in effect as of January 1, 2019 and whose changes in accounting policies as of January 2019 are as follows:

IFRS 16 – Leases

IFRS 16 Leases, issued in January 2016, became effective on January 1, 2019 and eliminated IAS 17 Leases, IFRIC 4- Determination of whether an Agreement contains a Lease, Operating Leases SIC-15 - Incentives and SIC- 27 Evaluation of the substance of a lease transaction.

This standard establishes the principles for the recognition, measurement, presentation and disclosure of lease contracts and requires that they be recognized in the financial statements under a single model in the balance sheet.

The lessor's accounting under IFRS 16 is substantially similar to IAS 17, apart from the requirements that apply to subleases. Lessors will continue to classify all leases as operating leases or finance leases using principles similar to those in IAS 17.

Changes in accounting treatment between IAS 17 and IFRS 16 are as follows:

Previous Accounting Policy	Required Accounting Change
Lease contracts in accordance with IAS 17 are classified as: • Financial; and • Operations.	IFRS 16 requires lessees to account for all of their contracts under a single balance sheet model that is substantially similar to and is based on the current accounting for finance lease contracts in IAS 17.
This standard had no exemptions for the treatment of lease contracts.	The standard includes two exceptions in the recognition of leases by lessees: (a) leases of low-value assets; and, (b) short-term, non-renewable leases.
Lease contracts that recognize the liability for obligations are those that are classified as finance leases.	IFRS 16 requires the lessee at the commencement date of a lease to recognize the liability for the present value of the obligations and an asset for the rights to use the leased asset. Lessees must disaggregate the financial expense corresponding to the liability for the lease and the expense for the amortization of the right of use.

The revaluation - adjustment of the liabilities are only recognized in the lease contracts that classify with financial leases.	Lessees are required to reevaluate the liability for the lease when there are changes to the initial lease. The change in the lease term in future payments is adjusted to determine the value of the obligation. The lessee will generally recognize the value of the adjustment of the liability and in turn the adjustment to the asset for the right of use.
The lessor continues to classify leases with the same classification principles as in IAS 17 and will record two types of lease: operating and financial leases.	The lessor's accounting in accordance with IFRS 16 does not substantially change from the current accounting in IAS 17.
Disclosures are less than required in IFRS 16	IFRS 16 requires lessees and lessors to make more extensive disclosures than required in IAS 17.

The standard provides specific transition requirements and case studies, which have been applied by the Company.

Leases previously accounted for as operating leases

Leases in force before the adoption of the new IFRS 16 that are considered as operating lease contracts, according to the new IFRS, are recognized as right-of-use assets and their respective lease liabilities; for all those leases, except those short-term leases whose terms end within 12 months after the date of initial application and those leases of low-value assets and for those leases that have a variable lease rate.

Right-of-use assets for all leases were recognized based on the amount equal to lease liabilities. No adjustments were needed for any pre-paid or previously accrued lease expense, since there were none.

Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental interest rate on the date of the initial application.

Impact on the Company

With the adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term and low-value asset leases.

The Company has operating leases and has no subleases. Before the adoption of IFRS 16, the Company classified each of its leases on the commencement date as an operating or financial lease and the Company had no financial leases.

The Company adopted IFRS 16 using the modified retrospective adoption method, with the initial application date of January 1, 2019; In accordance with this method, the standard has been applied retrospectively with the cumulative effect of initially applying the recognized standard as an adjustment to the opening balance of retained earnings (or other equity component, as appropriate) as of the date of initial application and The comparative financial statements have not been restructured. The Company has applied the new definition of lease to all lease agreements or contracts in force on the date of initial application.

With the adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets, less than US $ 5,000. The Company has leases of certain office equipment (i.e. personal computers, printing machines, and copiers) that are considered low value.

The Company also applies the practical resources established in the standard and in which:

- We assess whether leases are onerous immediately before the initial application date.
- We apply short-term lease exemptions to leases with terms ending within 12 months after the date of the initial request
- We use hindsight to determine the term of the lease where the contract contained options to extend or terminate the lease

The effect (increase / (decrease)) of adopting IFRS 16 as of January 1, 2019 is detailed below:

Assets:		
Right of use for rental contracts	US$	574,929
Liabilities:		
Obligations for lease contracts:		
Currents		87,865
Not current		487,064
Total liabilities	**US$**	**574,929**

As of April 1, 2020:

- Right-of-use assets were recognized and presented separately in the statement of financial position.
- Additional lease liabilities were recognized and included in "interest bearing loans".
- Additional "deferred tax assets" and "deferred tax liabilities" were recognized due to the impact of deferred tax on changes in recognized assets and liabilities related to the lease.

  La compañía realiza los ajustes y revisions de esta norma al 31 de diciembre de cada año, por cierre fiscal.

Lease liabilities as of April 1, 2020 are reconciled with operating lease commitments as of March 31, 2020, as follows:

Operating lease commitments as of April 1, 2020 (no discount)	US$	678,611
Discount effect	US$	(103,682)
Recognized lease liabilities discounted as of April 1, 2020	US$	**574,929**

(a) Effect of discount

Lease liabilities recognized under IFRS 16 are measured at a discount, while operating lease commitments disclosed as of December 31, 2018 were disclosed without discounting. The discount rate used to discount the lease payments for each lease is the appropriate incremental borrowing rate for each lease on the initial application date, that is, the rate as of January 1, 2019. The incremental borrowing rates were determined for each lease taking into account factors such as the remaining term of the lease, the nature of the asset, credit risk and the economic environment in which the asset was located.

The transition weighted average incremental interest rate was 4.25% per year.

IFRIC Interpretation 23 - Uncertainty about the treatment of income tax

The Interpretation issued establishes the accounting treatment for income taxes when the tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes, this interpretation does not apply to taxes or levies that are outside the scope of IAS 12, nor does it include the requirements related to the treatment with interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- If an entity considers uncertain tax treatments separately.
- The assumptions that an entity makes about the examination of tax treatments by the tax authorities.
- How the Company determines the tax profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

The Company determines whether to consider each uncertain tax treatment separately or in conjunction with one or more uncertain tax treatments and uses the more conservative approach that predicts resolution of uncertainty.

The Company applies a highly conservative judgment in the identification of uncertainties regarding income tax treatments.

With the adoption of the Interpretation, the Company evaluated whether it has uncertain tax positions, including those related to transfer prices. The tax returns of the Company and of the subsidiaries in different jurisdictions include deductions related to transfer prices; tax authorities can challenge these tax treatments. The Company determined its tax compliance based on its transfer pricing study, and considered that its tax treatments (including those of its subsidiaries) are accepted by the tax authorities; therefore, the Interpretation had no impact on the Company's financial statements.

Other modifications effective as of January 1, 2019

In relation to the aforementioned modifications, there are other changes that become effective as of January 1, 2019 and / or that are permitted early application and that do not have an impact on the Company's financial statements; which are as follows:

- **Amendments to IAS 28: long-term interests in associates and joint ventures**

  The amendments clarify that an entity that applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method does not apply but is essentially part of the net investment in the associate or business set (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

  The amendments also clarify that when applying IFRS 9, an entity does not take into account the losses of the associate or joint venture, nor the impairment losses of the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from the application of IAS 28 Investments in associates and joint ventures.

- **IFRS 3 Business combinations**

  The amendments clarify when an entity gains control of a joint operation, applies the requirements for a business combination achieved in stages, including measuring the interest previously held in the assets and liabilities of the joint operation at fair value. In this way, the acquirer remeasures all of its previously held interest in the joint operation.

- **IFRS 11 Joint agreements**

  The amendment clarifies that an entity that participates in a joint operation or business that has no control and when it obtains control of the operation constitutes a business combination as defined by IFRS 3. The amendments clarify that the interests previously held in a joint operation or business are not remeasured.

- **IAS 12- Income Tax**

  The amendments clarify that the income tax consequences of dividends are more directly linked to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the tax consequences of dividends in results, other comprehensive income or equity according to where it originally recognized those past transactions or events.

  The amendments clarify that the income tax consequences of dividends to shareholders are directly linked to these past transactions or events that generated distributable profits to shareholders or partners; therefore, an entity recognizes the tax consequences of dividends in profit or loss for the period; in other comprehensive income or equity according to where those transactions or events were originally recognized.

- **IAS 23 Borrowing Costs**

  The amendments clarify that the loan (s) that a Company contracts to develop a qualified asset are part of the cost until substantially all the activities necessary to prepare that asset for its intended use or sale are completed.

Other modifications effective as of January 1, 2020

- Modifications to the Conceptual Framework of IFRSs, this change affects several IFRSs and NICs.
- IFRS 3 Definition of business
- Definition of materiality and importance - Modifications to IAS 1 and IAS 8, additionally affects various IFRSs and IASs.

The new standards or amendments mentioned above do not have a significant impact on the financial statements.

NOTE 6 – FINANCIAL INSTRUMENTS

The financial instruments as of March 31, 2020 and 2019 correspond to current financial assets and liabilities and their balances and fair values are as follows:

	Reasonable value		Value in books	
	2020	**2019**	**2020**	**2019**
Financial assets:				
Cash and cash equivalents	375,644	30,641	375,644	30,641
Local costumers	1,494,877	1,553,198	1,629,453	1,641,264
Financial liabilities:				
Suppliers account payable	107,640	358,090	117,330	378,394
Related accounts payable	969,733	896,734	1,057,033	930,364

Significant accounting policies; the method adopted and the criteria for recognition for measurement and the basis on which income and expenses are recognized, for each class of financial assets and liabilities are detailed in note 3 - c).

Fair Value

Fair value is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in a current transaction, under the assumption that the entity is a going concern.

The techniques used to determine the fair value of the instruments are described in note 3 - a) Summary of the main accounting policies.

The Company has used its best judgment in estimating the fair values of its financial instruments, any technique to make such an estimate entails a certain level of inherent fragility. As a result, fair value cannot be indicative of the net realizable or liquidation value of financial instruments.

The following methods and assumptions were used to estimate the fair values:

- Financial instruments whose fair value is similar to the book value

  Assets and financial liabilities liquid or have short-term maturities (less than three months), such as cash and cash equivalents, trade debtors, other accounts receivable, commercial creditors and other accounts payable and other current liabilities, it is considered that the Book value is similar to fair value.

- Fixed rate financial instruments

  The fair value of financial assets and liabilities that are at fixed rates and at amortized cost is determined by comparing the market interest rates at the time of initial recognition with the current market rates related to similar financial instruments.

The carrying amounts and fair values of the financial instruments presented in the statement of financial position are similar to market values.

NOTE 7 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

A summary of the main financial risks and the policies implemented are:

a) Financial Risk Management objectives and policies

Due to the nature of its activities, the Company is exposed to credit, interest rate, liquidity and exchange rate risks, which are constantly monitored in order to identify and measure their impacts and establish the limits and controls that reduce the effects in the results of the Company. The process of evaluating and controlling risks in the business is critical for profitability and the Company is responsible for risk exposures.

The risk management structure is based on the Shareholders - Head Office and the Company Management, Financial Management and Sales Management, which are responsible for identifying and controlling the risks in coordination with other areas, as explained below:

(i) Shareholders – Headquarters

The shareholders - headquarters are responsible for the general approach to risk management, provide the principles for risk management, as well as the policies prepared for specific areas, such as exchange rate risks, interest rate risk, risk of credit and the use of derivative financial instruments.

(ii) General Management

The General Management is responsible for the general approach to risk management, which provides the principles for risk management, as well as the policies prepared for specific areas, such as exchange rate risk, interest rate risk, credit risk. and the use of derivative financial instruments.

(iii) Finance

The Finance area is responsible for the control and administration of the cash flow of the Company based on the policies, procedures and limits established by the shareholders, directors and the Management of the Company, including the follow-up to said procedures to improve the administration of Company risks.

The financial department coordinates access to national financial markets and manages financial risks.

These risks are: market risk (variation of currency and interest rate) and credit risk. The main objective is to supervise and maintain a minimum exposure to risks without using derivative contracts (swaps and forward) and to assess and control credit and liquidity risks.

Also, the control and recovery of accounts receivable for the sales generated in the period and for those that may be respected, determining together with the marketing department, discount options to its customers that will help mitigate the negative effect on the recovery of these flows.

b) Risk Mitigation

The Company constantly evaluates the different scenarios and identifies different strategies to manage exposures resulting from changes in interest rates, foreign currency, capital risk and credit risks.

The Administration reviews and evaluates the changes in policies for the administration of such risks, which are summarized below:

Market Risk

Market risk controls the fair value of financial instruments due to changes in market prices, which depend on changes in the interest rate, exchange rate and other price risks, among which is the equity risk.

Financial instruments affected by market risk include deposits in banks and obligations with banks.

Interest rate risk

The interest rate risk allows evaluating and monitory the fair value of financial instruments, due to changes in market interest rates. The Company's exposure to the risk of changes in market interest rates is mainly related to the Company's long-term debt obligations at variable interest rates.

The company periodically evaluates the exposure of short- and long-term debt to changes in the interest rate, considering its own expectations regarding the future evolution of rates.

The financial assets and liabilities that the Company has as of March 31, 2020 and 2019 do not accrue, do not generate interest and are not exposed to this risk and its summary is detailed in note 7.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its payment obligations related to financial liabilities at maturity and replace the funds when they are withdrawn. The consequence would be the failure to pay their obligations to third parties.

Liquidity is controlled by matching the maturities of its assets and liabilities, obtaining lines of credit and / or maintaining surplus liquidity, which allows the Company to carry out its activities normally.

The management of liquidity risk involves maintaining enough cash and availability of financing, through an adequate amount of committed credit sources and the ability to settle transactions mainly of indebtedness. In this regard, the Company's Management focuses its efforts on maintaining sources of financing through the credit lines availability.

The following table shows the maturity of the obligations assumed by the Company at the balance sheet date and the amounts to be disbursed at maturity, based on the undiscounted payments to be made:

2020	Until 1 month	1 to 3 months	3 to 5 months	5 to 12 months	More than 1 year	Total
Financial assets:						
Cash and cash equivalents	375,644	-	-	-	-	375,644
Local costumers	1,626,234	3,219	-	-	-	1,629,453
Financial liabilities:						
Suppliers accounts payable	113,435	-	-	2,520	-	115,955
Related accounts payable	427,823	83,002	84,543	362693	98,972	1,057,033
2019						
Financial assets:						
Cash and cash equivalents	30,641	-	-	-	-	30,641
Local costumers	1,441,028	153,713	39,792	6,732	-	1,641,264
Financial liabilities:						
Suppliers accounts payable	146,284	142,179	89,931	-	-	378,394
Related accounts payable	-	374,886	110,450	387,949	57,078	930,364

Risk of capital management

The Company actively manages a capital base to cover the risks inherent in its activities. The capital adequacy of the Company is monitored using, among other measures, the ratios established by management.

The Company's objectives when managing capital, which is a broader concept than the "Net Equity" shown in the balance sheet are:

(i) Safeguard the ability of the Company to continue operating in a manner that continues to provide returns to shareholders and benefits to other participants; and,
(ii) Maintain a strong capital base to support the development of its activities.

As of March 31, 2020 and 2019, there have been no changes in the activities and policies of capital management in the Company.

The debt-equity ratio, adjusted net of the Company as of March 31, 2020 and 2019 is as follows:

	2020	**2019**
Total liabilities	2,122,702	1,595,403
Less: cash and cash equivalents	375,644	30,641
Net debt	2,498,346	1,626,044
Shareholder equity	925,844	726,418
Index of debt equity	2.70	2.24

The Company is part of the Glenmark Pharmaceuticals Limited Group of India and supports the operations of the Company.

Credit risk

The Company is exposed to credit risk due to its operating activities mainly for cash and cash equivalents - deposits with banks, accounts receivable customers and other accounts receivable.

Regarding cash and other cash equivalents in banks and financial institutions and corresponding to short-term operations and immediate liquidity, the risk is monitored through the qualifications required by the Control Bodies, which are periodic and are carried out by third parties (independent) specialized and qualified by the control entities.

The credit risk is managed according to the policies, procedures and controls established by the Company. The credit quality of the client is evaluated permanently. Outstanding customer charges are supervised. The maximum exposure to credit risk at the reporting date is the value of each class of financial assets.

The Company has established a risk policy for the granting of loans to customers, which includes:

- Review and analysis of the information collected by credit officers, according to parameters established by the Company's Management.
- Approval by the Financial and Administrative Management of the credit term.

The Company has defined in its credit rating policy, that public sector entities will not be subject to credit analysis or restriction on quotas, since the term of collection will be defined in the contractual terms and conditions.

The Company establishes an estimate for impairment, which represents its best estimate of the losses to be incurred in relation to financial and non-financial assets subject to credit risk. This estimate considers the maximum loss determined based on an evaluation of them.

NOTE 8 - EQUITY

Capital stock

At March 31, 2020 the authorized, subscribed and paid common shares are 2,839,600 shares of US$ 1 each.

Contributions for future capitalizations

The contributions for future capitalizations were made by Head Office between 2016 and 2020, period during which it accumulated losses.

NOTE 9 – FURNITURE AND EQUIPMENT

The balances as of March 31, 2020 and 2019, the furniture and equipment of the Company, are as follows:

	2020			2019		
	Cost	Accumulated Depreciation	Net block	Cost	Accumulated Depreciation	Net block
Facilities	21,853	4,411	17,442	20,366	2,350	18,017
Furniture and fixtures	76,577	20,540	56,037	76,577	12,881	63,696
Computer equipment	50,065	39,686	10,379	44,190.53	25,106	19,084
	148,495	**64,638**	**83,857**	**141,134**	**40,337**	**100,797**

NOTE 10 – LEASES

The Company has an office lease for its operations, which have a period of between 2 and 3 years, which establish renewal clauses in agreement between the parties. The Company's obligations under its leases are guaranteed by the lessor's title to the leased assets. In general, the Company has restrictions on subletting leased assets and some contracts require that the Company maintain certain conditions regarding maintenance, condominium payments and others. Lease agreements include variable lease payments, the aspects of which are discussed below.

The movement for the year ending March 31, 2020, of the assets for right of use and of the recognized obligations and movements during the period, is as follows:

		31-mar-20					
Lease Liability	ROU	Depreciation	Interest	Rent Paid	Lease Liability as on 31 March 2020	Current	Non-Current
449,777	449,777	56,338	18,302	57,657	410,422	51,443	358,980
12,039	12,039	1,508	485	1,747	10,778	1,351	9,427
60,550	60,550	7,584	2,443	8,706	54,287	6,737	47,550
33,652	33,652	22,435	965	23,040	11,577	11,577	-
556,018	**556,018**	**87,865**	**22,196**	**91,150**	**487,064**	**71,107**	**415,957**

NOTE 11 - INVENTORY

The composition of inventories item as of March 31, 2020 and 2019 are as follows:

	2020	2019
Inventories	239,167	324,615
Medical samples	32,035	34,599
Imports in transit	83,766	181,016
Obsolescence provision	(49,891)	(114,161)
Net realizable value - adjustment	(3,003)	-
	302,075	426,069

NOTE 12 – ACCOUNTS RECEIVABLE, COMMERCIAL AND OTHER

The balances as of March 31, 2020 and 2019 of the current assets are as indicated in the following groupings:

	2020	2019
Local customers	1,629,453	1,641,264
Taxes to be recovered	133,536	91,433
Other accounts receivable	31,748	15,939
	1,794,737	1,748,637

12.1. ACCOUNTS RECEIVABLE FROM CUSTOMERS

A summary of the old commercial accounts receivable as of March 31, 2020 and 2019 are as follows:

Category	2020	2019
Unexpired	1,626,234	1,338,100
From 1 to 30 days	-	102,927
From 31 to 60 days	3,219	91,237
From 61 to 90 days	-	62,475
From 91 to 120 days	-	36,458
From 120 to 150 days	-	3,334
From 150 to 360 days	-	6,732
	1,629,453	1,641,263

12.2. CURRENT TAXES TO RECOVER

The balance as of March 31, 2020 and 2019 of the current taxes to be recovered are as follows:

	2020	2019
Tax witholding	125,016	119,192
Tax credit	8,520	19,174
Others	-	-
	133,536	138,366

The balance of taxes - advances and withholdings at the source constitutes the excess of income tax paid and withholdings made by third parties, which in 2020 amount to US $ 125,016.

12.3. ACCOUNTS RECEIVABLE, OTHERS

A detail of the accounts receivable - several as of March 31, 2020 and 2019 are as follows:

	2020	2019
Accounts receivable employees	11,960	9,670
Travel advances	10,323	10,881
Supplier Advances	577	9,900
Guarantee	8,888	8,888
Other accounts receivable	-	(13,500)
	31,748	25,839

NOTE 13 - CASH AND CASH EQUIVALENTS

At March 31, 2020 and 2019 the composition of cash and cash equivalents are as follows:

	2020	2019
Cash in hand	1,000	487
Balances with banks (1)	374,644	80,555
	375,644	81,042

(1) At March 31, 2020 it, corresponds to the available amount that the Company maintains in its checking and savings accounts in banks domiciled in Ecuador. The rating category of the banks according to the publications required by the Superintendence of Banks is AAA-.

NOTE 14 – SUPPLIERS ACCOUNTS PAYABLE

Balances as of March 31, 2020 and 2019 from financial creditors - accounts payable suppliers are as follows:

		2020	2019
Related suppliers	(1)	1,057,033	896,734
Local suppliers	(2)	115,955	327,194
Foreign suppliers		-	51,200
Credit cards		1,632	10,667
		1,174,620	1,285,794

(1) These balances correspond mainly to Glenmark Pharmaceuticals Ltda., and Glenmark Farmaceutica Ltda., for the purchase of pharmaceutical products

(2) The balances of 2020 and 2019 correspond mainly to Quifatex S.A and Datandina Ecuador S.A., for the purchase of logistics operation services and administration service and market research.

NOTE 15 – RELATED ACCOUNTS PAYABLE

A detail of the balances as at March 31, 2020 and 2019 with the related parties transactions are as follows:

	Relation	Transaction	2020	2019
Accounts payable:				
Glenmark Pharmaceuticals Ltda.	Group component	Inventory purchase	980,172	869,917
Glenmark Farmaceutica Ltda	Group component	Inventory purchase	76,861	60,447
Glenmark Pharmaceuticals Perú S.A.	Group component	Inventory purchase	-	-
			1,057,033	**930,364**

Transactions with related parties at March 31, 2020 and 2019 gave rise to the following amounts in the income statement and are as follows:

	Relation	Transaction	2020	2019
Purchase				
Glenmark Pharmaceuticals Ltda.	Group component	Inventory purchase	691,783	611,427
Glenmark Farmaceutica Ltda	Group component	Inventory purchase	101,509	153,210
Glenmark Pharmaceuticals Perú S.A.	Group component	Inventory purchase	24,884	-
			818,176	**764,637**

Amounts paid to key staff of the Company and administrators at March 31, 2020 and 2019 were US$474,565 and US$361,865 respectively, these values belong to fees and other benefits.

NOTE 16 – CURRENT TAXES PAYABLE

The balance as of March 31, 2020 and 2019 of the current taxes to be recovered are as follows:

	2020	2019
Withholdings payable	1,703	159,030
Value added tax	10,458	14,921
Income tax employees	484	495
Income tax payable	144,067	-
	156,711	174,446

NOTE 17 – PROVISIONS

The balances as of March 31, 2020 and 2019 of the company's provisions are as follows:

	2020	2019
Provisions for social benefits	97,876	180,660
Provisioned expenses	100,918	75,361
	198,795	256,021

NOTE 18 – EMPLOYER RETIREMENT AND EVICTION BONUS

The balances of provision for employer's retirement and eviction bonus for the year ended at March 31, 2020 and 2019 are as follows:

	2020	2019
Employer retirement	79,691	19,033
Eviction bonus	29,056	72,717
	108,747	91,750

The Company accumulates these benefits based on annual studies prepared by a firm of consulting actuaries. As indicated in actuarial studies, the actuarial method used is "costing projected unit credit" provisions of the plan and consider the employee's remuneration and other parameters set out in the Labor Code.

NOTE 19 – OPERATING INCOME

Sales for the year ended March 31, 2020 and 2019 were as follows:

	2020	2019
Sales	6,369,538	(174,460)
Return on sales	(120,208)	(1,051,638)
Volume discount	(1,046,151)	(6,565)
Discount soon payment	-	(1,148,093)
Commercial discount	(1,401,834)	4,414
Related gross sales	32,000	-
	3,833,346	(2,376,342)

NOTE 20 – COST OF SALES

During the year ended March 31, 2020 and 2019, operating costs were US$ 976.664 and US$946.930.

NOTE 21 – ADMINISTRATIVE AND SALES EXPENSES

A detail of administrative and sales expenses for years ended at March 31, 2020 and 2019 is as follows:

	2020	2019
Leasing	47,170	61,628
Depreciation	25,805	23,713
Inventory deterioration	31,131	241,870
Insurances	67,989	39,931
Management expenses	246,150	193,973
Travelling expenses	107,354	159,456
Financial expenses	12,315	7,197
Professional fees	28,622	61,399
Tax rate	320,363	179,667
Maintenance and repairs	15,691	20,002
Materials and supplies	5,231	5,670
Transportation	129,728	123,936
Other expenses	152,073	186,470
Marketing expenses	112,006	182,019
Employers retirement and eviction	36,750	44,764
Professional services	522,006	471,111
Electricity charges - telephone expenses	46,337	47,380
Miscellaneous services	26,541	43,099
Salaries and social benfits	1,195,251	1,183,466
Provision for expected losses	7,394	-
Workers paticipation	14,921	-
Adjustment NRV	3,003	-
	3,153,830	3,276,751

NOTE 22 – INCOME TAX

Tributary conciliation

The income tax expense for the years ending on December 31, 2019 and 2018 includes the following:

	2019		2018	
	Items amounts	Income tax	Items amounts	Income tax
Profit (Loss) prior to workers sharing and income tax	99,476	24,869	(1,376,173)	(302,758)
Employee profit sharing	(14,921)	(3,730)	-	-
Profit (Loss) before employee participation	84,555	21,139	(1,376,173)	(302,758)
Non-deductible expenses	683,801	170,950	822,919	181,042
Taxable base	768,356	192,089	(553,254)	(121,716)
Amortization of losses from previous year	(192,089)	(48,022)	-	-
Tax base and income tax	576,267	144,067	(553,254)	(121,716)
Withholdings at source for the fiscal year		(53,869)		-
Tax credit of previous year		(29,355)		-
Income tax payable		60,843		-
Deferred tax adjustment effect		4,414		-
Effective income tax rate		-8%		0%

The Company's income tax is calculated annually at the end of December 31 of each fiscal period, applying the current income tax rate to taxable profits.

New companies that are incorporated outside the urban areas of the Quito and Guayaquil cantons and within certain economic sectors are exempt from paying income tax for a period of five years from their incorporation, as long as the investments new and productive are made outside the aforementioned urban jurisdictions.

New productive investments that are made in the provinces of Manabí and Esmeraldas in the following three years from the effective date of the Organic Law of Solidarity and Citizen Co-responsibility for Reconstruction and Reactivation are exempt from paying income tax. of the Zones Affected by the Earthquake of April 16, 2016, published in the Supplement of the Official Registry No. 759 of May 20, 2016.

Additionally, they are exempt from paying income tax and from the advance on income tax between 8 and 12 years to new productive investments made in sectors or basic industries established in the Organic Code of Production, Commerce and Investment, Whether these are new companies or made by current companies, the aforementioned exemption is extended between 3 and 8 years when these investments are made in border sectors.

Income Tax rate

The current tax provisions establish that the 25% income tax rate. The income tax rate will increase from 25% to 28% in the following cases:

- When the company has shareholders, partners, participants, constituents, beneficiaries or similar, resident or established in tax havens or lower tax regimes; with a direct or indirect participation, individually or jointly, equal to or greater than 50% of the share capital.
- When the participation of shareholders domiciled in tax havens or lower tax regimes is less than 50%, the income tax rate will be applied on the proportion of the tax base corresponding to that participation.
- In the event that the company that fails to comply with the duty to inform the composition of its shareholders, partners, participants, taxpayers, beneficiaries or similar, in accordance with what is established by the Organic Law of Internal Tax Regime and the resolutions issued by the Service of Internal Revenue, without prejudice to other sanctions that may be applicable.

In the event that the Company reinvest its profits in the country in the terms and conditions established by the Organic Law of the Internal Tax Regime, it could obtain a reduction in the income tax rate of 10 percentage points over the reinvested amount, provided that when they make the corresponding capital increase until December 31 of the following year.

Advance payment of income tax

The advance is determined annually and on the basis of the income tax return of the previous year, applying certain percentages to the value of the total assets (less certain components), total equity, income, costs and expenses. The advance payment is compensated with the income tax caused, as long as it is not subject to refund, except in exceptional cases. In case the income tax caused is less than the determined advance, the advance is converted into a minimum income tax.

Excluded from the determination of the income tax advance are the incremental expenses for the generation of new employment or improvement of the wage bill, and in general those investments and expenses actually incurred, related to the tax benefits that for the payment of the income tax recognizes the Organic Code of Production, Trade and Investments for new investments, as well as other effects due to the application of accounting standards and principles.

Additionally, new companies incorporated as of the validity of the Production, Trade and Investment Code for a period of 5 years of effective operation are exempt from the payment of the income tax advance, which is understood as the initiation of their productive and commercial process.

Cash dividends

Dividends and profits, calculated after the payment of income tax, distributed by national or foreign companies that are resident in Ecuador, in favor of other national or foreign companies, not domiciled in tax havens or jurisdiction of lesser taxation or of non-resident natural persons in Ecuador, they are exempt from income tax.

The aforementioned exemption does not apply if the beneficial owner; who economically or in fact has the power to control the attribution of disposing of the benefit, is a natural person resident in Ecuador; to which a withholding of the dividends or profits that apply to the taxed income must be made, which depends on where the effective beneficiary is located, without exceeding the difference between the maximum rate of income tax for individuals (35%) and the general rate of income tax provided for companies (28% or 25%).

In the event that the dividends are distributed to companies domiciled in tax havens or lower taxation systems, an additional withholding tax should be applied for the difference between the maximum rate of taxation of a natural person (35%) and the tax rate for the taxpayer. corporate income applicable for companies (28% or 25%).

The company that distributes the dividends or profits that have not reported their shareholding composition must be withheld from the income tax on said dividends as if there were an effective beneficiary resident in Ecuador.

The early distribution of dividends before the end of the financial year or granting money loans to its partners, shareholders or any of its related parties (non-commercial loans), shall be considered as an advance payment of dividends and therefore the corresponding withholding shall be made. the corporate income tax rate in effect to the current year, on the amount of such payments. The withholding must be declared and paid the month after it is made and it will constitute a tax credit for the company in its income tax declaration.

Disposal of shares and shares

The profits received by the Companies resident in the country or abroad, derived from the direct or indirect sale of shares or participations of companies domiciled or permanent establishments in Ecuador are exempt from the year 2018.

Foreign Currency Exit Tax (FCET)

The Foreign Exchange Tax is 5% and taxes the following transactions:

- The transfer or transfer of foreign currency abroad.
- Payments made from abroad, including those made with financial resources outside the natural person or society or third parties.
- Imports pending payment registered for more than twelve (12) months.
- Exports of goods and services generated in Ecuador, made by natural persons or companies domiciled in Ecuador, when the foreign currency corresponding to the payments for such exports do not enter Ecuador.
- When the outflow of currencies occurs as a result of the clearing or netting of debit balances and creditors abroad, the tax base will consist of the entire operation, that is, both the net balance transferred and the amount cleared.

The following are exempt from the Foreign Currency Exit Tax (FCET):

- ➢ Money transfer of up to three unified basic salaries per month.
- ➢ Payment made abroad through credit or debit cards up to 5,000.
- ➢ Payments made abroad for the amortization of capital and interest on loans granted by international financial institutions, with a term greater than one year, destined to financing investments foreseen in the Organic Code of Production, Trade and Investment and which accrue interest to the referential rates.
- ➢ Payments made abroad by way of dividends distributed by national or foreign companies domiciled in Ecuador, after payment of income tax, in favor of other foreign companies or individuals not resident in Ecuador, provided they are not domiciled in tax havens or jurisdictions of lower taxation.
- ➢ Up to one year, payments for imports made by taxpayers who have suffered a direct economic impact on their productive assets as a result of the natural disaster that occurred on April 16, 2017 and who have their domicile in the provinces of Manabí and Esmeraldas, payments for capital goods not produced in Ecuador and destined to productive processes or the provision of services located in the affected areas.

The Foreign Currency Exit Tax (FCET) may be used as a tax credit for the determination of income tax for up to 5 years, provided that it originated in the importation of raw materials, inputs and capital goods for the purpose of that are incorporated into productive processes and that are included in the list issued by the Tax Policy Committee.

Deferred tax

A summary of the deferred items and taxes as of December 31, 2019 is as follows:

Deferred tax items	Items amounts	Income tax
Inventories	3,003	751
Employer retirement and eviction	9,329	2,332
Provisions	5,326	1,332
		4,414
Increase (decrease):		
Charge in results		4,414

For the calculation of deferred tax, the tax rate of 25% for 2019 and 2018 has been considered.

The INTERNAL INCOME SERVICE through Circular No. NAC-DGECCGC15-00000012, published in the Official Registry Supplement No. 653 of December 21, 2015, states that for tax purposes the accounting record of deferred tax assets and liabilities is allowed, Only in the cases established by the regulations and in the event of controversy between the tax norms and the accounting and financial norms (IFRS), will the former prevail. The Internal Revenue Service "IIS" in the aforementioned circular establishes the following:

a) The financial statements constitute the basis for filing tax returns, as well as for filing with the Control Bodies (Superintendency of Companies, Securities and Insurance and the Superintendency of Banks).

b) International Accounting Standard No. 12- Income Tax (IAS 12) and Section 29 of the IFRS for SMEs establish and require the recognition, measurement and disclosure of deferred taxes, however the INTERNAL INCOME SERVICE establishes that only they will recognize the effects of the application of deferred tax assets in the cases and conditions established in the pertinent tax regulations, arising from economic events, transactions or accounting records, that originate from January 1, 2015; except for the effects of losses and tax credits in accordance with current tax regulations.

c) The deferred tax liabilities recorded, in compliance with the tax regulatory framework and by the application of IFRSs, will remain in force for their respective settlement.

d) The income tax rate that will be used to estimate the assets and liabilities for current and deferred taxes in accordance with the IFRSs, will be established in the tax regulations.

e) Deferred tax assets and liabilities can be recovered or paid later through the tax reconciliation, they must be recognized in the balance sheet, in the respective amount and at the appropriate time, respecting the current tax provisions and the IFRS. mentioned in this resolution as the case may be.

Other exemptions

In addition to the aforementioned exemptions as of December 31, 2019, there are other exemptions established in the tax provisions are as follows:

- The profit generated in the direct or indirect sale of shares, participations, other capital rights are subject to a single rate between 0% and 10% based on the amount of profit obtained.
- Refund of Value Added Tax - VAT for companies that develop social interest housing projects.

Tax reviews

The Internal Revenue Service, in accordance with legal provisions, has the power to review the income tax returns of the Company, within three years from the filing date of the tax return. The Company has not been reviewed until December 31, 2018.

Tax reforms

On December 31, 2019, in the Official Supplementary Registry No.111, the “Organic Law of Tax Simplification” was published, in which several reforms were made to the current tax provisions and among the main ones that affect income tax are the following:

- The elimination of the advance of the minimum advance, however, the voluntary advance is established equivalent to 50% of the advance of income tax caused in the previous year and from which it is deducted from the withholdings made in that year.
- Capitalization and reinvestment of profits is not considered as distribution of dividends and therefore is exempt from income tax withholding.

- The Funds or Trusts dedicated to the investment and administration of real estate are exempt from Income Tax.
- The yields or partial advance payments of time deposits with a term of 360 days or more are exempt, provided that they are in the possession of the holder on a continuous basis.
- Dividends paid from earnings in favor of shareholders (except companies resident in Ecuador) regardless of their tax residence are taxed at the effective rate of 10% (25% of 40% of the declared dividend) and which can be increase up to 14% when the tax residence of the shareholders has not been reported, and in the event that the shareholders are domiciled in countries where there are double taxation agreements, the withholding will be applied using this regulation.
- The provisions made for the payment of the Employer Retirement will be deductible from the year 2021, as long as these are transferred to a specialized company authorized to manage these funds.

NOTE 23 – CONTINGENCIES

As of March 31, 2020, it maintains an exclusive distribution agreement in force signed by the Company and is as follows:

Commitment

LETERAGO DEL ECUADOR S.A.
The agreement was signed in the month of January 2019, in order to grant exclusive commercial distribution right to the private pharmaceutical market, of all of its current and future products; of own manufacture or of third parties, of national or imported manufacture, with own or generic brands, of all its lines.

NOTE 24 – TRANSFER PRICING

The Ecuadorian Government through Executive Decree No. 2430, published in the Supplement to Official Gazette No. 494, of December 31, 2004, established that the companies that conduct transactions with related parties domiciled abroad will submit to the Internal Revenue Service (SRI in Spanish) Annex and Transfer Pricing study concerning transactions with foreign related parties.

The Tax Administration through legal Resolution No. DGERCGC15-0000455 May 25, 2015 changed the scope for reporting, also including local transactions with related parties and amounts for the fiscal year ended as of December 31, 2012. In accordance with current tax regulations regarding compliance of transfer prices are as follows:

a) Transfer Pricing Comprehensive Report

Companies performing operations or transactions with one company for more than US$15,000,000 (are required to submit a comprehensive report on transfer pricing).

b) Transfer Pricing Annex

Companies performing operations or transactions with a single company between US$3,000,000 to US $ 14,999,999 are required to submit further information of Transfer Pricing in an Annex established by the IRS (SRI in Spanish)

The companies engaged in transactions or operations (purchases and / or sales) exceeding 50% of total transactions are considered related for tax purposes regardless of the contractual aspects or legal ties parts.

At the issuance date of these financial statements related party transactions do not exceed the limits for the submission of supplementary information of transfer pricing.

NOTE 25 - SUBSEQUENT EVENTS

Between March 31, 2020 and the date of issuance of these financial statements, May 22, 2020, no events occurred which, in the opinion of the company's administration, could have a significant effect on those financial statements that have not been Revealed in them or in their notes.

Douglas Cadena Country Manager	Silvia Moreno General Accountant	Alex Hernández Financial Controller