Glenmark Pharmaceuticals Ecuador S.A.

Financial Statements with the Independent Auditor´s Report

At March 31, 2024

Glenmark Pharmaceuticals Ecuador S.A.

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Abbreviations used:

US$ - United States of America Dollars

IRS - Internal Revenue Service

VAT - Value Added Tax

RUC - Unique Record of Taxpayers

EISS - Ecuadorian Institute of Social Service

IFRS - International Financial Reporting Standard

IAS - International Accounting Standard

IIASB - Interpretation of International Accounting Standards Board

NRV - Net Realizable Value

ISD - Tax Remittance

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Independent Auditor's Report

To Shareholders
Glenmark Pharmaceuticals Ecuador S.A.

Report on the Financial Statements

We have audited the financial statements of **Glenmark Pharmaceuticals Ecuador S.A.** (a company incorporated in Ecuador), which comprise the statement of financial position as at March 31, 2024, and the statement of comprehensive operations, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Glenmark Pharmaceuticals Ecuador S.A.** as of March 31, 2024; its financial performance, changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRs) and disclosure guidelines for consolidating the financial statements of the parent company.

Emphasis - Accounting Basis

The attached financial statements are presented in accordance with the parent company's accounting policies and are only presented for the purposes of consolidating its financial statements; These policies, as explained in Note 2 (b), differ in the accounting in the treatment of actuarial gains or losses from the calculation of provisions for Employer Retirement and Severance Pay, which must be presented in shareholders' equity with Other Comprehensive Income - ORI and not net of the respective liability.

Basis for opinion

We conducted our audit in accordance with the 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.

Matter of emphasis

As described in note 1 c) to the financial statements, the Company as of March 31, 2024, generated a loss of US$873,781, which with those generated in previous years amounted to US$3,105,566, which represents 87% of the share capital. This situation has occurred since the Company has not been able to generate the necessary income to achieve break-even and absorb the losses that were generated in previous years. The Company believes that these negative results will be overcome in the coming years, since the introduction of new products and the main Distributor are expected to generate new sales agreements and therefore greater income. Headquarters has expressed its support to continue operations if required. The Company's financial statements have been prepared on a going concern basis of accounting and should be read taking these circumstances into consideration.

Other information is presented in addition to the separated financial statements.

Management Company's is responsible for the preparation of the other information included in the "Annual Report of the Management to the Headquarters for the Consolidation of the financial statements and report to the Shareholders" which does not include the complete report of the financial statements and our auditor's report. This information is expected to be made available to us after the date of this report.

Our opinion on the financial statements of **Glenmark Pharmaceuticals Ecuador S.A.** does not cover other additional information and we will not express any form of assurance or conclusion regarding it.

In relation with the 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.

Responsibilities of Management Those Charged with Governance 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 objectives are to obtain reasonable assurance about whether the financial statements 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 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 are 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 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.

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- 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.

This report is solely for the use of the Head Office Management and should not be distributed to third parties and the financial statements and notes have been initialed by us at the request of the Head Office and this information is the responsibility of the Management of **Glenmark Pharmaceuticals Ecuador S.A.**

Quito, April 30, 2024

Russell Bedford Ecuador

RUSSELL BEDFORD ECUADOR S.A.
R.N.A.E. No. 337

GLENMARK PHARMACEUTICALS ECUADOR S.A.

Statement of Financial Position
As of March 31,2024, with comparative figures of March 31, 2023
(Expressed in United States Dollars)

	Note	March 2024	March 2023
Assets			
Current assets			
Inventories	8	924,696	530,035
Trade receivables	9	364,110	217,722
Other short-term financial assets	10	334,003	330,671
Cash and cash equivalents	11	1,393,194	1,728,969
Total current assets		**3,016,003**	**2,807,397**
Non current assets			
Property, plant and equipment	12	35,683	52,816
Other Intangible Assets		2,283	2,899
Right to use asset	13	194,079	237,173
Deferred tax assets	21	68,507	270,860
Total non- current assets		**300,552**	**563,748**
Total assets		**3,316,555**	**3,371,145**
Liabilities			
Current liabilities			
Trade payables	15	2,311,046	1,319,394
Other current liabilities	14	9,120	9,581
Short-term financial liabilities	16	93,782	108,193
Current tax liabilities		30,880	174,153
Total current liabilities		**2,444,828**	**1,611,321**
Non-current liabilities			
Lease liability - non current	13	220,610	265,005
Other liabilities	17	180,326	150,247
Total non-current liabilities		**400,936**	**415,252**
Total liabilities		**2,845,764**	**2,026,573**
Equity			
Equity attributable to owners of the parent:			
Share capital	18	3,576,357	2,839,600
Contributions for future capitalizations	15	-	736,757
Accumulated deficits	18	(3,105,566)	(2,231,785)
Total Equity		**470,791**	**1,344,572**
Total equity and liabilities		**3,316,555**	**3,371,145**

Douglas Cadena	Silvia Moreno	Alex Hernández
Special Attorney	Accountant	Financial Controller

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

RUSSELL BEDFORD ECUADOR S.A.
R.U.C.: 1790676188001

GLENMARK PHARMACEUTICALS ECUADOR S.A.

Statement of Comprehensive Income
For the year ended March 31, 2024, with comparative figures year ended March 31, 2023
(Expressed in United States Dollars)

	Note	March 2024	March 2023
Income			
Income from operations	19	3,256,901	3,889,663
Other income		95,093	142,822
Total net income		**3,351,994**	**4,032,485**
Costs and expenses			
Materials consumed:			
Changes in inventories of finished goods and work-in-process	19	(394,661)	(58,371)
Purchase of products for sale	19	2,236,942	1,170,217
Employee benefit expenses	20	946,034	1,012,742
Depreciation, amortisation and impairment of non-financial assets	20	102,533	107,598
Other expenses	20	1,176,560	1,561,806
Total costs and expenses		**4,067,408**	**3,793,992**
(Loss) Profit before tax		**(715,414)**	**238,493**
Income tax	21	(158,367)	(509,247)
Loss after tax from continuing operations		**(873,781)**	**(270,754)**
Other comprehensive income:			
Actuarial gain (loss) on employer retirement and severance pay		15,577	58,192
Comprehensive loss		**(858,204)**	**(212,562)**

Douglas Cadena Special Attorney	Silvia Moreno Accountant	Alex Hernández Financial Controller

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GLENMARK PHARMACEUTICALS ECUADOR S.A.

Statement of Changes in Shareholders' Equity
For the year ended March 31, 2024, with comparatives figures year ended March 31, 2023
(Expressed in United States Dollars)

	Share Capital	Contributions for future capitalizations	Retained earnings	Total equity
Balance as at March 31, 2022	**2,839,600**	**736,757**	**(1,961,031)**	**1,615,326**
Loss of the period	-	-	(270,754)	(270,754)
Balance as at March 31, 2023	**2,839,600**	**736,757**	**(2,231,785)**	**1,344,572**
Capital increase	736,757	(736,757)		-
Loss of the period	-	-	(873,781)	(873,781)
Balance as at March 31, 2024	**3,576,357**	**-**	**(3,105,566)**	**470,791**

Douglas Cadena
Special Attorney

Silvia Moreno
Accountant

Alex Hernández
Financial Controller

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

RUSSELL BEDFORD ECUADOR S.A.
R.U.C.: 1790676188001

GLENMARK PHARMACEUTICALS ECUADOR S.A.

Statement of Cash Flows
For the year ended March 31, 2024, with comparative figures year ended March 31, 2023
(Expressed in United States Dollars)

	March 2024	March 2023
Cash flow from operating activities		
Profit (loss) before tax	**(715,414)**	**238,493**
Adjustments for non cash items:		
Amortization	4,277	1,964
Inventory obsolescence	89,382	276,662
Depreciation	17,134	21,560
Depreciation Right to use asset	81,122	84,074
Interest expenses - Rigth to use asset	11,701	14,426
Cash flows from operations before changes in working capital	**(511,798)**	**637,179**
Changes in operating assets and liabilities		
Inventory	(484,043)	(335,033)
Trade receivables and unbilled revenue	(146,388)	18,947
Intercompany movement- trade payables	1,182,343	(296,045)
Other current assets	(3,332)	17,085
Interest expenses - Rigth to use asset	(11,701)	(14,426)
Non current liabilities, trade payables and other current liabilities	(321,921)	52,499
Lease Liability	(44,395)	(115,755)
Other liablities	9,122	9,580
Taxes paid	-	(111,779)
Net cash (used) generated from operating activities	**(332,113)**	**(137,748)**
Cash flow from investing activities		
Purchase of other intangible assets	(3,662)	(3,308)
Net cash used in investing activities	**(3,662)**	**(3,308)**
Net change in cash and cash equivalents from continuing operations	**(335,775)**	**(141,056)**
Net change in cash and cash equivalents	**(335,775)**	**(141,056)**
Cash and cash equivalents at the beginning of the year	**1,728,969**	**1,870,025**
Cash and cash equivalents at the end of the year	**1,393,194**	**1,728,969**

Douglas Cadena Special Attorney	Silvia Moreno Accountant	Alex Hernández Financial Controller

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

RUSSELL BEDFORD ECUADOR S.A.
R.U.C.: 1790676188001

NOTE 1 – OPERATIONS

a) Corporate Purpose

"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) Global economic aspects

The global economy in 2023 presents a contraction, due to the fact that economic growth is divergent, and, in few countries, which has generated an increase in inequalities and greater financial concentration in certain markets and the increase in excessive debt of a countless number of countries and in many countries, there is no capacity to pay or financial maneuver. The significant increase in interest rates is affecting growth; by it has been an alternative to combat inflation levels.

The Ecuadorian economy had a recovery in 2022, however, in 2023 it presented a recession due to structural weaknesses due to dependence on oil exports, reduced tax collection, lack of macroeconomic alternatives, limited access to capital markets, the lack of dynamism of the private sector, high informality, and large gaps in access to public services. These factors have generated a recession, because structural challenges have been aggravated by an increase in political uncertainty, which led to the advancement of presidential and legislative elections, and by insecurity caused by international crime.

The reduction in income and the increase in current expenditure have generated a fiscal deficit, which has generated a delay in payments to suppliers; However, due to this situation, income from migrants' remittances has increased, as have the exports of products, such as bananas, coffee, cocoa, and despite the drop in shrimp exports. This situation has resulted in a reduction in infrastructure works.

The Ecuadorian economy has several challenges to reactivate its economic dynamism in order to reduce social pressures for lack of employment, for which the current Government, as well as those elected within 18 months, must make decisions to: (a) encourage investment to strengthen economic development by facilitating new investments, especially in strategic sectors, including those related to digitalization and green technologies; (b) improve the system of social security, education and public health; (c) reduce the employment and other livelihood crisis; (d) eliminate illicit economic activities; (d) promote equality in the use of digital and electronic information systems; (e) guarantee legal certainty to maintain the sustainability of public finances; (f) control the deepening of geoeconomic fragmentation, geopolitical tension and inequality and social unrest; (g) make investments and changes that reduce climate change, (i) control prices due to the increase in the cost of raw materials and the elimination of subsidies.

These situations are constantly monitored by the Company and if necessary, measures are taken to mitigate any negative impact.

c) Operational aspects of the Company

Sales for the year that ended on March 31, 2024, did not have the expected increase, due to the economic instability in Ecuador generated as of July 2023 by the change of government due to the early presidential elections and the problems of the insecurity of narcopolitics, this situation plus the fiscal deficit contracted the health spending of the Ecuadorian public sector.

Due to the aforementioned, the Company could not balance costs and expenses, which caused it to generate a loss of US$873,781, which, added to the losses of previous years, amounted to US$3,105,566 which represents 87% of the paid capital.

The loss generated is also due to the increase in inventory costs and expenses, however, it is expected that sales for the year 2024-2025 will increase, because the main Distributor has signed several contracts with the Ecuadorian Government for the supply of medicines for public sector hospitals.

The Head Office has stated that if required, it will make the necessary contributions for the Company to continue as a going concern, since it has no intention of closing its operations in Ecuador; therefore, the financial statements have been prepared on the basis that it will continue as a going concern.

NOTE 2 – BASIS OF PRESENTATION

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

a) <u>Compliance declaration</u>

The financial statements of Glenmark Pharmaceuticals Ecuador S.A. are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the IASB (International Accounting Standard Board) and disclosure guidelines for consolidating the financial statements of the parent company.

The main accounting policies adopted by the Company in the preparation of the financial statements have been defined in accordance with IFRS and disclosure guidelines for consolidating the financial statements of the parent company in effect at March 31, 2023 and have been applied uniformly to all periods presented.

b) <u>Differences with IFRS</u>

The parent company's policies differ from the International Financial Reporting Standards -IFRS in the following aspects:

1. The Company records the variations resulting from the changes in the estimates of the actuarial calculation of the provisions for Employer Retirement and Eviction Bonus in the liability, the IFRS requires that these effects be presented in the equity accounts as Other Comprehensive Income. "OCI".

2. The Company records the deferred tax related to the tax benefit established in the tax provisions for the compensation of losses from previous years with future profits based on accounting losses in accordance with the accounting policy established by the Parent Company. The Company, by instructions from the Headquarters, as of March 31, 2024, adjusted the deferred tax asset in the results of the year ended March 31, 2024, because the benefit will be recognized on an annual basis in accordance with the results reported. register in the tax base. The aforementioned change according to the IFRs had to be adjusted with the results of previous years.

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 currency, except when there are balances or transactions in other currencies.

d) <u>Basis of measurement and use of estimates</u>

The financial statements have been prepared on the historical cost basis, except for allowances for impairment of trade accounts receivable and inventory impairment, which are based on management's estimates, and long-term labor liabilities, which 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.

The preparation of the financial statements in accordance with IFRS requires the use of accounting estimates and that Management exercises its judgment in the process of applying the Company's accounting policies. Note 4 discloses the areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the preparation of the financial statements. Due to the subjectivity inherent in this accounting process, actual results may differ from the amounts estimated by Management.

e) <u>Fair value measurement</u>

The Company for the measurement of the fair values of the accounts of the financial assets and liabilities and of the non-financial; and, from several 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 for 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) **<u>Market values:</u>** Quoted prices (unadjusted) in active markets for identical or similar assets or liabilities.

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

3) **<u>Information derived from use of financial techniques:</u>** applicable to asset and liability internal data and which does not come from values or information of the market.

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, therefore, the fair value measurement can be classified in the same hierarchy level of the fair value of the variable. the lowest level that is significant to the total measurement of assets and liabilities.

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

Additional information on the assumptions or facts to measure fair values is summarized in note 7.

f) <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 – ACCOUNTING POLICIES

The principal accounting policies by the Company for the year ended March 31, 2024; are as follows:

a) 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.

b) Financial instruments

A financial instrument is any agreement that creates a financial asset of the Company and a financial liability or equity instrument of another entity.

Financial assets and liabilities are recognized and classified in accordance with the characteristics of each financial instrument, as required by IFRS 9 “Financial Instruments.

<u>Financial assets</u>

Business model evaluation

Financial assets are instruments that generate cash flow for the Company; The recognition of financial assets is made based on an evaluation of the business model for asset management and the characteristics of the contractual cash flows of the financial asset.

The Company makes an objective evaluation of the business model in which a financial asset is held in its portfolio, which reflects the way the business is managed, and information is provided. The evaluation includes mainly the following aspects:

- the policies and objectives established for the operation of those policies in practice, including evaluating whether the strategy focuses on obtaining contractual interest income, maintaining an interest rate profile, the duration of financial assets and the scope of liabilities related; or realizing cash flows through the sale of the assets.

- evaluate the performance of the portfolio and report it to the Company's Management; and,
- the risks affecting the performance of the business model (and financial assets held within that business model) and how those risks are managed.
- how business managers are compensated (e.g., whether compensation is based on the fair value of assets under management or on contractual cash flows earned); and
- the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, in accordance with the Company's continuing recognition of the assets.

Recognition and initial measurement

Financial assets consist of available balances in banks and trade receivables, which are initially recognized when they are originated.

A financial asset (unless it is a trade debtor without a significant financing component) is initially measured at fair value plus, in the case of an item not measured at fair value through profit or loss, transaction costs directly attributable to its acquisition.

Trade receivables are initially recognized when they originate. A trade obligor without a significant financing component is initially measured at the transaction price. All other financial assets are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

The main financial asset of the Company constitutes the commercial debtors generated by the transactions carried out in the normal course of its operations and other accounts receivable, which constitute fixed and determinable payments, and do not have a stock market price, these assets constitute the main source of cash flows for the Company.

Subsequent measurement

After initial recognition, the Company records financial assets in accordance with IFRS 9 and classifies them as:

(i) amortized cost.
(ii) fair value with changes in other comprehensive income; and,
(iii) fair value with changes in profit and loss.

The classification in one of the categories 1is based on the business management model and the contractual characteristics of the cash flow of financial assets, which are recorded as described below:

- **Financial assets at amortized cost – accounts receivable and loans**

  The financial assets that are retained to generate the flow until their maturity date in accordance with its business model are recorded at amortized cost and are all the balances of trade debtors and other accounts receivable; whose contractual collection period does not exceed 90 days are recorded as financial assets at the value agreed on the transaction date.

Trade accounts receivable and other accounts receivable whose term is greater than 90 days and that does not generate any interest rate or when there are fixed interest rates that are not adjustable every 90 days, are calculated at the present value of the flows of the terms. established and the net interest of its implicit net value (amortized cost) is recognized as income for which it is calculated using the effective interest rate method.

The other non-trade accounts receivable that does not meet the characteristics of a financial instrument and whose terms are less than 90 days are recorded at amortized cost and when they exceed the aforementioned term, the amortized cost is calculated by the method mentioned in the previous paragraph.

The difference between the nominal value and the amortized cost is recognized by the accrual method based on the effective interest rate method over the term of the assets.

Accounts receivable balances whose contractual collection term is 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.

- **Financial assets at fair value with changes in other comprehensive income “ORI”**

Financial assets with changes in the “ORI” mainly constitute equity instruments whose intention and financial capacity is to hold them until they expire, and their cash flows correspond to the recovery of capital and its returns; they are adjusted to fair value and their effect is recognized in equity as part of the “ORI” until their realization or sale.

Income from interest or dividends is recognized in income and when there is a permanent impairment, the loss is recognized in the year in which this variation occurs.

Dividends received which clearly represent a recovery of investment (when the value exceeds the book equity to "VPP") these are reduced book value.

- **Financial assets at fair value through profit or loss**

Financial assets at fair value are assets in which there is an intention to trade or recover liquidity and do not have a classification at amortized cost or financial assets at fair value with changes in the “ORI”; you updated fair values and setting the update is recognized in the income statement in the period in which the change originates.

Interest and discounts that generate such financial assets are accounted for as described in incomes policy.

Changes in the categories are recorded at the time when there is a final change decision in the financial instrument’s management model.

<u>Financial liabilities</u>

Recognition and initial measurement

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

Financial liabilities constitute accounts payable with trade creditors and other accounts payable, which meet the characteristics of a financial instrument, which correspond to the value agreed for the transactions for goods or services acquired in the normal course of business that are pending payment. 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 one year.

Subsequent measurement

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

Liabilities at fair value

Liabilities at fair value are all those obligations whose terms are less than 90 days and do not earn interest and those that earn interest, and their interest rates are readjustable at market rates every 90 days.

Financial liabilities at fair value are adjusted subsequently, which together with interest are recorded in the results of the period.

Liabilities at amortized cost

Financial liabilities at amortized cost (accounts payable) mainly correspond to:

a) Accounts payable at fixed interest rates and which do not contemplate any periodic readjustment.
b) Accounts payable whose payment terms are greater than 90 days and do not include any interest rate.

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

The difference between the nominal value and the amortized cost is recognized in income using the interest method; while the gains or losses on the settlement of financial liabilities are recognized in income when the liabilities are settled or written off.

Derecognition of financial instruments

A financial asset is written off when:

(i) the rights to receive the cash flows from the asset have ended.
(ii) the Company transfers its rights to receive the cash flows from the asset or has assumed an obligation to pay all the 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.

A financial liability is written off when:

a) the payment obligation is terminated, canceled or expires; and,

b) when an existing financial liability is replaced by another of the same borrower under significantly different conditions, or the conditions are significantly modified, such replacement or modification is treated as a write-off of the original liability and the recognition of a new liability, recognizing the difference between the two in the results of the period.

Financial instruments compensation

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

c) Allowance for expected credit losses ECL on financial assets

The Company recognizes a allowance for ECL for all financial assets measured at amortized cost.

The provision for expected credit losses is determined between the difference in the contractual cash flows according to the agreements with the clients and all the cash flows that the Company expects to receive. Expected cash flows include cash flows from the sale or recovery of securities for guarantees provided by customers or other credit enhancements that are an integral part of the contractual terms.

In the evaluation of the increase in the credit risk of a financial asset, it is carried out from the initial recognition and when estimating the expected credit losses, the Company considers reasonable and sustainable information that is relevant and is available without undue cost or effort.

The Company considers that a financial asset is impaired when certain internal information indicates that it is unlikely that the Company will receive the contractual values pending collection; when:

- It is unlikely that the borrower will pay its credit obligations in full to the Company, without the Company having to act, such as foreclosure of the guarantee (if any).

- The financial asset is past due by 90 days or more.

Expected credit losses are recognized over the life of financial assets and result from all possible events of default during the expected life of a financial instrument.

Expected credit losses are recognized according to two approaches:

- General approach applied to all financial assets except trade accounts receivable and contractual assets.

- A simplified approach was applied for trade receivables and contract assets.

General Approach

Expected credit losses are recognized in two stages: (a) In credit exposures in which there has not been a significant increase in credit risk since the beginning, expected credit losses are recognized on events of default or default that may be possible within the next 12 months; (b) In credit exposures in which there is a significant increase in credit risk from initial recognition, an impairment provision is required for expected credit losses over the remaining life of the financial asset.

The 12-month expected credit losses are the portion of the lifetime expected credit losses that arise from default events on a financial instrument that are possibly within 12 months after the reporting date (or a lower period if the instrument has a life of less than 12 months).

The maximum period considered when estimating ECL is the maximum contractual period during which the Company is exposed to credit risk.

Simplified approach

For trade receivables and contract assets that do not have a significant financing component, the Company applies the calculation of expected credit losses. Therefore, the Company does not track changes in credit risk, but rather recognizes a provision for expected credit losses over the entire life of the financial asset at each reporting date. The Company has developed a provision matrix that is based on its history of credit loss experience.

d) Inventories

Inventories are measured at cost or net realizable value - NVR, whichever is lower.

The cost of inventories includes disbursements in the acquisition of inventories and other costs incurred in transporting them to their current location and conditions and is recognized using the weighted average method.

The cost of inventories and goods sold is determined using the weighted average method.

The net realizable value (NRV) is determined based on the sales price in the ordinary course of business, less estimated completion and sale costs and the adjustment is recognized in the results of the period.

The Company makes a provision for slow-moving inventories in which the VNR cannot be reasonably estimated, which is made based on historical experience and age of the products.

Additionally, the Company's Administration establishes a provision charged to the results of the year to cover losses due to inventories in poor condition, obsolete or not suitable for use or marketing called VNR - Provision for obsolescence, it also includes excess inventory that It will not be carried out in subsequent years.

Imports in transit are presented at invoice cost plus other charges related to the import.

e) Furniture and equipment

Furniture and equipment are carried at historical cost, less accumulated depreciation, and impairment losses, in case of occurrence.

Measurement and recognition

Cost includes the disbursements directly attributable to the acquisition or construction of the asset. Disbursements after 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

Expenditures made for repairs and maintenance are charged to expense as incurred. Expenses for major repairs and maintenance that occur periodically and are necessary for the asset to generate future economic benefits are expensed as incurred.

Only those disbursements incurred that increase the useful life or its economic capacity will be capitalized; these are assimilated as part of the component and will be depreciated from the date of acquisition to the useful life of the main component, such as expansion, modernization, improvement, and renovation costs. that increase the useful life of the asset, are capitalized only if it is probable that future economic benefits will be derived from them for the Company and their cost can be estimated reliably.

Depreciation method

Depreciation of furniture and equipment is calculated based on the cost of the asset, from the date on which they are installed and ready for use or, in the case of internally constructed assets, from the date on which the asset is complete and in good condition. to be used.

The Company estimates that at the end of the estimated useful life of the facilities, furniture and equipment, they will not have a significant salvage value, so it is not considered to establish a residual value.

Improvements and facilities on leased assets are depreciated over the shorter period between the lease and their useful lives, unless it is reasonably certain that the Company will obtain ownership at the end of the lease period.

Depreciation of facilities, furniture and equipment is recognized in income and is calculated using the straight-line method based on the estimated useful lives, which are as follows:

Assets	**Estimated useful life**
Furniture and office equipment	10 years
Facilities	10 years
Computer equipment	3 years

The depreciation method estimates of useful lives and adjustments for impairment of facilities, furniture and equipment are reviewed and adjusted annually as of 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.

f) Leases

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 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

Upon initiation or modification of a contract that has a lease component, the Company allocates the consideration in the contract to each lease component based on their relative stand-alone prices. However, for property leases, the Company has chosen not to separate the non-lease components and to account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability on the start date of the lease contract.

The right-of-use asset is initially measured at the present value of total cost, which comprises the initial amount of the lease liability adjusted for any lease payments made on or before the start date, plus initial direct costs incurred and a estimate of the costs to decommission and dispose of the underlying asset or to refurbish the underlying asset or the site on which it is located, less any lease incentives received. The present value of the right of use is calculated at the interest rate of the Company's liabilities or at the incremental market rate of the type of leased assets.

The right-of-use asset is amortized using the straight-line method from the start date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company at the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option.

The right-of-use asset is reduced periodically by amortization and impairment losses, if applicable, and is adjusted for changes in lease obligations.

(ii) Lease liabilities

The Company recognizes the liability of the lease contracts on their start date, measuring the present value of the respective payments (future flows).

The lease liability is initially measured at the present value of the total lease payments agreed upon at the start date, discounted using the interest rate implicit in the lease or, if that rate cannot be easily determined, the incremental borrowing rate of the Company or reports from the Central Bank of Ecuador.

The lease payments included in the measurement of the lease liability include the following:

- Fixed payments, including fixed payments in substance
- Variable lease payments that depend on an index or rate, initially measured using the index or rate on the start date.
- Amounts expected to be paid under a residual value guarantee; and
- The exercise price under a purchase option that the Company is reasonably sure of exercising and the penalties for early termination of a lease unless the Company is reasonably sure of not terminating early.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount it is expected to pay under a residual value guarantee , if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised fixed lease payment in substance.

When the lease liability is remeasured, an adjustment is made corresponding to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(B) <u>Short-term leases and low-value asset leases</u>

The Company applies the short-term lease recognition exemption to its short-term equipment leases (i.e., 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 short-term leases and leases of low value assets are recognized as expenses on a straight-line basis over the lease term.

(C) Financial lease

Leases in which substantially all the risks and rewards related to ownership of the leased item are transferred, the Company capitalizes at the beginning of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments of the property.

Lease payments are allocated between finance expenses and the reduction of lease debt to achieve a constant interest rate on the remaining liability balance. Financial expenses are recognized in financial expense in the statement of profit or loss and other comprehensive income.

A leased asset depreciates over the asset's useful life. However, if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term, the lease is accounted for as mentioned in paragraph (a).

g) Impairment in the value of long-lived assets

Long-lived assets correspond to furniture and equipment, intangibles-leased premises and rights of use lease agreements, which are reviewed if there is an impairment at the closing of the financial statements, when there are events or changes in circumstances that indicate that the book value is higher than the value that will be obtained from the sale or use of the assets.

Impairment loss on long-lived non-financial assets is recognized when the recoverable value of the assets is less than the book value of the assets. The recoverable value of the assets corresponds to the greater of the net amount that would be obtained from their sale or their value in use. For the purposes of assessing impairment, assets are grouped at the smallest levels at which identifiable cash flows are generated (cash generating units).

In the case of intangible assets with indefinite useful lives, they are subjected to impairment tests annually.

The Company annually evaluates the existence of indicators of impairment on its non-financial assets.

When assessing value in use, future cash flows are discounted to their current value using a discount rate that reflects the weighted average cost of capital calculated according to the risk associated with the country in which the Company operates.

In the event that the recoverable value of an asset (or a cash-generating unit) is less than its carrying value of the asset (or the cash-generating unit), it is reduced to its recoverable value, and an impairment loss is recognized in the income statement.

The basis for future depreciation or amortization of impaired assets must take into account the reduction in the value of the asset as a result of accumulated impairment losses.

When an impairment loss must be subsequently reversed, the carrying value of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable value and the carrying value does not exceed the carrying value when determined the impairment loss for the asset (or the cash-generating unit) in previous years. If applicable, the reversal of an impairment loss is recognized in the statement of comprehensive income.

Impaired non-financial assets are reviewed for possible impairment reversal in each reporting period.

The discount rates used are determined before taxes and are adjusted for country risk and corresponding business risk.

h) Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and revenue can be measured reliably, regardless of when payment is received. Revenues are measured at the fair value of the consideration received or receivable, considering contractually defined payment terms and not including taxes or fees. The main source of the Company's operations are all its revenue agreements, as it is the main obligor in all revenue agreements, it has pricing freedom and is also exposed to risks.

The criteria for revenue recognition are described below:

Selling products

Revenues from the sale of its ordinary activities are recognized at the fair value of the consideration received or receivable, net of returns, discounts, credits, and rebates. Revenue is recognized when there is evidence that the risk and the significant benefits of ownership have been transferred to the buyer, is likely recovery of the agreed value, the associated costs and possible returns of goods sold, and the amount of revenue can be measured reliably.

Discounts and bonuses

Discounts and other sales expenses are measured based on trade agreements are recognized as a reduction of revenue at the time of the agreement with customers.

Bonuses

The company gives bonuses product to their customers, which are recognized as revenue when sales are recognized, together with the respective cost of this benefit granted to customers.

Provisions for expiration

The company makes a provision for possible returns of products sold due to the expiration of the products. The increase in the provision is recorded in the results of the year based on historical volumes of returns from previous years and reduced by customer returns.

i) Obligations for post-employment benefits

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

Short-term benefits

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

In addition to the, current labor regulations establish that employees and workers are entitled to a 15% participation in the profits of the year, this provision is recorded with a charge to the results of the year in which it is accrued.

Defined Benefit plans

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

i. Employer’s 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 wages in force at the time of retirement.

The company establishes reserves for these benefits based on actuarial studies conducted by a specialized company. The actuarial method used by the specialist for the calculation is the "projected unit cost of credit" and the provisions are calculated based on the employee's compensation and other parameters established in the Labor Code.

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

The increase in labor cost and interest on these provisions are recorded in the results of the year and the effect of changes in estimates at the level of reserves is derived from the effects of changes in assumptions and the interest rate is recorded in liability net of provision and payments are reduced from the provision, except in the employer retirement provision for those employees whose seniority is less than 20 years of service, which is affected in Other Comprehensive Income – " ORI" when turnover levels are less than 20% and when this variation is exceeded, it is recognized in the results of the year.

Severance pays

Early termination benefits arise at the time 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 this is not caused by the events and in cases of accident the benefits established in the labor laws for early termination are recorded in the results at the time they are incurred.

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 reliably estimated.

The amounts recognized as a provision are the Company's best estimate, at the closing date of the financial statements, of the disbursements required to settle the obligation.

Long-term provisions are determined by discounting expected future cash flows at a market interest rate related to the time value of money. The updating 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 current and deferred tax in accordance with the tax laws in force in the Republic of Ecuador.

Current income tax

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

Deferred income tax

Deferred income tax is recognized using the asset and liability method arising from temporary differences between the carrying amounts of assets and liabilities in the financial statements under IFRSs and the tax base at the end of the reporting period.

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 recorded in accordance with disclosure guidelines for consolidating the financial statements of the parent company, is reviewed at the closing of the financial statements about which it is reported and is reduced 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 tax laws in force.

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 relate to the same taxable entity and tax jurisdiction.

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

Tax Exposition

In determining current tax and deferred tax amounts the Company considers the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that the accrual of its tax liabilities is appropriate for all open tax years based on its evaluation of many factors, including interpretations of tax law and experience. This assessment depends on estimates and assumptions and may involve a few judgments about future events.

New information may arise that would cause the Company to change its judgment regarding the appropriateness of current tax liabilities; such changes in fiscal liabilities will impact fiscal expenditure in the period in which they are determined.

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 not attributable to the construction of an asset that necessarily require a substantial period of time to use are recognized as expenses using the accrual method.

Those interests on loans obtained for the construction of assets for their use are capitalized until the date their assembly or construction is completed.

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

The policies established by the Company note 3 and according to IFRS require 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 the 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 an annual review of the value of financial assets and assesses whether there are risks of recovery of these assets and based on this analysis a provision for impairment is made.

  The Company believes that the amount of the provision at the date of preparation of the financial statements for the financial assets is reasonable.

- **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 slow-moving inventories 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 inventories is reasonable.

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

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

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

- **Contract lease period with options for renewal and termination as lessor**

  The Company determines the lease period by taking into account the non-cancelable lease period together with any period covered by the renewal option if it is reasonably certain that this period will be exercised, or any period covered by the termination option, if it is reasonably certain that this period is not exercised.

  The Company has several lease agreements that include renewal and termination options. The Company uses its judgment in evaluating whether it is reasonably certain to exercise the option to renew or terminate the lease, that is, it considers all relevant factors that create an economic incentive to exercise either renewal or termination.

After the contract's start date, the Company reassess the contract period if there is a significant event or change in circumstances under its control that affects its ability to exercise or not exercise the option to renew or terminate the contract.

- **Estimation of the rental discount rate**

  The Company cannot easily determine the implicit interest rate for the lease and therefore uses a discount rate to measure lease liabilities.

  The discount rate corresponds to the rate that the Company would have to pay to obtain the necessary funds to acquire an asset of similar value to the right of use asset in a similar economic environment. Determining this discount rate requires an estimate of when observable rates are not available or when it needs to be adjusted to reflect the terms and conditions of the lease.

  The Company estimates the discount rate using observable assumptions such as local market rates and is required to include certain assumptions specific to the Company such as the Company's credit rating.

- **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 is any indication that these assets have suffered an impairment loss. If there is any indication, an estimate of the recoverable amount of that asset, for which the cash flows are estimated (value in use) independently; therefore, 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 recognized with a charge to income and is reversed in the income statement when there is a change in 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) benefit levels 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 at the reporting date because of a past event.
  - When it is probable that economic resources or benefits will be required to settle the obligation; and,
  - The amount of the obligation can be reliably estimated.

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

- **Deferred income tax**

The Company has estimated its deferred taxes considering that all the differences between the book value and the tax base of the assets and liabilities will be reversed in the future.

The income tax rate used to determine deferred tax assets and liabilities is calculated by applying the income tax rate in effect on the closing date of the reporting period.

Deferred income tax assets should be recognized in the balance sheet, deferred income tax assets derived from unamortized tax losses, the accounting treatment of investments in development and long-term labor benefits. which need to be evaluated by management to define the probability that the Company can generate sufficient taxable profits in future years, in order to use the recognized deferred income tax assets.

The assumptions about the generation of future taxable profits depend on the estimates made by the Administration of the future cash flows, which are based on the projected cash flows from operations and the criteria on the application of existing tax laws. To the extent that future cash flows and taxable earnings differ significantly from estimates, the Company's ability to realize deferred assets net of reported income tax could be affected.

NOTE 5 – NEW ACCOUNTING STANDARDS AND INTERPRETATIONS IFRS

The following amendments to IFRSs are mandatory for the first time as of annual periods beginning on January 1, 2023:

New IFRS, amendments and interpretations	Effective date
• Classification of liabilities as current or non-current (Amendments to IAS 1)	January 1, 2023
• Amendments to IAS 1, IAS 8 and Statement of Practice No. 2 related to the guidance for disclosure and reporting of material accounting policies, the term "significant" is eliminated. • Amendment to IAS 8 incorporates the definition of accounting estimates. accounting • Amendment to IAS 12 - Recognition of deferred taxes related to assets and Liabilities arising from assets and liabilities arising from a single transaction.	January 1, 2023
• Application of IFRS 17 Insurance Contracts and IFRS 9 Modification to comparative Information that modifies IFRS 17 applies to insurance contracts issued by a Company.	January 1, 2023
• Amendments to IFRS 10 and IAS 28 Related to the Sale or contribution of assets between an investor and its associate or joint venture.	Date of Adoption Still is not defined
• IAS Amendments 12 - International tax reform - rules second pillar model	**(A)**

(A) The IASB issued the Amendment to IAS 12 in May 2023 - Second Pillar Model Rules. The amendments to IAS 12 introduce:

- A mandatory temporary exception to the accounting of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly prior to its effective date.

The temporary exception applies immediately upon issuance of the Amendments and retrospectively in accordance with IAS 8. An entity must disclose that it has applied the exception.

The remaining disclosure requirements apply to annual reporting periods beginning on or after January 1, 2023.

Standards applicable as of 2024

The following standards or amendments to IFRS are mandatory for the first time starting with the annual periods beginning on January 1, 2024:

New IFRS, amendments and interpretations	Effective date
• Amendments to IFRS 16 - Lease liabilities as a Sale and Subsequent Lease	of January 1, 2024
• Amendments to IAS 1 - Classification of Liabilities as Current or Non-Current (including the IAS 1 Amendment – Classification of Liabilities as Current or Non-Current – issued July 2020)	**(B)**
• Amendments to IAS 1 - Non-current liabilities with commitments	**(B)**
• Amendments to IAS 7 and IFRS 7 - Financing Arrangements suppliers	of 1 January 2024
• Amendments to IAS 21 - Lack of interchangeability	January 1, 2024
• IFRS S1 General disclosure requirements on sustainability related to Financial Reporting	January 1, 2024 **(C)**
• IFRS S2 Climate-related Disclosures	**(C)**

(B) In October 2022, the IASB issued an Amendment to IAS 1 - Non-current Liabilities with Commitments to specify the requirements for classifying liabilities as current or non-current, which deferred the effective date of the Amendments to the IAS 1 - Classification of Liabilities as Current or Non-Current as of January 1, 2023. If an entity applies Modifications to IAS 1 - Classification of Liabilities as Current or Non-Current for a previous period, it must also apply the Modification to IAS 1 - Non-Current Liabilities with Commitments, for that period, and vice versa.

(C) IFRS S1 establishes general requirements regarding sustainability issues that companies must periodically disclose, among which are the type of corporate governance structure, the identification, evaluation and monitoring of risks related to climate or society; the way in which they manage and mitigate those risks, their strategy and as a company to address significant risks and opportunities related to sustainability; and, their metrics and objectives, that is, the commitments they have to combat climate change, the measurements they make in this regard and the actions with which they plan to meet their goals.

IFRS S2 specifically focuses on the issue of climate and the disclosures that companies must make, specifically, regarding their environmental impact; among which are the measurement of greenhouse gases.

If a Company applies early, it must apply this rule jointly.

The Company estimates that the adoption of the new standards, amendments to IFRS and the new interpretations described above will not have a significant impact on the financial statements in the year of initial application, since most of these standards are not applicable to its operations.

NOTE 6 – FINANCIAL INSTRUMENTS

The balances at March 31, 2024, and 2023 of financial assets and liabilities correspond to current amounts of less than one year and their fair values are as follows:

	Reasonable value		Value in books	
	March 2024	March 2023	March 2024	March 2023
Financial assets:				
Cash and cash equivalents	1,393,194	1,728,969	1,393,194	1,728,969
Local costumers	362,548	217,621	364,110	217,722
Financial liabilities:				
Suppliers account payable	38,553	84,279	38,568	84,641
Related accounts payable	1,907,239	1,170,089	1,992,932	919,247

Significant accounting policies of the method adopted and the recognition criteria 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 - b).

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 2 - d) Summary of significant 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 involves 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 fair values:

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

  Financial assets and liabilities that are 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, are deemed to have a carrying value similar to fair value.

- Fixed rate financial instruments

  The fair value of financial assets and liabilities at fixed rates and at amortized cost is determined by comparing the market interest rates at 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 market, 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 Company's results. The process of evaluating and controlling business risks is critical for profitability and the Company is responsible for risk exposures. The risk control process does not include business risks such as changes in environment, technology, and industry.

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

(i) Shareholders – Head office

The shareholders - headquarters are responsible for the general approach to risk management, provide the principles for risk management, as well as the policies developed for specific areas, such as exchange rate risks, interest rate risk, credit risk 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 developed 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 management of the Company's cash flow based on the policies, procedures and limits established by the shareholders, directors, and the Company's management, including the monitoring of such procedures to improve the Company's risk management.

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

These risks are market risk (currency and interest rate variation) and credit risk. The main objective is to supervise and maintain 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 sales generated in the period and for which it is possible that they will remain unpaid, 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 different scenarios and identifies different strategies to manage exposures resulting from changes in interest rates, foreign currency, capital risk and credit risk.

The Administration reviews and evaluates policy changes for the management of such risks, which are summarized below:

Market Risk

Market risk is the probability of variations in the price of a certain asset or assets in an organization that have a common characteristic: the possibility that the Company suffers losses as a result of market variations, derived from the assets it owns. The most common include:

- Risk that the interest rates of your investments or debts suffer downward or upward variations, respectively.
- Risk that the Company's market position deteriorates as a result of its own operation or that of third parties, as well as economic conditions.
- Risk that inventories, which directly affect the Company's operation, suffer adverse variations in their prices.
- Risk that currencies other than the Company's operating currency suffer adverse variations in their prices.

Among the most common mechanisms for mitigating these risks is the diversification of assets and liabilities, as well as the operation with financial derivatives that transfer the risk to third parties.

The Company controls the market risk of the fair value of financial instruments due to changes in market prices, which depend on variations in interest rates, exchange rates and other price risks, among which is the risk of patrimony.

Interest rate risk

The interest rate risk allows evaluating and monitor 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 held by the company as of March 31, 2024, and 2023 do not accrue, do not generate interest, and are not exposed to this risk.

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 funds when they are withdrawn. The consequence would be the failure to pay its obligations to third parties.

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

Liquidity risk management involves maintaining enough cash and availability of financing, through an adequate amount of committed credit sources and the ability to settle mainly transactions 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 Company’s obligations at the balance sheet date and the amounts to be disbursed at maturity, based on the undiscounted payments to be made:

March 2024	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	1,393,194	-	-	-	-	1,393,194
Local costumers	362,548				1,562	364,110
Financial liabilities:						
Suppliers accounts payable	38,031	537	-	-	-	38,568
Related accounts payable	630,051	602,015	206,471	554,395	-	1,992,932

March 2023	Until 1 month	1 to 3 months	3 to 5 months	5 to 12 months	Total
Financial assets:					
Cash and cash equivalents	1,728,969	-	-	-	1,728,969
Local costumers	214,698	2,400	-	624	217,722
Financial liabilities:					
Suppliers accounts payable	82,191	2,450	-	-	84,641
Related accounts payable	413,546	233,832	142,880	128,989	919,247

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 Company’s ability to continue operating to continue to provide returns to shareholders and benefits to other stakeholders; and,

(ii) Maintain a strong capital base to support the development of its activities.

As of March 31, 2024, and 2023, there have been no changes in the activities and policies of capital management in the Company.

The Company's adjusted debt-to-equity ratio as of March 31, 2024, and 2023 is as follows:

	March 2024	March 2023
Total liabilities	2,845,764	2,026,573
Less: cash and cash equivalents	(1,393,194)	(1,728,969)
Net debt	1,452,570	297,604
Shareholder equity	470,791	1,344,572
Index of debt equity	3.09	0.22

Credit risk

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

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

Credit risk is managed according to the policies, procedures and controls established by the Company; credit risk is mainly affected by the individual characteristics of each client. However, management also considers factors that may affect the credit risk of its client base, including the default risk of the industry and country in which the client operates. Credit quality is assessed on an ongoing basis based on outstanding collections from customers and 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 granting loans to customers that 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 credit risk of customers is monitored according to the credit characteristics, type of customer (private and public sector), and the existence of prior financial difficulties in each of the sectors in which the customers operate. Based on the analysis available at the date of the financial statements, the Company has recognized losses due to impairment.

The Company establishes an estimate for value 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 their evaluation.

NOTE 8 - INVENTORY

The composition of the inventory items as of March 31, 2024, and 2023, are as follows:

	March 2024	March 2023
Pharmaceutical and dermatological products	777,089	668,971
Medical samples	5,052	69,041
Imports in transit	262,708	218,951
	1,044,849	956,963
Obsolescence provision	(120,153)	(426,928)
	924,696	530,035

The changes in the provision for obsolescence as of March 31, 2024, and 2023 are as follows:

	March 2024	March 2023
balance at beginning of period	(426,928)	(211,864)
provision of the year	(95,936)	(276,662)
inventory retirement	360,700	
Adjustments	42,011	61,598
balance at the end of the period	(120,153)	(426,928)

NOTE 9 – TRADE RECEIVABLES

As of March 31, 2024, and 2023 trade accounts receivable for US $364,110 and US $217,722 respectively, correspond to balances pending collection from local customers, for the commercialization of products.

A summary of the aging of trade accounts receivable as of March 31, 2024, and 2023 is as follows:

Category	March 2024	March 2023
Current	362,548	214,698
From 61 to 90 days	-	2,400
From 150 to 360 days	1,562	624
	364,110	217,722

NOTE 10 – OTHER SHORT-TERM FINANCIAL ASSETS

The balances as of March 31, 2024, and 2023 of the other short – term financial assets are as follows:

	March 2024	March 2023
Current taxes to recover (1)	281,421	288,325
Prepaid Expenses	13,059	1,800
Others (2)	39,523	40,546
	334,003	330,671

(1) As of March 31, 2024, corresponds mainly to the tax credit and withholdings at source with a balance of US$28,765 (US$29,644 in 2023) and US$241,574 (US$250,755 in 2023), respectively.

(2) It mainly corresponds to the advance paid to suppliers for the acquisition of a computer system for the development of their operations. In addition, the balance includes lease guarantees, which as of March 31, 2024, and 2023 is US$8,888

NOTE 11 - CASH AND CASH EQUIVALENTS

At March 31, 2024, and 2023 the composition of cash and cash equivalents are as follows:

	March 2024	March 2023
Cash in hand	1,000	1,000
Balances with banks (1)	1,392,194	1,727,969
	1,393,194	1,728,969

(1) At March 31, 2024, it corresponds to the available amount that the Company maintains in its checking accounts in banks domiciled in Ecuador. The rating category of the bank according to the publications required by the Superintendence of Banks is AAA-.

NOTE 12 – FURNITURE AND EQUIPMENT

The balances as of March 31, 2024, and 2023 of the Company's furniture and equipment are as follows:

	March 2024			March 2023		
	Cost	Accumulated Depreciation	Net block	Cost	Accumulated Depreciation	Net block
Facilities	21,853	(13,153)	8,700	21,853	(10,968)	10,885
Furniture and fixtures	76,577	(51,174)	25,403	76,577	(43,516)	33,061
Computer equipment	83,402	(81,822)	1,580	83,402	(74,532)	8,870
	181,832	(146,149)	35,683	181,832	(129,016)	52,816

The changes in furniture and equipment as of March 31, 2024, and 2023 are as follows:

	Facilities	Furniture and fixtures	Computer equipment	Total
Balance as of March 31, 2022, net of accumulated depreciation	13,071	40,720	20,585	74,376
Depreciation for the year	(2,186)	(7,659)	(11,715)	(21,560)
Balance as of March 31, 2023, net of accumulated depreciation	10,885	33,061	8,870	52,816
Depreciation for the year	(2,185)	(7,658)	(7,290)	(17,133)
Balance as of March 31, 2024, net of accumulated depreciation	8,700	25,403	1,580	35,683

NOTE 13 – LEASES

The Company has an office lease for its operations, which has a period of between 2 and 3 years, which establishes 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 the Company to maintain certain conditions relating to maintenance, condominium payments and others. Lease agreements include variable lease payments, which are discussed below.

	Right-of-use assets				
	Office	Parking lot	Technological equipments	Total	Obligation to pay
Balance as of March 31, 2022	278,885	46,879	28,931	354,695	380,760
Adjusment initial	(33,448)	-	-	(33,448)	(33,448)
Amortization and payments for the year	(56,183)	(9,067)	(18,824)	(84,074)	(82,307)
Balance as of March 31, 2023	189,254	37,812	10,107	237,173	265,005
Contract renewal addition	-	-	38,028	38,028	38,028
Amortization and payments for the year	(56,897)	(8,988)	(15,237)	(81,122)	(82,423)
Balance as of March 31, 2024	(42,797)	(6,827)	24,329	194,079	220,610

The Company recorded in March 2024 in income US$11,701 (US$14,426 in March 2023) corresponding to lease liability interest. The amount of lease payments made in March 2024 is US$76,299 (US$70,129 in March 2023).

A summary of the amortization of the rights of use and the payments of the obligations payable until the end of the leases are as follows:

Year	Lease payable	Amortization of right of use lease contracts	Lease payments
2024	46,078	38,223	55,590
2025	85,684	77,928	78,620
2026	88,848	77,928	78,620

NOTE 14 – OTHER CURRENT LIABILITIES

The balance at March 31, 2024, is comprised of US$9,120 (US$9,581 in 2023) corresponding to VAT on sales and withholdings at source.

NOTE 15 – TRADE AND RELATED ACCOUNTS PAYABLES

Balances as of March 31, 2024, and 2023, from trade and related - accounts payable suppliers are as follows:

		March 2024	March 2023
Sundry creditors		318,114	400,147
Related accounts	(1)	1,992,932	919,247
		2,311,046	1,319,394

(1) A detail of the balances as of March 31, 2024, and 2023 of related party's transactions are as follows:

	Relation	Transaction	March 2024	March 2023
Accounts payable:				
Glenmark Pharmaceuticals Ltda. - India	Group component	Inventory purchase	1,948,171	873,900
Glenmark Specialty S. A. - Suiza	Group component	Inventory purchase	44,761	45,347
			1,992,932	919,247
Contributions for future capitalizations				
Glenmark Pharmaceuticals Ltda. - India	Group component	Capital contribution	-	736,757

Transactions with related parties on March 31, 2024, and 2023 gave rise to the following amounts in the income statement and are as follows:

	Relation	Transaction	March 2024	March 2023
Purchases:				
Glenmark Pharmaceuticals Ltda. - India	Group component	Inventory purchase	5,799,960	1,025,206
Glenmark Farmaceutica Ltda. - Peru	Group component	Inventory purchase	31,165	-
Glenmark Generics S. A. - Argentina	Group component	Inventory purchase	171,475	2,939
Glenmark Specialty S. A. - Suiza	Group component	Inventory purchase	577,505	253,182
Glenmark Farmaceutica Ltda. - Brazil	Group component	Inventory purchase	677,725	21,683
			7,257,830	1,303,010

Amounts paid to key personnel of the Company and administrators on March 31, 2024, and 2023 were US$ and US$114,777 respectively, this value belongs to fees and other benefits.

NOTE 16 – SHORT-TERM FINANCIAL LIABILITIES

The balances as of March 31, 2024, and 2023 of the short – term financial liabilities are as follows:

	March 2024	March 2023
Provisions for social benefits	92,584	107,815
Credit Cards	1,198	378
	93,782	108,193

NOTE 17 – OTHER LIABILITIES

Balances as of March 31, 2024, and 2023, and from other liabilities are as follows:

	March 2024	March 2023
Employer retirement (1)	143,490	132,303
Severance pay (1)	62,884	59,569
Lost (Profit) recognized in the OCI	(26,048)	(41,625)
	180,326	150,247

(1) The Supreme Court of Justice, in a resolution published in Official Gazette No. 421 of 28 January 1983, confirmed that workers have the right to an employer's retirement as established in the Labor Code, without prejudice to that which corresponds to them under the Compulsory Social Security Act.

The Labor Code establishes that employees and workers who for twenty-five years or more have provided continuous or interrupted services have the right to be retired by their employers. Additionally, employees who, at the date of their dismissal, have completed twenty years or more and less than twenty-five years of continuous or interrupted work, are entitled to the proportional part of this benefit.

In addition, the Labor Code establishes that the Company has the obligation to grant its employees and workers at the termination of the employment relationship an eviction bonus equivalent to 25% of the last monthly remuneration for each of the years of services provided to the same company or employer.

The movement of the provisions for the Employer's Retirement and Eviction Bonus for the years ended March 31, 2024, and 2023, is as follows:

	Provision		
	Employer retirement	Severance pay	Total
Balance as of March 31, 2022	153,814	67,868	221,682
Increase in provision by:			
Labor cost	17,963	9,721	27,684
Financial cost	4,890	2,025	6,915
Actuarial loss	(44,364)	(13,828)	(58,192)
Benefits paid	-	(6,217)	(6,217)
Balance as of March 31, 2023	132,303	59,569	191,872
Increase in provision by:			
Labor cost	14,504	7,839	22,343
Financial cost	6,669	2,811	9,480
Actuarial gain	(9,986)	(5,591)	(15,577)
Benefits paid	-	(1,744)	(1,744)
Balance as of March 31, 2024	143,490	62,884	206,374

Labor and finance costs are accounted for in administrative and selling expenses and actuarial loss (gain) is accounted for in equity as other comprehensive "ORI" income.

The Company accrues these benefits based on annual studies prepared by a firm of consulting actuaries. As indicated in the actuarial studies, the actuarial method used is that of "projected unit credit costing" and the provisions of the plan consider the compensation of the employee and other parameters established in the Labor Code.

According to the actuarial studies contracted by the Company, the present value of the actuarial mathematical reserve of the employer's retirement as of March 31, 2024, and 2023, cover all employees and the summary is as follows:

	March 2024	March 2023
Present value of the actuarial mathematical reserve:		
Active employess with a length of service greater than 10 years	99,606	88,797
Active employess with a length of service of less than 10 years	43,884	43,506
	143,490	132,303

The liability corresponding to employees with more than 10 years constitutes the obligation assumed by the Company and who worked with the Headquarters before the start of the Company's operations.

The rates used for the determination of reserves as at 31 March 2024 and 2023 are as follows:

	March 2024	March 2023
Discount rate	5.05%	4.86%
Wage increase rate	2.00%	1.50%
Table of mortality and disability	IESS2002	IESS2002

The sensitivity analysis for changes in discount rate and wage increase rates is as follows:

	March 2024	March 2023
Discount rate		
OBD variation (discount rate + 0.5%)	195,750	204,917
OBD variation (discount rate - 0.5%)	(217,766)	(183,502)
Wagen increase rate		
OBD Change (wage increasae rate+ 0.5%)	216,711	184,278
OBD Change (wage increasae rate- 0.5%)	(196,609)	(203,950)
Rotation		
OBD variation (Rotation + 5%)	202,367	198,622
OBD variation (Rotation - 5%)	(210,506)	(189,324)

The Company controls this risk by updating the actuarial valuation each year, therefore, variations between the actuarial rates and assumptions used and the changes actually occurring are adjusted on an annual basis.

NOTE 18 - EQUITY

Capital stock

At March 31, 2024 the authorized, subscribed and paid common shares are US$3,576,357 (US$2,839,600 in 2023) shares of US$ 1 each.

Accumulated net deficits

The balance of this account corresponds to the accounting losses net of profits, which must be absorbed by the Company's shareholders or by future net profits.

Accounting losses differ from those declared in the tax reconciliation and mainly correspond to non-deductible expenses, which can be compensated within the five tax periods following the one in which the loss occurred, provided that the amount compensated does not exceed 25%. of the taxable income of the year in which the compensation is made.

In the case of termination - liquidation of the Company, before the end of the five-year period, the balance of uncompensated losses will not be deductible.

NOTE 19 – SALES AND COST SALES

The sales and costs of sales for the years ended March 31, 2024, and 2023, constitute transactions made to your distributor for the sale of the products marketed by the Company and whose detail is as follows:

	Sales		Cost of sales	
	March 2024	March 2023	March 2024	March 2023
Pharmaceutical line	5,354,565	6,019,578	1,750,167	967,306
Dermatological line	281,819	899,477	92,114	144,540
	5,636,384	6,919,055	1,842,281	1,111,846
Discounts	(364,064)	(372,290)		
Returns	(2,015,419)	(2,657,102)		
	3,256,901	3,889,663		

NOTE 20 – ADMINISTRATIVE AND SALES EXPENSES

A detail of administrative and sales expenses for year ended on March 31, 2024, and 2023, are as follows:

	March 2024	March 2023
Salaries and social benefits	849,284	920,328
Professional services	355,970	420,384
Marketing expenses	168,688	256,337
Other expenses	30,506	65,171
Transportation	146,044	149,207
Management expenses	86,459	71,840
Taxes and contributions	85,647	88,389
Inventory obsolescence	89,382	276,662
Insurance	55,443	43,938
Financial expenses	84,947	121,611
Basic services	27,212	27,498
Employer retirement and eviction	32,527	37,605
Professional fees	32,556	6,110
Travel expenses	54,512	56,768
Depreciation and amortization	102,533	107,598
IFRS16	11,701	14,426
IFRS 15	11,716	18,274
	2,225,127	2,682,146

NOTE 21 – INCOME TAX

As of March 31, 2024, and 2023, current and deferred income taxes for the year are as follows:

	March 2024	March 2023
Current	43,986	(111,779)
Deferred	(202,353)	(397,468)
	(158,367)	(509,247)

Tax reconciliation

The income tax expense for the year ended in March 31, 2024, and 2023, are following:

	March 2024		March 2023	
	Items amounts	Income tax	Items amounts	Income tax
(Loss) Profit prior to workers sharing and income tax	(363,126)	(90,782)	452,298	113,075
Employee profit sharing	-	-	(67,845)	(16,961)
Profit (Loss) before employee participation	(363,126)	(90,782)	384,453	96,114
Non-deductible expenses	50,599	12,650	210,838	52,871
Taxable base	(312,527)	(78,132)	595,291	148,985
Amortization of losses from previous year	-	-	148,823	37,206
Tax base and income tax	(312,527)	(78,132)	446,468	111,779
Withholdings at source for the fiscal year		(17,797)		(108,437)
Tax credit of previous year		(223,745)		(108,165)
Credit balance / Income tax payable		(319,674)		(104,823)

Income tax rates

The current tax provisions set the income tax rate at 25% in 2023 and 2022. The income tax rate is increased by three percentage points (3%) in the following cases:

a) In the event that the company fails to comply with the duty to report the composition of its shareholders, partners, participants, taxpayers, beneficiaries or similar, in accordance with the provisions of the Internal Tax Regime Law and the resolutions of the Internal Revenue Service, without prejudice to other applicable sanctions; or

b) When the owners of the respective capital rights have a resident owner, established, or protected in a tax haven, lower tax jurisdiction or preferential tax regime and the beneficial owner is an Ecuadorian tax resident.

The additional increase of 3% will be applied to the entire taxable base, when the percentage of participation of the shareholders, partners, participants, constituents, beneficiaries or similar, by whom any of the causes has been incurred is equal to or greater than 50% of the participation of the nature of the company. When the participation is less than 50%, the rate of 28% will be applied proportionally to the taxable base corresponding to said participation.

The income tax rate has a reduction of three (3%) percentage points (from 25% to 22%) for companies considered as micro and small enterprises or regular exporters.

In the case of regular exporters, the reduction in the tariff will be applied if employment is maintained or increased in the corresponding fiscal year.

Income Tax Exemptions

The current tax provisions include some exemptions and the elimination of certain deductions for the income tax return for the years 2022 and 2023, which are as follows:

1. The reforms established prior to December 31, 2021, and which are applicable for the 2022 tax return are as follows:

    - Funds or Trusts dedicated to the investment and management of real estate are exempt from Income Tax.

- The profit generated in the direct or indirect disposal of shares, participations, other capital rights are subject to a single fee between 0% and 10% based on the amount of the profit obtained.

- Value Added Tax (VAT) refund for companies that develop social housing projects.
- The provision of the Employer's Retirement whose funds are contributed to a specialized Retirement Fund is no longer deductible, due to the elimination of this provision.

2. The Organic Law for Economic Development and Fiscal Sustainability After the COVID-19 Pandemic, of November 29, 2021, published in the Third Supplement to the Official Register 587 and Executive Decree 586 published in the Third Supplement No. 186 – Official Gazette on November 10, 2022, issued reforms to several regulatory bodies in the field of trade policy, investments and fiscal for economic development and included several reforms to the Regulations for the Application of the Tax Regime Law. The main reforms introduced in the aforementioned legal body applicable to income tax returns for the year 2023 are as follows:

a) The provision that empowers the Tax Administration to authorize depreciation in annual percentages higher than those indicated in the Regulations for the Application of the Tax Regime Law is eliminated.
b) In the case of individuals and/or non-financial entities, the loss or discount generated in the sale of financial assets corresponding to commercial credits or portfolios that are traded outside the stock market or with related parties will not be deductible.
c) The total expenses for royalties, technical, administrative and consulting services paid by companies domiciled or not in Ecuador to their related parties will be deductible up to a value equivalent to 5% of the taxable income in the respective year, unless the limits provided in the following cases apply:

c.1 In taxpayers who are in the pre-operational cycle of the business, the limit applicable to the sum of this type of expenses will correspond to 10% of the total assets.
c.2 In the specific case of taxpayers who are not in the circumstances described in the previous paragraph, whose only activity is to provide technical services to independent parties, if the operating margin indicator, resulting from the operating profit on the company's operating sales, is equal to or greater than 7.5%, there will be no deductibility limit. Otherwise, the deductibility limit resulting from the following procedure will apply:

i) Operating sales will be multiplied by 7.5% and the result of this operation will be subtracted from the operating profit; and,
ii) The deductibility limit will be equal to the annual accumulated value of services and royalties incurred with related parties less the value resulting from the previous step.

In the above cases, the taxpayer may request a higher deductibility limit, through a prior valuation consultation of transactions between related parties.

There will be no deductibility limits on expenses for royalties, technical, administrative, and consulting services in the following cases:

(i) Transactions with related parties resident or permanent establishments in Ecuador, provided that the taxpayer who incurs the cost or expense is entitled to an effective tax rate equal to or less than that of the related party with which the transaction is carried out;
(ii) The total number of royalty, technical, administrative, and consulting operations with related parts reported within a fiscal year that do not exceed 20 basic fractions taxed at zero income tax rate for individuals.

The expense will not be deductible in its entirety if the asset for which royalties are being paid to related parties has belonged to the resident company or permanent establishment in Ecuador in the last 20 years.

d) In the case of income, the following exemption is established for the determination of income tax:

- The interest generated by fixed-term deposits and fixed-income investments issued for a term of 180 calendar days or more and these are in the holder's possession for at least 180 days continuously and as long as they are not debtors of the institution in which they keep their deposits (in 2024 the condition that they are debtors is eliminated).

- The income generated by investments in commercial investment trusts, managed or collective investment funds and complementary funds, when the minimum term of permanence of the investments established in the constitutive contract is 180 calendar days or more, and the holder of the units or quotas maintained these investments for at least the same period indicated on a continuous basis.

- The profits received by taxpayers, resident or not, as a result of the direct or indirect sale of shares, participations, other rights representing capital or other rights that allow exploration, exploitation, concession or similar, carried out on Ecuadorian stock exchanges, are considered as exempt income up to an annual amount of 50 basic taxable fractions; provided that the amount transferred is less than 25% of the capital subscribed and paid by the company. In the event that the negotiated percentage is higher than 25%, the payment of the single tax is 5%.

e) Exemptions considered as exempt income are eliminated:

- Exemption from the payment of Income Tax for the development of new and productive investments.
- The exemption for new and productive investments in economic sectors is determined as basic industries.
- Exemption from income tax in the development of public projects in public-private partnership.
- Exemption from income tax for new micro-enterprises

f) The following are considered as additional deductions for the determination of the income tax base:

- An additional 100% on the values from the depreciation and amortization of machinery, equipment, and sustainable construction technologies to the extent that they comply with the technical parameters and conditions established in the regulations issued by the environmental authority.
- An additional 150% of advertising and sponsorship expenses were made in favor of athletes, programs, and sports projects.
- The deduction of an additional 150% on amounts that are given for the granting of scholarships or grants to low-income students in dual training and third or fourth level educational institutions.
- The deduction of an additional 150% for expenses incurred for sponsorships and sponsorships made to educational entities at the basic and high school levels for scholarships, food, infrastructure, in public and fiscal schools and colleges.
- Expenses for private contributions for the promotion of the arts and innovation in culture will be deductible up to an additional 150%.
- An additional 100% of the expenses for donations, investments, and/or sponsorships that are destined in favor of programs, funds and projects for prevention, protection, conservation, restoration and environmental reparation qualified by the national environmental authority or whoever it designates, in accordance with the technical regulations issued for this purpose; provided that it does not exceed 10% of the gross annual income received in the previous tax year by the investor, sponsor and/or donor taxpayer.

In the event that the taxpayer takes the expense as a deduction improperly, the taxpayer will pay a penalty equivalent to 100% of the value of the expense.

In the event that one or more deductions generate a tax loss, it should not be considered as a deduction of profits in the future

g) The additional deductions for income tax expenses eliminated are as follows:

- The deduction for net increase in employees.
- The deduction for salaries and social benefits paid to older adults and returned emigrants over 40 years of age.
- Numeral 13 of article 10 deals with the treatment of investments of the eviction provisions and of employers' retirement pensions in specialized funds.

h) Other changes related to the determination of income tax:

- The profit generated by the occasional sale of real estate carried out by natural persons, if they are properties intended for housing, including their ancillary assets such as parking lots, warehouses and the like, and land.

- According to the current provisions, the occasional sale of the first transfer of ownership up to five years after the enactment of this reform will not cause income tax on individuals and companies.

- The maximum amounts for the use of the benefits of the treaties to avoid double taxation are eliminated. In this regard, the requirement to maintain a certificate of report issued by independent auditors that an expense is not taxable income in Ecuador would be eliminated.

i) Profits generated from the sale of shares and participations that are not made through the Stock Exchanges are subject to the flat tax rate of 10% on the gain.

Dividends paid

Dividends or profits distributed by resident companies or permanent establishments in Ecuador shall be subject to income tax; companies resident in Ecuador are exempt.

Dividends are subject to withholding tax, when the distribution is made to a non-resident company in Ecuador or to a permanent establishment in the country of a non-resident company. The applicable withholding corresponds to 25% of the 40% of the dividend distributed. If the company distributing the dividends fails to comply with the duty to report on its corporate composition, the applicable withholding tax will be 35%. As of December 2021, the withholding percentage corresponds to 37%.

In the event that the distribution is made to individuals who are tax residents in Ecuador, the dividend distributed will be part of their overall income. The company distributing the dividends will act as the withholding agent. The withholding tax for non-resident individuals or companies and those in which the beneficial owner is a natural person who is a tax resident in Ecuador will apply the general rate of 25% provided for non-residents.

In the event that the company distributing the dividends fails to comply with the duty to report on its corporate composition, income tax will be withheld on the dividends corresponding to such non-compliance, with the maximum income tax rate applicable to individuals.

The capitalization and reinvestment of profits is not considered as a distribution of dividends and is therefore exempt from income tax withholding.

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

Foreign Exchange Outflow Tax

Executive Decree No. 298, published in the Official Gazette on December 23, 2021, decreed the progressive reduction of the Foreign Exchange Exit Tax (ISD) rate, at a rate of 0.25% during each quarter of fiscal year 2022, until reaching a rate of 4%. Additionally, by Executive Decree No.643 of January 10, 2023, the progressive reduction of the rate of the Foreign Exchange Exit Tax (ISD) was decreed during the year 2023 to reach 2%, according to the following:

- From 1 February 2023 the rate will be 3.75% (0.25% reduction)
- From 1 June 2023 the fare will be 3.5 (0.25% reduction)
- From December 31, 2023, the rate will be 2% (1.5% reduction).

The Foreign Exchange Outflow Tax is levied on the following transactions:

- ➢ The transfer of foreign exchange from abroad
- ➢ Payments made from abroad, including those made with financial resources external from the individual, company, or third parties.
- ➢ Imports pending payment registered for more than twelve (12) months.
- ➢ Exports of goods and services generated in Ecuador, made by individuals or companies domiciled in Ecuador, when the foreign currency corresponding to the payments for such exports do not enter Ecuador.
- ➢ When the exit of foreign currency occurs as a result of the offsetting or netting of debit and credit balances with foreign countries, the taxable base will be constituted by the totality of the operation, that is, by the net balance transferred as well as by the amount offset.

The following, among others, are not subject to the Foreign Exchange Outflow Tax (ISD):

- ➢ Money transfers of up to three unified basic salaries per month.
- ➢ Payments made abroad through credit or debit cards up to 5,000.
- ➢ Payments made abroad for the amortization of principal and interest on loans granted by international financial institutions, with a term of more than one year, for the financing of investments outlined in the Organic Code of Production, Commerce, and Investments and which accrue interest at reference rates.
- ➢ Payments made abroad for 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 with lower taxation.
- ➢ For 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, 2016 and who are domiciled in the provinces of Manabí and Esmeraldas, payments for capital goods not produced in Ecuador and that are intended for productive processes or the providing of services located in the affected areas.
- ➢ Between 8 and 20 years for new productive investments in payments for the importation of capital goods and raw materials, as well as in the distribution of dividends to beneficial owners, when entering investment contracts.
- ➢ Profit reinvestments of at least 50% in the acquisition of new productive assets.
- ➢ Dividend payments made abroad, in an amount equivalent to the value of capital brought into the country, either as own financing without interest or as capital contribution, as long as they have been destined for productive investments.

- Payments made abroad for the sale of shares or rights representing capital by companies or individuals not residing in Ecuador would be exempt from payment of ISD.
- The transfer of foreign currency abroad is carried out by entities of Auxiliary Services of the Financiaifualified and incorporated in Ecuador, and correspond in a justified manner, to the payment and/or refund of amounts collected as part of the rendering of services of electronic means of payment, as long as the income received by the entity for the rendering of such services is declared and taxed in Ecuador.
- Executive Decree No. 182, dated September 2, 2021, established a 0% Foreign Exchange Outflow Tax rate, ISD, for foreign airlines authorized to operate in Ecuador.

  This Decree has a single article that states: *"Establish a rate of zero percent (0%) Foreign Exchange Outflow Tax for transfers, shipments, and transfers of foreign currency made by foreign airlines authorized to operate in the country that have the document certifying that they have been designated by their aeronautical authority to operate an international service, whether passenger, cargo and mail combined, or exclusive cargo in Ecuador.*

The Foreign Exchange Outflow Tax (ISD) may be used as a tax credit for the determination of income tax for up to 5 years, if it was originated in the import of raw materials, inputs, and capital goods for the purpose of being incorporated in productive processes and that they are included in the list issued by the Tax Policy Committee.

Reform of the ISD applicable by 2024

Executive Decree No. 98, published Official Gazette Supplement 467 of December 29, 2023, sets the rate of the Foreign Exchange Exit Tax (ISD) at 3.50% until December 31, 2024. This Decree amends the progressive reduction scheme of the ISD provided for in Executive Decree No. 643 of January 10, 2023

<u>Deferred tax</u>

The Internal Revenue Service through Circular No. NAC-DGECCGC15-00000012, published in the Supplement to the Official Gazette No. 653 of December 21, 2015, states that for tax purposes the accounting record of assets and liabilities for deferred taxes is allowed, only in the cases established by the regulations and in case of controversy between tax regulations and accounting and financial standards (IFRSs), the former will prevail. The Internal Revenue Service "SRI" in the aforementioned circular states the following:

a) The financial statements are the basis for filing tax returns, as well as for submission to the Controlling Agencies (Superintendency of Companies, Securities and Insurance and the Superintendency of Banks).
b) International Accounting Standard No. 12 - Income Taxes (IAS 12) and Section 29 of the IFRS for SMEs establish and require the recognition, measurement and disclosure of deferred taxes; however, the IRS establishes that the effects of the application of deferred tax assets will only be recognized in the cases and conditions established in the relevant tax regulations, arising from economic events, transactions or accounting records originating as from January 1, 2015; except for the effects arising from tax losses and tax credits in accordance with current tax regulations.
c) Deferred tax liabilities recorded, in compliance with the tax regulatory framework and the application of IFRS, will remain in force for their respective liquidation.
d) The income tax rate to be used for the estimation of current and deferred tax assets and liabilities in accordance with IFRS will be that established in the tax regulations.

Deferred tax assets and liabilities may be recovered or paid subsequently through tax reconciliation and must be recognized in the balance sheet at the respective amount and at the appropriate time, in compliance with the tax provisions in force and in the IFRS mentioned in this resolution.

The deferred income tax asset as of March 31, 2024, and 2023 was formed as follows:

Deferred tax items	Deferred tax asset March 2023	Generation	Reverse	March 2024
Employer retirement and eviction	23,092	8,568	-	31,661
Accumulated losses (1)	177,252	43,436	(220,688)	-
Provisions	70,516	16,930	(50,600)	36,846
	270,860	68,934	(271,288)	68,507
Decrease charge in results			(202,353)	

Deferred tax items	Deferred tax asset March 2022	Generation	Reverse	March 2023
Employer retirement and eviction	16,738	6,354	-	23,092
Accumulated losses	651,590	42,199	(516,537)	177,252
Inventory obsolescence	-	70,516	-	70,516
	668,328	119,069	(516,537)	270,860
Decrease charge in results			(397,468)	

a) The Company as of March 31, 2024 has tax losses from the current year and previous years of US$505,522, which generate a deferred tax benefit of US$126,380 at the current income tax rate of 25%. The company, based on the accounting requirements of the Headquarters and considering the historical results, decided to adjust this benefit in the results of the year and made it a policy to recognize the benefit in the future based on the tax results that originate at each fiscal close, as required by IAS 12.

In 2023 the following was incorporated for the calculation of deferred tax:

1) The value for impairment of bad debts, which exceeds the limits provided in the Law and Regulations, will be non-deductible in the year in which they are recorded; however, a deferred tax will be recognized for this concept, which will be used in the fiscal year in which the terms and conditions provided for its elimination are met.

2) The difference between the financial depreciation of property, plant and equipment and the deductibility limits established in the regulations, will be a non-deductible expense, which generates a deferred tax for this concept, which must be used from the fiscal year following the one in which the financially established useful life ends". The deferred tax is only recognized on assets acquired as from fiscal year 2023.

3) The term of conservation of the documents that support operations for which the tax regulation allows amortization or depreciation, will be counted from the fiscal period in which the use of the deductibility of the expense ended. The obligation will be understood to be fulfilled when the taxpayer has kept the support in physical or electronic form.

4) In the calculation of the reduction of the income tax rate for the development of new investments, when it is not possible to maintain a cost center. The application of the special reduction of up to five percentage points (5%) of the Income Tax for the subscription of Investment Contracts, the general corporate income tax rate applicable to the fiscal year in which the benefit is to be used will be used.

When the income tax rate applicable to the taxpayer is higher than the general corporate income tax rate, the special reduction must be applied on such rate. The investment contract will determine the percentage points of reduction to which the taxpayer will be entitled, in addition to determining the impossibility or not of maintaining a cost center. If it is determined that it is impossible to maintain a cost center, the taxpayer may apply the reduced income tax rate on the total taxable income. The reduction of all tax benefits accrued during the period of the investment shall in no case exceed the amount of the investment or the term of the benefit stipulated in the investment contract and/or its debt, whichever comes first.

Deferred tax assets and liabilities may be recovered or paid subsequently through the tax reconciliation, must be recognized in the balance sheet, in the respective amount and at the appropriate time, respecting the tax provisions in force and the IFRSs mentioned in this resolution, as the case may be.

Reforms applicable to income tax from 2024 onwards

1. The Supplement to the Official Gazette 461 of December 20, 2023, published the Organic Law of Economic Efficiency and Employment Generation, which establishes the following reforms applicable as from January 1, 2024:

   a) Large taxpayers determined by the IRS are not subject to the general withholding at source regime; however, they must pay monthly a self-withholding between 2.25% to 4% of their total taxable income, which constitutes an advance imputable to the income tax for the year. The percentage established by the IRS is 2.5%.
   b) Light automobiles arriving to Ecuador from Europe are taxed with a 0% tariff.
   c) New investments in non-conventional renewable energy will be exempted from income tax for 10 years and for 7 years for tourism projects with a minimum investment of US$100 thousand and 10% of which is oriented to rural tourism.
   d) The Free Trade Zones regime is established and the term of these will be 30 years, extendable, which has an income tax rate of 0% for the first 5 years. The zones and activities must be defined by the respective authorities. The ZEDES will continue with the benefits established in the respective investment agreements.
   e) Sports forecasts are subject to income tax and in the event of non-payment they will be closed.
   f) The VAT paid on local acquisitions or imports of goods and services for the construction of real estate projects registered by the respective ministry or public entity; as well as the VAT paid on lease or leasing of electric vehicles. The refund will be made by means of a credit note, within a term not exceeding 90 days and does not generate interest.
   g) The following deductions are established:

      - An additional 50% deduction for companies that hire young people between 28 and 29 years old, whether students or recent graduates.
      - A 75% deduction for those who hire young graduates from public, municipal and fiscal commissioned educational institutions.
      - A 75% deduction for those who hire people who have served an executed sentence of more than 1 year.
      - 50% for those who hire people who do not have an enforceable sentence and are on probation.
      - 150% for donations made in promotion, advertising, sponsorship, or sponsorship of disabled or catastrophic diseases and equipment and supplies to the National Police.

      The aforementioned deductions will be regulated or defined in the Regulations for the application of the Tax Regime Law.

   h) The depreciation of expenses related to vehicles that exceed the cost or appraised value of a vehicle greater than US$35,000 that is not electric, is not deductible for tax purposes.
   i) A temporary remission regime is established for a term of 150 working days, within which they may benefit from the remission of 100% of interest, fines and surcharges derived from taxes whose administration and collection correspond to the IRS.
   j) Individual or corporate taxpayers may voluntarily benefit from the income tax stability system for a period of 5 years based on the income and tax rate of the sector, under the conditions set forth in the Regulations.
   k) The Law incorporates to the Ecuadorian tax system the Controlled Foreign Companies "CFC" that are domiciled in tax havens and countries of lower taxation and that are related to taxpayers with tax residence in Ecuador.
   l) A penalty between 10 and 30 remunerations is established for those taxpayers who do not submit the respective sales receipt.

2. Organic Law to promote the Violet Economy, published in the First Supplement to Official Gazette No. 234, dated January 20, 2023. 234, dated January 20, 2023, allows a deduction of up to 140% of the amounts paid to the IESS for the jobs generated to strengthen, promote, guarantee and execute the mainstreaming of the gender and multicultural approach through the generation of incentives and public policies that encourage the civil population to the empowerment of women in their diversity, mainly for those who have been victims of violence, or are in vulnerable situations, women belonging to different peoples and nationalities duly recognized, this deduction will be effective as of 2024.

3. The Organic Law to face the internal armed conflict, the social and economic crisis published on March 12, 2024, establishes the following:

   Value Added Tax VAT

   - Increase of the VAT rate from 12% to 13%; and, additionally allows the President of the Republic, prior decree and approval of the governing body of public finances, to increase the rate up to 15%.
   - It establishes the VAT rate will be 5% on local transfers of construction materials.
   - The VAT increase will take effect as of April 1st.

Temporary security contribution

A temporary security contribution (CTS) to be paid by companies that have generated profits in fiscal year 2022, which will be calculated from the profits taxed with the income tax of fiscal year 2022 applying a rate of 3.25%. The CTS must be paid in the fiscal years 2024 and 2025.

The SRI by means of a resolution must establish the deadlines for the declaration and payment, which may not exceed March 31, 2024, and 2025.

Taxpayers who fail to comply with the declaration and payment will be subject to a fine equivalent to 3% of the obligation for each month or fraction thereof of delay.

Temporary contribution to banks

A contribution on the profit generated in the 2023 tax year by banks and savings and credit cooperatives.

The contribution rate varies between 5% and 25%, depending on the taxable income included in your 2023 income tax return.

<u>Foreign Exchange Outflow Tax</u>

The rate of the Tax on the Exit of Foreign Currency is increased to 5%; the President may modify the rate prior favorable opinion of the governing entity of public finances.

The President must publish the regulations for the application of this law within 30 days from its publication in the Official Gazette.

Reforms applicable to income tax starting in 2025.

The Supplement to Official Gazette No. 475 of January 11, 2024, published the Organic Law of Energy Competitiveness, which establishes the following tax reforms:

1) Deductions for new networks or infrastructure to absorb energy demand to commercial clients.
2) 0% VAT rate only for electric vehicles and equipment for generation, photovoltaic and wastewater treatment.
3) Contribution of 1% to the value of the registration fee for non-electric vehicles.

Transfer pricing

Current tax regulations establish the arm's length principle for transactions with related parties. Taxpayers that carry out transactions with related parties domiciled abroad (and local under certain special tax conditions) in a cumulative amount exceeding US$3,000,000 within the same tax period, must submit a schedule to the Tax Administration with the information of such transactions. When the transactions exceed US$10,000,000 (US$15,000,000,000 in 2023), they must submit the annex of transactions with related parties and a Comprehensive Transfer Pricing Report.

The tax reforms eliminated the exemption for those companies that paid an income tax equivalent to 3% of total income.

The cumulative amount of the Company's operations with related parties during the fiscal year 2023 does not exceed the cumulative amount, therefore the Company is not required to submit the aforementioned study.

Tax reviews

The Organic Law for Economic Development and Fiscal Sustainability after the Covid-19 pandemic (November 29, 2021) established that the Tax Administration has the power to review income tax returns, within a term of up to four years from the date of filing of the tax return and up to six years when all or part of the tax has not been declared.

The Company has not been reviewed until December 31, 2023, and 2022 and has open review periods as mentioned above.

NOTE 22 – COMMINTMENTS AND CONTINGENCIES

Commitment

As of March 31, 2024, it maintains an exclusive distribution agreement in force signed by the Company and is as follows:

- In November 2019, the Company entered into a lease agreement with Ekopark for 1 office and 5 parking lots for a term of 10 years, with a monthly fee of US$4,858 for the offices and US$935 for the parking lots.

- In October 2023, the Company renewed the Conware contract for the rental of technological equipment for a term of 3 years and a monthly fee of US$1,125.

  In addition, the Company has an agreement with Banco de Guayaquil for the "Supplier Confirming" credit product. This type of financial service consists of managing the collections that the Company maintains with Leterago and the possibility of collecting prior to its due date by applying a fixed annual interest rate of 9.33% that will be calculated on the financed capital.

- The Company entered into an agreement with Leterago del Ecuador S. A., for the commercialization of inventories with a term starting January 2023 for 48 months, in which it is granted the exclusive right of commercial distribution for the private pharmaceutical market, of all current and future products; of its own manufacture or of third parties of domestic or imported manufacture, with its own brands or generics, of all its lines.

  In addition, the Company has an agreement with Banco de Guayaquil for the "Supplier Confirming" credit product. This type of financial service consists of managing the collections that the Company maintains with Leterago and the possibility of collecting prior to its due date by applying a fixed annual interest rate of 9.33% that will be calculated on the financed capital.

<u>Contingencies</u>

As of March 31,2024, and 2023, the Company has no lawsuits or claims that must be disclosed or provisioned.

NOTE 23 - SUBSEQUENT EVENTS

Between March 31, 2024, and the date of issuance of these financial statements, April 30, 2024, 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	Silvia Moreno	Alex Hernández
Special Attorney	Accountant	Financial Controller