Procaps Group, S.A., and subsidiaries (The Group)

Consolidated Financial Statements and report of the réviseur d'entreprises agréé

for the years ended December 31, 2022 and 2021

9, rue de Bitbourg
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To the Shareholders of

Procaps Group, S.A.

9, rue de Bitbourg

L - 1273 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the Audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Procaps Group, S.A. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at December 31, 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Law of July 23, 2016 on the audit profession (Law of July 23, 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "*Commission de Surveillance du Secteur Financier*" (CSSF). Our responsibilities under the Law of July 23, 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "*réviseur d'entreprises agréé*" for the Audit of the consolidated financial statements" section of our report. We are also independent of the Company in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Société à responsabilité limitée au capital de 360.000 €
RCS Luxembourg B 67.895
Autorisation d'établissement 10022179

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Material Uncertainty Related to Going Concern

We draw attention to Note 2.1 in the consolidated financial statements in which indicates that as at December 31, 2022 the Company was not in compliance with covenants related to certain of its loan agreements and does not have sufficient capital to repay such loans if such loans are called by the lenders. As stated in Note 2.1, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the consolidated management report but does not include the consolidated financial statements and our report of the "*réviseur d'entreprises agréé*" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors 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 the Board of Directors 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.

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Responsibilities of the “*réviseur d’entreprises agréé*” for the Audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the “*réviseur d’entreprises agréé*” that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors 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 report of the “*réviseur d’entreprises agréé*” to the related disclosures in the consolidated 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 report of the “*réviseur d’entreprises agréé*”. 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 consolidated financial statements, including the disclosures, and whether the consolidated 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.

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Report on Other Legal and Regulatory Requirements

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

For Deloitte Audit, *Cabinet de révision agréé*

Ludovic Mosca, *Réviseur d'entreprises agréé*
Partner

May 31, 2023

Procaps Group, S.A. and subsidiaries (The Group)

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the years ended December 31, 2022 and 2021
(In thousands of United States Dollars, unless otherwise stated)

	Note	For the year ended December 31 2022	2021
Revenue	7	**$ 409,920**	**$ 409,742**
Cost of sales		(170,351)	(174,029)
Gross profit		**239,569**	**235,713**
Sales and marketing expenses		(93,566)	(83,057)
Administrative expenses		(105,911)	(82,187)
Finance income (expenses), net	9	37,917	(78,636)
Other expenses, net	10	(25,299)	(78,991)
Income/(loss) before tax		**52,710**	**(87,158)**
Income tax expense	11	(10,170)	(13,705)
Income/(loss) for the year		**$ 42,540**	**$ (100,863)**
Income/(loss) for the year attributable to:			
Owners of the Company		42,540	(100,863)
Non-controlling interests		—	—
Earnings per share:			
Basic and diluted, income/(loss) for the year attributable to ordinary equity holders of the Company	24	***0.42***	***(1.03)***

The accompanying notes are an integral part of these Consolidated Financial Statements.

Procaps Group, S.A., and subsidiaries (The Group)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the years ended December 31, 2022 and 2021

(In thousands of United States Dollars, unless otherwise stated)

	Note	For the year ended December 31	
		2022	**2021**
Income/(loss) for the year		**$ 42,540**	**$ (100,863)**
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss:			
Remeasurement of net defined benefit liability		(222)	195
Income tax relating to items that will not be reclassified subsequently to profit or loss		107	(58)
Net of Tax		(115)	137
Items that will be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(5,966)	(2,743)
Exchange difference from liquidated foreign transactions reclassified to profit or loss		—	(751)
Other comprehensive income/(loss) for the year, net of tax		**(6,081)**	**(3,357)**
Total comprehensive income/(loss) for the year		**$ 36,459**	**$ (104,220)**
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		36,456	(102,503)
Non-controlling interests		3	(1,717)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Procaps Group, S.A., and subsidiaries (The Group)

Consolidated Statement of Financial Position

As of December 31, 2022 and 2021

(In thousands of United States Dollars, unless otherwise stated)

		As of December 31,	
	Note	**2022**	**2021**
Assets			
Non-current assets			
Property, plant and equipment, net	14	73,965	72,638
Right-of-use assets, net	15	39,013	40,167
Goodwill	12	5,791	6,803
Intangible assets, net	13	32,208	30,171
Investments in joint ventures	16	1,505	2,443
Other financial assets		210	256
Deferred tax assets, net	20	6,974	7,067
Other assets		3,078	4,531
Total non-current assets		**$ 162,744**	**$ 164,076**
Current assets			
Cash		43,003	72,112
Trade and other receivables, net	18	129,602	117,449
Inventories, net	17	96,833	79,430
Amounts owed by related parties, net	29	2,474	1,147
Current tax assets, net	11	21,187	22,082
Other current assets, net	26.1	4,344	5,839
Total current assets		**$ 297,443**	**$ 298,059**
Total assets		**$ 460,187**	**$ 462,135**
Liabilities and Shareholders' Equity (Deficit)			
Equity (Deficit)			
Share capital	23	1,011	1,011
Share premium	23	377,677	377,677
Reserves	23	45,743	42,749
Accumulated deficit		(391,513)	(431,059)
Accumulated other comprehensive loss		(33,859)	(27,778)
Equity (deficit) attributable to owners of the Company		**$ (941)**	**$ (37,400)**
Non-controlling interest		(937)	(940)
Total equity (deficit)		**$ (1,878)**	**$ (38,340)**
Non-Current liabilities			
Borrowings	19	28,410	178,720
Warrant liabilities	25	10,916	23,112
Shares held in escrow	26.1	40,064	101,859
Deferred tax liabilities, net	20	7,821	6,070
Other liabilities		6,480	2,750
Total non-current liabilities		**$ 93,691**	**$ 312,511**
Current liabilities			
Borrowings	19	257,525	74,646
Trade and other payables	21	90,187	85,381
Amounts owed to related parties	29	2,914	8,450

Procaps Group, S.A., and subsidiaries (The Group)

Consolidated Statement of Financial Position

As of December 31, 2022 and 2021

(In thousands of United States Dollars, unless otherwise stated)

	Notes		2022		2021
Current tax liabilities, net	11		6,133		11,756
Provisions	22		138		501
Other liabilities			11,477		7,230
Total current liabilities		**$**	**368,374**	**$**	**187,964**
Total liabilities and shareholders' equity (deficit)		**$**	**460,187**	**$**	**462,135**

The accompanying notes are an integral part of these Consolidated Financial Statements.

Procaps Group, S.A., and subsidiaries (The Group)

Consolidated Statement of Changes in Equity

As of December 31, 2022 and 2021

(In thousands of United States Dollars, unless otherwise stated)

	Attributable to equity holders of the Company							
	Share Capital	**Share premium**	**Reserves [1]**	**Accumulated deficit**	**Other Comprehensive Income**	**Total**	**Non-controlling interest**	**Total equity (deficit)**
Balance as of January 1, 2021	**$ 2,001**	**$ 54,412**	**$ 39,897**	**$ (327,344)**	**$ (24,421)**	**$ (255,455)**	**$ 777**	**$ (254,678)**
Loss for the year [2]	—	—	—	(100,863)	(751)	**(101,614)**	—	**(101,614)**
Transfer to reserves	—	—	2,852	(2,852)	—	**—**	—	**—**
Other comprehensive (loss)/income for the year	—	—	—	—	(889)	**(889)**	(1,717)	**(2,606)**
Non-controlling interest	—	—	—	—	(1,717)	**(1,717)**	—	**(1,717)**
Termination of put option agreements	903	297,796	—	—	—	**298,699**	—	**298,699**
Subtotal	**2,904**	**352,208**	**42,749**	**(431,059)**	**(27,778)**	**(60,976)**	**(940)**	**(61,916)**
Capital restructuring of Crynssen Pharma Group Limited (at exchange ratio of 1:33.4448)	(1,933)	1,933	—	—	—	**—**	—	**—**
Subtotal - restructured	**971**	**354,141**	**42,749**	**(431,059)**	**(27,778)**	**(60,976)**	**(940)**	**(61,916)**
Acquisition of Union Acquisition Corp. II	202	174,738	—	—	—	**174,940**	—	**174,940**
Shares held in escrow	(117)	(106,247)	—	—	—	**(106,364)**	—	**(106,364)**
Redemption of redeemable shares	(45)	(44,955)	—	—	—	**(45,000)**	—	**(45,000)**
Balance as of December 31, 2021	**$ 1,011**	**$ 377,677**	**$ 42,749**	**$ (431,059)**	**$ (27,778)**	**$ (37,400)**	**$ (940)**	**$ (38,340)**
Income for the year	—	—	—	42,540	—	**42,540**	—	**42,540**
Transfer to reserves	—	—	2,994	(2,994)	—	**—**	—	**—**
Other comprehensive (loss)/income for the year	—	—	—	—	(6,084)	**(6,084)**	3	**(6,081)**
Non-controlling interest	—	—	—	—	3	**3**	—	**3**
Balance as of December 31, 2022	**$ 1,011**	**$ 377,677**	**$ 45,743**	**$ (391,513)**	**$ (33,859)**	**$ (941)**	**$ (937)**	**$ (1,878)**

[1] Includes the appropriate values from net income to comply with legal provisions related to asset protection according to applicable jurisdictions with cumulative earnings.

[2] Includes the OCI related to exchange difference from liquidated foreign transactions reclassified to Other Expenses, net for the year ended December 31, 2021.

The accompanying notes are an integral part of these Consolidated Financial Statements.

Procaps Group, S.A., and subsidiaries (The Group)

Consolidated Statement of Cash Flows

For the years ended December 31, 2022 and 2021

(In thousands of United States Dollars, unless otherwise stated)

	Notes	For the year ended December 31 2022	2021
Operating activities			
Income/(loss) for the year		**$ 42,540**	**$ (100,863)**
Adjustments to reconcile net income/(loss) with cash flow from operating activities before changes in working capital:			
Depreciation of property, plant and equipment	14	5,656	6,072
Depreciation of right-of-use assets	15	6,255	4,223
Amortization of intangibles	13	4,933	4,816
Income tax expense	11	10,170	13,705
Finance (income)/expenses	9	(37,917)	78,636
IFRS 2 Share-based payment expense (listing expense)	10	—	73,917
Unrealized currency exchange rate differences		1,652	—
Share of result of joint ventures		919	305
Net (gain)/loss on sale of property, plant and equipment	14	(555)	(317)
Net loss on sale or disposal of intangibles	13	203	—
Impairment loss on property, plant and equipment	14	4,689	—
Impairment loss on right-of-use assets	15	356	—
Impairment loss on intangible assets	13	135	—
Impairment loss on goodwill	12	838	—
Inventory provision	17	5,717	5,391
Provision/(reversed provision) for bad debt	18	2,673	(818)
Provisions	22	43	—
Cash flow from operating activities before changes in working capital		**48,307**	**85,067**
Changes in working capital:			
Trade and other receivables, net		(16,582)	(21,257)
Amounts owed by related parties		474	1,387
Inventories, net		(32,690)	(20,536)
Current tax assets, net		895	(5,308)
Other current assets, net		1,500	(5,441)
Trade and other payables		14,210	32,825
Amounts owed to related parties		1,998	(3,448)
Current tax liabilities, net		(6,643)	2,103
Other liabilities		10,865	(12,936)
Provisions	22	(415)	—
Other financial assets		46	505
Other assets		710	(2,699)
Cash generated from operations		**22,675**	**50,262**

Procaps Group, S.A. and subsidiaries (The Group)

Consolidated Statement of Cash Flows

For the years ended December 31, 2022 and 2021

(In thousands of United States Dollars, unless otherwise stated)

Interest paid			(1,261)		(1,697)
Dividends received			—		300
Income tax paid			(7,308)		(11,562)
Cash flow provided by operating activities		**$**	**14,106**	**$**	**37,303**
Investing activities					
Acquisition of property, plant and equipment	14		(20,612)		(14,122)
Proceeds from sale of property, plant and equipment			2,686		794
Acquisition and development of intangibles	13		(10,963)		(10,403)
Proceeds from related parties	29		61		28
Cash flow used in investing activities		**$**	**(28,828)**	**$**	**(23,703)**
Financing activities					
Proceeds from borrowings	19		134,412		280,795
Payments on borrowings	19		(124,202)		(272,301)
Advances from related parties	29		61		—
Payments to related parties	29		(7,191)		(9,154)
Interest paid on borrowings			(10,028)		(17,428)
Payment of lease liabilities	19		(6,679)		(8,854)
Redeemed shares	23		—		(45,000)
Cash obtained in acquisition	23		—		129,986
Cash flow (used in) generated from financing activities		**$**	**(13,627)**	**$**	**58,044**
Net (decrease) increase in cash			**(28,349)**		**71,644**
Cash at beginning of the year			72,112		4,229
Effect of exchange rate fluctuations			(760)		(3,761)
Cash at end of the year		**$**	**43,003**	**$**	**72,112**
Non-cash financing and investing activities [1]		**$**	**50,897**	**$**	**(145,286)**

[1] For the year ended December 31, 2022, non-cash investing and financing activities include new lease liabilities $12,647 (2021: $7,283), interest capitalization on property, plant and equipment under IAS 23 $196 (2021: 571), invoices from suppliers financed via reverse factoring classified as Trade and other payables $5,696 (2021: $8,288), and invoices from suppliers financed via reverse factoring classified as Borrowings $32,358 (2021: $48,138). For the year ended December 31, 2021, it also included 50% purchase price of acquisition of Pharmaceutical Production Facility $744, termination of the put option agreements in exchange for new equity instruments in Procaps Group, S.A. $(239,273) (Refer to Note 23), and conversion of SPAC Warrants to Warrants in Procaps Group, S.A. $28,963.

The accompanying notes are an integral part of these Consolidated Financial Statements.

Note 1. General Company Information

Procaps Group, S.A, (the "Company"), a public limited liability company (société anonyme) governed by the laws of the Grand Duchy of Luxembourg and its subsidiaries (collectively, the "Group") primarily engages in developing, producing and marketing pharmaceutical solutions. Further information about the Group's business activities, reportable segments and related party relationships of the Group is included in Note 7. Revenue, Note 8. Segment reporting and Note 29. Related party transactions, respectively.

The Group's principal subsidiaries as of December 31, 2022, and 2021 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business/country of incorporation	Ownership interests held by: The Group		Non-controlling interests		Principal activities
		2022	2021	**2022**	2021	
Procaps S.A.	Colombia	**100%**	100%	**—%**	—%	Manufacturing and distribution of prescription and over-the-counter pharmaceutical products.
C.I. Procaps S.A.	Colombia	**100%**	100%	**—%**	—%	
Procaps S.A. de C.V	El Salvador	**100%**	100%	**—%**	—%	
Softcaps - Colbras	Brazil	**100%**	100%	**—%**	—%	
Diabetrics Healthcare S.A.S.	Colombia	**100%**	100%	**—%**	—%	Diabetes solutions and chronic disease management tool.

There are no significant restrictions on the ability of the Group to access or use assets and settle liabilities.

The Consolidated Financial Statements of the Group for the years ended December 31, 2022, and 2021 comprise the Group and its interest in joint ventures, investments and operations. The Group prepares and publishes its Consolidated Financial Statements in United States Dollars ("USD"), and the numbers are rounded to the thousands of USD unless otherwise stated. Foreign operations are included in accordance with the policies set out in Note 2.2. Functional and reporting currency.

The Consolidated Financial Statements were authorized for issue by the Board of Directors on May 31, 2023.

Reverse reorganization

On March 31, 2021, Union Acquisition Corp. II, a publicly-traded special purpose acquisition company previously listed on the NASDAQ under "LATNU" domiciled in the Cayman Islands ("SPAC"), Crynssen Pharma Group Limited, a private limited liability company registered under the laws of Malta ("OpCo"), Procaps Group, S.A. ("Holdco") and OZLEM Limited, an exempted company incorporated under the laws of the Cayman Islands ("Merger Sub"), entered into a Business Combination Agreement (the "Business Combination Agreement" or "BCA" or the "Transaction").

The Transaction was approved at an Extraordinary General Meeting of LATNU's shareholders on September 22, 2021 and subsequently consummated on September 29, 2021.

As a result of the consummation of the Transaction, OpCo and SPAC had become direct wholly-owned subsidiaries of Holdco and the OpCo shareholders and SPAC shareholders became holders of issued and outstanding Holdco Ordinary Shares: Procaps Group, S.A.

Grupo Somar and Pearl Mexico Acquisition

On May 16, 2022, Procaps Group, S.A. entered into a Stock Purchase Agreement (the "SPA") with AI Global Investments PCC Limited (Netherlands), a protected cell company limited by shares organized under the laws of the Island of Guernsey ("PCC"), acting for and on behalf of the Soar Cell, Triana Capital S.A. de C.V., a corporation organized under the laws of Mexico ("Triana"), AI Pearl (Netherlands) B.V., a private limited company (besloten vennootschap met beperkte aansprakelijkheid) incorporated under the laws of the Netherlands ("Pearl Holding Seller"), Perrigo Ireland 7 DAC, a company duly organized and validly existing under the laws of the Republic of Ireland ("Pearl Ireland", and together with PCC, Triana and Pearl Holding Seller, each a "Seller" and collectively, the "Sellers"), AI Soar (Netherlands) BV, a (besloten vennootschap met beperkte aansprakelijkheid) incorporated under the laws of the Netherlands ("Somar Holding Company"), Química y Farmacia S.A. de C.V., a Sociedad Anónima de Capital Variable duly organized and validly existing under the laws of Mexico ("Quifa"), PDM Acondifarma S.A. de C.V., a Sociedad Anónima de Capital Variable duly organized and validly existing under the laws of Mexico ("PDM"), Gelcaps Exportadora de México S.A. de C.V., a Sociedad Anónima de Capital Variable duly organized and validly existing under the laws of Mexico ("Gelcaps", and together with Quifa and PDM, "Pearl Mexico") and Grupo Farmacéutico Somar S.A.P.I. de C.V., a Sociedad Anónima Promotora de Inversión de Capital Variable organized under the laws of Mexico ("Somar" and together with Somar Holding Company, "Grupo Somar", and together with Pearl Mexico, the "Targets") (the "Acquisition").

The Acquisition, which was expected to close in the fourth quarter of 2022, was delayed indefinitely and subsequently terminated on January 1, 2023 (refer to Note 28. Events after the reporting period) after the Group was informed by the Sellers that a court in Mexico City issued a precautionary lien affecting a portion of capital stock of Grupo Somar in connection with a pending dispute that involves an investment by a fund managed by Advent International but that is otherwise unrelated to the Sellers, Grupo Somar, the Group, or the Acquisition.

Debt Commitment Letter and Bridge Loan Credit Agreement

Concurrently with the execution of the SPA, the Group, as borrower, entered into a Commitment Letter with Bank of America, N.A., BofA Securities, Inc., JPMorgan Chase Bank, N.A. and Morgan Stanley Senior Funding, Inc. ("Commitment Letter") for a bridge loan of up to $485 million (the "Bridge Loan"), which would have been guaranteed by each existing and future direct and indirect material subsidiary of the Group, and the Targets and each of their subsidiaries upon the Closing. The Bridge Loan would have also been secured by a pledge from the Group of its shares in the Targets. The proceeds of the Bridge Loan would have been used, together with the Group's cash on hand, to finance the cash portion of the purchase price of the Acquisition (including related fees and expenses) and, in the event necessary, to prepay certain of the Group's existing debt.

On October 11, 2022, Procaps Group, S.A. entered into a Credit Agreement with Bank of America, N.A., BofA Securities, Inc., JPMorgan Chase Bank, N.A. and Morgan Stanley Senior Funding, Inc. who are the book runners and joint arrangers (the "Bridge Credit Agreement") for the Bridge Loan. The Bridge Credit Agreement terms are consistent with the terms of the Commitment Letter. The Bridge Credit Agreement effectively replaced the Commitment Letter upon its execution.

Refer to Note 28. Events after the reporting period for further details regarding the Group's termination of the SPA, leading to the termination of commitments under the Bridge Credit Agreement and the Commitment Letter. For information regarding the financial impact of the Bridge Credit Agreement on the Group's results, refer to Note 9. Finance income (expenses), net.

Senior Notes Amendment

The Group intended to prepay in full the aggregate principal amount of the 4.75% guaranteed senior notes due November 12, 2031 (the "Senior Notes") issued by Procaps, S.A., the Group's subsidiary, pursuant to a note purchase agreement (the "NPA") entered into on November 5, 2021, with the noteholders thereunder (collectively, the "Noteholders"), together with interest accrued thereon to the date of such prepayment and the make-whole amount determined for the date of such prepayment pursuant to the NPA (the "Notes Payoff"). The Group previously expected that the closing of the Grupo Somar and Pearl Mexico Acquisition would occur on October 14, 2022, and accordingly, pursuant to the requirements of the NPA, delivered advance notice to the Noteholders of the Notes Payoff to occur on such date. As a result of a delay and subsequent termination in the closing of the Grupo Somar and Pearl Mexico Acquisition, the expected borrowing under the Credit Agreement did not occur, and the Group was unable to complete the Notes Payoff on the date scheduled, which technically constituted an event of default under the NPA. The Noteholders informed the Group that they would not exercise any rights or remedies under the NPA due to such technical default pending entry into an amendment to the NPA formally waiving such default, and the Group and the Noteholders executed temporary waivers in connection therewith. On November 1, 2022, the Group and the Noteholders entered into an amendment to the NPA (the "NPA Amendment"), formally waiving the technical default and which also (i) provided the Group the ability, until November 30, 2022, to prepay the Senior Notes with two business days' notice, (ii) provided that the make-whole amount under the NPA shall in no case be less than USD

1,488,204.60, and (iii) provided that, if the Notes Payoff did not occur on or prior to November 30, 2022, a waiver fee of 3.75% per annum on the outstanding principal amount of Senior Notes outstanding shall (a) accrue from (and including) October 14, 2022 and (b) be payable to the Noteholders on the 12th day of February, May, August and November in each year (commencing on February 12, 2023), on the maturity date of such Senior Note and on each other date on which interest on such Senior Note is due and payable in accordance with the terms of the NPA and such Senior Note. The Notes Payoff did not occur on or prior to November 30, 2022, therefore triggering the 3.75% per annum waiver fee on the outstanding principal amount of Senior Notes with the terms mentioned above. Refer to Note 19. Borrowings for further detail on impact of the NPA Amendment.

Ongoing Military Operation in Ukraine and Related Sanctions

The ongoing military operation in Ukraine and the related sanctions targeted against the Russian Federation have disrupted international commerce and the global economy. The Group does not have any direct exposure to Ukraine, Russia or Belarus considering there are not any existing operations or sales in those locations.

Although the Group does not currently operate in Ukraine or Russia, the duration and severity of the effects on its business and the global economy are inherently unpredictable. Management will continue to monitor the effects of the war in Ukraine and its potential further impacts, including global supply chain disruptions, inflation, and rising interest rates, when making certain estimates and judgments relating to the preparation of the Consolidated Financial Statements of the Group.

Note 2. Basis of preparation and accounting

The Consolidated Financial Statements of the Group as of December 31, 2022, and 2021 have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") and as adopted by the European Union.

The Consolidated Financial Statements consist of the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows and have been prepared under a historical cost basis, except for certain financial instruments that have been measured at fair value.

The Group opted to present a single Consolidated Statement of Profit or Loss and Other Comprehensive Income, combining the presentation of profit or loss and comprehensive income in the same statement. Due to the activities of the Group, costs and expenses presented in the Consolidated Statement of Profit or Loss and Other Comprehensive Income were classified according to their function.

The Consolidated Statement of Financial Position has been prepared based on the nature of the Group's operations, distinguishing: (a) current assets from non-current assets, where current assets are intended as the assets that should be realized, sold or used during the normal operating cycle, or the assets owned with the aim of being sold in the short term (within 12 months); (b) current liabilities from non-current liabilities, where current liabilities are intended as the liabilities that should be paid during the normal operating cycle, or over the 12-month period subsequent to the reporting date.

The Consolidated Statement of Cash Flows has been prepared using the indirect method.

The Consolidated Financial Statements present comparative information in respect of the previous period, 2021 for Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows and related notes. Foreign operations are included in accordance with the policies set out in Note 2.2. Functional and reporting currency.

The accounting policies set out in Note 3. Summary of significant accounting policies have been applied in preparing the Consolidated Financial Statements for the year ended December 31, 2022, and the comparative information presented for the year ended December 31, 2021.

The Group has applied accounting judgments, estimates and significant accounting assumptions described in Note 4. Critical accounting judgements and key sources of estimation uncertainty in preparing the Consolidated Financial Statements.

Note 2.1. Going concern

Management identified the following events and conditions which cast significant doubt on the Group's ability to continue as a going concern:

As of December 31, 2022, the Group was in breach of certain of the covenants included under the NPA, the Syndicated Loan Agreement and the BTG Credit Agreement. Refer to Note 19. Borrowings for further details regarding the breach of each covenant. Although none of the lenders declared an event of default under the applicable agreements, these breaches resulted in the lenders having the right to require immediate repayment of the applicable indebtedness and as a result, the Group has classified the respective indebtedness, amounting to $139,155 in the aggregate, to current liabilities.

On March 28, 31 and May 2, 2023 the Group obtained Waiver Agreements ("Waivers" or "Waiver") from each lender under the NPA, the Syndicated Loan Agreement and the BTG Credit Agreement for the applicable covenant breaches. Under the terms of the Waivers, the lenders permanently waived their rights to accelerate the repayment of the loans related to the events of default as of December 31, 2022. In addition, the Group executed Waivers with the lenders to adjust the applicable covenant ratios for the periods ending March 31, June 30, and September 30, 2023, if applicable, as noted further within Note 28. Events after the reporting period. For the period ending December 31, 2023, the applicable covenant ratios in the original borrowing arrangements are unmodified.

Working capital

As of December 31, 2022, the Group had a net working capital deficit of $70,931 (2021: working capital surplus of $110,095), which consists of $257,525 of current borrowings ($139,155 of current borrowings relates to the breach in loan covenants), $90,187 of trade and other payables, $2,914 of amounts owed to related parties, $6,133 of current tax liabilities, net, $138 of provisions, $11,477 of other liabilities, and $297,443 of current assets.

Management's assessment

Management assessed the Group's cash flow projections, ability to meet future covenants and other measures of liquidity for the next twelve months from the balance sheet date. Based on the Group's cash flow projections and adjusted financial covenant ratios as a result of the Waivers, Management believes they will have sufficient funds to repay their obligations as they fall due and to meet its financial covenants in 2023. However, due to the uncertainty caused by current economic conditions, including rapid growth in inflation, increasing interest rates, global disruption to the supply chain, volatility in foreign exchange rates and industry price regulations, there is material uncertainty regarding the Group's ability to meet its financial covenants. The Group's failure to comply with such financial covenants would result in an event of default, which if that were to occur would materially and adversely affect the Group's business, financial condition, liquidity and results of operations. In that event, the Group would seek additional waivers or alternative financing arrangements. As a result of these material uncertainties, Management concluded the above conditions and events raise significant doubt about the Group's ability to continue as a going concern.

Management has implemented or is in the process of implementing the following plans to mitigate the effect of these events and conditions:

Cost saving and revenue growth

The Group has implemented certain measures with an aim to reduce its operating costs and generate additional revenue in 2023 including: 1) strict controlling and reducing business marketing and advertising expenses; 2) reducing headcount across multiple business units; and 3) focus on increasing sales volumes for core products and sell trademarks and sanitary records to generate additional revenue.

Renegotiation of existing loans

The Group is in the process of renegotiating the terms of the Syndicated Loan balance with Bancolombia and Davivienda, with the expectation of extending payment terms. In addition, the Group is in negotiations with BTG to restructure their short-term loan and negotiating their short-term revolving credit facilities. Refer to Note 27. Financial instruments for details regarding the carrying balance of loans that will be renegotiated as mentioned above. The Group has historically been successful in their negotiations with lenders to maintain and meet its liquidity needs and requirements. However, the Group's ability to renegotiate with its lenders is not within the Group's control. As of the date of these financial statements, the Group cannot assure that it will be able to reach an agreement with its lenders, or to waive any potential non-compliance.

Additional measures

If the above actions do not generate sufficient liquidity for the Group to meet its contractual obligations, Management has identified additional measures which could be implemented to further reduce costs and increase total revenues in order to provide sufficient cash flow to meet obligations as they fall due including: 1) reduce discretionary spending on research and development, marketing and capital expenditures; 2) sell additional trademarks and sanitary records; and 3) further reduce headcount.

Summary

Management has evaluated the Group’s capital position, its ability to continue in the normal course of business for the foreseeable future and ability to meet its financial obligations for the next twelve months from the balance sheet date. While Management believes that their cost savings, revenue growth, and loan renegotiation will allow the group to be able to meet its financial obligations and finance its growth, there is no assurance that these plans can be successfully implemented to generate the liquidity required to meet the Group's need. Failure to successfully implement these plans may have a material adverse effect on the Group’s business, results of operations and financial position, and may materially adversely affect its ability to continue as a going concern. As a result, Management concluded there is material uncertainty related to the events and conditions noted above that cast significant doubt on the entity's ability to continue as a going concern.

However, Management believes that the Group will be successful in implementing the above plan and, accordingly, have prepared the financial statements on a going concern basis. As a result, the consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Group be unable to continue as a going concern.

Note 2.2. Functional and reporting currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The Consolidated Financial Statements are presented in US Dollars (USD), which is Procaps Group, S.A. functional and presentation currency.

Note 2.3. Basis of consolidation

The Group's subsidiaries are fully consolidated from the date on which control is transferred to the Group. Consolidation ceases from the date on which control ends.

All financial results are consolidated with similar items on a line-by-line basis. If necessary, adjustments are made to the financial statements of the consolidated companies in order to adapt their accounting policies to those used by the Group.

All transactions, balances, revenues and related expenses between the consolidated companies are eliminated.

2.3.1. Reverse reorganization

The SPAC did not meet the definition of a business because it lacked substantive processes as defined by IFRS 3. Thus, the Transaction was accounted for as an asset acquisition in exchange for a share-based payment within the scope of IFRS 2.

The Transaction was treated as a common control transaction due to the fact both OpCo and Holdco are ultimately controlled by the same party or parties, that are all controlled by the Minski family, both before and after the Transaction, and that control is not transitory. Management concluded that it would be appropriate to account for it as a restructuring using book value accounting in Holdco's Consolidated Financial Statements, on the basis that there has been no business combination between Opco and Holdco.

For purposes of calculating earnings per share, shareholders' equity of the Group prior to the Transaction was retrospectively adjusted as a capital restructuring for the equivalent number of shares received and on a pro rata basis for prior reporting periods. Retained earnings and relevant reserves of the Group were carried forward after the Transaction. Any difference to shareholders' equity of Group arising from the restructuring of share capital and equity instruments issued was recorded in equity under share premium.

Refer to Note 26.1. Reverse reorganization for further information related to the accounting and presentation of the Transaction.

For purposes of calculating basic earnings per share, the ordinary shares associated with Put Option Agreements previous to the transaction were included. Note 24. Earnings Per Share.

Note 3. Summary of significant accounting policies

Note 3.1. Goodwill

Goodwill arising from the acquisition of a business is recorded at cost at the acquisition date, less accumulated impairment losses, if any.

Goodwill is stated at cost and not amortized but is tested for impairment on an annual basis and whenever there is an indicator that the cash-generating unit to which goodwill has been allocated may be impaired.

3.1.1 Goodwill impairment

Goodwill is tested for impairment annually at the cash-generating unit level, which is the level at which the assets generate largely independent cash inflows and are monitored for internal management purposes. An impairment loss is recognized whenever the carrying amount of an asset or the related cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Impairment losses recognized for cash-generating units first reduce allocated goodwill and then the carrying amounts of the other non-financial assets in the unit on a pro rata basis.

Refer to Note 12. Goodwill and Note 4. Critical accounting judgements and key sources of estimation uncertainty or further information on the goodwill exposure and estimates applied, respectively.

Note 3.2. Transactions in foreign currency

When preparing the financial statements of the individual underlying entities of the Group, transactions in a currency other than the functional currency of the entity ("foreign currency") are recorded using the exchange rates in effect on the transaction date. At the end of each reporting period, monetary items denominated in a foreign currency are reconverted at the exchange rates prevailing at that date. Non-monetary items calculated in terms of historical cost, in foreign currency, have not been reconverted.

For purposes of presenting the Consolidated Financial Statements, the assets and liabilities of the Group's foreign currency transactions are expressed in USD, using the exchange rates prevailing at the end of the respective reporting period. Revenues and expenses are translated at the average exchange rates for the respective period. The exchange differences that arise, if applicable, are recognized through other comprehensive income and are accumulated in equity (attributed to the non-controlling interests when appropriate).

Note 3.3. Leases - Right-of-use assets & lease liabilities

The Group assesses whether a contract is or contains a lease at inception of a contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as assets with a value less than $5,000). For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease, and payments for these leases are presented in the combined statements of cash flows from operating activities.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date, any initial direct costs and less any lease incentives received. They are subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use assets are depreciated starting at the commencement date and over the shorter period of useful life of the underlying asset (in the case the lease transfers ownership of the underlying asset to the Group by the end of the lease term or cost of the right-of-use assert reflects that the Group will exercise a purchase option) and lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate specific to the country, term and currency of the contract. In addition, the Group considers its recent indebtedness as well as publicly available data for instruments with similar characteristics when calculating the incremental borrowing rates.

Lease payments include fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate known at the commencement date, and purchase options or extension option payments if the Group is reasonably certain to exercise these options. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and right-of-use asset and are recognized as an expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the year/period in which the event or condition that triggers those payments occurs.

A lease liability is remeasured upon a change in the lease term, changes in an index or rate used to determine the lease payments or reassessment of exercise of a purchase option. The corresponding adjustment is made to the related right-of-use asset.

The lease liability is presented in the 'Borrowings' line and the right-of-use assets are presented in a single line in the Consolidated Statement of Financial Position. In addition, the principal portion of the lease payments is presented within financing activities and the interest component is presented within operating activities in the Consolidated Statement of Cash Flows.

Note 3.4. Financial Instruments

Financial assets and liabilities are recognized when an entity of the Group becomes party to the contractual provisions of an instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than those designated at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or liabilities, when appropriate, at initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities designated at fair value through profit or loss are recognized immediately through profit or loss.

3.4.1 Classification of financial assets

If and when applicable the Group follows the framework and requirements outlined in IFRS 9 to classify financial assets based on whether:

- The financial asset is held within a business model whose objective is to collect contractual cash flows or whose objective is achieved through the collection of contractual cash flows and the sale of financial assets; and
- The contractual terms give rise to cash flows that are only payments of principal and interest.

By default, all other financial assets are subsequently measured at fair value through profit or loss.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

3.4.2 Gains and losses in foreign currency

Trade receivables denominated in a currency other than the subsidiaries' functional currency are determined in that foreign currency and converted to the subsidiaries' functional currency at the end of each reporting period using the then prevailing spot rate. Exchange differences are recognized through profit or loss and are classified within other expenses.

3.4.3 Impairment of financial assets

The Group recognizes an impairment for expected credit losses on trade and other receivables.

The Group applies the 'simplified' approach as required by IFRS 9 since generally the Group's trade receivables do not include a significant financing component. The Group therefore recognizes the lifetime expected credit losses over the life of the trade receivables.

Other receivables are generally assessed individually and a lifetime expected credit loss is estimated based on the receivable and debtor specific facts and circumstances.

3.4.4 Definition of default

The Group considers that an event of default has occurred when more than 50% of the customers trade receivable balance is more than 90 days overdue, unless there is reasonable and supportable information to demonstrate that such default is not in existence.

3.4.5 Impaired trade receivables

A financial asset has been impaired when one or more events have occurred that have a negative impact on the estimated future cash flows of the trade receivable. The evidence of credit impairment includes observable data on the following events:

- significant financial difficulty of the customer;
- customer enters into or is likely to enter into bankruptcy;
- a breach of contract, such as an expired event; and
- for economic or contractual reasons one or more concessions have been granted.

3.4.6 Measurement of impairment

The expected credit losses on trade receivables are estimated using a methodology where a probability of default is estimated based on historical information, adjusted for current and forecasted economic conditions, if applicable. If applicable and significant, the Group may adjust the provision based on a probability weighing of various scenarios and factors in the time value of money:

- Probability of default ('PD'): The PD is derived by analyzing a rolling dataset of twenty-four months in which trade receivables are tracked and analyzed as they move through the aging buckets.
- Loss given default: The Group typically defines the loss given default to be one hundred percent.

- Exposure at default: The trade receivable balance as of the reporting date, net of advances and credit notes.

As of the reporting dates presented, the Group has not deemed these to be significant.

The Group estimates the probability of default at the pool level and then applies such pool level PD to the trade receivables within that pool. The Group generally defines each pool within its main subsidiaries as:

- Domestic
- Export
- Government
- Related parties

The Group recognizes an impairment loss or gain in the aggregate for all trade receivables as a provision with corresponding amount recognized in *Sales and marketing expenses*.

The Group writes-off individual trade receivables when uncollected when they become 365 days past due.

3.4.7 Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the asset's cash flows expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group does not transfer or substantially retains all risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its interest retained in the asset and an associated liability for the amounts to be paid. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a loan secured by the revenue received.

Upon derecognition of a financial asset measured at amortized cost, the difference between the carrying amount of the asset and the sum of the consideration received and receivable is recognized through profit or loss.

The Group also derecognizes a financial asset when there is information which indicates that the counterparty is in serious financial difficulty and there is no realistic prospect of recovery. The derecognized financial assets may still be subject to compliance activities in accordance with the Group's recovery procedures, taking into account legal advice when appropriate. Any recovery is recognized through profit or loss.

Accounts receivable factoring

As part of the regular business and in case of immediate cash needs, the Group could sell its accounts receivable (i.e., invoices) to a third party (factor) at a discount. The Group analyzes whether these transactions are *with recourse* or *without recourse* and applies the recognition criteria in IFRS 9 to assess whether the arrangement transfers substantially all risks and rewards to the factor. For arrangements *with recourse,* where substantially all risks and rewards have not been transferred, the cash received from the factor is accounted for as a secured borrowing. In the case of arrangements *with recourse*, the transferred assets are not derecognized.

Note 3.5. Inventories, net

Inventories are presented at the lower of acquisition cost or net realizable value. Cost is determined by the weighted average method. The net realizable value represents the estimated sale price less all the estimated termination and selling costs. The cost of finished products and products in progress includes the costs of raw materials, direct labor, other direct costs and the respective direct production expenses (based on normal operating capacity), excluding borrowing costs. Inventories are presented net of the allowances for obsolescence and, in consolidation, net of eliminations of unrealized profit on inventories.

Note 3.6. Property, plant and equipment, net

Property, plant and equipment assets are measured at historical cost less accumulated depreciation and any impairment loss, except for those acquired in a business combination, which are then recorded at fair value; assets under construction and land are not depreciated. The cost of the property, plant and equipment is the fair value of the consideration initially provided to acquire or construct the item and prepare it for use. Subsequent costs incurred for repair and maintenance, are expensed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income unless these costs meet the criteria for capitalization (i.e., extension of the useful life). Depreciation commences when the assets are ready for use.

Property, plant and equipment is depreciated based on the straight-line method over estimated useful lives.

An item of property, plant and equipment will be derecognized upon disposal or when future economic benefits from the continued use of the asset are no longer expected. The gain or loss arising from the derecognition is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized through profit or loss.

The useful lives of property, plant and equipment are:

Buildings	20 - 40 years
Machinery and equipment	10 - 20 years
Furniture and fixtures	2 - 10 years
Other equipment	2 - 5 years

Note 3.7. Intangible assets

3.7.1 Intangible assets generated internally

Disbursements originated by research activities are recognized as an expense in the period in which they are incurred.

An intangible asset generated internally as a result of development activities (or the development phase of an internal project) is recognized if, and only if, the following conditions are met:

- It is commercially and technically feasible to complete the production of the intangible asset so that it can be available for use or sale;

- Management intends to complete the intangible asset in question in order to use or sell it or can demonstrate the way in which the intangible asset will likely generate future economic benefits;
- Adequate technical, financial or other resources are available to complete the development and to use or sell the intangible asset; and
- The Group is able to reliably measure the disbursement attributable to the intangible asset during its development.

The expenses incurred in developing new pharmaceutical technologies, combination of active ingredients and formulation improvements meet the conditions of the previous paragraph, usually from the beginning of pilot batches (completion of the experimental batch stage), at which point Management considers that achieving regulatory approval (sanitary records) is a legal formality.

The amount initially recognized for an internally generated intangible asset will be the sum of the disbursements incurred once the element meets the recognition conditions. When an internally generated intangible asset cannot be recognized, development disbursements are charged through profit or loss in the period in which they are incurred. Subsequent to initial recognition, an internally generated intangible asset will be accounted for at cost less accumulated amortization and the accumulated amount of impairment losses, on the same basis as intangible assets that are acquired separately.

3.7.2 Disposal of intangible assets

An intangible asset is written off at the time of its disposal, or when future economic benefits of its use or disposal are not expected. Gains or losses arising from the write-off of an intangible asset, measured as the difference between the net proceeds from the sale and the carrying amount of the asset, are recognized through profit or loss when the asset is written off.

3.7.3 Impairment of definite-lived tangible and intangible assets and intangibles not yet available for use, and other assets

At the end of each reporting period, the Group evaluates the carrying amounts of its definite-lived tangible and intangible assets in order to identify any indication that these assets have been impaired. In such a case, the recoverable amount of the asset is calculated in order to determine the extent of the impairment loss (if any). Intangible assets not yet available for use are tested for impairment annually to determine if an impairment loss should be recognized. When it is not possible to estimate the recoverable amount of an individual asset, the Group calculates the recoverable amount of the cash generating unit to which the asset belongs. When a reasonable and consistent basis of distribution is identified, the common assets are also allocated to the individual cash generating units or distributed to the smallest group of cash generating units for which a reasonable and consistent distribution base can be identified.

The recoverable amount is the higher of the fair value less disposal costs and the value in use. When estimating the value in use, the estimated future cash flows are discounted to the present value, using a pre-tax discount rate that reflects the current market valuations with respect to the time value of money and the specific risks for the asset for which the future cash flow estimates have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) calculated is less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized immediately through profit or loss. If an impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) increases to the revised estimated value of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been calculated if the impairment loss had not been recognized for said asset (or cash-generating unit) in previous years. The reversal of an impairment loss is automatically recognized through profit or loss.

3.7.4 Amortization of internally generated intangibles

Internally-generated intangible assets such as licenses, bioequivalence studies, new platforms, tablet improvements, combinations and concentrations, and soft gel capsule improvements, among others, are of finite useful lives and their amortization period will begin only when the following two milestones are met:

- The pre-industrial batch is completed with satisfactory results.
- The regulatory body approves the corresponding sanitary records.

When these milestones are met, the capitalized developments will have met the necessary conditions to generate economic benefits in accordance with management's expectations, so the amortization of the assets begins using the straight-line method through profit or loss during the minimum projected time of generated economic benefits.

The amortization will also cease at the earliest of either the date when the asset is classified as held for sale or the date when the asset is derecognized.

3.7.5 Useful lives of intangibles

The following useful lives are used to calculate amortization:

Trademarks and sanitary records	3 – 20 years
Licenses, customers and agreements	3 – 10 years
Product development	3 years

Note 3.8. Financial liabilities and equity instruments

3.8.1 Classification as debt or equity

Debt and equity instruments are classified as financial liabilities or equity in accordance with the substance of the contractual agreement and definitions of financial liability and equity instrument.

3.8.2 Equity instruments

An equity instrument consists of any contract that evidences a residual interest in the assets of an entity, after deducting all of its liabilities. Equity instruments issued by a Group entity are recognized for income received, net of direct issue costs.

The repurchase of equity instruments of the Group is recognized and deducted directly in equity. No gain or loss is recognized through profit or loss, arising from the purchase, sale, issue or cancellation of the equity instruments of the Group.

3.8.3 Financial liabilities

Financial liabilities are classified at their inception at fair value minus transaction costs directly attributable to the transaction through profit or loss and subsequently measured at amortized cost, using the effective interest amortization method.

3.8.4 Warrant liabilities

The Group has warrants that are initially recognized at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. Gains and losses will be recorded in profit or loss.

3.8.5 Shares held in escrow

The shares to be delivered, in an escrow, are initially recognized at fair value of the equity instruments granted for services received in an equity-settled share-based payment determined at grant date, and they are subsequently remeasured to their fair value at the end of each reporting period until they are released from escrow or are forfeited.

Note 3.9. Trade and other payables

Trade and other payables are recognized when the Group has a legal or a constructive obligation, as a result of a past event, and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation and the obligation can be measured reliably. These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The average credit period for purchases is between 90 and 180 days, including cases in which the invoices have been assigned by the supplier to third parties. Other payables correspond mainly to employment obligations and provisions.

Reverse factoring

Suppliers of the Group initiate and enter into reverse factoring arrangements in which the Group participates. Under such arrangements suppliers sell or assign their receivables from the Group to third parties (i.e., 'the factor'), after which the Group pays and settles the underlying invoices directly with the factors. Provided that certain conditions are met, the invoices sold or assigned to factors remain classified within trade and other payables. The criteria are that: 1) the assignment is contractually initiated and decided by the supplier, 2) it does not extend the period in which the Group regularly pays the supplier, 3) the amount of the invoices is not modified, and there are no charges in this regard by third parties. Otherwise, the Group reclassifies those balances as a financial liability, other term loans with a corresponding reclassification from operating cash flows to financing cash flows, for the amount paid to factors.

Note 3.10. Taxes

Income tax expense represents the sum of current income tax payable and deferred tax.

3.10.1 Current tax

Current tax is based on the taxable income registered during the year. The taxable income differs from the income reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, due to the items of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible. The liabilities of the Group for current tax purposes are calculated using the tax rates enacted or substantially approved at the end of the respective reporting period.

3.10.2 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amount of the assets and liabilities included in the Consolidated Financial Statements and the corresponding tax basis used to determine the taxable income. The deferred tax liability is generally recognized for all temporary tax differences. A deferred tax asset will be recognized, as a result of all deductible temporary differences, to the extent that it is likely that each entity will have future taxable income against which to charge those deductible temporary differences. These assets and liabilities are not recognized if the temporary differences arise from the initial recognition (rather than through a business combination) of other assets and liabilities in an operation that does not affect the taxable income or the accounting income. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

A deferred liability should be recognized for taxable temporary differences associated with investments in subsidiaries and joint ventures, and interests in joint ventures, except for those in which the Group is able to control the reversal of the temporary difference and when there is a possibility that it cannot be reversed in the near future. Deferred tax assets arising from the deductible temporary differences associated with such investments and participation are only recognized to the extent that it is likely that each entity will have future taxable profits against which to charge those temporary differences and when there is the possibility that these can be reversed in the near future.

The carrying amount of a deferred tax asset must be reviewed at the end of each reporting period and reduced, to the extent that it is likely that it will not have sufficient taxable income in the future to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities should be measured using the tax rates expected to be applied in the period in which the asset is realized or the liability is settled, based on the rates (and tax laws) enacted or substantively enacted at the end of the respective reporting period.

The measurement of deferred tax liabilities and deferred tax assets will reflect the tax consequences that would arise based on each Group company's expectations, at the end of the reporting period, to recover or settle the carrying amount of their assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and relate to taxes levied by the same tax authority on the same taxable entity, or on different taxable entities.

3.10.3 Current and deferred taxes

Current and deferred taxes should be recognized through profit or loss, except when they relate to items listed in other comprehensive income or directly in equity, in which case the current or deferred tax is also recognized though other comprehensive income or directly in the equity, respectively. In cases of business combinations, when the current tax or deferred tax arises from the initial accounting of the business combination, the tax effect is considered within the accounting of the business combination.

Note 3.11. Provisions

Provisions are recognized when (i) the Group has a present legal or constructive obligation as a result of past events, (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (iii) a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.11.1 Disputes and litigation

A provision for disputes and litigation is recognized when it is more likely than not that the Group will be required to make future payments as a result of past events, such items may include but are not limited to claims, lawsuits and actions relating to employment related disputes and claims from tax authorities.

Note 3.12. Employee benefits

Note 3.12.1. Retirement and termination benefit costs

Payments to defined contribution retirement benefit plans are recognized as an expense when employees has rendered service entitling them to the contributions. Payments made to state-managed retirement benefit plans are accounted for as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurements for actuarial gains and losses are recognized immediately in the Consolidated Statement of Financial Position with a charge or credit to other comprehensive income in the period in which they occur. Remeasurements recognized in other comprehensive income are not reclassified. Past service cost is recognized in profit or loss when the plan amendment or curtailment occurs or when the Group recognizes related restructuring costs or termination benefits, if earlier. Gains or losses on settlement of a defined benefit plan are recognized when the settlement occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability.

Defined benefit costs are split into three categories:

- service cost, which includes current service cost, past service cost and gains and losses on curtailments and settlements;
- net interest expense; and
- remeasurements.

The retirement benefit obligation recognized in the Consolidated Statement of Financial Position represents the deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognizes any related restructuring costs.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

The Group recognized a net interest expense within finance costs for the year ended December 31, 2022 of $268 (2021: $67) while remeasurements of the calculations are reflected in the Statement of Other Comprehensive Income. Remeasurements of the calculations represented a decrease of $222 (decrease 2021: $195).

During the preparation of the Consolidated Financial Statements for the year ended December 31, 2022, the Group identified an understatement in Other Liabilities in prior periods for unrecorded long-term employee benefits corresponding to seniority premiums and retirement bonuses. Management assessed the materiality of the error on all the prior periods presented and determined that the error was not material to any of the periods and that a restatement of previously issued financial statements was not required. Under SEC Staff Accounting Bulletin (SAB) No. 108, prior periods misstatements may be corrected in the current year provided that such correction does not result in a material misstatement to the current year financial statements. As such, the Group corrected the misstatement in the Consolidated Financial Statements for the year ended December 31, 2022 as an out-of-period adjustment, increasing non-current other liabilities by $2,329 and current other liabilities by $185 and increasing cost of sales by $1,639, sales and marketing expense by $232, and administrative expense by $643.

Note 3.12.2. Short-term and other long-term employee benefits

A liability is recognized for benefits accruing to employees in the form of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. As of December 31, 2022, the Group recognized employee benefits costs within profit or loss as cost of sales of $28,494 (2021: $25,051), $41,329 (2021: $31,973) as administrative expenses and $36,304 (2021: $30,227) as sales and marketing expense.

Note 3.13. Revenue recognition

The Group recognizes revenues from the sale of pharmaceutical products and the provision of services primarily related to product development projects.

Revenue is measured based on the consideration specified in a contract with a customer and excludes balances collected on behalf of third parties. The Group recognizes revenue when transferring control of a product or service to a customer.

3.13.1 Sale of goods

Revenue from the sale of goods is recognized when the control of the goods is transferred (both in export and domestic operations) and the performance obligations have been fulfilled by the Group, which occurs when the product is delivered to the location specified by the customer, according to the negotiating conditions agreed upon. Revenues are reduced by discounts or rebates and other similar allowances estimated for customers.

3.13.2 License revenues

Revenue from the sale of intellectual property (licenses) is recognized based on the evaluation of whether an entity's commitment to grant a license provides the customer with a right of access to intellectual property, which is transferred over time, or a right to use the intellectual property of an entity, which is transferred at a point in time.

The license is a commitment to provide a right of access to the entity's intellectual property if all the following criteria are met:

- the contract requires, or the customer reasonably expects, that the entity carries out activities that significantly affect the intellectual property to which the customer is entitled;
- the rights granted by the license directly expose the customer to the positive or negative effects of the entity's activities identified in subsection a above; and
- those activities do not result in the transfer of a good or service to the customer as such activities take place.

If these criteria are not met, the license grants the customer a right to use the license, and the transaction is recognized when the license is granted to the customer.

3.13.3 Service provision

Revenue from service contracts is recognized based on the status of completion of the contract. If the Group transfers control of a service to satisfy the performance obligation over time, it then recognizes revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs;
- the entity's performance creates or enhances an asset that the customer controls as it is created or enhanced; or
- the entity's performance does not create an asset with an alternative use for the entity and the entity has an enforceable right to payment for performance that has been completed to date.

3.13.4 Sale of trademarks and sanitary records

Revenue from contracts for the sale of a trademark or sanitary records is recognized at the point of the transfer of possession, use, enjoyment and other real and personal rights at the price agreed in the contract, fulfilling the following conditions:

- The customer has the right to all the benefits of the commercial use of the trademark or sanitary records.
- The customer can redirect the use of the trademark or sanitary records.
- The customer is responsible for sales, marketing and advertising activities.
- The customer obtains control of the trademark or sanitary records, which includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, the trademark or sanitary records.

Note 3.14. Segment reporting

An operating segment is a component that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the other components, and for which discrete financial information is available. The Group is engaged in the business of developing, producing and marketing pharmaceutical solutions and related activities and is considered an integrated international healthcare and pharmaceutical company across the three core therapeutic areas: hospitals/clinics, pharmacies (prescription) and over-the-counter (non-prescription).

The Group's customer revenue recognition (external revenue) policy has been consistent with inter-segment revenue generated.

The Group’s business is organized and managed through a combination of geographical regions and business units through 40 legal entities, of which 23 are operating entities, divided in five strategic divisions, which are its operating segments. These divisions offer different products and services and are managed separately as they require different technology and marketing strategies. The five operating segments correspond to each of its five reportable segments for financial reporting purposes.

The following summary describes the operations of each reportable segment:

Reportable segment	Operations
NextGel	Development and manufacturing of Softgel and related technologies in USA, Brazil and Colombia
Procaps Colombia	Manufacturing and distribution of prescription and over-the-counter pharmaceutical products in Colombia
CAN	Manufacturing and distribution of prescription and over-the-counter pharmaceutical products in Northern Central America: Salvador, Guatemala, Nicaragua and Honduras
CASAND	Manufacturing and distribution of prescription and over-the-counter pharmaceutical products in Southern Central America (Panama and Costa Rica) and the North Andes District (Ecuador, Peru and Bolivia)
Diabetrics	Diabetes solutions and chronic disease management tool

The Group's chief executive officer reviews the internal management reports of each division at least quarterly.

Note 3.15. Principles of consolidation and equity accounting

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statement of Profit or loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Financial Position respectively.

3.15.1. Joint ventures

Joint ventures are arrangements whereby the Group maintains joint control of the underlying net assets of the arrangement with the counterparties. The Group holds a single 50% interest in one joint venture and the Group holds 50% of the voting rights and management board representation. Investments in joint ventures are accounted for using the equity method of accounting, after initially being recognized at cost.

3.15.2. Equity method

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from joint ventures are recognized as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in *3.7.3 Impairment of definite-lived tangible and intangible assets and intangibles not yet available for use, and other assets.*

3.15.3. Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

Note 3.16. Earnings Per Share

Earnings per share was computed by dividing basic net income attributable to ordinary shareholders by the weighted-average number of ordinary shares outstanding. Diluted income per ordinary share is computed by dividing diluted net income attributable to ordinary shareholders by the weighted-average number of ordinary shares outstanding plus dilutive potential ordinary shares, if any. Dilutive potential ordinary shares include outstanding warrants or other contracts to issue ordinary stock and are determined by applying the treasury stock method or if-converted method, as applicable, if dilutive.

For the years ended December 31, 2022, and 2021, no dilutive effect has been identified.

Number of shares prior to the Transaction is retrospectively adjusted as a capital restructuring for the equivalent number of shares received and on a pro rata basis for prior reporting periods.

Note 4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the accounting policies, which are described in Note 3. Summary of significant accounting policies, management must make judgments, estimates and assumptions about the carrying amounts of the assets and liabilities that are not readily observable in other sources. The estimates and underlying assumptions are based on historical experience and other relevant factors. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed regularly. Changes to accounting estimates are recognized in the period of the review, if the change only affects that period, or in future periods if the change affects both the current and subsequent periods.

Note 4.1. Critical accounting judgements

4.1.1 Reverse factoring

Significant judgement is involved to evaluate whether a liability under a reverse factoring arrangement is in essence a continuation of an operating liability or a derecognition of the operating liability and recognition of a financing liability. The Group evaluates the requirements under IFRS 9 and applies judgment to the facts and circumstances as a whole. Specifically, whether interest charged from the suppliers to the Group creates a substantial change in the amount payable, i.e., financing.

4.1.2 Factoring

The Group enters into factoring arrangements where it sells or assigns certain trade receivables to third parties under both recourse and non-recourse programs. Similar, to reverse factoring, significant judgment is required under IFRS 9 to assess whether the Group has substantially transferred all risk and rewards incidental to the trade receivables to the factor. Specifically, whether or not the factor has the right to collect the unpaid invoice amount from the transferor (seller).

4.1.3 Going Concern

Refer Note 2.1. Going concern for judgements related to going concern.

Note 4.2. Key sources of estimation uncertainty

4.2.1 Goodwill impairment

Determining whether goodwill has been impaired involves calculating the value in use of the cash generating units to which the goodwill has been assigned. The calculation of value in use requires the entity to determine the future cash flows that should arise from the cash-generating units and an appropriate discount rate to calculate the present value. When actual future cash flows are less than expected, an impairment loss may arise.

Goodwill impairment testing relies on a number of critical judgments, estimates and assumptions. Goodwill is tested for impairment at the cash generating unit level. The Group tests at least annually whether goodwill have suffered any impairment by calculating the recoverable amount of the cash generating unit and comparing this to its carrying value.

The Group's impairment testing methodology is in accordance with IAS 36, where the value in use approach is taken into consideration.

The value in use calculations primarily use cash flow projections. There are a number of assumptions and estimates involved for the preparation of cash flow projections. Key assumptions include the growth rate, expected market share, expected gross margin and selection of discount rates, to reflect the risks involved.

Management prepared the financial projections reflecting actual and prior year/period performance and market development expectations. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews. Refer Note 12. Goodwill for further information on the goodwill exposure and estimates applied.

4.2.2 Useful life of property, plant and equipment and amortization of intangibles with finite useful lives

The Group reviews the estimated useful lives of property, plant and equipment and intangibles with finite useful lives at the end of each annual period.

4.2.3 Provisions for contingencies, litigation and lawsuits

The litigation and lawsuits to which the Group is exposed are managed by appropriate legal personnel and are primarily related to labor, civil and administrative disputes. The Group considers that a past event has given rise to a present obligation if there is no realistic alternative to settling the present obligation, independent of future events, considering all the evidence available at the reporting date. It is understood that the probability of an event is more likely than not when the probability of occurrence is greater than 50%, in which case the provision is recorded. The possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one to more uncertain future events that are not entirely under the control of the Group are not recognized in the Consolidated Statement of Financial Position, but are disclosed as contingent liabilities. The occurrence or non-occurrence of events that are deemed remote are not recorded or disclosed. The Group utilizes the professional judgment of internal and external specialists to determine the possibility of the occurrence of a present obligation. In the estimation of the provision for litigation and lawsuits, Management considers assumptions such as appraisal of the attorneys, estimated duration of the litigation or lawsuit and statistical information of litigation or lawsuits with similar characteristics, among others.

4.2.4 Impairment of accounts receivable

The Group evaluates the impairment of its accounts receivable by the expected credit loss model where it determines its value based on the probability of default, the loss due to default (i.e., the extent of the loss in case of default) and the exposure in the default. The assessment of the probability of default and the loss due to default is based on historical data adjusted by prospective information. Further details of other judgments are in Note 3. Summary of significant accounting policies.

4.2.5 Useful lives of right-of-use assets

Right-of-use assets depreciate during the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the asset related to the right of use depreciates during the useful life of the underlying asset. Depreciation begins at the commencement of the lease.

4.2.6 Recognition of deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences only to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. In determining whether it is probable that taxable profit will be available to realize the Group’s deferred tax assets, the management considered the following sources of taxable income:

- Reversal of taxable temporary differences
- Future taxable profit excluding reversal of temporary differences
- Tax planning opportunities

4.2.7 Reverse reorganization

The excess between the fair value of the shares and equity instruments issued and the net assets acquired is treated as an expense under IFRS 2 (the 'listing expense') and it includes certain elements of judgement and estimation. This centers around the estimation of the fair value of OpCo prior to the Transaction and the fair value of the private warrants. Refer to Note 26.1. Reverse reorganization for further information related to the Transaction.

The fair value of OpCo was estimated using a combination of a market and income approach under IFRS 13 where the Group forecasted an annual adjusted EBITDA. A market based multiple, as negotiated amongst the independent parties to the Transaction, was then applied to the adjusted EBITDA to arrive at the enterprise value which was then adjusted for OpCo's net debt.

4.2.8 Private warrants

The private warrants are recorded as financial liabilities on the Consolidated Statement of Financial Position and are remeasured on each reporting date. In assessing the fair value of the private warrants, a Black-Scholes option pricing formula for European calls was used since the warrants are not publicly traded. The model requires the input of subjective assumptions, including the volatility of its own ordinary shares, the expected life, and strike price of the warrants. Any changes in these assumptions can significantly affect the estimate of the fair value of the warrants.

4.2.9 Shares held in escrow

Significant judgement is involved to evaluate whether a contract that may be settled in the issuer's own equity instruments meets the equity or liability classification. The shares to be delivered in an escrow are recorded as financial liabilities on the Consolidated Statement of Financial Position and are remeasured on each reporting date. In assessing the fair value of the shares, Monte Carlo simulation was applied in a risk-neutral framework assuming a Geometric Brownian Motion for the future stock price. This model is consistent with the Black-Scholes option pricing framework, and was used to account for the path-dependent + 20 out of 30 day features.

Note 5. New and amended IFRS Standards that are effective for the current year

The Group adopted the following accounting standard amendments from January 1, 2022. The evaluation performed by management determined that these amendments did not result in a significant impact in relation to the Group as of December 31, 2022.

Reference to the Conceptual Framework – Amendments to IFRS 3 - Effective January 1, 2022

Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFRIC 21 Levies. The amendments also confirm that contingent assets should not be recognized at the acquisition date.

No business combinations were consummated for the year ended December 31, 2022 and therefore, this amendment has not impacted the Group.

Onerous Contracts – Cost of Fulfilling a Contract - Amendments to IAS 37 - Effective January 1, 2022

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

Due to the nature of contractual arrangements with customers, this amendment has not impacted the Group.

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) - Effective January 1, 2022

The amendment to IAS 16 Property, Plant and Equipment ("PP&E") prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

The Group did not sell any items produced by PP&E while the entity was preparing such asset for its intended use and therefore, this amendment has not impacted the Group.

Annual Improvements to IFRS Standards 2018-2020 - Effective January 1, 2022

The following improvements were finalized in May 2020:

IFRS 9 *Financial Instruments* – clarifies which fees should be included in the 10% test for the derecognition of financial liabilities. No significant financial instruments were modified during the year ended December 31, 2022 and therefore, this improvement has not impacted the Group.

IFRS 16 *Leases* – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements in order to remove any confusion about the treatment of lease incentives. No payments were received from lessors related to leasehold improvements during the year ended December 31, 2022 and therefore, this amendment has not impacted the Group.

The evaluation performed by Management determined that there was not significant impact in relation to the Group as of December 31, 2022.

Note 6. Recent accounting pronouncements not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended December 31, 2022 and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

As of the issue date of these Consolidated Financial Statements, the following new and revised IFRS standards have been issued, but are not yet effective:

IFRS 17 Insurance Contracts - Effective January 1, 2023

IFRS 17 provides the first comprehensive guidance on accounting for insurance contracts under IFRS accounting standards. Its objective is to increase transparency and reduce diversity in the accounting for insurance contracts. The Group does not have insurance contracts, as such, this new standard is not applicable to the Group.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) - Effective January 1, 2023

The IASB has issued amendments to IAS 1 *Presentation of Financial Statements* and an update to IFRS Practice Statement 2 *Making Materiality Judgements* to provide further clarification on the applying the concept of materiality and to help companies provide useful accounting policy disclosures.

The key amendments to IAS 1 include:

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The IASB also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures.

The Group is in the process of performing its assessment of the impacts of the new amendment and anticipate a change in the disclosure of accounting policies upon adoption. However, early adoption was not elected.

Definition of Accounting Estimate (Amendments to IAS 8) - Effective January 1, 2023

The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty.
The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The distinction between the two is important because changes in accounting policies are applied retrospectively, whereas changes in accounting estimates are applied prospectively.

The Group is in the process of performing its assessment of the impacts of the amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, but does not anticipate a significant change in its accounting estimates upon adoption. However, early adoption was not elected.

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes - Effective January 1, 2023

Targeted amendments to IAS 12 *Income Taxes* clarify how companies should account for deferred tax on transactions such as leases and decommissioning provisions.

The amendments narrow the scope of the initial recognition exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other components of equity at that date. The Group is in the process of performing its assessment of the impacts of the new standard and anticipate a change in the recognition of deferred assets and liabilities upon adoption. However, early adoption was not elected.

Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants (Amendments to IAS 1) - Effective January 1, 2024

The narrow-scope amendments to IAS 1 *Presentation of Financial Statements* clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant).

The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

In addition, the amendments also indicate that a company should classify a liability as non-current if it has a right to defer settlement for at least 12 months after the reporting date. This right may be subject to a company complying with conditions (covenants) specified in a loan arrangement. Covenants with which the company must comply after the reporting date (i.e., future covenants) do not affect a liability's classification at the reporting date. However, when non-current liabilities are subject to future covenants, companies will now need to disclose information to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date.

The amendments must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The Group is in the process of performing its assessment of the impacts of the new standard and anticipate a change in the classification of warrants and shares held in escrow upon adoption from non-current to current liabilities. However, early adoption was not elected.

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) - Effective January 1, 2024

The amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from recognizing in profit or loss any gain or loss relating to the partial or full termination of a lease. The Group is in the process of performing its assessment of the impacts of the new standard. However, early adoption was not elected.

IFRS 10 and IAS 28 - Amendments - Sales or contributions of assets between an investor and its associate or joint venture.

The IASB has made limited scope amendments to IFRS 10 *Consolidated financial statements* and IAS 28 *Investments in associates and joint ventures*.

The amendments clarify the accounting treatment for sales or contributions of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognize the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognized by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.

The effective date of the amendments has been deferred indefinitely by the IASB; however, early application of the amendments is permitted.

Note 7. Revenue

The Group recognizes its revenues from the transfer of goods and services to the fulfillment of its performance obligations. The Group's annual revenue includes $7,098 (2021: $3,637) recognized from intellectual property licensing and dossier generation.

Products

The Group primarily engages in developing, producing and marketing pharmaceutical solutions. It is considered an integrated international healthcare and pharmaceutical company across the three core therapeutical areas: hospitals/clinics, pharmacies (prescription) and over-the-counter (non-prescription).

The Group's main products for the years ended December 31, 2022, and 2021 are:

a. Business to Business

   Nextgel

   i. Softgel: Integrated CMDO, soft gelatin capsules, softgels, gummy-gels and GTabs.

b. Business to Consumer

   Procaps Colombia, CAN and CASAND

   a. VitalCare: Branded drugs, consumer over-the-counter and generics

      i. Clinical Specialties: High-complexity drugs and medical devices

      ii. Farma: Branded prescription drugs

   Diabetrics

   i. Diabetrics: Diabetes solutions and chronic disease management tool

Disaggregation of revenue from contracts with customers

Revenue from contracts with customers is disaggregated by primary geographical market and major products (refer to Note 8. Segment reporting) and by timing of revenue recognition in the table below.

For the year ended December 31 2022	Reportable segments					Corporate	Total
	NextGel	Procaps Colombia	CAN	CASAND	Diabetrics		
Segment revenue	256,112	145,330	77,928	83,392	34,459	—	597,221
Inter-segment revenue	(131,047)	(2,985)	(22,461)	(17,062)	(13,746)	—	(187,301)
Revenue from contracts with customers	**125,065**	**142,345**	**55,467**	**66,330**	**20,713**	**—**	**409,920**
Timing of revenue recognition							
Goods transferred at a point in time	118,394	142,345	55,467	65,903	20,713	—	402,822
Services transferred over time	6,671	—	—	427	—	—	7,098
Total revenue from contracts with customers	**125,065**	**142,345**	**55,467**	**66,330**	**20,713**	**—**	**409,920**

For the year ended December 31 2021	Reportable segments					Corporate	Total
	NextGel	Procaps Colombia	CAN	CASAND	Diabetrics		
Segment revenue	244,791	156,820	67,842	68,242	47,835	—	585,530
Inter-segment revenue	(123,964)	(1,493)	(16,905)	(14,286)	(19,140)	—	(175,788)
Revenue from contracts with customers	**120,827**	**155,327**	**50,937**	**53,956**	**28,695**	**—**	**409,742**
Timing of revenue recognition							
Goods transferred at a point in time	117,190	155,327	50,937	53,956	28,695	—	406,105
Services transferred over time	3,637	—	—	—	—	—	3,637
Total revenue from contracts with customers	**120,827**	**155,327**	**50,937**	**53,956**	**28,695**	**—**	**409,742**

Revenue recognized from goods transferred at a point in time include revenues related to “sales of goods” and “sales of trademarks and sanitary records”. Revenue recognized from services transferred over time include revenues related to “intellectual property licensing” and “dossier generation”. Revenues, other than sales of goods, are not material to the Group.

Note 8. Segment reporting

Segment information is presented at a combination of geographical segments and business units, consistent with the information that is available and evaluated regularly by the chief operating decision maker.

The Group operates its business through five segments which are its reportable segments for financial reporting purposes: Procaps Colombia, Central America North ("CAN"), Central America South and North Andes ("CASAND"), NextGel and Diabetrics. Segment management, the respective Vice Presidents, are responsible for managing performance, underlying risks and operations. Management uses a broad set of performance indicators, to measure segment performance and to make decisions around resource allocation.

The Group's customer revenue recognition (external revenue) policy has been consistent with inter-segment revenue generated.

Year 2022	**NextGel**			**Procaps Colombia**			**CAN**			**CASAND**		
	Total	**Inter-segment eliminations**	**External**	**Total**	**Inter-segment eliminations**	**External**	**Total**	**Inter-segment eliminations**	**External**	**Total**	**Inter-segment eliminations**	**External**
Revenue	256,112	(131,047)	125,065	145,330	(2,985)	142,345	77,928	(22,461)	55,467	83,392	(17,062)	66,330
Contribution margin [1]	66,752	(14,307)	52,445	44,594	156	44,750	18,681	(1,861)	16,820	14,602	14,869	29,471

Year 2022	**Diabetrics**			**Corporate**			**Total**		
	Total	**Inter-segment eliminations**	**External**	**Total**	**Inter-segment eliminations**	**External**	**Total**	**Inter-segment eliminations**	**External**
Revenue	34,459	(13,746)	20,713	—	—	—	597,221	(187,301)	409,920
Contribution margin [1]	2,965	116	3,081	3,920	(4,484)	(564)	151,514	(5,511)	146,003
Administrative expenses	—	—	—	105,911	—	105,911	105,911	—	105,911
Finance expenses	—	—	—	(37,917)	—	(37,917)	(37,917)	—	(37,917)
Other expenses	—	—	—	25,299	—	25,299	25,299	—	25,299
Income (loss) before tax							**58,221**	**(5,511)**	**52,710**

Year 2021	**NextGel**			**Procaps Colombia**			**CAN**			**CASAND**		
	Total	**Inter-segment eliminations**	**External**	**Total**	**Inter-segment eliminations**	**External**	**Total**	**Inter-segment eliminations**	**External**	**Total**	**Inter-segment eliminations**	**External**
Revenue	244,791	(123,964)	120,827	156,820	(1,493)	155,327	67,842	(16,905)	50,937	68,242	(14,286)	53,956
Contribution margin [1]	66,679	(12,573)	54,106	51,431	490	51,921	18,767	(231)	18,536	9,949	11,754	21,703

Year 2021	**Diabetrics**			**Corporate**			**Total**		
	Total	**Inter-segment eliminations**	**External**	**Total**	**Inter-segment eliminations**	**External**	**Total**	**Inter-segment eliminations**	**External**
Revenue	47,835	(19,140)	28,695	—	—	—	585,530	(175,788)	409,742
Contribution margin [1]	6,981	(133)	6,848	89	(547)	(458)	153,896	(1,240)	152,656
Administrative expenses	—	—	—	82,187	—	82,187	82,187	—	82,187
Finance expenses	—	—	—	78,636	—	78,636	78,636	—	78,636
Other expenses	—	—	—	78,991	—	78,991	78,991	—	78,991
Income (loss) before tax							**(85,918)**	**(1,240)**	**(87,158)**

[1] Contribution Margin is determined by subtracting sales and marketing expenses from gross profit. The Group's customer revenue recognition (external revenue) policy has been consistent with inter-segment revenue generated.

Major customer

The Group does not have revenue from a single customer comprising more than ten percent of its consolidated revenue.

Geographical information

In presenting information based on geographical segments, segment revenue is based on the geographical location of the customers.

	For the year ended December 31	
	2022	**2021**
South America	275,933	284,068
Central America	86,679	72,188
North America	37,115	44,857
Europe	10,193	8,629
Total	**409,920**	**409,742**

Note 9. Finance income (expenses), net

	For the year ended December 31			
		2022		**2021**
Banking expenses	$	(781)	$	(1,056)
Bank fees		(8,498)		(2,263)
Other financial expenses		(1,033)		(354)
Net fair value gain of warrant liabilities		12,196		5,851
Net fair value gain of shares held in escrow		61,795		4,506
Interest expense		(25,762)		(85,320)
Total income (expense)	**$**	**37,917**	**$**	**(78,636)**

In 2022, $6,076 of the bank fees relate to the amortization of upfront and commitment fees incurred under the Bridge Credit Agreement which was subsequently terminated, as mentioned in Note 1. General Company Information and Note 28. Events after the reporting period. The upfront and commitment fees are amortized using the straight-line method over the commitment period.

Refer to Note 25. Warrant Liabilities, Note 26.1. Reverse reorganization and Note 27. Financial instruments for further information related to net fair value gains for the years ended December 31, 2022 and 2021.

For the year ended December 31, 2021, interest expense includes the finance expense related to the obligation to repurchase the Group's ordinary shares from IFC and Hoche under the Put Option Agreements and is measured using the effective interest rate method, inclusive of eligible transaction costs. The amount of interest expense, related to the put options recognized in 2021, amounts to $23,506. Additionally, an extinguishment loss of $35,920 was recognized in 2021, reflecting the re-negotiated commencement date for the annual return of the obligation under the Put Option Agreement with Hoche. On the effectiveness of the Transaction, September 29, 2021, both Put Option Agreements were terminated in exchange for ordinary shares issued by Holdco. The termination of the put option resulted in the associated liabilities to be reclassified into Company's equity.

In 2022, interest on lease liabilities amounted to $1,033 (2021: $720). Refer to Note 3.3. Leases - Right-of-use assets & lease liabilities for method of recognition of interest expense applied by the Group.

In 2022, interest expense includes an extinguishment loss of $1,601, as a result of the substantially modified terms of the Senior Notes. Refer to Note 19. Borrowings for further information related to the debt extinguishment.
Net fair value gains recognized in Finance income (expenses), net during 2022 and 2021 are unrealized..

Note 10. Other expenses, net

	For the year ended December 31	
	2022	2021
Currency exchange rate differences	$ 15,984	$ 4,026
Economic emergency contribution expenses	1,301	1,385
Fines, surcharges, penalties and taxes assumed	1,119	775
Donations	814	720
Listing expense [1]	—	73,917
Impairment loss [2]	6,018	—
Other	63	(1,832)
Total	**$ 25,299**	**$ 78,991**

[1] Corresponds to the difference between the fair value of the net assets received through SPAC and the value of the equity interest issued, adjusted by dilutive effect of shares held in escrow at a weighted average fair value per share. Refer to Note 26.1. Reverse reorganization for further information related to the Transaction.

[2] Refer to Note 12. Goodwill for further details regarding the impairment loss and to Note 14. Property, plant and equipment, net, Note 13. Intangible assets and Note 15. Leases for the impairment recognized within each asset group.

Note 11. Income tax

Income tax recognized through profit or loss

	For the year ended December 31	
	2022	2021
Current year	8,407	12,250
Current tax expense	**8,407**	**12,250**
Origination and reversal of temporary differences	1,763	1,455
Deferred tax (income) expense	**1,763**	**1,455**
Total tax expense	**10,170**	**13,705**

Reconciliation of effective tax rate

	For the year ended December 31	
	2022	**2021**
Profit/ (loss) before tax	52,710	(87,158)
Income tax (benefit)/expense	8,961	(14,817)
Tax effect of expenses that are not deductible in determining taxable profit	27,187	49,442
Tax effect of income not taxable in determining taxable profit	(30,292)	(8,822)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,249)	(9,423)
Others - Includes exchange effects for reversal rates of long-term temporary differences, income taxed at differential rates, effect of change in deferred tax rate and tax discounts	5,563	(2,675)
Tax effect of utilization of tax losses not previously recognized	—	—
Tax expense for the year	**10,170**	**13,705**

The tax rate used for 2022 represents the corporate tax rate of 24.94% (2021: 24.94%) from Luxembourg on the taxable income payable by the Group, in accordance with the tax laws of said jurisdiction. Income tax for other jurisdictions is calculated based on the substantially enacted nominal tax rates prevailing in the respective jurisdictions. After effectiveness of the Transaction on September 29, 2021, the Group's corporate tax jurisdiction changed from Malta to Luxembourg where the corporate tax rate is 24.94%.

On September 14, 2021, Colombia’s President approved the Social Investment Law (Ley de Inversión Social, or the “2021 Colombian Tax Reform”), which includes certain tax measures intended to generate additional tax revenues to fund social programs for purposes of mitigating the impact of the COVID-19 pandemic. The 2021 Colombian Tax Reform took effect beginning in 2022 and, among other things, includes a corporate tax rate increase from 30% to 35% for both domestic and foreign entities, permanent establishments and branches.

On December 13, 2022, the Colombian President enacted Law 2277 of 2022, which contains the tax reform proposals previously approved by congress. The purpose of the amendments is to promote equality and social justice, as well as to consolidate adjustments to the tax system. These tax measures include, among other things, corporate tax rate to remain unchanged at 35%. However, a new net tax rate will be introduced, under which Colombian companies, including free trade zone users, will be subject to a minimum 15% effective tax rate, calculated based on financial net profit, in accordance with the OECD Pillar Two global minimum tax rules. Some changes that alter substantial matters concerning periodic taxes enter into force as from January 1, 2023, and certain other provisions enter into force on a date specified in the legislation. The Group is evaluating the potential impact of this tax reform and cannot anticipate the impact it may have on the Group.

Current tax assets and current tax liabilities:

	As of December 31,	
Current tax assets	**2022**	**2021**
Income Tax Advance	9,227	6,081
Surplus in Private Liquidation	9,563	15,732
Other Tax Assets	2,397	269
Total	**21,187**	**22,082**
Current tax liabilities		
Withholding Income Tax	(2,274)	(8,982)
Income Tax Payable	(2,797)	(2,652)
Other Tax Liabilities	(1,062)	(122)
Total	**(6,133)**	**(11,756)**

As of December 31, 2022 and 2021, the following is the detail of the tax losses of the Group that have not been used and on which no active deferred tax has been recognized:

	As of December 31,	
	2022	**2021**
Tax Losses not utilized	4,752	3,242
Total	**4,752**	**3,242**

Note 12. Goodwill

		2022		2021
Balance as of January 1	**$**	**6,803**	**$**	**6,863**
Effect of movements in foreign exchange		(174)		(60)
Impairment losses	$	(838)	$	—
Balance as of December 31	**$**	**5,791**	**$**	**6,803**

The Group completed its annual impairment test for goodwill for the years ended December 31, 2022 and 2021 and concluded that no impairment charge was warranted for Procaps S.A. de C.V. and Biokemical S.A. de C.V. cash generating units. However, as of December 31, 2022 an impairment loss was recognized for the Rymco cash generating unit (in regards to prior periods, goodwill impairment losses hadn't previously been recognized). The Group cannot predict whether an event that triggers impairment will occur, when it will occur or how it will affect the value of the asset reported. The Group believes that all of its estimates are reasonable and are consistent with the Group’s internal reporting and reflect management’s best estimates.

Allocation of goodwill to cash generating units

For the purpose of impairment testing, goodwill has been allocated to the following cash-generating units, which belong to different reportable segments:

Cash-generating unit	Reportable segment	As of December 31, 2022	2021
Procaps S.A. de C.V.	CAN	$ 549	$ 549
Biokemical S.A. de C.V.	CAN	5,242	5,242
Rymco	Procaps Colombia	—	1,012
		$ 5,791	**$ 6,803**

The Group has three cash generating units - *Procaps, S.A, de C.V.,* is engaged in the manufacturing and distribution of pharmaceutical products, *Biokemical S.A. de C.V.* which also manufactures and distributes pharmaceutical products, and *Rymco,* a manufacturer and seller of syringes, needles, and infusion equipment.

To determine the recoverable amount for each of these cash generating units, a value-in-use calculation was conducted using cash flow projections from approved financial budgets over a specific period, along with an annual discount rate. For cash flows beyond the number of years used in projection, a fixed annual growth rate was used to extrapolate the projections. The chosen period for the cash flow projection represents the stable long-term position, and hence, the cash flows were extrapolated using a steady growth rate in the second stage. The sales growth rate and fixed gross margins were used as inputs for the cash flow projections during the budgeted period, and the directors estimated the growth rate based on past performance and their expectations of market development. The following key assumptions and inputs were considered in the calculation of projected the cash flows of the cash generating units:

	Procaps S.A. de C.V.		Biokemical S.A. de C.V.		Rymco	
	2022	2021	2022	2021	2022	2021
Post-Tax Discount Rate	16.5 %	12.2 %	16.5 %	13.3 %	17.5 %	11.5 %
No. of years used in projection (In Years)	6	6	6	6	5	5
Fixed annual growth rate[1]	3 %	1 %	3 %	1 %	3.0 %	3.1 %
Average sales growth rate	15.0 %	6.2 %	12.6 %	3.8 %	(3.5)%	11.6 %
Average gross margin[2]	52.6 %	49 %	41.2 %	41.4 %	27.9 %	18 %
Expected market share[3]	6.5 %	6.2 %	7.5 %	3.8 %	18.1 %	19.9 %

[1] This rate is consistent with the growth of the pharmaceutical and medical supplies markets in the current and potential operating areas of the cash-generating units.
[2] Fixed gross margins were used in the cash flow projections for Procaps S.A. de C.V.
[3] Management considers that the planned growth of market share for the next five to eight years is reasonably achievable.

The table below indicates the amount by which estimated recoverable amount of the cash generated units exceeded its carrying amount:

Cash-generating unit	Reportable segment	2022	2021
Procaps S.A. de C.V.	CAN	$ 11,863	$ 10,386
Biokemical S.A. de C.V.	CAN	7,205	5,932
Rymco	Procaps Colombia	(11,741)	5,766

The impairment in Rymco is due to the decrease in sales and declining market conditions. During 2021, the production capacity of Rymco's manufacturing facilities was expanded to meet the increased demand for its products that helped reduce the spread of the COVID-19 virus. However, during 2022, due to the end of the COVID-19 epidemic, the demand for those products significantly declined and, as a result, so did the selling prices due to oversupply in the marketplace.

As a result of the impairment identified as of December 31, 2022, the Group assessed the assets within Rymco subject to IAS 36 and recognized an impairment loss up to the greater of the recoverable amount of the individual assets or zero. The recoverable amount of the assets is its individual Level 2 fair value less costs of disposal, which is calculated based on observable market prices for similar assets. Therefore, a total impairment loss expense of $6,018, which was allocated to the non-financial assets of Rymco as follows:

- Impairment of Goodwill of $838, with $0 remaining carrying amount;
- Impairment of Property Plan and Equipment of $4,689, with a remaining carrying amount of $1,596;
- Impairment of Right-of-use assets of $356, with a remaining carrying amount of $2,744; and
- Impairment of Intangible assets of $135, with $0 remaining carrying amount.

After impairing assets within the scope of IAS 36 by $6,018, an unallocated impairment of $5,723 remained unrecognized by the Group.

The impairment losses are recognized in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as Other expenses, net.

Note 13. Intangible assets

Cost	**Trademarks and sanitary records**	**Licenses, customers and agreements**	**Product development**	**Total**
Balance as of January 1, 2021	**13,176**	**17,174**	**18,272**	**48,622**
Additions	1,672	755	—	2,427
Additions from internal developments	—	—	7,976	7,976
Derecognition of assets	—	(7)	—	(7)
Foreign currency exchange	(631)	(1,475)	(2,986)	(5,092)
Transfers	489	(512)	23	—
Balance as of December 31, 2021	**14,706**	**15,935**	**23,285**	**53,926**
Additions	1,684	566	—	2,250
Additions from internal developments	—	—	8,713	8,713
Derecognition of assets	—	(49)	(154)	(203)
Foreign currency exchange	(1,180)	(1,574)	(4,697)	(7,451)
Transfers	233	363	—	596
Balance as of December 31, 2022	**15,443**	**15,241**	**27,147**	**57,831**

Accumulated amortization and impairment losses	Trademarks and sanitary records	Licenses, customers and agreements	Product development	Total
Balance as of January 1, 2021	**3,481**	**12,768**	**4,790**	**21,039**
Amortization expense	787	965	3,064	4,816
Derecognition of assets	—	(7)	—	(7)
Foreign currency exchange	(277)	(976)	(840)	(2,093)
Transfers	241	(237)	(4)	—
Balance as of December 31, 2021	**4,232**	**12,513**	**7,010**	**23,755**
Amortization expense	1,205	995	2,733	4,933
Impairment loss	114	21	—	135
Foreign currency exchange	(495)	(1,201)	(1,504)	(3,200)
Balance as of December 31, 2022	**5,056**	**12,328**	**8,239**	**25,623**
As of December 31, 2021				
Net book value	10,474	3,422	16,275	30,171
As of December 31, 2022				
Net book value	10,387	2,913	18,908	32,208

For the years ended December 31, 2022, and 2021 amortization expenses are recognized within the Consolidated Statement of Profit or Loss and Other Comprehensive Income as administrative expenses.

Impairment loss recognized in Other expenses, net relates to the Rymco cash-generating unit. Refer to Note 12. Goodwill for further information.

Foreign currency exchange corresponds to the effect of translating the intangible asset amounts attributable to the subsidiaries of the Group whose functional currencies are different from that of the Group.

Note 14. Property, plant and equipment, net

Cost	Land and buildings	Machinery and equipment, furniture and fixtures	Projects in progress	Other [1]	Total
Balance as of January 1, 2021	**26,819**	**69,664**	**9,330**	**9,478**	**115,291**
Additions	487	4,764	10,019	167	15,437
Disposals	(289)	(350)	—	(15)	(654)
Effect of exchange differences in foreign currency	(1,180)	(8,930)	(1,130)	(515)	(11,755)
Transfers	4,482	6,518	(7,578)	(5,087)	(1,665)
Balance as of December 31, 2021	**30,319**	**71,666**	**10,641**	**4,028**	**116,654**
Additions	4,425	2,556	16,055	121	23,157
Disposals	(2,072)	(2,071)	—	(2)	(4,145)
Effect of exchange differences in foreign currency	(1,283)	(9,698)	(2,008)	(512)	(13,501)
Transfers	759	1,667	(2,872)	179	(267)
Balance as of December 31, 2022	**32,148**	**64,120**	**21,816**	**3,814**	**121,898**

Accumulated depreciation and impairment losses	Land and buildings	Machinery and equipment, furniture and fixtures	Projects in progress	Other [1]	Total
Balance as of January 1, 2021	**8,071**	**32,624**	**—**	**4,261**	**44,956**
Disposals	(70)	(91)	—	(16)	(177)
Depreciation expense	871	4,653	—	548	6,072
Effect of exchange differences in foreign currency	(328)	(3,743)	—	(472)	(4,543)
Transfers	(907)	(587)	—	(798)	(2,292)
Balance as of December 31, 2021	**7,637**	**32,856**	**—**	**3,523**	**44,016**
Disposals	—	(2,013)	—	(1)	(2,014)
Depreciation expense	775	4,662	—	219	5,656
Impairment loss	—	4,247	403	39	4,689
Effect of exchange differences in foreign currency	508	(4,648)	—	(315)	(4,455)
Transfers	—	39	—	2	41
Balance as of December 31, 2022	**8,920**	**35,143**	**403**	**3,467**	**47,933**
As of December 31, 2021					
Net book value	22,682	38,810	10,641	505	72,638
As of December 31, 2022					
Net book value	23,228	28,977	21,413	347	73,965

[1] 'Other' includes computer equipment and other office furniture and equipment.

As of December 31, 2022, depreciation expense was recognized as follows: $4,504 was recognized as Cost of sales (2021: $4,382), for manufacturing costs, and $1,152 (2021: $1,690) within Administrative expenses.

Impairment loss recognized in Other expenses, net relates to the Rymco cash-generating unit. Refer to Note 12. Goodwill for further information.

Financial Commitments

As of year-end 2022, the Group has commitments to acquire capital expenditures for $2,304 (2021: $3,585).

Asset Acquisition of a Pharmaceutical Production Facility

As of December 31, 2021 the Group acquired an 86,000 sq. ft. pharmaceutical production facility. The purchase price allocated to property, plant and equipment based on the estimated fair value of the assets acquired at the date of the asset acquisition was $1,487. Please refer to Note 26.2. Asset acquisition - Pharmaceutical production facility.

Note 15. Leases

The Group has leases of office and warehouse buildings, land, vehicles, machinery and computer hardware. Rental contracts are for fixed terms varying between one and seven years.

Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

Reconciliation of asset balances:

	Land and Buildings [1]	Equipment and Machinery	Vehicles	Computers	Total
Balance as of January 1, 2021	**34,886**	**6,975**	**32**	**1,302**	**43,195**
Addition to right-of-use asset	6,573	709	—	—	7,282
Depreciation	(3,311)	(463)	—	(449)	(4,223)
Derecognition of contracts	(126)	(58)	—	(86)	(270)
Transfers	559	(1,155)	(32)	—	(628)
Effect of changes in foreign exchange rates	(4,188)	(932)	—	(69)	(5,189)
Balance as of December 31, 2021	**34,393**	**5,076**	**—**	**698**	**40,167**
Addition to right-of-use asset	6,749	2,293	—	1,219	10,261
Depreciation	(4,323)	(1,343)	(7)	(582)	(6,255)
Derecognition of contracts	(437)	(33)	—	—	(470)
Impairment loss	—	(356)	—	—	(356)
Transfers	201	47	61	—	309
Effect of changes in foreign exchange rates	(3,887)	(685)	1	(72)	(4,643)
Balance as of December 31, 2022	**32,696**	**4,999**	**55**	**1,263**	**39,013**

[1] Includes net right-of-use assets of $1,373 (2021: $1,537) with related party WM Partners, LP.

As of December 31, 2022 depreciation expense was recognized as follows: $4,469 was recognized within administrative costs (2021: $3,633) and $1,786 (2021: $590) within cost of goods sold, related to plant leases.

Impairment loss recognized in Other expenses, net relates to the Rymco cash-generating unit. Refer to Note 12. Goodwill for further information.

As of December 31, 2021 the Group assumed rights of use for an amount of $4,533 that were part of the asset acquisition transaction of a pharmaceutical production facility that was purchased from Strides Pharma, Inc.. Refer to Note 26.2. Asset acquisition - Pharmaceutical production facility.

Lease Liabilities

The Group's lease liabilities are guaranteed by the lessor's title to the leased assets. As of December 31, 2022 and 2021, the Group maintains the following opened balances:

	2022	2021
Non-current	$ 25,139	$ 21,894
Current	9,053	9,853
Total	**$ 34,192**	**$ 31,747**

The remaining contractual maturity and repayment periods of the Group's leases liabilities are exhibited in Note 27. Financial instruments.

Carrying amounts of lease liabilities are included in Borrowings' balance, refer to Note 19. Borrowings.

As of December 31, 2021 the Group assumed all obligations and liabilities undertaken as sublessee under the Sublease Agreement with a pending balance of $4,533 that were part of the asset acquisition transaction of a pharmaceutical production facility that was purchased from Strides Pharma, Inc.. Refer to Note 26.2. Asset acquisition - Pharmaceutical production facility.

Amounts recognized in the Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended December 31	
	2022	2021
Interest on lease liabilities	$ 1,033	$ 720
Expense relating to leases of low-value assets	115	123
Expense relating to short-term leases	862	1,217

Amounts recognized in Consolidated Statements of Cash Flows

The total cash outflow for leases amounts to $6,679 (2021: $8,854). The principal amount of the lease liabilities and estimated interest payments contractual maturity and repayment periods are included in Note 27. Financial instruments.

Note 16. Investment in joint ventures

Name of joint venture	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest and voting rights held by the Company	
			As of December 31, 2022	As of December 31, 2021
Promedical S.A.	Marketing and pharmaceuticals	Santa Cruz de la Sierra, Bolivia	50%	50%

Promedical S.A. is accounted for using the equity method in these Consolidated Financial Statements. Pursuant to a shareholder agreement, the Group has the right to cast 50% of the votes at shareholder meetings of Promedical S.A.

The financial year end dates of Promedical S.A. are December 31, 2022, and 2021. For the purposes of applying the equity method of accounting, the financial statements of Promedical S.A. for the years ended December 31, 2022, and 2021 have been used.

The other summary information that precedes the reconciliation to the Group's carrying amount represents amounts included in the IFRS financial statements of the joint venture, not the entity's share of these amounts, although they are adjusted to reflect fair value adjustments upon acquisition or accounting policy alignments.

Summarized financial information of Promedical S.A is set out below. The summarized financial information below represents amounts in the Promedical S.A's financial statements prepared in accordance with IFRS Standards, adjusted by the Group for equity accounting purposes.

	As of December 31,	
	2022	2021
Current assets	$ 10,107	$ 10,324
Non-current assets	2,970	3,136
Current liabilities	8,422	6,231
Non-current liabilities	866	795
Equity	3,789	6,434
Revenue	19,844	23,704
(Loss)/income for the year	(2,040)	1,423
Total comprehensive (loss)/income	(2,040)	1,423

	As of December 31,	
	2022	2021
Net assets of Promedical S.A.	$ 3,789	$ 6,434
Proportion of the Group's ownership interest in Promedical S.A.	1,895	3,217
Other adjustments	(390)	(774)
Carrying amount of the Group's interest in Promedical S.A.	**$ 1,505**	**$ 2,443**

Note 17. Inventories, net

	2022	2021
Raw materials and supplies	$ 42,701	$ 38,024
Products in process	7,412	6,240
Finished products and merchandise	41,492	31,791
Inventory in transit	11,531	9,645
Subtotal	**103,136**	**85,700**
Less: Provision	(6,303)	(6,270)
Total	**$ 96,833**	**$ 79,430**

Inventories recognized as cost of goods sold during the year ended December 31, 2022 amounted to $170,351 (2021: $174,029). Inventories used as samples for the year ended December 31, 2022 amounted to $6,659 (2021: $3,867) were recognized as marketing expenses.

Write-downs of inventories to net realizable value and obsolescence adjustments amounted to $5,717 (2021: $5,391), were recognized within sales expenses during the year ended December 31, 2022.

Note 18. Trade and other receivables, net

	As of December 31,	
	2022	2021
Trade receivables, net of discounts [1]	$ 126,456	$ 111,071
Other receivables	15,211	16,408
Impairment of trade and other receivables [2]	(12,065)	(10,030)
Trade receivables, net of discounts and impairment	**$ 129,602**	**$ 117,449**

[1] Discount and return provision amounts to $13,443 (2021: $7,345).

[2] Total impairment balance is comprised of $10,768 (2021: $8,755) for trade receivables and $1,297 (2021: $1,275) for other receivables.

Refer to Note 27. Financial instruments for the Group's disclosures on credit risk management and expected credit losses.

The Group has entered into factoring arrangements to sell certain trade receivables to third parties under recourse programs, retaining all risk and rewards incidental to the trade receivables, so no derecognition of the financial assets has been performed. Trade receivables which collateralize factoring obligations as of December 31, 2022 amount to $2,547 (2021: $11,973).

Note 19. Borrowings

	2022	2021
Borrowings at amortized cost [1]		
Syndicated term loan (1)	$ 38,626	$ 46,505
Other term loan (2)	95,720	51,593
Lease liabilities (3)	34,192	31,747
Factoring obligations (4)	2,317	10,609
Bank overdrafts (5)	80	55
Notes (6)	115,000	112,857
Total Interest bearing liabilities	**$ 285,935**	**$ 253,366**
Current	**$ 257,525**	**$ 74,646**
Non- Current	**$ 28,410**	**$ 178,720**

[1] Borrowings at amortized cost are unsecured, with the exception of factoring obligations which are collateralized by trade receivables. Refer to Note 18. Trade and other receivables, net.

Information about the Group's exposure to interest rate, foreign currency and liquidity risk is included in Note 27. Financial instruments.

1. Syndicated term loan

	Currency	Range of Interest	Maturity Year	2022	2021
Syndicated term loan	COP	IBR+ 5.3% (Variable)	2023-2025	$39,156	$39,521
Syndicated term loan	USD	Libor+ 4.8% (Variable)	2022	—	7,850
Amortized cost	COP	N/A	2023	(530)	(866)
Total Syndicated term loan				**$ 38,626**	**$ 46,505**

On November 20, 2018, Procaps S.A. entered into a syndicated term loan agreement the “Syndicated Loan Agreement”) with the following banks: Portion in Colombian pesos (COP) - Davivienda and Bancolombia; US dollar portion (USD) - Banco de Credito del Peru, Bancolombia Panama and Banco Sabadell. The total value of the syndicated loan amounts to $200,434 million COP (portion in COP) and $35 million USD (portion in USD), Fiduciaria Bancolombia acts as the agent of the loan. C.I. Procaps S.A., Procaps S.A. de C.V, Biokemical S.A., Pharmarketing S.A. (Panama), Pharmarketing Salvador S.A. de C.V., Pharmarketing S.A. (Guatemala S.A.), C.D.I. Salvador S.A. de C.V., C.D.I. Nicaragua S.A., C.D.I. Guatemala S.A., Pharmarketing Dominicana SRL, and Pharmarketing Costa Rica S.A., act as co-debtors, while Pharmayect S.A., Inversiones Crynssen S.A.S., Inversiones Ganeden S.A.S., Inversiones Henia S.A.S., Inversiones Jades S.A.S., and Industrias Kadima S.A.S., act as guarantors.

The resources obtained were used for advance payment and/or novation of some obligations to be refinanced. The conditions of the loan had a term of 5 years for installment payments and the interest rates agreed are as follows: IBR + 5.30% for the portion in COP and Libor + 4.80% for the USD portion.

The loans received by Banco de Crédito del Peru and Banco Sabadell were precanceled during the month of November 2021, due to the improvement in terms and conditions under the NPA.

The significant covenants required by the Syndicated Loan Agreement are as follows:

Financial covenants

- Indebtedness Indicator (Indebtedness/EBITDA) as of June 30 and December 30 of each year, during the loan term, must be less than or equal to 3.5 times. If the indicator is greater than 3.0 and less than 3.5, it proceeds to the extent that this value is originated by causes other than additional debt and the justification of the increase must be presented to the agent.
- Short-term leverage ratio must be less than 1.0 on the last day of each semester.
- EBITDA ratio / financial expenses ratio must be greater than or equal to 3.0 on the last day of each semester.

Other covenants

- The Syndicated Loan Agreement establishes that each of the jointly obligated parties, unless they have the express, prior and written authorization of the agent, will refrain from incurring any type of financial debt when the proforma indebtedness indicator, once acquired the additional financial debt, is greater than 3.0 times and maintaining any type of financial debt when the pro forma indebtedness indicator, once the national debt is acquired, is greater than 3.5 times.
- Each of the joint obligated parties, except with express, prior and written authorization of the agent to do otherwise, will refrain from contracting finance and/or operating lease obligations with purchase option with a joint balance payable greater than $85,000,000 (Eighty-Five Billion Pesos, local currency) or its equivalent in another currency. For purposes of clarity, the reclassification of obligations as financial lease obligations by application of the accounting standards will not consume the balance set forth herein and may not be renewed.
- The payment of dividends is restricted to anyone other than the jointly obligated parties.

The Syndicated Loan Agreement establishes that, in the event of breach of covenants by the debtor, the lenders shall be entitled to declare early maturity of the indebtedness thereunder.

As mentioned in Note 2.1. Going concern, as of December 31, 2022, the Group was not in compliance with certain of the loan covenants under the Syndicated Loan Agreement. As a result, the $19,665 unpaid principal balance previously classified as a non-current borrowings, has been reclassified to current borrowings within the Group's Consolidated Statement of Financial Position.

On May 2, 2023 the Group obtained a waiver for the loan covenant breaches described above. Under the terms of the waiver, the lenders agreed to waive the event of default as of December 31, 2022. In addition, the Group negotiated an additional waiver to adjust the covenant ratios as noted within Note 28. Events after the reporting period.

2. *Other term loan*

	Currency	Range of Interest	Maturity Year	2022	2021
Other term loan	COP	IBR+ 5.0%, DTF+ 3%, 13.99%-25.3% (2021: IBR+ 2.25%-5.0%)	2022-2025	$ 9,549	$ 9,442
	COP	IBR+2.25%-10.2% (2021: DTF + 6.74%, 10%-30%)	2022-2025	21,267	17,552
	Soles	8.0% - 12.79% (Fixed) (2021: 5.00% - 10.01%)	2022-2024	6,837	5,953
	Reales	9.84% - 18% N.A.	2023-2024	2,176	1,762
	USD	SOFR+ (4.80%-5.80%) (2021: Libor + 4.49%)	2023	23,454	739
	USD	6.36%-16.8% (2021: Libor + 2.99% / 6.5% - 8.7%)	2022-2025	32,437	16,145
Total Other term loans				**$ 95,720**	**$ 51,593**

On June 28, 2022, Procaps, S.A. entered into a credit agreement with BTG Pactual (the "BTG Credit Agreement") to borrow $8,672. The financial covenants required by the BTG Credit Agreement are as follow:

- Consolidated Indebtedness Indicator (Indebtedness / EBITDA) must not be greater than 3.5 times
- Consolidated EBITDA/Finance expense must not be less than 3 times.

As mentioned in Note 2.1. Going concern, as of December 31, 2022, the Group was not in compliance with the loan covenants related to the BTG Credit Agreement. As a result, the $4,490 unpaid principal balance previously classified as a non-current borrowings, has been reclassified to current borrowings within the Group's Consolidated Statement of Financial Position.

On March 28, 2023 the Group obtained a waiver for the loan covenant breach. Under the terms of the waiver, BTG Pactual agreed to waive the event of default as of December 31, 2022. In addition, the Group negotiated an additional waiver to adjust the covenant ratios as noted within Note 28. Events after the reporting period.

Along with the BTG Credit Agreement, the Group borrowed $19,000 on October 14, 2022 as part of a short-term agreement with BTG Pactual which is payable in 2023.

Additionally, the Group entered multiple USD based term loans with a variety of banks which amount to $13,566, with a maturity date ranging from one to three years.

3. Lease liabilities

	Currency	Range of Interest	Maturity Year	2022	2021
Lease liabilities	COP	DTF + (5,18% - 10,11%) T.A., IBR+7.5%	2022-2030	$ 10,475	$ 10,334
	COP	DTF+ 4.54%-10.42 T.A.	2022-2025	3,653	6,662
	USD [1]	0.75%-21.48% (2021: 8.29% - 21.48% E.A.)	2022-2032	14,787	9,374
	COP	1.91%-12.23%, IBR+4.68% (2021: 8.29% - 21.48% E.A.)	2022-2027	4,703	5,315
	Reales	0.70% - 8.72% (Fixed) (2021: 1.68%)	2023-2024	574	62
Total Lease liabilities				**$ 34,192**	**$ 31,747**

[1] Includes lease liabilities of $1,501 (2021: $1,632) with related party WM Partners, LP.

4. Factoring obligations

	Currency	Range of Interest	Maturity Year	2022	2021
Portfolio factoring	COP	DTF+8%	2023	$ 1,508	$ 1,383
	COP	15.0% - 27% N.A. (2021: DTF+8% / 24.6%)	2023	809	9,226
Total Factoring obligations				**$ 2,317**	**$ 10,609**

5. Bank overdraft

	Currency	Range of Interest	Maturity Year	2022	2021
Overdrafts and credit cards	COP	19.68% - 32% E.A. (Fixed)	2023	$ 80	$ 55

6. Notes

	Currency	Range of Interest	Maturity Year	2022	2021
The Prudential Insurance Company Of America	USD	8.50% (Fixed) (2021: 4.75%)	2031	$ 60,020	$ 58,906
Prudential Annuities Life Assurance Corporation	USD	8.50% (Fixed) (2021: 4.75%)	2031	29,980	29,423
Healthspring Life & Health Insurance Company, Inc	USD	8.50% (Fixed) (2021: 4.75%)	2031	18,350	18,007
CIGNA Health and Life Insurance Company	USD	8.50% (Fixed) (2021: 4.75%)	2031	6,650	6,521
Total Notes				**$ 115,000**	**$ 112,857**

On November 12, 2021, the Group closed the private placement offering of $115 million aggregate principal amount of 4.75% guaranteed senior notes (the "Senior Notes") issued by Procaps, S.A., a subsidiary of the Group, due November 12, 2031, pursuant to the NPA entered into on November 5, 2021 with The Prudential Insurance Company of America, Prudential Annuities Life Assurance Corporation, Healthspring Life & Health Insurance Company, Inc. and Cigna Health and Life Insurance Company Inc.

The Senior Notes are a senior unsecured obligations of Procaps, S.A. and unconditionally guaranteed by Procaps Group, S.A. and the following subsidiaries of the Group: C.I. Procaps, S.A., Diabetrics Healthcare S.A.S., Pharmayect S.A., Procaps, S.A. de C.V., Biokemical, S.A. de C.V., Colbras Indústria e Comércio Ltda., and Sofgen Pharmaceuticals LLC.

Debt issuance costs related to the Senior Notes of $2,142, comprised of commissions payable to the initial purchasers of $1,390 and attorneys' costs of $752, were allocated to the liability of the Notes based on their relative values. Issuance incremental costs are part of the effective rate and amortized to interest expense using the effective interest method over the contractual term.

As mentioned in Note 1. General Company Information, the Notes Payoff did not occur on or prior to November 30, 2022, therefore triggering the 3.75% per annum waiver fee on the outstanding principal amount of Senior Notes, raising the interest rate from 4.75% to 8.50%. As a result, the Group has treated the rate increase as a debt extinguishment, derecognised a liability in the amount of $113,400, expensed $1,600 in unamortized transaction costs, and recognized a new liability in the amount of $115,000.

The Senior Notes require Procaps, S.A., the Group and the following subsidiaries of the Group: C.I. Procaps, S.A., Diabetrics Healthcare S.A.S., Pharmayect S.A., Procaps, S.A. de C.V., Biokemical, S.A. de C.V., Colbras Indústria e Comércio Ltda., and Sofgen Pharmaceuticals LLC. to comply with the following financial ratios:

- The consolidated total debt of Procaps, S.A., the Group and the other obligors thereunder to consolidated EBITDA for the last twelve months of 3.50:1.00 or less (Indebtedness Indicator), measured at certain dates of determination and;
- An EBITDA interest coverage ratio (calculated as the consolidated EBITDA for the last twelve months of Procaps, S.A., the Group and the other obligors thereunder divided by the consolidated interest expenses of Procaps, S.A., the Group and the other obligors thereunder) in excess of, or equal to, 3.00:1.00, calculated at certain dates of determination.
- Short-term leverage ratio equal to or less than 1.00

Complying with the NPA protocols and as a result of the more favorable provisions of the Syndicated Loan Agreement, the Group gave notice on April 7, 2022 that specific provisions related to reporting covenants, affirmative covenants, negative covenants, events of default, and mandatory prepayment events, as set forth in the Syndicated Loan Agreement, shall apply to the Senior Notes.

As mentioned in Note 2.1. Going concern, as of December 31, 2022, the Group was not in compliance with the financial covenants related to the Senior Notes. As a result, the $115,000 unpaid principal balance previously classified as a non-current borrowings, has been reclassified to current borrowings within the Group's Consolidated Statement of Financial Position.

On March 31, 2023 the Group obtained a waiver for the NPA covenant breaches described above. Under the terms of the waiver, the noteholders agreed to waive the event of default as of December 31, 2022. In addition, the Group negotiated an additional waiver to adjust the covenant ratios as noted within Note 28. Events after the reporting period.

7. Bridge Loan

As of December 31, 2022, the Group did not draw down funds from the Bridge Loan. Refer to Note 1. General Company Information and Note 28. Events after the reporting period for more information on the Bridge Loan.

Reconciliation of liabilities arising from financing activities

	January 1, 2022	Payment cash flows	New liabilities [1]	Other changes [2]	December 31, 2022
Syndicated term loan	$ 46,505	(7,850)	7,923	(7,952)	$ 38,626
Other term loan	$ 51,593	(93,592)	143,786	(6,067)	$ 95,720
Lease liabilities	$ 31,747	(6,679)	12,647	(3,523)	$ 34,192
Factoring obligations	$ 10,609	(21,943)	14,042	(391)	$ 2,317
Bank overdrafts	$ 55	(817)	1,019	(177)	$ 80
Notes	$ 112,857	—	—	2,143	$ 115,000
Total liabilities from financing activities	**$ 253,366**	**$ (130,881)**	**$ 179,417**	**$ (15,967)**	**$ 285,935**

[1] New liabilities include non-cash activities for invoices from suppliers financed via reverse factoring $32,358 and new lease liabilities for $12,647.

[2] Other changes include exchange differences, the write-off of the Notes unamortized transaction costs of $1,600 due to the debt extinguishment, and cost amortization of $360.

	January 1, 2021	Payment cash flows	New liabilities [1]	Other changes [2]	December 31, 2021
Syndicated term loan	$ 81,906	(28,239)	—	(7,162)	$ 46,505
Other term loan	$ 85,645	(224,380)	193,120	(2,792)	$ 51,593
Lease liabilities	$ 36,799	(8,854)	7,283	(3,481)	$ 31,747
Factoring obligations	$ 9,993	(18,779)	22,956	(3,561)	$ 10,609
Put option agreement	$ 239,273	—	—	(239,273)	$ —
Bank overdrafts	$ 902	(903)	—	56	$ 55
Notes	$ —	—	112,857	—	$ 112,857
Total liabilities from financing activities	**$ 454,518**	**$ (281,155)**	**$ 336,216**	**$ (256,213)**	**$ 253,366**

[1] New liabilities include non-cash activities for invoices from suppliers financed via reverse factoring $48,138 and acquisition of right-of-use assets $7,283.

[2] Other changes include exchange differences and the termination of the put option agreements in exchange for new equity instruments in Procaps Group, S.A.

Note 20. Deferred tax

The deferred tax assets and liabilities by type of temporary difference are as follows:

	As of December 31,	
	2022	2021
Net deferred tax asset (liability)		
Trade and other receivables	$ 449	$ (1,357)
Inventories	3,930	3,142
Property, plant and equipment	(4,019)	(3,486)
Intangibles	(5,112)	(875)
Borrowings and Trade and other payables	2,648	3,639
Provisions and Other liabilities	1,780	1,005
Others [1]	(523)	(1,071)
Total net deferred tax asset (liability)	**$ (847)**	**$ 997**

[1] As of December 31, 2022, includes a deferred tax asset of $381 related to Procaps S.A. tax losses of $1,088 generated during the year. As of December 31, 2021, the deferred tax asset balance does not comprise unused tax losses.

	As of December 31,	
	2022	2021
Deferred Tax Asset	$ 6,974	$ 7,067
Deferred Tax Liability	(7,821)	(6,070)
Net Deferred Tax Asset (Liability)	**$ (847)**	**$ 997**

	2022	2021
Balance as of January 1	**$ 997**	**$ 2,879**
Recognized in Profit or Loss	(1,763)	(1,455)
Recognized in Other Comprehensive Income [1]	107	(58)
Others [2]	(188)	(369)
Balance as of December 31	**$ (847)**	**$ 997**

[1] Deferred tax related to employee defined benefit plans.

[2] Deferred tax related to the purchase price acquisition of intangible assets in Procaps S.A. de C.V.

The deferred tax assets are ordinary in character and comprised of temporary differences primarily related to the impairment of trade receivable for financial reporting purposes, differences in the financial statement carrying amount and tax basis of inventories, property, plant and equipment, intangibles, borrowings, provisions, and others. Given the expected near-term reversal of the deductible temporary differences giving rise to deferred tax assets, it is probable that future taxable profit will be available as a result of reversing taxable temporary differences to realize the tax benefit of the deferred tax assets either in the year of reversal or within the twelve-year carryforward period permitted by Colombian income tax law.

There was a deferred tax asset that would have been recognized for $1,663 as of December 31, 2022 (2021: $1,135) for temporary differences of $4,752 (2021: $3,242) related to subsidiary Rymco Medical's fiscal losses. However, this asset was not recognized because the Group's management considers that there is no certainty of future taxable income available for compensation. Likewise, no deferred tax liabilities have been recognized from those entities in which the Group has control and in the foreseeable future it is not expected that the same will be carried out.

Note 21. Trade and other payables

	As of December 31,	
	2022	2021
Trade payables	**$ 81,477**	**$ 70,167**
Other payables		
Trade current accounts	808	3,259
Interest payable	3,307	1,870
Withholdings and payroll contributions	2,512	6,619
Others	2,082	3,466
Total other payables	**8,709**	**15,214**
Total accounts payable	**$ 90,187**	**$ 85,381**

Note 22. Provisions and contingencies

	2022	2021
Provisions and contingencies		
Balance as of January 1	$ **501**	$ **1,829**
Effect of changes in foreign exchange rates	9	(209)
Provisions made	43	—
Provisions used	(415)	(1,119)
Balance as of December 31	$ **138**	$ **501**

Provisions

The Group recognizes provisions for contingencies that are probable of requiring an outflow of resources due to adverse effects. The Group recognized the estimated probable losses against the company for labor, administrative and ligation, which are calculated based on the best estimate of the disbursement required to cancel the obligation at the date of preparation of the Consolidated Financial Statements. Such contingencies are disclosed with possible adverse effects for the entity, as follows:

Legal provisions

Softcaps legal proceedings – The total balance of $76 (2021: $459) is comprised of labor, administrative, and civil litigation. As of December 31, 2021, the balance also included $347 for tax litigation.

The remaining balance of $62 (2021: $42) is for labor litigation in the following entities: *Procaps, S.A., Unimed del Perú, and Rymco Medical.*

Tax provisions

Transfer pricing Procaps, S.A. – The Procaps, S.A. and CI Procaps companies used to recognize provisions for the impact of transfer pricing in an amount of 2020: $354 However, as of December 31, 2021, those provisions were reversed under the risk analysis carried out by the Group's external advisors.

Contingencies

Procaps SA de CV legal proceedings - The General Tax Directorate of El Salvador (DGII), determined that the company failed to declare taxable and presumed income from revenue obtained and loans made to non-domiciled companies in 2018, the proposed tax charge and sanction amounts to $1,087. Also, the DGII determined that the company incurred in the infraction of non-intentional evasion due to the incorrect filing of the "VAT" declarations for 2019. The proposed tax charge and penalty amounts to $348.

However, the Group's external advisor indicates that it is not probable for this claim to proceed, therefore, there is no provision for the effect of this contingency.

Note 23. Shareholder’s equity

Note 23.1. Authorized and issued shares

The authorized shareholder's equity is represented by 800,000,000 (2021: 800,000,000) ordinary shares with a par value of one cent each, of which 112,824,184 (2021: 112,824,184) are issued and outstanding as of December 31, 2022. Ordinary shares grant one vote per share and one right to dividends. Also, 4,000,000 Redeemable A Shares are issued and held in treasury by the Group and 4,500,000 Redeemable B Shares are issued and held in treasury by the Group.

Reconciliation of share capital and share premium related to the reverse reorganization:

Ordinary authorized and issued shares	**Number of shares**	**Share capital amount**	**Share premium**
As of January 1, 2021 pre-restructuring	**2,001,071**	**2,001**	**54,412**
Termination of put option agreements (a)	903,075	903	297,796
Subtotal	**2,904,146**	**2,904**	**352,208**
Capital restructuring of Crynssen (1:33.4448 exchange ratio) (b)	94,224,544	(1,933)	1,933
Subtotal - restructured	**97,128,690**	**971**	**354,141**
Acquisition of Union Acquisition Corp. II (c)	20,195,494	202	174,738
Escrowed shares (d)	(11,714,612)	(117)	(106,247)
Redemption of redeemable shares (e)	(4,500,000)	(45)	(44,955)
As of December 31, 2021	**101,109,572**	**1,011**	**377,677**

a. On the effectiveness of the Transaction, September 29, 2021, the put option agreements were terminated in exchange for new equity instruments in Procaps Group SA.

b. On completion of the Transaction, each of the OpCo Shareholders, contributed its respective OpCo Ordinary Shares to Holdco in exchange for Holdco Ordinary Shares, and, in the case of IFC for Holdco Ordinary Shares and 4,500,000 Holdco Redeemable B Shares, subscribed for by each OpCo Shareholder. The OpCo Shareholders were issued 97,128,690 new shares in the Group (92,628,689 Holdco Ordinary Shares and 4,500,000 Holdco Redeemable B Shares) in exchange of the 2,904,146 outstanding OpCO ordinary Shares. The resultant share exchange ratio being 33.4448.

c. SPAC Ordinary Shares outstanding (including those held by the PIPE Investors and Union Group International Holdings Limited and Union Acquisition Associates II, LLC (the “SPAC Sponsors”) were exchanged with Holdco for Holdco Ordinary Shares pursuant to a share capital increase of HoldCo.

   New Shares were issued for an aggregate subscription price of $201,955, corresponding to a total aggregate amount of $202 to be allocated to the share capital of the Group.

Aggregate subscription price is as follows:

	Number of shares	Aggregate value
Public shares	5,895,494	58,955
Founder shares	4,300,000	43,000
PIPE Shares	10,000,000	100,000
	20,195,494	**201,955**

Cost-basis of the exchange reflects:

	Share premium
SPAC net assets	131,086
Transactions costs	(30,063)
IFRS 2 Share-based payment expense	73,917
Share Capital issued	(202)
	174,738

d. 1,250,000 Holdco Ordinary Shares issued to the SPAC Sponsors and 10,464,612 Holdco Ordinary Shares issued to certain Opco Shareholders in connection with the Transaction are subject to an escrow arrangement that is applicable to both SPAC Sponsors and to such OpCo Shareholders. On September 29, 2021, considering that the condition to deliver a fixed number of shares for a consideration that is settled in One's own equity instruments is not met for the 11,714,612 Holdco Ordinary Shares issued to the SPAC Sponsors and certain Opco Shareholders, the escrow shares were classified as a financial liability with changes in fair value through profit or loss for the amount of $106,364.

e. Immediately following the Exchange, the Group redeemed 4,500,000 Holdco Redeemable B from IFC for a total purchase price of $45,000 in accordance with that certain share redemption agreement entered into by and between the Group and IFC on March 31, 2021, and subsequently amended on September 29, 2021.

Refer to Note 26.1. Reverse reorganization for further information related to the Transaction.

Note 23.2. Reserves

	As of December 31,	
	2022	**2021**
Legal[1]	$ 4,892	$ 4,892
Working Capital[2]	40,851	37,857
	$ 45,743	**$ 42,749**

	2022	2021
Balance as of January 1	**$ 42,749**	**$ 39,897**
Increase in working capital reserves	2,994	2,852
Balance as of December 31	**$ 45,743**	**$ 42,749**

[1] *Legal Reserve* - Includes the appropriate values from net income to comply with legal provisions related to asset protection according to applicable jurisdictions with cumulative earnings.

[2] *Reserves for working capital* – These are eventually used to transfer earnings from the retained earnings for appropriation purposes.

Note 24. Earnings Per Share

The Group reports net earnings per share in accordance with *IAS 33 - Earnings Per Share*. The income/(loss) per share is calculated by dividing the income/(loss) for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding in the year.

The income/(loss) per fully diluted share shall be calculated based on the income/(loss) for the year divided by the weighted average number of fully diluted shares. No dilutive effect has been identified for the years ended December 31, 2022, and 2021.

	2022	2021
Net income/(loss) of the year	42,540	(100,863)
Number of ordinary shares issued at December 31*	101,110	101,110
Weighted average basic number of ordinary shares	**101,110**	**98,143**
Assumed exercise of share equivalents	—	—
Weighted average diluted number of shares	**101,110**	**98,143**
Basic and diluted income/(loss) per share in the year	***0.42***	***(1.03)***

**Includes 903,075 shares held under put option before the transaction as such ordinary shareholders were entitled to receive dividends.*

Note 25. Warrant Liabilities

	As of December 31,	
	2022	2021
Public warrants	$ 9,200	$ 16,000
Private warrants[1]	1,716	7,112
	$ 10,916	**$ 23,112**

[1] *Private warrants include 2,875,000 held by the former SPAC sponsors deposited in an escrow account.*

Note 25.1. Public warrants

	2022	2021
As of January 1	**$ 16,000**	**$ —**
Acquired public warrants	—	21,600
Fair value remeasurement	(6,800)	(5,600)
As of December 31	**$ 9,200**	**$ 16,000**

Public warrants were issued by the SPAC to certain shareholders whereas prior to the Transaction such public warrants (together with the private warrants issued to the SPAC sponsors) were exchanged, on a one per one basis, for warrants in the Group's ordinary shares. The public warrants have the following terms:

- Each whole warrant entitles the holder to purchase one ordinary share at an exercise price of $11.50
- The warrant is exercisable post Transaction and expires on the earlier of:
  - 5 years after the completion of the Transaction, i.e., September 29, 2026
  - the Redemption Date, or
  - the liquidation of the Group.
- The Group may redeem the outstanding warrants, in whole and not in part, at a price of $0.01 per warrant at any time while the warrants are exercisable upon a minimum of 30 days prior written notice of redemption:
  - if, and only if, the last sales price of the common stock equals or exceeds $18.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalization and the like) on each of twenty (20) trading days within any thirty (30) trading day period ending on the third trading day prior to the date on which notice of redemption is given.
  - however, that if and when the Public Warrants become redeemable by the Group, the Group may not exercise such redemption right if the issuance of Ordinary Shares upon exercise of the Public Warrants is not exempt from registration or qualification under applicable state blue sky laws or the Group is unable to effect such registration or qualification.
- The Public Warrants may be exercised, for cash (or on a "cashless basis") at any time after notice of redemption shall have been given by the Group and prior to the Redemption Date.

The Public Warrants are redeemable on the occurrence of change in control (merger, re-organization, tender offer, exchange), and the Group does not have an unconditional right to avoid delivering cash, the Public Warrants meet the criteria for classification as a financial liability. In addition, Warrants may be settled in a variable number of shares in case of cashless basis of exercise. Therefore, the Public Warrants meet the criteria for classification as financial liability.

Additionally, Public Warrants also meet the definition of a derivative, which may be settled other than by the exchange of a fixed amount of cash for a fixed number of the entity's shares. Therefore, Public Warrants are derivatives that are classified as financial liability.

The public warrants were traded on Nasdaq and the closing trade price on 29 September, 2021 was used to measure their initial fair value. On September 30, 2021, the warrants had a fair value of $21,600 (20,000,000 warrants valued at $1.08 each).

Note 25.2. Private warrants

	2022	2021
As of January 1	**$ 7,112**	**$ —**
Acquired private warrants	—	7,363
Fair value remeasurement	(5,396)	(251)
As of December 31	**$ 1,716**	**$ 7,112**

Simultaneously with the closing of the initial public offering of the SPAC, the SPAC consummated the sale of 6,250,000 warrants (the "SPAC Private Placement Warrants") at a price of $1.00 per warrant in a private placement to the SPAC Sponsors, generating gross proceeds of $6,250. Pursuant to the Business Combination Agreement, the Group entered into an Assignment, Assumption and Amendment Agreement with SPAC and the Warrant agent to amend and assume SPAC's obligations under the existing Warrant Agreement and to give effect to the conversion of SPAC public warrants and SPAC Private Placement Warrants to Holdco public warrants and Holdco private warrants (the "Private Warrants"), respectively.

Additionally, immediately prior to the consummation of the Transaction, the SPAC Sponsors forfeited 2,875,000 SPAC Private Placement Warrants and, in connection with consummation of the Transaction, placed 2,875,000 Private Warrants in escrow.

The Private Warrants have the following terms:

- Each warrant entitles the holder to purchase one ordinary share at an exercise price of $11.50 per share. Only whole warrants are exercisable.
- Exercisable post Transaction and expires on the earlier of:
    - 5 years after the completion of the Transaction,
    - the Redemption Date, or
    - the liquidation of the Group.
- Redemption for cash shall not apply.

The Private Warrants are redeemable on the occurrence of change in control (merger, re-organization, tender offer, exchange), and the Group does not have an unconditional right to avoid delivering cash, the Private Warrants meet the criteria for classification as a financial liability. In addition, Warrants may be settled in a variable number of shares in case of cashless basis of exercise. Therefore, the Private Warrants meet the criteria for classification as a financial liability.

Additionally, Private Warrants are classified as derivatives and financial liabilities, these shall be initially measured at fair value, with subsequent changes in fair value recognized in profit or loss. Refer to Note 9. Finance income (expenses), net.

Warrants in escrow

On March 31, 2021, concurrently with the execution of the Business Combination Agreement, the SPAC, Holdco, OpCo, certain OpCo Shareholders and certain shareholders of the SPAC prior to the consummation of the Transaction (including the SPAC Sponsors), entered into the Transaction Support Agreement, pursuant to which the SPAC Sponsors agreed to forfeit 2,875,000 of their Private Placement Warrants immediately prior to the Merger and to subject certain of their Holdco Ordinary Shares and Private Warrants to certain restrictions by depositing such securities in an escrow account.

Warrants in Escrow shall be treated as follows:

- First Level Release Target: The escrow agent shall hold 1,437,500 SPAC Sponsor Private Warrants (the "First Level Sponsor Escrow Warrants") in escrow until the earlier to occur of (a) the date on which the closing price of the Holdco Ordinary Shares on the Nasdaq Stock Market equals or exceeds $12.50 per Holdco Ordinary Share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-day trading period, or (b) the date that is the fifth (5th) anniversary of the closing of the Transaction (the "Five Year Expiration Date").
- Second Level Release Target: The escrow agent shall hold 1,437,500 SPAC Sponsor Private Warrants (the "Second Level Sponsor Escrow Warrants") in escrow until the earlier to occur of (a) the date on which the closing price of the Holdco Ordinary Shares on the Nasdaq Stock Market equals or exceeds $13.00 per Holdco Ordinary Share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-day trading period, or (b) the Five-Year Expiration Date.
- Automatic Release: if Group shall consummate a liquidation, merger, stock exchange or other similar transaction which results in all of the holders having the right to exchange their Holdco Ordinary Shares for cash, securities or other property, then the escrow agent shall (subject to customary escrow notification provisions) promptly release all the First Level Sponsor Escrow Warrants and Second Level Sponsor Escrow Warrants to the SPAC Sponsors
- Cancellation: On the Five-Year Expiration Date, any First Level Sponsor Escrow Warrants and Second Level Sponsor Escrow Warrants that have not been released and remain in escrow, shall be released by the escrow agent to the Group for cancellation.

Private Warrants issued by the Holdco which are deposited in escrow and are subject to cancellation if certain conditions are not met are recorded as contingent consideration and therefore initially measured at fair value. Further, since they are liability classified instruments, subsequent changes in fair value are recognized in profit or loss as a Finance Income/Expense. Refer to Note 9. Finance income (expenses), net.

Note 26. Acquisitions

Note 26.1. Reverse reorganization

As further outlined in Note 2.3, the Group underwent a reverse reorganization as a result of the Transaction consummated on September 29, 2021.

The amount of the net identifiable assets of $131,086 acquired on the date of Transaction, were as follows:

(Amount in thousands)		**2021**
Cash held in trust	$	138,046
Cash and cash equivalents		100,000
Redemption liability		(77,997)
Warrants liability		(28,963)
Total SPAC identifiable net assets at fair value	**$**	**131,086**

Procaps Group, S.A. was considered to be the accounting acquirer and the merger between Procaps Group, S.A. and SPAC was accounted for as an asset acquisition under IFRS, considering SPAC was not considered a business. Therefore, IFRS 2 was applied to recognize the value of equity interests issued in excess of the assets received.

		After Redemption
Step 1 - Deemed cost of shares issued		
Fair value of OpCo	$	926,287
Equity interest in Holdco issued to SPAC shareholders & PIPE investors		19 %
Equity interest in Holdco of Selling shareholders		81 %
Deemed costs of shares issued*	$	213,584
SPAC identifiable net assets at fair value	$	131,086
Deemed cost of shares issued	**$**	**82,498**
Step 2 - Dilutive impact of shares held in escrow		
Dilutive effect of 945,036 shares held in escrow at a weighted average fair value per share of $9.08	$	8,581
Step 3 - IFRS 2 'listing expense'	**$**	**73,917**

**The deem cost of the shares was estimated based on the fair value of the OpCo issued shares (legacy Crynssen Pharma Group Limited) prior to the merger with SPAC and Holdco.*

The IFRS 2 'listing expense' per above, has been recognized in profit or loss within O*ther expenses, net* for the year ended December 31, 2021. Refer to Note 10. Other expenses, net.

As a result of the transaction, prepaid expenses of $4,602 have been recognized in Other current assets as of December 31, 2021.

Shares in an escrow

Holdco Ordinary Shares in an escrow are subject to an arrangement that is applicable to 1,250,000 Holdco Ordinary Shares issued to the SPAC Sponsors and 10,464,612 Holdco Ordinary Shares issued to certain Opco Shareholders.

Certain market conditions will be required to be met after the Transaction for these securities in escrow to be released to the eligible securities owners. If the market conditions wouldn't be met within a defined time period (five years for warrants in escrow and ten years for Holdco Ordinary Shares in escrow), such securities in escrow would be forfeited.

a) Sponsors' Holdco Ordinary Shares in escrow: On the closing of the Transaction, 1,250,000 Holdco Ordinary Shares received in exchange for the equivalent number of SPAC Ordinary Shares upon the consummation of the Merger (the "Sponsor Escrowed Securities") held by the SPAC Sponsors were deposited in escrow. Fifty percent (50%) of the Sponsor Escrowed Securities will be released to the SPAC Sponsors if the closing price of the Holdco Ordinary Shares on the Nasdaq Stock Market equals or exceeds $12.50 per Holdco Ordinary Share for any 20 trading days within any 30-day trading period, and the remaining 50% of the Sponsor Escrowed Securities will be released to the Sponsors if the closing price of the Holdco Ordinary Shares on the Nasdaq Stock Market equals or exceeds $13.00 per Holdco Ordinary Share for any 20 trading days within any 30-day trading period (in each case, subject to any applicable lock-up restrictions under the Registration Rights and Lock-Up Agreement or any other applicable escrow arrangement).

b) Eligible Procaps Shareholders Holdco Ordinary Shares in escrow: On the closing of the Transaction, 10,464,612 Holdco Ordinary Shares received in the Exchange (the "ECS Escrowed Securities") by certain OpCo Shareholders were deposited in escrow. Fifty percent (50%) of the ECS Escrowed Securities will be released to such OpCo Shareholders if the closing price of the Holdco Ordinary Shares on the Nasdaq Stock Market equals or exceeds $12.50 per Holdco Ordinary Share for any 20 trading days within any 30-day trading period, and the remaining 50% of the ECS Escrowed Securities will be released to such OpCo Shareholders if the closing price of the Holdco Ordinary Shares on the Nasdaq Stock Market equals or exceeds $13.00 per Holdco Ordinary Share for any 20 trading days within any 30-day trading period.

If the market conditions wouldn't be met within a defined time period (ten years for ordinary shares in escrow), such securities in escrow would be forfeited. All dividends payable, whether in cash, stock or other non-cash property with respect to the Sponsor Escrowed Securities and the ECS Escrowed Securities while such securities are held in escrow will be delivered to the escrow agent to hold and distribute in the same manner as the Sponsor Escrowed Securities and the ECS Escrowed Securities held in escrow.

If Holdco consummates a liquidation, merger, stock exchange or other similar transaction which results in all of its shareholders having the right to exchange their Holdco Ordinary Shares for cash, securities or other property, then all Sponsor Escrowed Securities and the ECS Escrowed Securities will be released to the SPAC Sponsors and those certain OpCo Shareholders. Any Sponsor Escrowed Securities and the ECS Escrowed Securities not released from escrow within ten years from the date of the closing of the Transaction will be released by the escrow agent to Holdco for cancellation.

Shares held in escrow subject to cancellation if certain conditions are not met, are recorded as contingent consideration and therefore, initially measured at fair value. Because the shares held in escrow will be settled in a variable number of the Group's own equity instruments, they are classified as a liability. As a result, subsequent changes in fair value are recognized in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as *Finance income (expenses), net*. Refer to Note 9. Finance income (expenses), net.

	2022	2021
As of January 1	$ 101,859	$ —
Escrowed shares	—	106,364
Fair value remeasurement	(61,795)	(4,505)
As of December 31	**$ 40,064**	**$ 101,859**

As of December 31, 2022, shares held in escrow measured at fair value include $35,789 and $2,138 (2021: $90,990 and $5,434) owned by the Minski Family and Union Acquisition Associates II, LLC, respectively, which are related parties.

Note 26.2. Asset acquisition - Pharmaceutical production facility

On November 5, 2021, Procaps Group entered into an asset purchase agreement to acquire an 86,000 sq. ft. pharmaceutical production facility located in West Palm Beach, Florida with production capacity of approximately 1.8 billion capsules per year for its CDMO (integrated Contract and Manufacturing Organization) business unit.

The pharmaceutical production facility was purchased from Strides Pharma, Inc., a U.S. subsidiary of the Indian-based pharmaceutical corporation, the Strides Group. The core assets of this asset acquisition includes several soft gelatin capsule ("Softgel") encapsulation lines, new critical support systems, automated packaging line capabilities, as well as development facilities including pilot and scale up capabilities. Softgels are designed to deliver high precision dosage by achieving homogeneity of ingredients. The Softgel capsules are well recognized in the supplement, OTC, and the prescription market for improving patient adherence to the drug and therapy by facilitating swallowing due to the texture of its shell.

The purchase price for the purchased assets is $1.6 million, and transaction costs of $213.6. On the Closing Date, December 31, 2021, the Group paid the amount corresponding to the 50% of the Purchase Price and the remaining 50% will be paid on December 31, 2023.

The fair value of the identifiable assets acquired on December 31, 2021, the date of the Transaction, were of $1,813

The following table summarizes the final allocation of the purchase price based on the estimated fair values of the assets acquired and liabilities assumed at the date of asset acquisition.

(Amount in thousands)	2021
Property, Plant and Equipment	$ 1,487
Inventories	133
Other receivables	193
Right of Use Assets	4,533
Lease Liabilities	(4,533)
Total	**$ 1,813**

Note 27. Financial instruments

27.1 Accounting classification and fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring fair value, the Group uses observable market data whenever possible. Fair values are categorized into different levels in a hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: inputs are observable either directly (e.g. as prices) or indirectly (e.g. derived from prices).
- Level 3: fair value measurements incorporate significant inputs that are based on unobservable market data.

The following table shows the carrying amounts of financial assets and financial liabilities. The amortized cost basis of the financial assets and liabilities not measured at fair value approximates their fair value.

	As of December 31, 2022		As of December 31, 2021	
	FVTPL[1]	**Amortized cost[2]**	**FVTPL[1]**	**Amortized cost[2]**
Financial assets not measured at fair value				
Trade and other receivables, net	$ —	$ 129,602	$ —	$ 117,449
Amounts owed by related parties	—	2,474	—	1,147
Cash	—	43,003	—	72,112
Other financial assets	—	210	—	256
Total financial assets not measured at fair value	**$ —**	**$ 175,289**	**$ —**	**$ 190,964**
Financial liabilities measured at fair value				
Warrant liabilities	$ 10,916	$ —	$ 23,112	$ —
Shares held in escrow	40,064	—	101,859	—
Total financial liabilities measured at fair value	**$ 50,980**	**$ —**	**$ 124,971**	**$ —**
Financial liabilities not measured at fair value				
Borrowings	$ —	$ 285,934	$ —	$ 253,365
Trade and other payables	—	90,187	—	85,381
Amounts owed to related parties	—	2,914	—	8,450
Total financial liabilities not measured at fair value	**$ —**	**$ 379,035**	**$ —**	**$ 347,196**

[1] The fair value is comprised of $9,200 level 1 and $41,780 level 3 as of December 31, 2022 (2021: $16,000 and $108,971, respectively).

[2] The amortized cost approximates fair value as of December 31, 2022 and 2021, respectively.

27.2 Measurement of fair values

The following table shows the valuation techniques used in measuring Level 3 fair values for financial instruments in the Consolidated Statement of Financial Position, as well as the significant unobservable inputs used.

Type	Fair value	Valuation Technique	Significant unobservable input	Relationship between significant unobservable input to fair value	Sensitivity of significant unobservable input to fair value	
					+5%	-5%
Private warrants	$ 1,466	The fair value of the Private Warrants is estimated using the Black-Scholes option pricing formula for European calls, since the underlying stock is not expected to pay dividends over the term of the Warrants.	Volatility of 36.6% (2021: 30.0%)	The higher (lower) the volatility, the higher (lower) the fair value.	$ 1,883	$ 934
Private warrants in escrow	250	The fair value of the Private Warrants is estimated using Monte Carlo simulation in a risk-neutral framework assuming a Geometric Brownian Motion for the future stock price.	Volatility of 37.5% (2021: 30.0%)	The higher (lower) the volatility, the higher (lower) the fair value.	340	165
Shares held in escrow	40,064	The fair value of the shares to be delivered is estimated using Monte Carlo simulation in a risk-neutral framework assuming a Geometric Brownian Motion for the future stock price.	Volatility of 36.5% (2021: 30.0%)	The higher (lower) the volatility, the higher (lower) the fair value.	43,696	35,905

27.3 Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk, including: currency and interest rate risk

27.3.1. Risk management framework

The Group analyzes each of these risks individually as well as on a combined basis and defines strategies to manage the economic impact on the Group's performance in line with its financial risk management policy. The Group does not subscribe or negotiate hedging instruments.

The Group's Financial Administrative Unit ("UAC") supports, monitors and manages financial risks through internal reports, which are analyzed individually in each country depending on the degree and magnitude of the risks thereof. The financial UAC periodically reports to the shareholders the conclusions of such risk monitoring and proposes the plans and policies necessary to mitigate exposures.

27.3.2. Credit risk

Credit risk refers to the risk that one of the parties fails to comply with its contractual obligations, resulting in a financial loss for the Group. As a corporate policy, the Group conducts business only with strong financial institutions and credit institutions with renowned national and international prestige. For banks, only independently rated parties with a minimum rating of 'A' are accepted.

The Group only makes transactions with financial entities that have risk certifications and/or that are monitored by the relevant authorities in each country. The information provided by rating agencies is consistently monitored and, if not available, the Group uses other available financial information and its own business records to qualify its main customers and finance providers. Before accepting any new customer, the Group uses a rating system to assess the credit quality of the potential customer and defines the credit limits for each customer. Limits and ratings attributed to customers are reviewed twice a year. Trade accounts receivable that are not past due or impaired have the best credit rating according to the credit rating system used by the Group.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure of the Group. The carrying amount is presented net of impairment losses. None of the receivable balances as of December 31, 2022 or 2021 constitutes a significant concentration of credit risk. There are no other single customers representing more than 10% of total gross trade receivables for the years ended December 31, 2022 and 2021.

Expected credit losses

The average credit period on the sale of medicines is 60 to 120 days. In some cases, depending on market conditions and strategy, longer payment periods are granted. No interest surcharge is made on commercial accounts receivable. Refer to Note 3.4. Financial Instruments for further information on financial instruments significant accounting policies.

The Group has recognized a provision for doubtful accounts. The Group evaluates the impairment of its accounts receivable for the expected credit loss model, where it determines its value based on the probability of default, the loss due to default (i.e., the extent of the loss in case of default) and the exposure, by the application of the 'simplified method' for trade receivables without a significant financing component. The assessment of the probability of default and the loss due to default is mainly based on historical data and adjust historical loss rates to reflect information about current conditions and reasonable and supportable forecasts of future economic conditions.
The following table provides information about the exposure to credit risk and expected credit losses for Trade and other receivables and Amounts owed by related parties as of December 31, 2022 and 2021:

December 31, 2022	Current (not past due)	1-30 days past due	31-60 days past due	61-90 days past due	91-120 days past due	More than 120 days past due	Total
Weighted-average loss rate	0.39%	3.42%	4.50%	14.25%	19.89%	83.88%	14.07%
Gross carrying amount	124,219	11,816	3,864	1,958	890	26,605	169,352
Impairment loss allowance	(483)	(404)	(174)	(279)	(177)	(22,317)	(23,834)
	123,736	**11,412**	**3,690**	**1,679**	**713**	**4,288**	**145,518**

December 31, 2021	Current (not past due)	1-30 days past due	31-60 days past due	61-90 days past due	91-120 days past due	More than 120 days past due	Total
Weighted-average loss rate	0.60%	2.11%	2.35%	3.38%	3.26%	67.43%	14.67%
Gross carrying amount	98,776	11,265	3,147	1,981	1,843	30,578	147,590
Impairment loss allowance	(591)	(238)	(74)	(67)	(60)	(20,620)	(21,650)
	98,185	**11,027**	**3,073**	**1,914**	**1,783**	**9,958**	**125,940**

As of December 31, 2022, additions of $2,673 (2021: reversal of $818) to the impairment loss allowance were recognized within Sales and marketing expenses. As of December 31, 2022, this amount includes $195 of impairment losses recognized for balances in connection with related parties. In addition, an allowance exists from prior periods for open balances related to goods sold to Industrias Intercaps de Venezuela C.A. and Laboratorios Vivax Pharmaceuticals C.A., due to the critical political and social situation that the location country of precedence is experiencing, See Note 29. Related party transactions.

27.3.3. Market risk

Foreign currency risk

The Group carries out transactions denominated in foreign currency, mainly imports, exports and indebtedness; thereby generating exposures to exchange rate fluctuations. The Group does not usually cover exposures to the exchange rate, but rather monitors frequently the foreign exchange market as a strategy to prevent significant loss in the short- and medium-term.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2022	**2021**	**2022**	**2021**
COP	105,048	124,545	(79,476)	(99,371)
Reales	25,479	7,002	(9,962)	(9,125)
Quetzales	—	1,946	—	(4,115)
Soles	14,667	7,024	(8,905)	—
Dominican Peso	1,064	809	(3,563)	(2,869)
Colones	1,346	1,270	(2,814)	(2,371)

The following table details sensitivity per company to a 10% increase and decrease in the U.S. dollar against the relevant foreign currencies. The sensitivity analysis includes only the outstanding monetary items denominated in foreign currency and adjusts its conversion at the end of the period for a 10% change in exchange rates.

	+10% Impact to profit or loss before tax		-10% Impact to profit or loss before tax	
	2022	**2021**	**2022**	**2021**
COP	(2,325)	(2,289)	2,841	2,797
Reales	(1,411)	193	1,724	(236)
Quetzales	—	197	—	(241)
Soles	(524)	(639)	640	781
Dominican Peso	227	187	(278)	(229)
Colones	133	100	(163)	(122)

Interest rate risk

The Group is exposed to interest rate risks because it borrows money at both fixed and variable interest rates connected with Secured Overnight Financing Rate ("SOFR") and IBR/DTF (according to its Spanish acronym of "*Indicador bancario de referencia*" which is the benchmark banking indicator, in Colombia). The risk is managed by the Group, by monitoring the macroeconomic variables that determine the variation of the interest rates and generating an appropriate mix between fixed rate and variable rate loans.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates. In 2022, the Group undertook amendments to its financial obligations with contractual terms indexed to IBORs such that they incorporate new benchmark rates. As of December 31, 2022, the Group modified all of its variable rate liabilities indexed to LIBOR to reference SOFR.

The following sensitivity analyzes have been determined based on exposure of financial liabilities to the highlighted variable interest rates:

	2022			2021		
	Carrying amount	**+1%**	**-1%**	**Carrying amount**	**+1%**	**-1%**
DTF/IBR	79,345	80,138	78,551	67,970	68,650	67,290
SOFR	23,454	23,688	23,219	19,451	19,646	19,256
Total	**102,799**	**103,827**	**101,771**	**87,421**	**88,296**	**86,546**

$102,799 or 35.95% as of December 31, 2022 and 87,421 or 34.50% as of December 31, 2021, of the Group's interest-bearing financial liabilities bears interest at a variable rate. An increase of 1% in interest rates for the year ended December 31, 2022 would have decreased profit before tax by $1,028 in 2022 and decreased profit before tax by $875 in 2021. A decrease of 1% will have an equal and opposite effect on profit before tax. This sensitivity does not include the balances of financial obligations with a fixed rate.

27.3.4. Liquidity risk

The Group's Financial UAC has ultimate responsibility for the liquidity management of each of the companies and has established an appropriate framework so that Management can make decisions on short-, medium- and long-term financing, as well as liquidity management. The Group manages liquidity risk by maintaining reserves, adequate financial and loan facilities, continuously monitoring projected and actual cash flows, and reconciling the maturity profiles of financial assets and liabilities. In the same sense, financial assets to afford obligations represent cash and trade receivables intended to be collected in short term, net of the expectations of recoverability.

As part of other liabilities within borrowings, the Group includes obligations to factors associated with factoring and reverse factoring arrangements. Ordinary payment terms with suppliers range between 60 and 90 days but may be extended through reverse factoring arrangements up to 180 days in aggregate.

The Group's obligations to individual factors typically is less than 5% of the Group's total indebtedness. The majority of the Group's factoring and reverse factoring obligations are concentrated with Sufactura S.A, Corredores Asociados S.A. and Banco Serfinansa S.A..

The following table details the most representative remaining contractual maturity and repayment periods of the Group's financial liabilities. This reflects the undiscounted cash flows of financial liabilities, considering the date on which the Group must make the final payments.

	As of December 31, 2022						
	Carrying amount	Contractual cash flows	Less than 1 year [1, 2]	1-2 years	2-3 years	3-5 years	More than 5 years
Non-derivative financial liabilities							
Borrowings	$ 251,743	$ 278,853	$ 274,648	$ 3,642	$ 563	$ —	$ —
Trade and other payables	90,187	90,187	90,187	—	—	—	—
Lease liabilities	34,192	46,001	11,174	6,629	5,962	7,962	14,274
Amounts owed to related parties	2,914	2,914	2,914	—	—	—	—
	$ 379,036	**$ 417,955**	**$ 378,923**	**$ 10,271**	**$ 6,525**	**$ 7,962**	**$ 14,274**

[1] As mentioned in Note 19. Borrowings, $139,155 in the aggregate, is classified as payable in less than 1 year as a result of a breach in certain covenants included under the NPA, the Syndicated Loan Agreement, and BTG Credit Agreement. Refer to Note 28. Events after the reporting period for the Group's executed waivers with the lenders mentioned above.

[2] As mentioned in Note 2.1. Going concern the Group is renegotiating $19,000 balance with BTG, and Syndicated balance of $38,626 with Bancolombia and Davivienda. Additionally, the Group expects to maintain revolving credit lines with other lending parties.

	As of December 31, 2021						
	Carrying amount	**Contractual cash flows**	**Less than 1 year**	**1-2 years**	**2-3 years**	**3-5 years**	**More than 5 years**
Non-derivative financial liabilities							
Borrowings	$ 221,619	$ 253,011	$ 71,987	$ 16,895	$ 15,330	$ 20,323	$ 128,476
Trade and other payables	85,381	85,381	85,381	—	—	—	—
Lease liabilities	31,747	39,904	9,853	7,403	5,333	8,314	9,001
Amounts owed to related parties	8,450	8,450	8,450	—	—	—	—
	$ 347,197	**$ 386,746**	**$ 175,671**	**$ 24,298**	**$ 20,663**	**$ 28,637**	**$ 137,477**

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern, while maximizing returns to its shareholders through the optimization of debt and asset balances. The Group's capital structure consists of net debt (loans offset by cash and bank balances) and Group assets (comprised of issued and paid-in capital, reserves, retained earnings and non-controlling interests).

The Group is not subject to any externally imposed capital requirement. The main indebtedness of the Group is associated with the balances of a Syndicated Loan and the Senior Notes, and are subject to covenants that obligate it to comply with a series of financial indicators, primarily financial leverage (Debt/EBITDA), short-term leverage ratio and EBITDA on interest expense. These financial indicators serve as local management parameters.
The executive members of the UAC of the Group, who provide support for the analysis and management of capital risk to the Group, review their capital structure on a quarterly basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The Group is reviewed in an internal administrative manner, with the same covenants that apply to the Syndicated Procaps S.A. The main financial covenant is determined as the ratio of the debt to the EBITDA generated by the Group.

Indebtedness Index

The indebtedness index for the reporting period is the following:

	2022	**2021**
Total assets [1]	460,187	462,135
Total liabilities [2]	462,065	500,475
Liabilities to assets ratio	1.00	1.08

[1] Defined as short-term assets plus long-term assets

[2] Defined as short-term liabilities plus long-term liabilities

Note 28. Events after the reporting period

Management has considered subsequent events through the date these Consolidated Financial Statements were issued and identified the following events that require disclosure.

Grupo Somar and Pearl Mexico Acquisition

Refer to Note 1. General Company Information for background information on the Acquisition of Grupo Somar and Pearl Mexico. The time required for resolution of the lien remains uncertain and is not in the Group's control. Following the failure of the transaction to close on December 31, 2022, the Group provided the Sellers a formal notice on January 1, 2023 terminating the SPA in accordance with the terms thereof.

Bridge Loan Credit Agreement

Following the Group's termination of the SPA, by delivering the notice of termination, the Group advised the joint arrangers and book runners on January 1, 2023 of its desire to terminate the transaction documents (including, without limitation, the commitments under the Bridge Credit Agreement and, for the avoidance of doubt, any commitments under the Commitment Letter) and pay all outstanding obligations, amounting to $5,719, under the Bridge Credit Agreement and any other transaction document as of January 10, 2023.

Waiver for Breach of Indebtedness Covenants

Refer to Note 2.1. Going concern and Note 19. Borrowings for background information on breach of Loan Covenants. On March 28, 31 and May 2, 2023 the Group obtained waivers for the applicable covenant breaches under the NPA, the Syndicated Loan Agreement, and the BTG Credit Agreement. Under the terms of the waivers, the lenders agreed to waive the event of default as of December 31, 2022. In addition, the Group negotiated with the lenders for additional waivers to adjust the covenant ratios as noted below:

BTG Credit Agreement

For the period ending June 30, 2023, as part of the waiver negotiations, the lenders agreed to adjust the convent ratios as noted below (the covenants will return to the original terms from December 31, 2023, onwards):

- The Company's consolidated Indebtedness Indicator (Indebtedness / EBITDA) must not be greater than 4.5x (original covenant: greater than 3.5x).
- The Company's consolidated EBITDA/Finance expense must not be less than 1.8x (original covenant: less than 3.0x)

Syndicated Loan Agreement

For the period ending June 30, 2023, as part of the waiver negotiations, the lenders agreed to adjust the convent ratios as noted below (the covenants will return to the original terms from December 31, 2023, onwards):

- Indebtedness Indicator (Indebtedness/EBITDA) must be less than or equal to 4.5 times (original covenant: less than or equal to 3.5 times). If the indicator is greater than 4.1 and less than 4.3 (original covenant: greater than 3.0 and less than 3.5), it proceeds to the extent that this value is originated by causes other than additional debt and the justification of the increase must be presented to the agent.
- Short-term leverage ratio less than 1.6 (original covenant: less than 1.0)
- EBITDA ratio / financial expenses greater than or equal to 1.8 (original covenant: greater than or equal to 3.0)

NPA

For the periods ending March 31, June 30 and September 30, 2023, as part of the waiver negotiations, the lenders agreed to adjust the convent ratios as noted below (the covenants. will return to the original terms from December 31, 2023, onwards):

- The consolidated total debt of Procaps, S.A., the Group and the other obligors thereunder to consolidated EBITDA for the last twelve months of 4:00:1.00 or less (original covenant: 3.50:1.00 or less).
- An EBITDA interest coverage ratio in excess of, or equal to, 2.20:1.00 (original covenant: in excess of, or equal to, 3.00:1.00).
- Short-term leverage ratio equal to or less than 2.00:1:00 (original covenant: equal to or less than 1.00:1.00).

Headcount Reduction

During the first quarter of 2023, the Group announced adjustments to their workforce, which involved an overall reduction in headcount of approximately 200.

Note 29. Related party transactions

Balances and transactions between the Group and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its related parties are disclosed below.

Outstanding activities

During the year, the Group entities carried out the following transactions with joint ventures and other related parties:

	For the year ended December 31	
	2022	2021[1]
Sale of finished products	$ 8,038	$ 5,628
Revenue from services and consulting	1,034	116
Purchases of raw materials and other services	12,367	10,240

[1] The Group corrected the disclosure of transactions with related parties for the years ended December 31, 2021 to conform with the current period presentation. The modification includes the disclosure of sales that are performed through an agent with Industrias Intercaps de Venezuela C.A. and Laboratorios Vivax Pharmaceuticals C.A. in the amount of $1,803 for the year ended December 31, 2021 and does not impact the results presented in the prior period.

For the year ended December 31, 2022 interest expense derived from related parties amount to $76 (2021: $61).

The following current amounts were outstanding at the reporting date:

	As of December 31,	
	2022	2021
Trade and other receivables by related parties	$ 14,028	12,491
Loans owed by related parties	215	276
Less: provisions	(11,769)	(11,620)

Amounts owed by related parties, net	**$**	**2,474**	**$**	**1,147**

As of December 31, 2022 and 2021, the Group's balance for non-current trade and other receivables by related parties is comprised of $18,060 with Industrias Intercaps de Venezuela C.A. and $5,333 with Laboratorios Vivax Pharmaceuticals C.A., which are fully provisioned.

	As of December 31,			
		2022		2021
Trade and other payables to related parties	$	2,853	$	1,335
Loans owed to related parties		61		7,115
Amounts owed to related parties	**$**	**2,914**	**$**	**8,450**
Current	$	2,914	$	8,450
Non-current	$	—	$	—

For the year ended December 31, 2022 donations to *Fundación Procaps* amount to $494 (2021: $427) and are recognized as other expenses in profit or loss.

Goods and services were sold or provided parties during the year based on the price lists in force and terms that would be available to third parties.

All outstanding balances with these related parties are priced on an arm’s length basis and are to be settled in cash within two months of the reporting date. None of the balances are secured. No expense has been recognized in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

Loans to and from related parties

Loans to related parties		2022		2021
Balance as of January 1	**$**	**276**	**$**	**304**
Loans advanced		—		—
Loan repayments received		(61)		(28)
Balance as of December 31	**$**	**215**	**$**	**276**

Loans from related parties		2022		2021
Balance as of January 1	**$**	**7,115**	**$**	**15,844**
Loans advanced		61		—
Loan repayments		(7,191)		(9,154)
Interest accrued		76		425
Balance as of December 31	**$**	**61**	**$**	**7,115**

The loans to and from related parties are repayable between one year from the reporting date. The average interest rate on the loans during the year was 6% (2021: 6%). Outstanding balances are unsecured and are repayable in cash.

No loss allowance was recognized in expense in 2022 or 2021.

For 2021, put option agreements with IFC and Hoche for the right to put back all or some of the ordinary shares they held in Crynssen was presented as a separate financial liability, until the effectiveness of the Transaction, even though both are related parties. See Note 19. Borrowings for further detail.

Transactions with directors and executive board management members

Total management compensation included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income are as follows:

	For the year ended December 31	
	2022	**2021[1]**
Short-term employee benefits	$ 2,415	$ 2,202
Consulting fees	3,357	2,730
Total	**$ 5,772**	**$ 4,932**

[1] The Group corrected the disclosure of short-term employee benefits and consulting fees for the year ended December 31, 2021. The correction does not impact the results presented in the prior period.

Note 30. Employees

As of December 31, 2022, we had more than 5,500 full-time and temporary employees worldwide. Approximately 0.8% of our employees in our Rymco (2 employees), Softgel (39 employees) and Funtrition (4 employees) manufacturing facilities are currently represented by industry labor union organizations. With respect to our technical talent, we employ more than 300 scientists, technicians and skilled personnel in R&D and innovation.

We are committed to our continued efforts to increase diversity and foster an inclusive work environment that supports the global workforce and the communities we serve. We recruit the best people for the job regardless of gender, ethnicity or other protected traits and it is our policy to fully comply with all laws applicable to discrimination in the workplace. Our diversity, equity and inclusion principles are also reflected in our employee training and policies. We continue to enhance our diversity, equity and inclusion policies which are guided by our senior management team.

We believe that we provide robust compensation and benefits to our employees. In addition to salaries, these programs, which vary by country/region, can include a 401(k) plan, healthcare and insurance benefits, health savings and flexible spending accounts, paid time off, family leave, among many others. We believe that our employee relations are satisfactory.

The table below sets forth the approximate number of our employees by geographic region as of December 31, 2022.

	South America	Central America	North America	Total
Approximate number of employees as of December 31, 2022	4,677	817	70	5,564

In addition to our executive officers, we rely on the Senior Management team above to lead and direct our business. The members of the Senior Management team hold positions in areas such as corporate finance, audit and internal corporate controls, human resources, corporate legal and regulatory affairs, and marketing and R&D.

Note 31. Compensation

Compensation of Directors

Each member of our board of directors receives compensation in the amount of $56,000 per annum except for (i) any director who is an officer or employee.

In February 2023, Jose Minski and Alejandro Weinstein renounced their compensation to be received by them for serving as Directors for the fiscal year ended December 31, 2023. The Board of Directors intends to submit these renunciations to the next general meeting of shareholders of the Company for acknowledgement.

Compensation of Executive Officers and Senior Management Team

For the years ended December 31, 2022, and 2021, our executive officers and senior management team received an aggregate compensation of approximately $3.6 million and $3.0 million (including a special bonus paid in connection with the Closing of the Business Combination and the listing of the Ordinary Shares on the Nasdaq), respectively. The aggregate compensation paid directly or indirectly to our executive officers and senior management team consists of: (i) wages paid by our subsidiary, Procaps Group S.A.; (ii) consulting fees paid to certain of Procaps' executive officers and senior management team members by Horslig GMBH or Pharminter GMBH, indirect subsidiaries of Procaps; and (iii) employee benefits.

Our executive officers and members of our senior management team are employed directly by Procaps S.A., or one of our other subsidiaries, and participate in such company's benefits plan and government pension plan, if any, on the same basis as its other employees. We have a strategic variable bonus system that grants cash compensation for achievement of both financial and tactical objectives. These bonuses represent approximately 30% of our executive officers' and senior management team's total compensation and are paid on a semi-annual basis.

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Note 32. Principal Accountant Fees and Services

Fees Paid to the Company's Principal Accountant

In 2022, Deloitte served as the principal external auditor for the Company. Fees paid to Deloitte in 2022 and 2021 are detailed below:

	For the year ended December 31	
	2022	**2021[1]**
Audit fees	$ 2,585	$ 4,724
Audit related fees	130	—
Tax fees	—	—
All other fees	—	—
Total	**$ 2,715**	**$ 4,724**

Audit fees were paid for professional services rendered by the auditors for the audit of the consolidated financial statements of the Company and the statutory financial statements of the Company and its subsidiaries.

Audit-Related Fees

Audit-related fees are typically services that are reasonably related to the performance of the audit or review of the consolidated financial statements and are not reported under the audit fee item above. This item includes fees for attestation services on financial information of the Company and its subsidiaries included in their annual reports that are filed with their respective regulators.

Tax Fees

Tax fees were paid for tax compliance and tax advice professional services.

All other fees

All other fees were paid for specific minor professional services not related to the above categories.

MANAGEMENT REPORT

Our discussion and analysis of our results of operations and financial condition are based upon our Annual Audited Consolidated Financial Statements, which have been prepared in accordance with IFRS. Our operating and financial review and prospects should be read in conjunction with our Annual Audited Consolidated Financial Statements, the accompanying notes thereto and other financial information appearing elsewhere in this annual report.

A. OPERATING RESULTS

Overview

Founded in 1977 by the Minski family, we are a leading integrated international healthcare and pharmaceutical company that develops pharmaceutical and nutraceutical solutions, medicines and hospital supplies. Our customers are located in over 50 countries, in six out of the seven continents, and we have a direct presence in 13 countries-Colombia, Brazil, El Salvador, United States, Peru, Costa Rica, Guatemala, Honduras, Ecuador, Bolivia, Panama, Nicaragua and Dominican Republic and over 5,500 employees working under our sustainable model.

Our business model focuses on four strategic cornerstones to drive growth. First, we have state-of-the-art manufacturing capabilities that allow us to provide innovative delivery technologies. Our corporate culture focuses on innovation and R&D, which has enabled us to offer extensive scientific expertise with more than 300 scientists, technicians and skilled personnel, allowing us to develop an average of over 150 new products per year over the last three years. Second, our regional footprint and vertical integration enables organic growth opportunities and synergies. We currently operate six manufacturing facilities in Latin America, including the first FDA-approved pharmaceutical plant in South America and Central America, and our first U.S.-based Softgel production facility and R&D center, which began operations in May 2022 and sell and distribute products to over fifty distinct markets. Third, our Rx and OTC pharmaceutical product portfolio is driven by our proprietary delivery systems, allowing us to focus on the development and sale of high-growth and premium pharmaceutical products which we believe are subject to less pricing pressures when compared to more generic pharmaceutical products. Finally, we have an extensive track record of developing new businesses and growing via mergers and acquisitions, which is evidenced by the development of one of our in-house business incubation, Diabetrics, which took place in 2015, and several successful acquisitions throughout Latin America (including the acquisitions of Rymco S.A., Laboratorios Lopez and Biokemical S.A. de C.V.) which took place between 2012 and 2016. On September 29, 2021, we consummated the Business Combination with Union, which resulted in our Ordinary Shares and warrants being listed on the Nasdaq Global Market on September 30, 2021 under the symbols “PROC” and “PROCW”, respectively.

We are primarily engaged in developing, producing and marketing pharmaceutical solutions consisting of the following four products and services categories: (i) iCDMO, (ii) Rx pharmaceutical products, (iii) OTC products, and (iv) Diabetrics.

Business Segments

NextGel

Our NextGel business segment, operated under our Softigel Sofgen, Softcaps and Funtrition brands, is the iCDMO arm of Procaps which offers services specializing in development and manufacturing in Softgel and related technologies, and operates globally in the B-to-B market, more specifically in Brazil, Colombia and the United States. We are the top Softgel manufacturer in South and Central America and top five in the world in terms of Softgel production capacity, according to an independent third-party industry analysis report. The iCDMO agreements with our top-tier customers range from five to ten-year terms. Our NextGel business segment has over 130 clients across more than 50 countries and the key products that we manufacture in this segment include Softgel pharmaceutical products such as Advil, Apronax Liquidgels, multivitamins, Vitamin D and Dolex ActivGel.

Procaps Colombia, CAN and CASAND

These three business segments serve each of its respective regional B-to-C markets by offering the following key product lines/business units:

Rx Pharmaceutical Products

Our Rx product line comprises the Farma Procaps and the Clinical Specialties brands/business units.

Farma Procaps formulates, manufactures and markets branded prescription drugs. It represents a high growth portfolio that focuses on nine therapeutic areas (feminine care products, pain relief, skin care, digestive health, growth and development, cardiology, vision care, central nervous system and respiratory).

Clinical Specialties is a leading provider of high-complexity care treatments to private institutions regionally. Its diverse product portfolio, targets various in-demand therapeutic areas and develops, manufactures and markets personal protective equipment, high-complexity drugs for hospital use such as antibiotic, blood clot, immunosuppressant, oncology and analgesics products.

OTC Product Line

Our OTC product line primarily consists of the VitalCare brand/business unit. VitalCare develops, manufactures and markets OTC consumer healthcare products through an extensive portfolio focused on over eight high-prevalence therapeutic areas (including gastrointestinal, skin care, cough and cold, analgesics, urological, and vitamin, minerals and supplements) at what we believe to be accessible and appealing price points. Our Colmed OTC product line, which is part of our VitalCare business unit, consists of products in the following categories: antibiotics, anti-infective, anti-parasitic, cardiovascular, feminine care, cutaneous antimycotic, pain killers, gastrointestinal, hormonals, metabolic, endocrine, nervous system, ophthalmic, osteoarticular, respiratory, diet supplements and vitamins and minerals.

We market and sell our OTC products in the following key regional markets: Bolivia, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Peru, and the United States.

Procaps Colombia primarily serves the Colombian market, CAN primarily serves the Honduras, Nicaragua, El Salvador, United States and Guatemala markets, and CASAND primarily serves the Panama, Costa Rica, Ecuador, Dominican Republic, Peru and Bolivia markets.

Diabetrics

With approximately 7% of the global population living with diabetes and 11.5% of global health expenditures spent on diabetes each year, we believe our Diabetrics business segment, which is comprised of our Diabetrics brand/business unit, is an attractive regional B-to-C diabetes-focused treatment and management platform that focuses primarily on the Colombian market. It has a unique business model when compared to our competitors, as it aims to cover the full spectrum of needs of patients with diabetes by providing products and services such as blood glucose meters, telemonitoring, Rx oral anti-diabetics products, cosmeceuticals (cosmetics that have medicinal properties for diabetic care), insulin delivery systems and other diabetes solutions.

The Business Combination

On March 31, 2021, Union, Crynssen, the Company and Merger Sub entered into the Business Combination Agreement, and subsequently amended the Business Combination Agreement on September 29, 2021. As a result of the transactions contemplated by the Business Combination Agreement, each of Union and Crynssen became direct wholly-owned subsidiaries of the Company and each Crynssen Shareholder and shareholder of Union were issued Ordinary Shares, and, in the case of IFC, Ordinary Shares and Redeemable B Shares.

Union also entered into separate Subscription Agreements, each dated March 31, 2021, with the PIPE Investors, pursuant to which, and subject to the terms and conditions thereto, the PIPE Investors collectively subscribed for an

aggregate of 10,000,000 SPAC Ordinary Shares for an aggregate purchase price of $100,000,000. The PIPE investment was consummated immediately prior to the Closing of the Business Combination, and each SPAC Ordinary Share subscribed for by the PIPE Investors were exchanged for one Ordinary Share, substantially concurrently with the closing of the Business Combination.

On April 16, 2021, in connection with the vote to approve the amendment to the then current amended and restated articles of association of Union to extend the date by which Union was required to consummate its initial business combination from April 22, 2021 to October 22, 2021 , certain shareholders of Union exercised their right to redeem 6,446,836 SPAC Ordinary Shares for cash at a redemption price of approximately $10.07 per share, for an aggregate redemption amount of approximately $64.9 million.

Prior to the Closing, on September 22, 2021, in connection with the vote to approve the Business Combination and other related proposals, at Union's extraordinary general meeting, certain shareholders of Union exercised their right to redeem 7,657,670 SPAC Ordinary Shares for cash at a redemption price of approximately $10.19 per share, for an aggregate redemption amount of approximately $78.0 million.

Additionally, on September 29, 2021, the Sponsors entered into the Share Forfeiture Agreement, pursuant to which, the Sponsors forfeited a combined 700,000 SPAC Ordinary Shares prior to the consummation of the Business Combination.

Going Concern Update

As of December 31, 2022, the Company was in breach of certain of the covenants included under the NPA, the Syndicated Loan and the Additional Loan Agreement. Although none of the lenders declared an event of default under the applicable agreements, these breaches could have resulted in the lenders requiring immediate repayment of the applicable indebtedness and as a result, the Company has classified the respective indebtedness, amounting to approximately $139 million in the aggregate, to current liabilities. As of December 31, 2022, the Company reported a working capital deficit (which is current assets minus current liabilities) of approximately $70.9 million. These events and conditions, considered in the aggregate, absent the Waivers (as defined and described in this Annual Report), cast substantial doubt upon the Company's ability to continue as a going concern.

On March 28, 2023, March 31, 2023 and May 2, 2023, as applicable, the Company obtained the Waivers. Based on management's projections over the next 12 months, the Company is expected to be in compliance with the applicable covenants under the NPA, the Syndicated Loan and the Additional Loan Agreement.

As of December 31, 2022, the Company had cash of approximately $43.0 million. Currently, the Company maintains financing lines, which, together with the expected internal generation of funds, will allow it to finance its growth and working capital needs. For the year ended December 31, 2022, the Company recognized income of approximately $42.5 million. The Company generated approximately $14.1 million of cash from operating activities. As of December 31, 2022, the Company retains a negative equity position of $1.9 million, and comprehensive income of approximately $36,5 million. As of December 31, 2022, the Company had a net working capital deficit of approximately $71.0 million due to the reclassification of non-current borrowings to current borrowings and as a result of the breach in loan covenants.

The Company maintains current short and long-term financing lines, which, together with the expected internal generation of funds through operations, will allow it to finance its growth and its need for working capital. For the years 2021 and 2022, the Company has been generating cash inflows from operating activities and projects that operating cash inflows from operating activities will continue during 2023.

Management has evaluated the Company's capital position and its ability to continue in the normal course of business for the foreseeable future and ability to meet its financial obligations for the next twelve months. Based on the Company's cash flow projections and improvement in financial covenant ratios as a result of the Waivers, the Company's management believes the Company will have sufficient funds to repay their obligations as they fall due and to meet its financial covenants in 2023. However, due to the uncertainty caused by current economic conditions, including rapid growth in inflation, increasing interest rates, global disruption to the supply chain, volatility in foreign exchange rates and industry price regulations, there is a risk the Company will not meet its financial covenants. The

Company's failure to comply with such financial covenants could result in an event of default, which if that were to occur would materially and adversely affect the Company's business, financial condition, liquidity and results of operations. As a result of this material uncertainty, the Company's management concluded the above conditions and events raise significant doubt about the Company's ability to continue as a going concern.

The Company has implemented, or is in the process of implementing, various cost saving and business strategies to mitigate the above mentioned macro risks and resulting risk of future covenant noncompliance.

For more information, including details regarding the Company's mitigation plan, see Note 2.1 to our Annual Audited Consolidated Financial Statements, included elsewhere in this Annual Report.

Results of Operations

Comparison of the years ended December 31, 2022 and December 31, 2021

The following table sets forth historical operating results for the periods indicated:

	For the year ended December 31,		Increase/ (Decrease)		For the year ended December 31,		Constant Currency Increase/ (Decrease)	
	2022	**2021**	**$ Change**	**% Change**	**2022-Constant Currency Adjustment(2)**	**2022-Constant Currency Basis(2)**	**$ Change**	**% Change**
	(in thousands of U.S. dollars except percentages)							
Revenue	409,920	409,742	178	0.0%	27,834	437,754	28,012	6.8%
Cost of sales	(170,351)	(174,029)	3,678	-2.1%	(10,404)	(180,755)	(6,726)	3.9%
Gross profit	**239,569**	**235,713**	3,856	1.6%	17,429	256,998	21,285	9.0%
Sales and marketing expenses	(93,566)	(83,057)	(10,509)	12.7%	(6,171)	(99,738)	(16,680)	20.1%
Administrative expenses	(105,911)	(82,187)	(23,724)	28.9%	(7,188)	(113,099)	(30,912)	37.6%
Finance expenses, net	37,917	(78,636)	116,553	n.a.				
Other expenses, net	(25,299)	(78,991)	53,692	-68.0%	(4,146)	(29,445)	49,546	-62.7%
(Loss)/Income before tax	**52,710**	**(87,158)**	139,868	n.a.				
Income tax expense	(10,170)	(13,705)	3,535	-25.8%				
Income/ (loss) for the year	**42,540**	**(100,863)**	143,403	n.a.				
Adjusted EBITDA(1)	**70,126**	**99,678**	**(29,552)**	**-29.6%**	5,210	75,336	(24,342)	-24.4%
Contribution Margin(1)	**146,003**	**152,656**	**(6,652)**	**-4.4%**	**11,258**	**157,261**	**4,605**	**3.0%**

(1) Contribution Margin and Adjusted EBITDA are non-IFRS measures. We include these metrics as supplemental disclosures because we believe they are useful indicators of our operating performance. Contribution Margin and Adjusted EBITDA are well recognized performance measures in the pharmaceutical industry that are frequently used by investors, securities analysts and other interested parties in comparing the operating performance of companies in our industry. However, because Contribution Margin and Adjusted EBITDA are non-IFRS measures and their calculation is not determined in accordance with IFRS, such measures are susceptible to varying calculations and not all companies calculate the measures in the same manner. As a result, our calculation of Contribution Margin and Adjusted EBITDA as presented may not be directly comparable to similarly titled measures by other companies. For more information on Contribution Margin, Adjusted EBITDA and other non-

IFRS financial measures, please see below under the heading "— *Non-IFRS Financial Measures*" in this annual report.

(2) As exchange rates are an important factor in understanding period-to-period comparisons, we believe the presentation of certain financial metrics and results on a constant currency basis in addition to the IFRS reported results helps improve investors' ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant currency information is non-IFRS financial information that compares results between periods as if exchange rates had remained constant period-over-period. We calculate constant currency by calculating year-end period results (year ended December 31, 2022) using prior-period (year ended December 31, 2021) foreign currency exchange rates. Results on a constant currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not measures of performance presented in accordance with IFRS. For more information on constant currency adjustments, please see below under the heading "— *Non-IFRS Financial Measures*" in this annual report.

Revenue

Procaps recognizes revenue from the sale of pharmaceutical products and licensing revenue. Revenue increased by $0.2 million, or 0.0%, from $409.7 million for the year ended December 31, 2021 to $409.9 million for the year ended December 31, 2022. On a constant currency basis, revenue increased by $28.0 million, or 6.8%, to $437.8 million for the year ended December 31, 2022.

The increase in revenue for the year ended December 31, 2022 compared to the year ended December 31, 2021 was primarily due to (i) an increase in demand for our products and services across three strategic business segments, including: an increase of approximately $4.2 million from Nextgel, an increase of approximately $12.4 million from CASAND and an increase of approximately 4.5 million from CAN; and (ii) an increase of sales for new products of approximately $12.0 million, offset mainly by (iii) the currency devaluation in the period of approximately $27.8 million and (iv) the decrease in sales of the anesthetics portfolio of approximately $25 million due to the slower pace of sales of products for the intensive care units and higher than usual inventory cycles in the distributors.

Cost of sales and gross profit

The cost of sales represents the direct costs of producing the goods sold by Procaps, such as cost of the materials and labor directly used to create the goods. Gross profit is revenue less cost of sales.

Cost of sales decreased by $3.7 million, or 2.1%, from $174.0 million for the year ended December 31, 2021 to $170.4 million for the year ended December 31, 2022.

On a constant currency basis, cost of sales increased by $6.7 million, or 3.9%, to $180.8 million for the year ended December 31, 2022. The decrease in cost of sales for the year ended December 31, 2022 compared to the year ended December 31, 2021 was primarily due to the currency devaluation of approximately $10.4 million.

Gross profit increased by $3.9 million, or 1.6%, from $235.7 million for the year ended December 31, 2021 to $239.6 million for the year ended December 31, 2022.

On a constant currency basis, gross profit increased by $21.3 million, or 9.0%, to $257.0 million for the year ended December 31, 2022.

The increase in gross profit for the year ended December 31, 2022 compared to the year ended December 31, 2021 was also primarily attributable to the change of the product mix sold, brand sales during the first half of 2022 of approximately $3.5 million, and an increase of sales of other services of approximately $4.9 million.

Sales and marketing expenses

Sales and marketing expenses include primarily expenses incurred for promotional activities, such as marketing expenses, sales force and logistics expenses. Sales and marketing expenses increased by $10.5 million, or 12.7%, from $83.1 million for the year ended December 31, 2021, which represents approximately 20.3% of revenue for the year

ended December 31, 2021, to $93.6 million for the year ended December 31, 2022, which represents approximately 22.8% of the revenue for the year ended December 31, 2022. On a constant currency basis, sales and marketing expenses increased by $16.7 million, or 20.1%, to $99.7 million for the year ended December 31, 2022.

The increase in sales and marketing expenses for the year ended December 31, 2022 compared to the year ended December 31, 2021 was primarily due to increased marketing efforts, with the full return of events and travel efforts as the effects of the COVID-19 pandemic continue to lessen. There were also expenses of approximately $5 million during the year ended December 31, 2022, related to the pre-operative expenses of the West Palm Beach facility.

Administrative expenses

Administrative expenses include costs incurred for administrative and certain corporate departments, such as payroll, power and utilities, and certain legal and professional expenses. Administrative expenses increased by $23.7 million, or 28.9%, from $82.2 million for the year ended December 31, 2021 to $105.9 million for the year ended December 31, 2022. On a constant currency basis, administrative expenses increased by $30.9 million, or 37.6%, to $113.1 million for the year ended December 31, 2022.

The increase in administrative expenses for the year ended December 31, 2022 compared to the year ended December 31, 2021 was primarily due to (i) full year of expenses related to being a public company, such as increased personnel costs, legal and consulting services which totaled in aggregate of approximately a $15.6 million and (ii) an increase of approximately $6.1 million in expenses related to M&A activities for the since terminated acquisition of Grupo Somar and business growth projects.

Finance expenses, net

Finance expenses, net include certain banking expenses and bank fees, financing interest expenses, interest recognized on the financial liabilities associated with certain put options held by IFC and Hoche, and a one-time loss on the termination of such put options. On the Closing of the Business Combination, the IFC Put Option Agreement and the Hoche Put Option Agreement (both as defined below) were cancelled as part of the Business Combination in exchange for a portion of the Ordinary Shares issued to IFC and Hoche, respectively, in the Exchange. The one-time loss on termination of the Hoche put option in the amount of $35.9 million was recognized in 2021 aligns the carrying value of such put option on the termination date to the fair value of the Ordinary Shares issued. In 2022, interest expense includes an extinguishment loss of $1,600, as a result of the substantially modified terms of the Senior Notes.

Finance expenses, net decreased by $116.6 million, or 148.2%, from expenses of $78.6 million for the year ended December 31, 2021 to an income of $37.9 million for the year ended December 31, 2022. The decrease in finance expenses, net was primarily due to (i) the valuation of shares held in escrow with a net fair value gain of approximately $61.8 million, (ii) the net fair value gain of warrants liabilities of approximately $12.2 million and (ii) the decrease of interest expense of approximately $59.6 million. In 2021 the net fair value gain related to shares held in escrow was approximately $4.5 million and the net fair value gain of warrants liabilities was approximately $5.9 million.

Other expenses, net

Other expenses, net include: (i) currency exchange rate differences, (ii) economic emergency contribution expenses, (iii) fines, penalties, and assumed taxes, (iv) donations, (v) listing expenses, (vi) the change in the fair value of the warrant liability, and (vii) other expenses.

Other epenses decreased by $53.7 million, or 68.0%, from $79.0 million for the year ended December 31, 2021 to $25.3 million for the year ended December 31, 2022. 2021 was affected by the recording of non-cash listing expenses of $73.9 million associated with the deemed listing services received by Procaps from Union, which is the difference between the deemed costs of the Ordinary Shares issued by the Company to Union shareholders in connection with the Business Combination, in excess of the net assets obtained from Union. This was a one-time listing expense. In 2022, other expenses include approximately $16.2 million of foreign exchange and an impairment charge of Rymco S.A. of approximately $6.0 million.

Income tax expense

Income tax expense includes two components: (i) current tax and (ii) deferred tax. Current tax is calculated based on the tax rate of each jurisdiction. Deferred tax corresponds to the differences generated between the accounting figures and tax figures, which can result in a future income or expense.

Income tax expense decreased by $3.5 million, or 25.8%, from $13.7 million for the year ended December 31, 2021 to $10.2 million for the year ended December 31, 2022. The decrease in income tax expense was primarily due to (i) decrease in profits in Colombian companies (-51%) added to optimization of the use of tax credits as well as deferred tax shield with an impact on lower taxes $4.6 million, (ii) increase in profits in Brazil, as well as adjustments in deferred tax, resulting in $1.3 million in higher tax expenses recognized in the period, (iii) Rymco impairment adjustment increase by $1.1 million (iv) tax rate reduction from 30% to 10% in El Salvador, resulting in profits from the sale of intangible assets of $0.9 million and consolidation adjustments and eliminations of approximately $0.4 million. The accounting income effect from the net fair value of the Warrants' liabilities ($12.2 million) and Ordinary Shares held in escrow ($61.8 million), which increase accounting profit, did not have an impact with respect to our current or deferred tax expenses.

Results by Segments After Inter-Segment Elimination, Excluding Corporate for the years ended December 31, 2022 and December 31, 2021

	Reportable segments				
Results for the year ended December 31, 2022	**NextGel**	**Procaps Colombia**	**CAN**	**CASAND**	**Diabetrics**
	(in thousands of U.S. dollars)				
Revenue	125,065	142,345	55,467	66,330	20,713
Gross profit	64,670	73,504	35,820	57,099	8,475
Contribution Margin	52,445	44,750	16,820	29,471	3,081
Constant currency basis					
Revenue	130,011	161,779	55,587	66,862	23,515
Gross profit	67,979	86,137	35,858	57,451	9,573
Contribution Margin	54,617	53,185	16,832	29,730	3,460

	Reportable segments				
Results for the year ended December 31, 2021[(1)]	**NextGel**	**Procaps Colombia**	**CAN**	**CASAND**	**Diabetrics**
	(in thousands of U.S. dollars)				
Revenue	120,827	155,327	50,937	53,956	28,695
Gross profit	64,879	81,165	33,869	43,236	12,564
Contribution Margin	54,106	51,921	18,536	21,703	6,848

	Reportable segments				
Comparison of results for the years ended December 31, 2022 and 2021[(1)]	**NextGel**	**Procaps Colombia**	**CAN**	**CASAND**	**Diabetics**
	(in thousands of U.S. dollars)				
Revenue	4,238	(12,982)	4,530	12,374	(7,982)
Gross profit	(209)	(7,662)	1,952	13,864	(4,088)
Contribution Margin	(1,661)	(7,171)	(1,716)	(7,768)	(3,767)
Constant currency basis					
Revenue	9,185	6,451	4,649	12,906	(5,180)
Gross profit	3,099	4,971	1,990	14,216	(2,990)
Contribution Margin	511	1,264	(1,704)	8,027	(3,387)

NextGel

Revenue of the NextGel segment increased by $4.2 million, or 3.5%, from $120.8 million for the year ended December 31, 2021 to $125.1 million for the year ended December 31, 2022, primarily as a result of (i) an increase in product development services with the commencement of operations of the West Palm Beach facility and the sales of certain product registrations totaling approximately $4.3 million, (ii) the increase in sales of gummy products totaling approximately $2.7 million, (iii) an increase of sales from products with current partners of approximately $5.0 million, offset by the change of manufacturing site of dronabinol (that leads to a new registration process) which represented lower sales of approximately $6.6 million and the lower sales of progesterone of approximately $2.9 million due to the ongoing bioequivalent test.

Gross profit of the NextGel segment decreased by $0.2 million, or 0.3%, from $64.9 million for the year ended December 31, 2021 to $64.7 million for the year ended December 31, 2022, primarily impacted by the devaluation of certain currencies, inflation, and the increase in costs of raw materials.

Contribution Margin of the NextGel segment decreased by $1.7 million, or 3.1%, from $54.1 million for the year ended December 31, 2021, to $52.4 million for the year ended December 31, 2022, primarily as a result of the increase in sales and marketing and operational expenses due to the hiring of additional personnel as part of the initiation of operations at the West Palm Beach facility.

On a constant currency basis, revenue attributable to the NextGel segment increased by $9.2 million, or 7.6%, to $130.0 million for the year ended December 31, 2022. Gross profit attributable to the NextGel segment increased by $3.1 million, or 4.8% to $68.0 million for the year ended December 31, 2022, and Contribution Margin attributable to the NextGel segment increased by $0.5 million, or 0.9%, $54.6 million for the year ended December 31, 2022.

Procaps Colombia

Revenue of the Procaps Colombia segment decreased by $13.0 million, or 8.4%, from $155.3 million for the year ended December 31, 2021 to $142.3 million for the year ended December 31, 2022, primarily due to (i) the impact of the currency devaluation of approximately $19.4 million and (ii) the decrease in sales of the Clinical Specialties portfolio of approximately $19.7 million driven by to the slower pace of sales of products for the intensive care units due to higher than usual inventory cycles in the distributors. The Farma Procaps and VitalCare business units are growing in sales in 2022 when compared with 2021, primarily due to the demand increase of its leading brands in the market, such as Gestavit, Citragel, Muvett S, and others, as well as the performance of new products.
Gross profit of the Procaps Colombia segment decreased by $7.7 million, or 9.4%, from $81.2 million for the year ended December 31, 2021 to $73.5 million for the year ended December 31, 2022, due to the impact of the decrease in sales described above and the changes in the product portfolio mix.

Contribution Margin of the Procaps Colombia segment decreased by $7.2 million, or 13.8%, from $51.9 million for the year ended December 31, 20210 to $44.8 million for the year ended December 31, 2022, due to the impact of the decrease in sales as described above and higher sales and marketing expenses impacted by currency devaluation and increase in logistics expenses.

On a constant currency basis, revenue attributable to Procaps Colombia increased by $6.5 million, or 4.2%, to $161.8 million for the year ended December 31, 2022, gross profit attributable to the Procaps Colombia segment increased by $5.0 million, or 6.1%, to $86.1 million for the year ended December 31, 2022, and Contribution Margin attributable to the Procaps Colombia segment increased by $1.3 million, or 2.4%, to $53.2 million for the year ended December 31, 2022.

CAN

Revenue of the CAN segment increased by $4.5 million, or 8.9%, from $50.9 million for the year ended December 31, 2021 to $55.5 million for the year ended December 31, 2022, due to (i) sales from new product launches in the amount of approximately $1.0 million, such as Albisec One and Alercet, (ii) increased sales of the current portfolio, particularly cardiology, feminine care and respiratory lines, and (iii) price increases in Guatemala (approximately 4% increase), Honduras (approximately 4% increase) and El Salvador (approximately 5% increase).

Gross profit of the CAN segment increased by $2.0 million, or 5.8%, from $33.9 million for the year ended December 31, 2021 to $35.8 million for the year ended December 31, 2022, primarily as a result of the increase in sales as described above, which was partially offset by higher raw material costs.

Contribution Margin of the CAN segment decreased by $1.7 million, or 9.3%, from $18.5 million for the year ended December 31, 2021 to $16.8 million for the year ended December 31, 2022, due to the impact of higher sales and marketing expenses due to an expanding portfolio, especially in gastrointestinal, cardiovascular, and feminine care therapeutic areas.

On a constant currency basis, revenue attributable to the CAN segment increased by $4.6 million, or 9.1%,to $55.6 million for the year ended December 31, 2022, gross profit attributable to the CAN segment increased by $2.0 million, or 5.9%,to $35.9 million for the year ended December 31, 2022, and Contribution Margin attributable to the CAN segment decreased by $1.7 million, or 9.2%, to $16.8 million for the year ended December 31, 2022.

CASAND

Revenue of the CASAND segment increased by $12.4 million, or 22.9%, from $54.0 million for the year ended December 31, 2021, to $66.3 million for the year ended December 31, 2022, primarily as a result of (i) an increase of approximately $4.4 million in sales of new products launched during 2022, such as Fortzink Ultra, Muvett and Dayflu, (ii) an increase of approximately $6.6 million in sales of existing brands, and (iii) an average price increase of approximately 6% in certain countries in the region, offset by the decrease in sales of the Clinical Specialties portfolio.

Gross profit of the CASAND segment increased by $13.9 million, or 32.1%, from $43.2 million for the year ended December 31, 2021 to $57.1 million for the year ended December 31, 2022, primarily as a result of the increase in sales explained above, especially in Dominican Republic and changes in our portfolio product mix.

Contribution Margin of the CASAND segment increased by $7.8 million, or 35.8%, from $21.7 million for the year ended December 31, 2021 to $29.5 million for the year ended December 31, 2022, primarily as a result of the increase in sales explained above, impacted by thereturn of events and commercial efforts, especially in Dominican Republic to support top line growth.

On a constant currency basis, revenue attributable to the CASAND segment increased by $12.9 million, or 23.9%, to $66.9 million for the year ended December 31, 2022, gross profit attributable to the CASAND segment increased by $14.2 million, or 32.9%, to $57.5 million for the year ended December 31, 2022, and Contribution Margin attributable to the CASAND segment decreased by $8.0 million, or 37.0%, to $29.7 million for the year ended December 31, 2022.

Diabetrics

Revenue of the Diabetrics segment decreased by $8.0 million, or 27.8%, from $28.7 million for the year ended December 31, 2021 to $20.7 million for the year ended December 31, 2022, primarily due to (i) the impact of currency devaluation of approximately $3.4 million, (ii) lower sales of Predial Lex product due to entrance of new competitors with an innovative patented formulation of approximately $3.0 million, and (iii) lower prices in a few products due to more competitors with an impact of approximately $2.3 million.

Gross profit of the Diabetrics segment decreased by $4.1 million, or 32.5%, from $12.6 million for the year ended December 31, 2021, to $8.5 million for the year ended December 31, 2022, due to the impact of inflation and currency devaluation which led to increase in costs.

Contribution Margin of the Diabetrics segment decreased by $3.8 million, or 55.0%, from $6.8 million for the year ended December 31, 2021 to $3.1 million for the year ended December 31, 2022, primarily due to the impact of the decrease in sales as described above and a change in our portfolio product mix.

On a constant currency basis, revenue attributable to the Diabetrics segment decreased by $5.2 million, or 18.1%, from $28.7 million for the year ended December 31, 2021 to $23.5 million for the year ended December 31, 2022, gross profit attributable to the Diabetrics segment decreased by $3.0 million, or 23.8%, to $9.6 million for the year ended December 31, 2022, and Contribution Margin attributable to the Diabetrics segment decreased by $3.4 million, or 49.5%,to $3.5 million for the year ended December 31, 2022.

Non-IFRS Financial Measures

Our management uses certain non-IFRS financial information to assess our operating performance across periods and for business planning purposes. We believe the presentation of these non-IFRS financial measures is useful to investors as it provides additional information to facilitate comparisons of historical operating results, identify trends in our underlying operating results and provide additional insight and transparency on how we evaluate our business. We use non-IFRS financial measures to budget, make operating and strategic decisions, and evaluate our performance. Below is a description of the non-IFRS financial measures we have used in this Management Report, including any adjustments to the IFRS financial measures derived therefrom. We believe the non-IFRS measures should always be considered along with the related IFRS financial measures. We have provided the reconciliations between the IFRS and non-IFRS financial measures below, and we also discuss our underlying IFRS results throughout the Management Report.

The primary non-IFRS financial measures utilized by our management is described below and reflects how we evaluate our current and prior-year operating results. As new events or circumstances arise, our management may alter the definitions of such measures to better reflect our financial performance or adopt new measures in the future. In the event any of these definitions change, or if new non-IFRS financial measures are adopted by our management, we will provide the updated definitions and present the related non-IFRS historical results on a comparable basis.

Use of Constant Currency

As exchange rates are an important factor in understanding period-to-period comparisons, we believe the presentation of certain financial metrics and results on a constant currency basis in addition to the IFRS reported results helps improve investors' ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant currency information is non-IFRS financial information that compares results between periods as if exchange rates had remained constant period-over-period. We use results on a constant currency basis as one measure to evaluate our performance. We currently present revenue, cost of sales, gross profit, sales and marketing expenses, administrative expenses, Contribution Margin (consolidated and by segment) and Adjusted EBITDA on a constant currency basis. We calculate constant currency by calculating year-end period for the years ended December 31, 2022 and 2021 using prior-periods (year ended December 31, 2021 and December 31, 2020, respectively) foreign currency exchange rates. The functional foreign currencies for the primary regional markets where we operate, such as the Colombian Peso and the Brazilian Real, were adjusted on a constant currency basis at the exchange rates of COP $4,255.44 per U.S. $1.00 and R$5.1655 per U.S. $1.00, respectively, for the year ended December 31, 2022, and COP $3,693.36 per U.S. $1.00 and R$5.1578 per U.S. $1.00, respectively, for the year ended December 31, 2021. We generally refer to such amounts calculated on a constant currency basis as excluding the impact of foreign exchange. These results should be considered in addition to, not as a substitute for, results reported in accordance with IFRS. Results on a constant currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not measures of performance presented in accordance with IFRS.

EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin

We define EBITDA as profit (loss) for the year before interest expense, net, income tax expense and depreciation and amortization. We define Adjusted EBITDA as EBITDA further adjusted to exclude certain isolated costs incurred as a result of the COVID-19 pandemic, certain transaction costs incurred in connection with the Business Combination, certain listing expenses incurred in connection with the Business Combination, certain costs related to business transformation initiatives, certain foreign currency translation adjustments, and certain other finance costs and other nonrecurring, nonoperational or unordinary items as the Company may deem appropriate from time to time. Adjusted EBITDA is one of the key performance indicators we use in evaluating our operating performance and in making financial, operating, and planning decisions. We believe EBITDA and Adjusted EBITDA are useful to investors in evaluating our operating performance compared to other companies in the pharmaceutical industry, as similar

measures are commonly used by companies in this industry. We also report Adjusted EBITDA as a percentage of revenue as an additional measure so investors may evaluate our Adjusted EBITDA margins on revenue.

The following table provides a reconciliation from profit (loss) for the year to EBITDA and Adjusted EBITDA, and Adjusted EBITDA margins for the years ended December 31, 2022 and 2021.

	For the year ended December 31,		Increase/(Decrease)	
	2022	**2021**	**$ Change**	**% Change**
	(in thousands of U.S. dollars except percentages)			
Income/(Loss) for the year	**42,540**	**(100,863)**	**143,403**	**n.a.**
Finance income (expenses), net	(37,917)	78,636	116,552	n.a.
Income tax expense	10,170	13,705	3,535	-25.8%
Depreciation and amortization	16,844	15,111	1,733	11.5%
EBITDA	**31,637**	**6,589**	**25,049**	**380.2%**
COVID-19 impact adjustments[1]	894	3,788	(2,894)	-76.4%
Business transformation initiatives[2]	316	-	316	100%
	15,983		11,957	297.0%
Foreign currency translation adjustments[3]		4,026		
Other finance costs adjustments[4]	1,207	696	512	73.5%
Transactions expenses[5]	14,071	10,662	3,409	32.0%
Other expense[6]	6,018	73,917	(67.899)	-91.9%
Adjusted EBITDA	**70,126**	**99,678**	**(29.551)**	**-29.6%**
Constant Currency Adjustments	5,210			
Adjusted EBITDA on Constant Currency Basis	**75,336**	**99,678**	**(24,342)**	**-24.4%**
Adjusted EBITDA margin	**17.1%**	**24.3%**		
Adjusted EBITDA margin (on Constant Currency Basis)	**17.2%**	**24.1%**		

(1) COVID-19 impact adjustments for the year ended December 31, 2022 primarily include expenses incurred for safety precautions during the pandemic, such as employees'COVID-19 testing, vaccination, office, and production infrastructure adaptation to practice social distancing, to maintain a safe work and production environment for the employees, other miscellaneous expenses resulted from COVID-19 pandemic. For the year ended December 31, 2021, these expenses primarily include: (i) $1.7 million expenses incurred for safety precautions during the pandemic, such as employees COVID-19 testing, vaccination, office and production infrastructure adaptation to practice social distancing, to maintain a safe work and production environment for the employees, (ii) $0.6 million operating and production expenses incurred in connection with hiring of additional employees and costs paid to third party agencies for such hiring, contractors and production sub-contractors in order to mitigate any decrease in production and operating capabilities of Procaps as a result of employees absenteeism or attrition as a result of the COVID-19 pandemic, (iii) $1.2 million expense incurred for certain logistic arrangements to minimize Procaps employees' exposure to COVID-19 through arranging transportation from home to work, lodgings, face masks and PPE, and (iv) $0.4 million of other miscellaneous expenses resulted from COVID-19 pandemic.

(2) Business transformation initiatives consists of non-recurring expenses related to the launch of a new patient program platform for Diabetrics (Zutrics) during the year ended December 31, 2022.

(3) Foreign currency translation adjustments represent the reversal of exchange losses we recorded due to foreign currency translation of monetary balances of certain of our subsidiaries from U.S. dollars into the functional currency of those subsidiaries as of December 31, 2022 and 2021.

(4) Other finance costs adjustments represent non-operating expenses we incurred, primarily including additional interests incurred due to the withholding tax obligations of certain financial institutions outside of Colombia.

(5) Transactions expenses for the year ended December 31, 2022 primarily include: (i) consulting and legal fees and expenses incurred in connection with acquisitions and SPA termination in the amount of 12.3 million, (ii) incremental director and officer policy insurance costs in the amount of $1.0 million in connection with the Business Combination, (iii) tail policy insurance costs incurred of $0.5 million in connection with the Business Combination, and (iv) incremental audit fees of approximately $0.3 million incurred in connection with the Business Combination. For the year ended December 31, 2021, these expenses primarily include: (i) capital markets advisory fees of $4.5 million incurred in connection with the Business Combination, (ii) incremental audit fees of $2.7 million incurred in connection with the Business Combination, (iii) consulting, accounting and legal expenses of $0.4 million incurred in connection with the Business Combination, (iv) management bonuses of $0.7 million paid in connection with the consummation of the Business Combination and the listing of the Company on the Nasdaq, (v) tail policy insurance costs incurred of $1.6 million in connection with the Business Combination, (vi) incremental director & officer policy insurance costs incurred of $0.3 million in connection with the Business Combination, (vii) incurred audit fees of $0.2 million to comply with the Syndicated Loan (as defined below) requirements that will not be necessary in the future, and (viii) consulting and legal fees and expenses related to asset acquisitions and other transaction in the amount of $0.3 million.

(6) Other expenses include a write off related to Rymco impairment charge of approximately $6.0 million for the year ended December 31, 2022. For the year ended December 31, 2021, other expenses include listing expense of $73.9 million associated with the deemed listing services received by Procaps from Union, which is the difference between the deemed costs of the Ordinary Shares issued by the Company to Union shareholders in connection with the Business Combination, in excess of the net assets obtained from Union, as required by IFRS 2 Share-based payments.

Contribution Margin

We define Contribution Margin as gross profit less selling expenses. Contribution Margin is one of the key performance indicators we use in evaluating our profitability. We believe Contribution Margin is useful to investors in the evaluating our operating performance compared to other companies in the pharmaceutical industry, as similar measures are commonly used by companies in this industry.

The following table provides a reconciliation from gross profit to Contribution Margin for the years ended December 31, 2022 and 2021.

	For the year ended December 31		**Increase / (Decrease)**	
	2022	**2021**	**$ Change**	**% Change**
	(in thousands of U.S. dollars except percentages)			
Gross Profit	239,569	235,713	3,856	1.6%
Selling Expenses	(93,566)	(83,057)	(10,509)	12.7%
Contribution Margin	**146,003**	**152,656**	**(6,653)**	**-4.4%**
Constant Currency Adjustments	11,258		-	-
Contribution Margin (on Constant Currency Basis)	**157,261**	**152,656**	**4,605**	**3.0%**

B. LIQUIDITY AND CAPITAL RESOURCES

Our principal source of liquidity has been cash flow generated from operations, supplemented by credit arrangements with third parties. The principal uses of cash are to fund operating and capital expenditures, business or asset acquisitions, interest payments on debt, any mandatory or discretionary principal payment on our debt and investments in R&D.

As of December 31, 2022, our cash and cash equivalents amounted to $43.0 million. We believe that our existing cash and cash equivalents and cash inflows from operations, will be adequate to meet our anticipated cash needs for the next twelve months. We routinely monitor current and expected operational requirements and financial market conditions to evaluate other available financing sources including term and revolving bank credit. In determining our

future capital requirements, we regularly consider, among other factors, known trends and uncertainties, such as the COVID-19 pandemic, and other contingencies.

Our ability to generate cash is subject to our performance, general economic conditions, industry trends and other factors. To the extent that the funds received from the Business Combination, combined with existing cash and cash equivalents are insufficient to fund our future activities and requirements, we may need to raise additional funds through public or private equity or debt financing. Although certain of our lenders have made commitments to make funds available to us in a timely fashion under our revolving credit agreements and overdraft facilities, if economic conditions worsen, including due to current geopolitical issues, or new information becomes publicly available impacting the institutions' credit rating or capital ratios, these lenders may be unable or unwilling to lend money pursuant to our existing credit facilities. Should our outlook on liquidity requirements change substantially from current projections, we may seek additional sources of liquidity in the future. If we issue equity securities in order to raise additional funds, substantial dilution to existing shareholders may occur. If we raise cash through the issuance of indebtedness, we may be subject to additional contractual restrictions on our business. We cannot assure the investor that we would be able to raise additional funds on favorable terms or at all.

Cash Flow for the years ended December 31, 2022 and 2021

The following table summarizes our consolidated statements of cash flows from operations for the years ended December 31, 2022 and 2021:

	For the Year Ended December 31,		Increase/(Decrease)
	2022	**2021**	**$ Change**
	(in thousands of U.S. dollars)		
Cash flow provided by operating activities	14,106	37,303	(23,197)
Cash flow used in investing activities	(28,828)	(23,703)	(5,125)
Cash flow generated from (used in) financing activities	(13,627)	58,044)	(71,671)
Net increase in cash	**(28,349)**	**71,644**	**(99,993)**

Cash flow provided by operating activities

For the year ended December 31, 2022, net cash provided by operating activities was $14.1 million, compared to $37.3 million for the year ended December 31, 2021, a decrease of $23.2 million. The decrease was primarily the result of (i) (i) a decrease in cash flow from operating activities before changes in the working capital, impacted by higher operating expenses, (ii) an increase in trade receivables as a result of customers remitting payments closer to the end of the negotiated payment term due to current economic conditions and (iii) an increase in inventory held as of December 31, 2022 compared to December 31, 2021 as a result of supply chain challenges.

Cash flow used in investing activities

For the year ended December 31, 2022, net cash used in investing activities was $28.8 million compared to $23.7 million during the year ended December 31, 2021, an increase of $5.1 million. Net cash used in investing activities for the year ended December 31, 2022 consisted primarily of (i) $20.6 million in cash used in the acquisition of property, plant and equipment for certain strategic capacity expansion, including, the new Miramar facility for gummy products and equipment and automation improvements in our current facilities, and (ii) $11.0 million in cash used in the acquisition of intangibles for internal product development.

Cash flow generated from (used in) financing activities

For the year ended December 31, 2022, net cash used in financing activities decreased by $71.7 million from net cash generated from financing activities of $58.0 million for the year ended December 31, 2021 to net cash used in financing activities of $13.6 million for the year ended December 31, 2022. The decrease was primarily due to (i) the impact of

the acquisition in the prior period, resulting in net cash inflows of $85.0 million. The decrease in net cash used in financing activities was partially offset by (i) the decrease in interest paid of $7.4 million, (ii) the decrease in payment of lease liabilities of $2.2 million, (iii) the decrease in net proceeds from borrowings of $1.7 million and (iv) the decrease in payments to related parties of $2.0 million.

Financial Resources

Our capital structure consists of net debt (loans offset by cash and bank balances) and consolidated equity (comprised of issued and paid-in capital, reserves, retained earnings and non-controlling interests). We are not subject to any externally imposed capital requirement.

Our primary indebtedness consists of the outstanding balance of the Senior Notes and Syndicated Loan (defined below). The Senior Notes, the Syndicated Loan and certain other loans include certain covenants that obligate the borrower and guarantors thereunder to comply with a series of financial ratios, consisting of a debt to EBITDA ratio and EBITDA interest coverage ratio as described below under the heading "— *Debt Financing and Borrowings — Senior Notes — Covenants*". The Syndicated Loan includes certain covenants that obligate the borrower and co-debtors thereunder to comply with a series of financial ratios, consisting of a debt to EBITDA ratio, short-term leverage ratio and EBITDA interest coverage ratio as described below under the heading "— *Debt Financing and Borrowings — Syndicated Loan — Covenants*". These financial ratios serve as local management parameters for both arrangements.

We analyze and review our capital structure on a quarterly basis. As part of this review, we consider the cost of capital and the risks associated with each class of capital.

As of December 31, 2022 and 2021 we had total borrowings of $285.9 million and $253.4 million, respectively.

Debt Financing and Borrowings

The table below summarizes our outstanding interest-bearing liabilities for year ended December 31, 2022.

	For the Year Ended December 31, 2022
	(in thousands of U.S. dollars)
Syndicated Loan	38,626
Other term loan	95,720
Lease liabilities	34,192
Factoring obligations	2,317
Put option agreements	—
Bank overdrafts	80
Senior Notes	115,000
Total Interest bearing liabilities	**285,935**

Syndicated Loan

On November 20, 2018, Procaps S.A. entered into a syndicated term loan agreement the "Syndicated Loan Agreement") with the following banks: Portion in Colombian pesos (COP) - Davivienda and Bancolombia; US dollar portion (USD) - Banco de Credito del Peru, Bancolombia Panama and Banco Sabadell. The total value of the syndicated loan amounts to $200,434 million COP (portion in COP) and $35 million USD (portion in USD), Fiduciaria

Bancolombia acts as the agent of the loan. C.I. Procaps S.A., Procaps S.A. de C.V, Biokemical S.A., Pharmarketing S.A. (Panama), Pharmarketing Salvador S.A. de C.V., Pharmarketing S.A. (Guatemala S.A.), C.D.I. Salvador S.A. de C.V., C.D.I. Nicaragua S.A., C.D.I. Guatemala S.A., Pharmarketing Dominicana SRL, and Pharmarketing Costa Rica S.A., act as co-debtors, while Pharmayect S.A., Inversiones Crynssen S.A.S., Inversiones Ganeden S.A.S., Inversiones Henia S.A.S., Inversiones Jades S.A.S., and Industrias Kadima S.A.S., act as guarantors.

The resources obtained were used for advance payment and/or novation of certain obligations to be refinanced. The conditions of the loan had a term of 5 years for installment payments and the interest rates agreed are as follows: IBR + 5.30% for the portion in COP and Libor + 4.80% for the USD portion.

The loans received by Banco de Crédito del Peru and Banco Sabadell were precanceled during the month of November 2021, due to a new agreement and improvement in terms and conditions with Senior Notes.

As of December 31, 2022, the total amount outstanding under the Syndicated Loan was $38.6 million.

Covenants

The Syndicated Loan contains covenants that, among other things, restrict, subject to certain exceptions, the borrower and co-debtors' ability to change its line of business; incur additional indebtedness resulting in a Debt/EBITDA Ratio (as defined below) above 3.5; enter into derivative transactions (except for those in connection with the purchase of raw materials or for the purpose of mitigating interest or exchange rate risks); sell or transfer title to operating assets; pay dividends and distributions; engage in mergers and consolidations; amend agreements material to the operations of the borrower and co-debtors; enter into any financial or operating lease obligation with an option to purchase in an aggregate amount of over COP $85,000,0000,0000 (approximately $24,763,292); change our fiscal year reporting; engage in certain transactions with affiliates; enter into any joint venture or similar agreements. For purposes of the Syndicated Loan, EBITDA is calculated as income from sales and services, *less* (i) sales and production costs, *less* (ii) operating expenses, *less* (iii) administrative expenses, *plus* (iv) depreciation, *plus* (ii) amortizations, *plus* (iii) provisions, and l*ess* (iv) portfolio write-offs.

The Syndicated Loan also contains change-of-control provisions and certain customary affirmative covenants and events of default. The Syndicated Loan also requires compliance with the following ratios: (i) a pro forma consolidated debt of the borrower and the co-debtors to pro forma consolidated EBITDA for the last twelve months of the borrower and co-debtors ratio ("Syndicated Loan Debt/EBITDA Ratio") of 3.5 or less, measured every June 30 and December 30; (ii) a short-term leverage ratio (the "Syndicated Loan Short-Term Leverage Ratio Covenant") (calculated as the pro forma consolidated short-term debt of the borrower and the co-debtors divided by pro forma consolidated EBITDA for the last twelve months of the borrower and co-debtors) of less than 1.0, calculated at the end of each semester; and (iii) an EBITDA interest coverage ratio (the "Syndicated Loan Interest Coverage Ratio") (calculated as the pro forma consolidated EBITDA for the last twelve months of the borrower and co-debtors divided by the pro forma consolidated financial expenses of the borrower and the co-debtors) of greater than or equal to 3.0, calculated at the end of each semester.

The Syndicated Loan establishes that, in the event of breach of covenants by the debtor, the lenders shall be entitled to declare early maturity of the debts.

Syndicated Loan Waiver

On May 2, 2023, we entered into the Syndicated Loan Waiver Agreement which relates to certain covenant noncompliance under the Syndicated Loan. Pursuant to the terms of the Syndicated Loan, we informed the lenders that the following events of defaults have occurred and were continuing as of the date of the of the Syndicated Loan Waiver Agreement (collectively, the "Specified Syndicated Loan Defaults"):

1. the event of default arising as a result of the Syndicated Loan Debt/EBITDA Ratio for the twelve months ending December 31, 2022 being in excess of 3.50:1.00, in default of the applicable covenant set forth in the Syndicated Loan (the "Syndicated Loan Debt/EBITDA Ratio Covenant");

2. the event of default arising as a result of the Syndicated Loan Interest Coverage Ratio for the twelve months ending December 31, 2022 being less than 3.00:1.00), in default of the applicable covenant set forth in the Syndicated Loan (the "Syndicated Loan Interest Coverage Ratio Covenant");

3. the event of default arising as a result of the Syndicated Loan Short-Term Leverage Ratio being in excess of 1.00:1. as at December 31, 2022, in default of the covenant set forth in the Syndicated Loan (the "Syndicated Loan Short-Term Leverage Ratio Covenant"); and

4. the event of default arising as a result of our failure to deliver to the lenders, within the time period specified in the Syndicated Loan, written notice of the events of default described in the foregoing clauses (i) through (iii) as required by the Syndicated Loan.

Pursuant to the Syndicated Loan Waiver Agreement, the lenders (a) with effect from December 31, 2022, waived the Specified Syndicated Loan Defaults, (b) prospectively waived our potential non-compliance by with the Syndicated Loan Debt/EBITDA Ratio Covenant as at June 30, 2023, so long as the ratio calculated pursuant to the Syndicated Loan Debt/EBITDA Ratio Covenant as at such dates does not exceed 4.50:1.00, (c) prospectively waived our potential non-compliance with the Syndicated Loan Interest Coverage Ratio Covenant as at June 30, 2023, so long as the ratio calculated pursuant to the Syndicated Loan Interest Coverage Ratio Covenant as at such dates is not less than 1.80:1.00, and (d) prospectively waived our potential non-compliance with the Syndicated Loan Short-Term Leverage Ratio Covenant as at June 30, 2023, so long as the ratio calculated pursuant to the Syndicated Loan Short-Term Leverage Ratio Covenant as at such dates does not exceed 1.60:1.00.

The foregoing summary of the Syndicated Loan Waiver Agreement is qualified in its entirety by the full text of the Syndicated Loan Waiver Agreement, which is filed as Exhibit 4.17 to this Annual Report.

As a result of our noncompliance with the aforementioned covenants, the approximately $19.7 million unpaid principal balance previously classified as non-current borrowings has been reclassified to current borrowings within the consolidated financial statements included in this Annual Report.]

Other Term Loans

The table below summarizes the terms of our other term loans as of December 31, 2022.

Currency	Range of Interest	Maturity Year	Outstanding Balance for the year ended December 31, 2022
			(in thousands of U.S. dollars)
COP	IBR+ 5.0%, DTF+ 3%, 13.99%-25.3%	2022-2025	$9,549
COP	IBR+2.25%-10.2%	2022-2025	$21,267
SOL	8.0% - 12.79% (Fixed)	2022-2024	$6,837
REAIS	9.84% - 18% N.A.	2023-2024	$2,176
USD	SOFR+ (4.80%-5.80%)	2023	$23,454
USD	6.36%-16.8%	2022-2025	$32,437
Total			**$95,720**

In June 2022, Procaps, S.A. entered into the Additional Loan Agreement with a lender to borrow approximately $8.7 million. The Additional Loan Agreement contained certain financial ratio covenants.

As of December 31, 2022, we were not in compliance with certain of the covenants. On March 28, 2023, we entered into a waiver with the lender where the lender agreed to (i) waive our noncompliance with the covenant as of December 21, 2022 and (ii) prospectively waive our potential noncompliance with the covenants as of, June 30, 2023.

As a result of our noncompliance as of December 31, 2022, the $4,490 unpaid principal balance previously classified as a non-current borrowings under the credit agreement has been reclassified to current borrowings within the consolidated financial statements included in Annual Report.

Lease Liabilities

We had $34.2 million of lease liabilities as of December 31, 2022.

Factoring Obligations

We have accounts receivable factoring arrangements with non-related third-party financial institutions (the "Factors"). Pursuant to the terms of the arrangements, we sell to the Factors certain of our accounts receivable balances on a non-recourse basis for credit approved accounts. An administrative fee per invoice is charged on the gross amount of accounts receivables assigned to the Factors, and interest is calculated based on an annual average variation of USD LIBOR and Colombian DTF, as well as fixed rates, ranging from approximately 7.2% in USD denominated arrangements to approximately 24.6% in COP denominated arrangements. The total amount factored on a non-recourse basis and excluded from accounts receivable was $2.3 million as of December 31, 2022.

Put Option Agreements

Crynssen and the Minsky Family granted IFC a put option pursuant to that certain put option agreement entered into in 2017 (the "IFC Put Option Agreement"), whereby Crynssen and the Minski Family agreed to purchase up to 432,271 Crynssen Ordinary Shares held by IFC upon IFC's delivery of a put notice for a price sufficient to provide IFC with an internal rate of return of 12% on IFC's investment in Crynssen, beginning on the eighth anniversary of IFC's subscription of Crynssen Ordinary Shares and ending on the earlier of the eleventh anniversary of such date or the consummation of a qualified initial public offering.

Crynssen and the Minsky Family also granted Hoche a put option pursuant to that certain put option agreement dated December 23, 2019 (the "Hoche Put Option Agreement"), whereby Crynssen and the Minski Family agreed to purchase up to all of Hoche's Crynssen Ordinary Shares upon Hoche's delivery of a put notice for a price sufficient to provide Hoche with an internal rate of return of 12% on Hoche's investment in Crynssen, beginning on the eight anniversary of September 1, 2017, and ending on the earlier of the eleventh anniversary of such date or the consummation of a qualified initial public offering.

We classified and measured the obligation to buy back Crynssen Ordinary Shares from IFC and Hoche at amortized cost and recognized finance expense using the effective interest rate method, including transaction costs.

Effective as of September 29, 2021, immediately after the Closing of the Business Combination, the IFC Put Option Agreement and the Hoche Put Option Agreement were terminated and cancelled. The termination of the put option agreements resulted in the reclassification of the associated liabilities into the Company's equity, along with a loss in income statement as the difference between such associated liabilities and the fair value of a portion of the Ordinary Shares received by IFC and Hoche as part of the Business Combination. The one-time loss on termination of such put options in the amount of $35.9 million aligns the carrying value of such put options on the termination date to the fair value of the Ordinary Shares issued.

Bank Overdrafts

We have overdraft facilities available that we use to support our cash management operations. We had $0.1 million of overdrafts and credit card liabilities outstanding as of December 31, 2022.

Senior Notes

On November 12, 2021, the Company closed a private placement offering of $115.0 million aggregate principal amount of 4.75% guaranteed Senior Notes issued by Procaps, S.A., a subsidiary of the Company, due November 12, 2031, pursuant to a note purchase and guarantee agreement (the "NPA") entered into on November 5, 2021 with The Prudential Insurance Company of America, Prudential Annuities Life Assurance Corporation, Healthspring Life & Health Insurance Company, Inc. and Cigna Health and Life Insurance Company Inc. The Senior Notes are the senior unsecured obligations of Procaps, S.A. and unconditionally guaranteed by the Company and the following subsidiaries of the Company: Crynssen Pharma Group Limited, C.I. Procaps, S.A., Diabetrics Healthcare S.A.S., Pharmayect S.A., Procaps, S.A. de C.V., Biokemical, S.A. de C.V., Colbras Indústria e Comércio Ltda., and Sofgen Pharmaceuticals LLC.

The Senior Notes were issued in a single tranche, with a final maturity of 10 years and a principal amortization schedule of five annual equal payments commencing on the sixth anniversary of the closing (*i.e.* years 6 to 10), resulting in a weighted average life of 8 years. We used the net proceeds from the issuance of the Senior Notes primarily to repay certain of its and its subsidiaries existing indebtedness in full (including the syndicated loans granted by Banco de Sabadell S.A. Miami Beach and Banco de Crédito del Perú) , as well as for general corporate purposes.

In connection with the expected closing of the Acquisition and associated borrowings under the Credit Agreement (as described below), we intended to prepay in full the Senior Notes, together with interest accrued thereon to the date of such prepayment and the make-whole amount determined for the date of such prepayment pursuant to the NPA (the "Notes Payoff"). We previously expected that the closing of the Acquisition would occur on October 14, 2022, and accordingly, pursuant to the requirements of the NPA, delivered advance notice to the noteholders of the Notes Payoff to occur on such date. As a result of a delay and subsequent termination in the closing of the Acquisition, the expected borrowing under the Credit Agreement did not occur, and we were unable to complete the Notes Payoff on the date scheduled, which technically constituted an event of default under the NPA. The noteholders informed us that they would not exercise any rights or remedies under the NPA due to such technical default pending entry into an amendment to the NPA formally waiving such default, and we and the noteholders executed temporary waivers in connection therewith. On November 1, 2022, we and the noteholders entered into an amendment to the NPA (the "NPA Amendment"), formally waiving the technical default and which also (i) provided us with the ability, until November 30, 2022, to prepay the Senior Notes with two business days' notice, (ii) provided that the make-whole amount under the NPA shall in no case be less than USD 1,488,204.60, and (iii) provided that, if the Notes Payoff did not occur on or prior to November 30, 2022, a waiver fee of 3.75% per annum on the outstanding principal amount of Senior Notes outstanding shall (a) accrue from (and including) October 14, 2022 and (b) be payable to the noteholders on the 12th day of February, May, August and November in each year (commencing on February 12, 2023), on the maturity date of such Senior Note and on each other date on which interest on such Senior Note is due and payable in accordance with the terms of the NPA and such Senior Note. The Notes Payoff did not occur on or prior to November 30, 2022, therefore triggering the 3.75% per annum waiver fee on the outstanding principal amount of Senior Notes, raising the interest rate from 4.75% to 8.50%.

Covenants

The Senior Notes contain change-of-control provisions pertaining to Procaps, S.A. and certain customary affirmative and negative covenants and events of default. In addition, the Senior Notes require us, Procaps, S.A.,and the other obligors thereunder to comply with the following financial ratios: (i) consolidated total debt of the Company, Procaps S.A., and the other obligors thereunder to consolidated EBITDA for the last twelve months (the "NPA Debt/EBITDA Ratio") of 3.50:1.00 or less, measured at certain quarterly determination dates and (ii) an EBITDA interest coverage ratio (the "NPA Interest Coverage Ratio") (calculated as the consolidated EBITDA for the last twelve months of the Company, Procaps S.A., and the other obligors thereunder divided by the consolidated interest expenses of the Company, Procaps S.A., and the other obligors thereunder) in excess of, or equal to, 3.00:1.00, calculated at certain dates of determination.

The Senior Notes also contain covenants that, among other things, restrict, subject to certain exceptions, the ability of the Company, Procaps S.A. and the other obligors thereunder to change lines of business; incur additional secured indebtedness; permit subsidiaries to incur additional indebtedness; sell or transfer title to operating assets; pay

dividends and distributions; engage in mergers and consolidations; create liens on assets; guarantee, indemnify or assume the liabilities of third parties; change our fiscal year reporting; or engage in certain transactions with affiliates. In addition, the Senior Notes contain a covenant that incorporates into the Senior Notes any more restrictive financial, affirmative or negative covenants, information reporting requirements or events of default from any other credit facilities in excess of U.S.$25,000,000 (including from the Syndicated Loan facility, as in effect on February 28, 2022, see "B: Liquidity and Capital Resources—Syndicated Loan") entered into by the Company, Procaps, S.A., or any of our subsidiaries. For purposes of the Senior Notes, EBITDA is calculated as income from sales and services, less (i) sales and production costs, less (ii) operating expenses, less (iii) administrative expenses, plus (iv) depreciation, plus (ii) amortizations, plus (iii) provisions, and less (iv) portfolio write-offs.

Senior Notes Waiver

On March 31, 2023, we entered into the NPA Waiver Agreement which relates to certain covenant noncompliance under the NPA. Pursuant to the terms of the NPA, we informed the Noteholders that the following events of defaults have occurred and were continuing as of the date of the of the NPA Waiver Agreement (collectively, the "Specified NPA Defaults"):

5. the event of default arising as a result of the NPA Debt/EBITDA Ratio for the twelve months ending December 31, 2022 being in excess of 3.50:1.00, in default of the applicable covenant set forth in the Syndicated Loan (the "NPA Debt/EBITDA Ratio Covenant");

6. the event of default arising as a result of the NPA Interest Coverage Ratio for the twelve months ending December 31, 2022 being less than 3.00:1.00), in default of the applicable covenant set forth in the Syndicated Loan (the "NPA Interest Coverage Ratio Covenant");

7. the event of default arising as a result of the short-term leverage being in excess of 1.00:1.00 as at December 31, 2022, in default of the covenant described in, and incorporated into the NPA pursuant to, that certain Most Favored Lender Notice dated April 7, 2022 and delivered to the Noteholders on or about such date (the "NPA Short-Term Leverage Ratio Covenant"); and

8. the event of default arising as a result of our failure to deliver to the Noteholders, within the time period specified in the NPA, written notice of the events of default described in the foregoing clauses (i) through (iii) as required by the NPA.

Pursuant to the NPA Waiver Agreement, the Noteholders (a) with effect from December 31, 2022, waived the Specified NPA Defaults, (b) prospectively waived our potential non-compliance by with the NPA Debt/EBITDA Ratio Covenant as at March 31, 2023, June 30, 2023 and September 30, 2023, so long as the ratio calculated pursuant to the NPA Debt/EBITDA Ratio Covenant as at such dates does not exceed 4.00:1.00, (c) prospectively waived our potential non-compliance with the NPA Interest Coverage Ratio Covenant as at March 31, 2023, June 30, 2023 and September 30, 2023, so long as the ratio calculated pursuant to the NPA Interest Coverage Ratio Covenant as at such dates is not less than 2.20:1.00, and (d) prospectively waived our potential non-compliance with the NPA Short-Term Leverage Ratio Covenant as at March 31, 2023, June 30, 2023 and September 30, 2023, so long as the ratio calculated pursuant to the NPA Short-Term Leverage Ratio Covenant as at such dates does not exceed 1.60:1.00.

The foregoing summary of the NPA Waiver Agreement is qualified in its entirety by the full text of the NPA Waiver Agreement, which is filed as Exhibit 4.18 to Annual Report.

As a result of our noncompliance with the aforementioned covenants, the $115 million unpaid principal balance previously classified as non-current borrowings has been reclassified to current borrowings within the consolidated financial statements included in Annual Report.]

The table below sets forth the outstanding balance and certain other information on the Senior Notes as of December 31, 2022.

	Currency	Range of Interest	Maturity Year		Outstanding Balance as of December 31, 2022
The Prudential Insurance Company of America	USD	8.50% (Fixed)	2031	$	60,020
Prudential Annuities Life Assurance Corporation	USD	8.50% (Fixed)	2031	$	29,980
Healthspring Life & Health Insurance Company, Inc	USD	8.50% (Fixed)	2031	$	18,350
CIGNA Health and Life Insurance Company	USD	8.50% (Fixed)	2031	$	6,650
Total				**$**	**115,000**

Bridge Facility

On October 11, 2022, the Company and certain of its subsidiaries entered into a credit agreement with Bank of New York Mellon, as administrative and collateral agent (collectively, the "Agent"), BofA Securities, Inc. ("BofA Securities"), JPMorgan Chase Bank, N.A. ("JPMorgan") and Morgan Stanley Senior Funding, Inc. ("Morgan Stanley", and together with BofA Securities and JPMorgan, the "Joint Lead Arrangers and Bookrunners"), as the joint lead arrangers and bookrunners, and the lenders from time to time party thereto (the "Bridge Credit Agreement") to finance the cash portion of the purchase price of the Acquisition, to pay fees and expenses related to the Bridge Facility, to prepay, refinance and/or redeem certain existing indebtedness, and to the extent any proceeds remained after applying to the foregoing, to use for working capital and other general corporate purposes. The Credit Agreement terms are consistent with the terms of the Commitment Letter. The Credit Agreement provided for a bridge loan of up to $485 million (the "Bridge Facility"), which would have been guaranteed by each existing and future direct and indirect material subsidiary of the Company, and the target entities subject to the Acquisition and each of their subsidiaries upon the closing of the Acquisition.

In connection with the termination of the Acquisition, we advised the Joint Lead Arrangers and Bookrunners under the Bridge Facility of our desire to terminate the Bridge Facility and related documentation and pay all outstanding obligations owing thereunder, and on January 10, 2023, the Company and certain of its subsidiaries, the Agent, the Joint Lead Arrangers and Bookrunners, J.P. Morgan Securities LLC ("JPMorgan Securities"), Morgan Stanley & Co. LLC ("Morgan Stanley & Co") and the lenders party thereto entered into a termination letter in connection therewith (the "Termination Letter"). Pursuant to the Termination Letter, (i) each of the loan documents in connection with the Bridge Facility, (ii) the Commitment Letter dated as of May 16, 2022 among Bank of America, N.A. ("Bank of America"), the Joint Lead Arrangers and Bookrunners and the Company and (iii) the Engagement Letter dated as of May 16, 2022 among Bank of America, BofA Securities, JPMorgan Securities, Morgan Stanley & Co and the Company, were terminated and all outstanding obligations owed by the Company thereunder were paid in full in the amount of $5,719,426.58.

Contractual Obligations and Commitments

A summary of our enforceable and legally binding obligations as of December 31, 2022 are set forth in the following table. Some of the amounts included in this table are based on management's estimates and assumptions about these obligations, including the duration, the possibility of renewal, anticipated actions by third parties and other factors. Because these estimates and assumptions are necessarily subjective, the enforceable and legally binding obligations actually paid in future periods may vary from the amounts reflected in the table.

	As of December 31, 2022				
(U.S. dollars in thousands)	**2023**	**2024-2025**	**2026-2027**	**After 2027**	**Total**
Long-term debt obligations[(1)]	276,203	3,642	563	-	280,408
Finance lease obligations[(2)]	11,174	6,629	5,962	22,236	46,001
Trade and other payables	90,187				90,187
Amounts owed to related parties	2,914	-	-	-	2,914
Total	**380,258**	**10,271**	**6,525**	**22,236**	**419,290**

(1) Represents gross maturities of our long-term debt obligations, excluding finance lease obligations as of December 31, 2022, including the interest payments. Estimated future interest payments on our variable-rate debt obligations were calculated using the interest rates in effect as of December 31, 2022. As a result of our noncompliance with certain debt ratio covenants as of December 31, 2022, $139,155 is reflected as payable in 2023 and classified as a current liability. Refer to the disclosure above regarding the Waivers as well as Notes 19, 2.1 and 28 in the Annual Audited Consolidated Financial Statements included in Annual Report for further details regarding the noncompliance and the Waivers.

(2) Represents maturities of our finance lease obligations included within long-term debt as of December 31, 2022, including interest payments. Estimated future interest payments on our variable-rate debt obligations were calculated using the interest rates in effect as of December 31, 2022.

Deferred tax liabilities were $4.0 million as of December 31, 2022. This amount is not included in the contractual obligations table above because we believe this presentation would not be meaningful. Deferred tax liabilities are calculated based on temporary differences between the tax basis of assets and liabilities and their book basis, which will result in taxable amounts in future years when the book basis is settled. The results of these calculations do not have a direct connection with the amount of cash taxes to be paid in any future periods. As a result, scheduling deferred tax liabilities as payments due by period could be misleading because this scheduling would not relate to liquidity needs.

Our management believes that our financial resources and expected future cash flows from operating activities shall be sufficient to satisfy our contractual obligations and commitments.

Off-Balance Sheet Arrangements

There is no commitments or obligations, including contingent obligations, arising from off-balance sheet arrangements with unconsolidated entities or persons that have a material current effect, or that are reasonably likely to have a material future effect, on our financial condition, changes in financial condition, net sales or expenses, results of operations, liquidity, capital expenditures, or capital resources.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

Our R&D activities are directed primarily toward the development of new products for corporate brands and development services for third parties, as well as the improvement of our manufacturing processes and delivery technologies. Our R&D platform is decentralized with research centers in Colombia (Barranquilla and Bogotá), Brazil (Cotia, SP); and Florida, USA (West Palm Beach). We employ over 300 scientists, technicians and skilled personnel in R&D and innovation. Our main R&D hub at Barranquilla, Colombia, employs over 280 scientists, technicians and skilled personnel in processes such as formulation, analytical, manufacturing, packaging, as well as technological innovation related to ingredients, formulas and equipment.

Our corporate culture focuses on innovation and R&D. We rely on a combination of know-how, trade secrets, patents, copyrights, trademarks, and other intellectual property, nondisclosure and other contractual provisions, and technical measures to protect a number of our products, services, processes and intangible assets.

We have applied in Colombia, the United States and certain other countries for registration of a number of trademarks, service marks, and patents, some of which have been registered and issued, and also hold common law rights in various trademarks and service marks.

D. TREND INFORMATION

Impact of COVID-19

The consequences from the COVID-19 pandemic have continued to affect Latin America through 2022 and 2021, including the pharmaceutical industry. We believe pharmaceutical companies which offered positive solutions to consumer demands during the COVID-19 pandemic continue to thrive in both local and regional markets. The personal physician workforce has begun to return to work after periods of quarantine, resulting in an increased demand for Rx

drugs during part of the year ended December 31, 2022, in particular for those related to chronic and certain acute therapies. Sales of COVID-19 related products declined to pre-pandemic levels during 2022, and other sales of non-COVID-19 related products increased during the year ended December 31, 2022, such as OTC pharmaceutical products. Although supplements and analgesics continued to thrive, Clinical Specialties products such as anesthetics and anticoagulants have experienced a decline in sales during 2022.

In-person physician consultations have returned to pre-pandemic levels during 2022, with much focus on medical training. In-person meetings and events involving physician groups and associations began in Colombia during the first half of 2021 through in-person medical events, allowing us to exhibit our brands more effectively. These events were primarily initiated regionally but have an international presence. Nonetheless, continuous efforts to deploy new technologies such as tele-health and other innovative technological solutions are a priority, for enabling open and better ways of communication between patients and doctors.

Despite these challenges, we believe our ability to respond to the changes in consumer demand during the COVID-19 pandemic and its aftermath, efforts to maintain close communications with physicians, and our reinforcement of key brands has allowed us to increase our market share of certain Farma Procaps and Colmed OTC products during 2022 in terms of total sales within product category.

Research and Development for Pharmaceuticals Industry

Continued strengthening in early-stage development pipelines for drugs and biologics, compounded by increasing clinical trial breadth and complexity, support our belief in the attractive growth prospects for development of delivery solutions. Large companies are in many cases reconfiguring their R&D resources, increasingly involving the use of strategic partners for important outsourced functions. Additionally, an increasing portion of compounds in development are from companies that do not have a full R&D infrastructure, and thus are more likely to need strategic development solutions partners.

We have invested $18.1 million and $16.0 million in R&D for the years ended December 31, 2022 and 2021, respectively.

Aging Population in Latin America

Aging population demographics in Latin American countries, combined with health care reforms in many global markets that are expanding access to treatment to a greater proportion of their populations, will continue to drive increases in demand for pharmaceuticals, biologics, and consumer health products. Increasing economic affluence in developing regions will further increase demand for healthcare treatments, and we are taking active steps to allow us to participate effectively in these growth regions and product categories. In accordance with a report by the United Nations Department of Economics and Social Affairs, in 1975, 41% of the population in Latin America was 14 years of age or younger, 55% was between 15 and 64 years of age and 4% was 65 years of age or older, and in 2000, 31% of the population was 14 years of age or younger, 63% was between 15 and 64 years of age and 6% was 65 years of age or older. Pursuant to the report, it is estimated that by 2025, 22% of the population will be 14 years of age or younger, 68% will be between 15 and 64 years of age and 10% will be 65 years of age or older, and by 2050, 16% of the population will be 14 years of age or younger, 63% will be between 15 and 64 years of age and 21% will be 65 years of age or older.

We believe the market access and payor pressures our customers face, global supply chain complexity, and the increasing demand for improved treatments will continue to escalate the need for product differentiation, improved outcomes, and treatment cost reduction, all of which can often be addressed using our advanced delivery technologies.

Fast Growing Pharmaceuticals Market in Latin America

We participate in the global pharmaceutical and biotechnology industry, which has been estimated to generate more than $1 trillion in annual revenue over the next eight years following 2020, including, but not limited to, the prescription drug and biologic sectors as well as consumer health, which includes the OTC and vitamins and nutritional supplement sectors. Innovative pharmaceuticals continue to play a critical role in the global market, while the share

of revenue due to generic drugs and biosimilars is increasing in both developed and developing markets. Sustained developed market demand and rapid growth in emerging economies such as Latin America is driving the consumer health product growth rate to more than double that for pharmaceuticals. Payors, both public and private, have sought to limit the economic impact of pharmaceutical and biologics product demand through greater use of generic and biosimilar drugs, access and spending controls, and health technology assessment techniques, favoring products that deliver truly differentiated outcomes. Additionally, we believe the demand for innovative delivery systems will increase due to growing healthcare expenditures globally and the implementation of government reforms to improve the regulatory environment in Latin America and intellectual property protection.

Large and Fast-growing CDMO (Contract Manufacturing Organization) Market

We participate in the CDMO market which, according to independent third-party industry reports, is estimated to continue its growth of 6.4% over the next four years. It is also estimated that outsourced pharmaceutical manufacturing will continue its growth of 6.5% over the next four years. We believe there is a high potential to increase outsourced pharmaceutical manufacturing worldwide since only approximately 26% of global pharmaceutical manufacturing is currently being outsourced. The CDMO industry is highly fragmented, with the top 10 manufacturers holding less than a 20% market share in terms of revenue, creating opportunities for inorganic growth through consolidation and entry into adjacent markets.

Healthcare Expenditures

We participate in global pharmaceutical and biotechnology industry; healthcare expenditure in Latin America is expected to outgrow other markets, including the European and American pharmaceutical and biotechnology markets. We believe this increase in expenditure will be primarily driven by an increasing middle class across Latin America coupled with a rapidly aging population, with the percentage of individuals over 65 years of age expected to increase from 6% in 2020 to 21% by 2050.

Foreign Exchange Rates

Our operating network is global, and, as a result, we have substantial revenues and operating expenses that are denominated in currencies other than the U.S. dollar, the currency in which we report our financial results, and are therefore influenced by changes in currency exchange rates. For the years ended December 31, 2022 and 2021, approximately 55% and 48% of our revenue, respectively, was generated in currencies other than the U.S. dollar. Functional foreign currencies for certain regional markets such as the Colombian Peso and Brazilian Real, where we have significant operations, have experienced significant decrease in value when compared with the U.S. dollar in 2022 and for the year ended December 31, 2021, as a result of several factors, such as the COVID-19 pandemic, which caused economic distress in those regional markets, significant fluctuation in oil prices, supply chain challenges, and the political climate and uncertainty in such markets. As a result, the devaluation of the Colombian Peso and Brazilian Real had a negative impact on our results of operations for the years ended December 31, 2022 and 2021.

E. CRITICAL ACCOUNTING ESTIMATES.

For discussion on our critical accounting estimates see Note 4 “Critical accounting judgements and key sources of estimation uncertainty” in our Annual Audited Consolidated Financial Statements, included elsewhere in annual report.

F. CORPORATE RESPONSIBILITIES AND ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

Compliance Standards

Our facilities and operations are subject to various environmental laws and regulations. We undergo periodic internal audits relating to environmental, health and safety requirements in order to maintain compliance with applicable laws and regulations in each of the jurisdictions in which we operate. Additionally, pursuant to an agreement with one of our shareholders, IFC, we are required to comply with IFC’s Performance Standards on Social & Environmental

Sustainability, permit environmental and social representatives of IFC to visit our facilities on an annual basis and provide IFC with an annual sustainability report, among other requirements. As part of this agreement, we have committed to adhere to the processes and compliance mechanisms of IFC's Performance Standards on Social & Environmental Sustainability in order to improve our environmental and social risk management, including the preparation of an Annual Sustainability Report that follows the Global Reporting Initiative (GRI) standards.

We have made, and continue to make, expenditures necessary to comply with applicable environmental laws; however, we do not believe that the costs for complying with such laws and regulations have been or will be material to our business. We do not have any material remediation liabilities outstanding.

ESG Commitments and Strategy

We are committed to doing business in an ethical manner. We have a long history of environmentally sound and efficient operations, safe and healthy working conditions, and active participation in the communities where we are located. We have sought to strengthen our long-term ESG goals by incorporating environmental and social management into strategic business decisions, aligned with sustainable development goals with the aim of generating shared value and a positive impact on the communities we serve.

We seek to strengthen our value creation in the pharmaceutical industry by addressing the challenges of developing cost-efficient products and providing accessible products to the population in the regions we operate in, while seeking to reduce the environmental impact of our activities.

Our ESG strategy can be classified into four pillars:

i. Fundamental: We are building a responsible and financially sustainable business that is supported by a strong governance structure, compliance with good governance standards, an ethical business culture, and risk management.
ii. Patients and Society: We are committed to providing an accessible portfolio of innovative, effective, safe, and high-quality health solutions that contribute to the well-being of society.
iii. People: Human capital is the foundation of our sustainability. We promote well-being and diversity, and are dedicated to building a vibrant and innovative culture that motivates personal and professional growth.
iv. Planet: We care for our environment and minimize the impact of our operations, products, and supply chain by focusing on responsible energy, water, and waste management.

Workforce ESG Commitments

As reflected in our Social Responsibility, Quality of Life and Integrated Management Policies, we are, and remain, committed to maintaining an environment that motivates all employees to achieve personal development (physical, mental, social and emotional), acquire new competencies, skills and abilities, and promote the proper attitudes to improve their interpersonal skills and enhance their future employment prospects in the changing and competitive market we operate. Our human development, hiring and training process includes:

- selecting qualified personnel for each position that show potential for development and that identify with our organizational moto of "Vision, Mission, Values, Policies, Key Strategic Objectives and Structure";

- assimilation into our corporate culture;

- training in processes and procedures;

- job-specific training;

- continuous training and educational programs on new or updated standards, and key and strategic competencies;

- promoting activities and training to improve the health of our employees and protection from occupational risk factors; and

- encouraging and supporting self-development, self-monitoring, individual and collective learning, and promoting continuous self-improvement.

  Furthermore, we develop an annual communication plan to promote diversity and inclusion. The relations with our employees and other stakeholders are framed by ethical principles and values, as set out in our reputation and communication policy that reaches employees in all countries where we operate. We are committed to promoting gender equality. Annually, we perform a cross-countries strategy to carry out activities and deploy communications that contribute to this goal. We have identified 3 key areas in which we can strengthen equality in our work environment: female leadership, female health, and motherhood support.

Carbon Neutrality Strategy

In addition, Procaps has recently designed a carbon neutrality strategy which we officially launched at the end of 2021. Our strategy has the goal of, among others, (i) calculating our baseline carbon footprint and comparing it to the footprint of similar businesses to identify a benchmark, (ii) identifying greenhouse gas emissions mitigation opportunities, and (iii) developing a strategy combining mitigation and offsetting to become carbon neutral by a date to be determined.

The first phase of our strategy consists of measuring the carbon footprint of our facilities. We measured the carbon footprint of our Barranquilla, Colombia facility, which has the highest production volume and contribution to greenhouse gas emissions in its three scopes. The results were published in our 2021 ESG Report.

In 2022, we extended our carbon footprint measurement to our other facilities in El Salvador and Brazil. We expect to complete it in 2023, and to communicate the results in our ESG Report. We expect that this information will provide us with a full dimension of our carbon footprint for our business at this time, with the goal of allowing us to define a corporate baseline.

Based on our progress to date, we have identified viable opportunities that we believe are viable for the mitigation of greenhouse gas emissions, some of which are currently in progress while others are under review for inclusion in our ESG initiatives in 2023. We have classified these opportunities into three scopes:

Scope 1: (i) Replacement of refrigerant gases by less polluting alternative gases; and (ii) replacement of fire extinguishers technology.

Scope 2: (i) promote energy consumption efficiency initiatives; and (ii) renewable energy consumption projects (solar panels).

Scope 3: optimization of transport routes for raw materials and company products.

Our corporate strategy to achieve carbon neutrality is still under review. Options have been identified; however we have to calculate a complete baseline in order to be able to commit to targets and timeframes, which calculation remains ongoing. Once we have the corporate baseline, we intend to define reduction and compensation goals in order to approve our commitment.

Regulatory Matters

The manufacturing, processing, formulation, packaging, labeling, testing, storing, distributing, advertising, and sale of our products and services are subject to regulation by a variety of agencies in the localities in which our products are sold. In addition, we manufacture and market certain of our products in accordance with standards set by various organizations, including the FDA, Health Canada, MHRA, TGA, Cofepris and ISO. We believe that our policies, operations, and products comply in all material respects with existing regulations to which we are subject.

The manufacturing, distribution, and marketing of healthcare products and the provision of certain services for development-stage pharmaceutical products are subject to extensive ongoing regulation by INVIMA, ANVISA, the FDA, other regulatory authorities in the countries in which we operate.

Colombian Regulations

A majority of our products are manufactured in our four manufacturing facilities in Colombia. INVIMA is the Colombian regulatory authority charged with inspecting and supervising the marketing and manufacturing of health products, identifying and evaluating the violation of health standards or procedures, and implementing best practices and providing medical approval for the import and export of products.

INVIMA carries out periodic inspections of our facilities, processes and products to verify compliance with cGMP and Good Laboratory Practices in accordance with the regulations established by the World Health Organization ("WHO") in the Technical Report Series 823 — 32nd Report of the WHO Expert Committee on Specifications for Pharmaceutical Preparations (the "WHO Report 32"). In addition, our facilities are also subject to regulation and inspection by the Colombian Agricultural Institute (*Instituto Colombiano Agropecuario*, or "ICA"), a public entity attached to the Colombian Ministry of Agriculture and Rural Development (*Ministerio de Agricultura y Desarrollo Rural*), responsible for controlling agricultural health in Colombia. The ICA is charged with inspecting our plants to verify compliance with cGMP for the production of products for veterinary use, also in accordance with the provisions of the WHO Report 32.

United States Regulations

The FDA has jurisdiction over certain of our Rx, OTC pharmaceutical products and API. The FDA's jurisdiction extends to the manufacturing, testing, labeling, packaging, storage, distribution, and promotion of these products. We are committed to consistently provide our customers with high quality products that adhere to cGMP regulations promulgated by the FDA.

All facilities where Rx and OTC products are manufactured, tested, packaged, stored, or distributed for the U.S. market must comply with FDA, cGMPs and regulations promulgated by competent authorities in the countries, states and localities where our manufacturing facilities are located. All of our drug products destined for the U.S. market are manufactured, tested, packaged, stored, and distributed according to cGMP regulations. The FDA performs periodic audits to ensure that our FDA registered manufacturing facility remains in compliance with all appropriate regulations.

In addition, certain of our subsidiaries are subject to other healthcare laws, including the U.S. Federal Food, Drug, and Cosmetic Act, the Public Health Service Act, the Controlled Substances Act, and comparable state and foreign laws and regulations in certain of their activities.

Third parties develop and manufacture APIs for use in certain of our pharmaceutical products that are sold in the U.S. and other global markets. API manufacturers typically submit a drug master file to the regulatory authority that provides the proprietary information related to the manufacturing process. The FDA inspects the manufacturing facilities to assess cGMP compliance, and the facilities and procedures must be cGMP compliant before API may be exported to the United States.

Brazilian Regulations

Certain of our products are manufactured in our Brazil manufacturing facilities. ANVISA is the Brazilian regulatory agency that is responsible for the approval and supervision of food, cosmetics, tobacco, pharmaceuticals, health services, and medical devices, among other products, and carries out sanitary control and inspection activities in ports, airports and the border regions.

ANVISA is charged with the protection of the Brazilian population's health through sanitary control over the production and marketing of products and services, including facilities, processes, materials and technologies related thereto. We may only operate our facilities subject to the jurisdiction of ANVISA once we have received ANVISA's approval. In addition, all of our pharmaceutical products must be submitted to ANVISA for approval before being offered to our customers in Brazil. As a governmental agency, ANVISA has police power over sanitary controls, as a

result, in the event an inspection reveals non-compliance with its regulations, it may shut down businesses, suspend the sale of products, appropriate and seize items, or issue fines.

In addition to approvals from ANVISA, we also require the approval of CETESB, an agency of the government of the State of São Paulo responsible for the control, inspection, monitoring and licensing of activities that generate pollution, to operate our facilities in Brazil. CETESB is responsible for granting operating licenses for our facilities and carries out frequent inspections to assess whether there have been any changes to the environmental impact caused by our activities. For information on current regulatory proceedings involving CETESB, please see Item 8.A under the heading "*Legal Proceedings—Operating License*."

El Salvador Regulations

Certain of our products are manufactured in our El Salvador manufacturing facilities. DNM is the El Salvadorian regulatory agency that is responsible for safeguarding the health of the country's population through the regulation and surveillance of pharmaceutical, cosmetic, hygienic, chemical products, medical devices and raw materials.

The DNM is the competent health authority in El Salvador charged with authorizing and registering all pharmaceutical products in El Salvador and is responsible for regulating the importation and manufacturing of pharmaceutical products, implementing price controls, and controlling of distribution chains. The DNM acts based on the guidelines established by the Central American Technical Regulation (*Reglamento Técnico Centroamericano*) which is a guide based on the WHO Report 32, to implement the best practices in the manufacturing, storage, distribution and sale of pharmaceutical products. The DNM is also responsible for certifying that pharmaceutical laboratories in El Salvador comply with cGMP.

Other Regulatory Requirements

We are also subject to various federal, state, local, national and transnational laws, regulations, and requirements in Colombia, Brazil, the United States and other countries in which we operate, relating to safe working conditions, laboratory and distribution practices, and the use, transportation and disposal of hazardous or potentially hazardous substances. In addition, applicable import and export laws and regulations require us to abide by certain standards relating to the cross-border transit of finished goods, raw materials and supplies and the handling of information. We are also subject to various other laws and regulations concerning the conduct of our non-U.S. operations, including FCPA and other anti-bribery laws and laws pertaining to the accuracy of our internal books and records.

The costs associated with our continued compliance with the various applicable federal, state, local, national and transnational regulations to which we are subject could be significant, and the failure to comply with such legal requirements could have an adverse effect on our results of operations and financial condition. See Item 3.D under the heading "Risk Factors — Risks Related to Laws and Regulations — Failure to comply with existing and future regulatory requirements could adversely affect our business, financial condition and results of operations, or result in claims from customers" in this annual report for additional discussion of the costs associated with complying with the various regulations.

For the years ended December 31, 2022 and 2021, we were subject to three regulatory audits by INVIMA and the Saudi Arabia Food and Drug Administration, all of which were successfully completed.

2021 Colombian Tax Reform

On September 14, 2021, Colombia's President approved the 2021 Colombian Tax Reform, which includes certain tax measures intended to generate additional tax revenues to fund social programs for purposes of mitigating the impact of the COVID-19 pandemic. These tax measures include, among other things:

(i) increasing the corporate tax rate from 30% to 35% for both domestic and foreign entities, permanent establishments and branches;

(ii) maintaining the rates for the special tax regime and free-trade zones at 20%;

(iii) continuing to limit the amount of turnover tax that taxpayers may claim as a corporate income tax credit to 50% by repealing a previously enacted law change that would have allowed taxpayers to claim 100% of the turnover tax effectively paid as an income tax credit;

(iv) increasing the carry forward period of profits subject to taxation at the corporate level exceeding the profits recorded in the company's accounting records in the same year, from 5 to 10 years for taxpayers engaged in concession and public-private agreements;

(v) establishing a new normalization tax (i.e., tax amnesty) applicable to income taxpayers that did not declare certain assets or claimed non-existent liabilities for tax purposes, taxing such amounts at a rate of 17%, as of January 1, 2022.; and

(vi) eliminating the value added tax ("VAT") exclusion for imports of goods with a value of $200 or less that enter Colombia through postal services. The exclusion, however, continues for imports from countries with which Colombia has signed a free trade agreement, by virtue of which the non-collection of VAT has been expressly agreed. For imports from countries with a free trade agreement with Colombia, the exclusion will not apply if the imports are for commercial purposes.

2022 Colombian Tax Reform Bill

On December 13, 2022, the Colombian President Gustavo Petro enacted Law 2277 of 2022 (available in Spanish only), which contains the tax reform proposals previously approved by congress. The purpose of the amendments is to promote equality and social justice, as well as to consolidate adjustments to the tax system. These tax measures include, among other things:

- Corporate Income Tax (CIT) rate to remain unchanged at 35%. However, a new net tax rate (TDD per its acronym in Spanish) will be introduced, under which Colombian companies, including free trade zone users, will be subject to a minimum 15% effective tax rate, calculated based on financial net profit, in accordance with the OECD Pillar Two global minimum tax rules.
- CIT rate for qualified FTZ companies to remain at 20% subject to an annual exportation requirement.
- Certain non-taxable income items, special deductions, exempt income and tax credits to be capped at 3% of the taxpayer's net income before these detractions.
- The capital gains tax rate to rise to 15% (from 10%).
- The tax credit provided in article 256 of the Tax Code for investment in research and development, as determined by the National Council of Science and Technology Tax Benefits, will be increased to 30% (from 25%). However, expenses related to the investment covered by the tax credit no longer will be deductible. The tax credit currently is not covered by the 3% cap on tax benefits, but the increased credit will be subject to the cap.
- The following non-taxable items to become subject to CIT:
  - Profits on the sale of listed shares on the Colombian Exchange Market (currently available when shares held by a single individual and do not represent more than 10% of the total outstanding shares
  - Profits on the trading of financial derivatives the underlying assets of which are listed shares, index, funds or collective portfolios.
  - Dividends distributed in shares or capitalization of the revaluation account.
  - The distribution in shares or capitalization of the profits that surpass the threshold of non-taxable income as set out at Sections 48 and 49 of the CTC.
  - Yields from security bonds.
- ICA (municipal tax) tax to become deductible instead of creditable at 50% against CIT.
- The following items of exempt incomes to become taxable:
  • Orange economy, • Productivity incentives for the agricultural industry. • VIS housing and priority interest, • New forest plantations, • River transport services, • Literary creations and, • Cinematography.
- The mega-investment regime to be repealed.
- Effective Place of Management rules to broaden to consider day to day activities in Colombia as opposed to testing only the place where decisive and key decisions are taken.

- A new form of tax presence for non-residents to apply for a significant economic presence in Colombia, subject to revenue threshold, use of co. domains or number of customers in the country. WHT to apply at 20% subject to regulations to define how and when for B2C sales.
- Dividend tax for non residents to rise from 10% to 20%. The withholding tax rate on dividends paid by Colombian companies to Colombian resident entities out of profits taxed at the corporate level will be increased to 10% (from 7.5%)
- Dividends received by individuals to be taxed at the general rate of up to 39%.
- A wealth tax of up to 1% to apply to individuals and non-resident companies who are not CIT filers and provided net equity exceeds over USD700k.
- A tax on single-use plastic products for packing to be introduced. Certain exemptions to apply for waste and the like.
- A tax on the consumption of ultra-processed sweetened beverages to be introduced.
- A 10% tax on the consumption of ultra-processed food products with a high content of added sugars, to be introduced.

This information provides an overview of the most significant amendments under the new act. Most changes will enter into force as from the date of enactment of the legislation; however, some changes that alter substantial matters concerning periodic taxes became effective on January 1, 2023, and certain other provisions become effective on a date specified in the legislation.

We are evaluating the potential impact of the 2022 Colombia Tax Reform on our business, financial condition and results of operations. We cannot anticipate the impact that the 2022 Colombia Tax Reform may have, nor the measures that could be adopted by the current administration in order to meet its financial obligations, which might negatively affect Colombian's economy and, in turn, our business, financial condition and results of operations.

Quality Assurance

We are committed to ensuring and maintaining the highest standard of regulatory compliance while providing high quality products to our customers. To meet these commitments, we have developed and implemented a company-wide quality management system. We have approximately 640 employees focusing on quality and regulatory compliance. Our senior management team is actively involved in setting quality policies and standards, as well as managing internal and external quality performance. Our quality assurance department provides quality leadership and supervises our quality systems programs. An internal audit program monitors compliance with applicable regulations, standards, and internal policies. In addition, our facilities are subject to periodic inspection by the INVIMA, ANVISA, the FDA, and other equivalent local, state, and foreign regulatory authorities, as applicable, as well as IFC. All INVIMA, ANVISA, FDA and other regulatory inspectional observations have been resolved or are on track to be completed at the prescribed timeframe provided in commitments to the applicable agency in all material respects. We believe that our operations are in compliance in all material respects with the regulations under which our facilities are governed.

Environmental Matters

Our operations are subject to a variety of environmental, health, and safety laws and regulations, including those of the Colombian Ministry of Environment and Sustainable Development (*Ministerio de Ambiente y Desarrollo Sostenible*), the Brazilian Institute of the Environment and Renewable Natural Resources (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*), and equivalent state, local, and national regulatory agencies in each of the jurisdictions in which we operate. These laws and regulations govern, among other things, air emissions, wastewater discharges, the use, handling, and disposal of hazardous substances and wastes, soil and groundwater contamination, and employee health and safety. Our manufacturing facilities use, in varying degrees, hazardous substances in their processes. We believe that our operations are in compliance in all material respects with the environment, health, and safety regulations applicable to our facilities. Additionally, we are required to comply with IFC's Performance Standards on Social & Environmental Sustainability, among other requirements. For more information, see "*—Corporate Responsibilities and Environmental, Social, and Governance (ESG)*".

Share Capital

The Company did not acquire any of its own shares during the reporting period.

At the occasion of the annual general meeting of shareholders of the Company held on June 28, 2022 (the "2022 AGM"), the shareholders of the Company authorized the Board of Directors to acquire up to 10% of the total number of the Company's Ordinary Shares in issue at the date of the 2022 AGM within a period of 5 years as from the date of the 2022 AGM for a consideration which may not exceed an amount equal to 120% of the reference price of the shares on the Nasdaq and not less than USD 0.01, the reference price being the weighted average price for the market value for such Ordinary Shares for the 5 days of trading immediately preceding each date of repurchase.

Within the framework approved at the 2022 AGM, the Board of Directors approved on February 13, 2023 a share repurchase program under Rule 10b-18 of the Exchange Act, for the purchase of up to $5.0 million Ordinary Shares or 2,000,000 Ordinary Shares, whichever is less (the "Repurchase Program"). The consideration for such repurchase(s) corresponds to the consideration approved by the 2022 AGM.

The Company may purchase Ordinary Shares from time to time in the open market, including pursuant to a pre-set trading plan meeting the requirements of Rule 10b5-1(c) of the Exchange Act, through privately negotiated transactions, or any other legally permissible method, at management's discretion based on market and operational conditions, share price, trading volume, legal requirements and other factors.

The Repurchase Program shall be made in compliance with the parameters approved by the Company's shareholders at the occasion of the 2022 AGM, the rules of the SEC, and other applicable legal requirements.

The Company is not obligated to purchase any Ordinary Shares under the Repurchase Program and the Repurchase Program may be suspended or terminated at any time at management's discretion.

Future Developments

Grupo Somar and Pearl Mexico Acquisition

Refer to Note 1 (General Company Information) in the Annual Audited Consolidated Financial Statements included in Annual Report for background information on the Acquisition of Grupo Somar and Pearl Mexico. The time required for resolution of the lien remains uncertain and is not in the Group's control. Following the failure of the transaction to close on December 31, 2022, the Group provided the Sellers a formal notice on January 1, 2023 terminating the SPA in accordance with the terms thereof.

Bridge Loan Credit Agreement

Following the Group's termination of the SPA, by delivering the notice of termination, the Group advised the joint arrangers and book runners on January 1, 2023 of its desire to terminate the transaction documents (including, without limitation, the commitments under the Bridge Credit Agreement and, for the avoidance of doubt, any commitments under the Commitment Letter) and pay all outstanding obligations, amounting to $5,719, under the Bridge Credit Agreement and any other transaction document as of January 10, 2023.

Waiver for Breach of Indebtedness Covenants

Refer to Note 2.1 (Going concern) and Note 19 (Borrowings) in the Annual Audited Consolidated Financial Statements included in Annual Report for background information on breach of Loan Covenants. On March 28 and 31, 2023 the Group obtained waivers for the applicable covenant breaches under the NPA, the Syndicated Loan Agreement, and the BTG Credit Agreement. Under the terms of the waivers, the lenders agreed to waive the event of default as of December 31, 2022. In addition, the Group negotiated with the lenders for additional waivers to adjust the covenant ratios as noted below:

BTG Credit Agreement

For the period ending June 30, 2023, as part of the waiver negotiations, the lenders agreed to adjust the convent ratios as noted below (the covenants will return to the original terms from December 31, 2023, onwards):

- The Company's consolidated Indebtedness Indicator (Indebtedness / EBITDA) must not be greater than 4.5x (original covenant: greater than 3.5x).
- The Company's consolidated EBITDA/Finance expense must not be less than 1.8x (original covenant: less than 3.0x)

Syndicated Loan Agreement

For the period ending June 30, 2023, as part of the waiver negotiations, the lenders agreed to adjust the convent ratios as noted below (the covenants will return to the original terms from December 31, 2023, onwards):

- Indebtedness Indicator (Indebtedness/EBITDA) must be less than or equal to 4.5 times (original covenant: less than or equal to 3.5 times). If the indicator is greater than 4.1 and less than 4.3 (original covenant: greater than 3.0 and less than 3.5), it proceeds to the extent that this value is originated by causes other than additional debt and the justification of the increase must be presented to the agent.
- Short-term leverage ratio less than 1.6 (original covenant: less than 1.0)
- EBITDA ratio / financial expenses greater than or equal to 1.8 (original covenant: greater than or equal to 3.0)

NPA

For the periods ending March 31, June 30 and September 30, 2023, as part of the waiver negotiations, the lenders agreed to adjust the convent ratios as noted below (the covenants. will return to the original terms from December 31, 2023, onwards):

- The consolidated total debt of Procaps, S.A., the Group and the other obligors thereunder to consolidated EBITDA for the last twelve months of 4:00:1.00 or less (original covenant: 3.50:1.00 or less).
- An EBITDA interest coverage ratio in excess of, or equal to, 2.20:1.00 (original covenant: in excess of, or equal to, 3.00:1.00).
- Short-term leverage ratio equal to or less than 2.00:1:00 (original covenant: equal to or less than 1.00:1.00).

Headcount Reduction

During the first quarter of 2023, the Group announced adjustments to their workforce, which involved an overall reduction in headcount of approximately 200.