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

***Consolidated Financial Statements for the years ended December 31, 2021, 2020 and 2019***

(with the report of the Réviseur d’Entreprises Agrée thereon)

9 rue de Bitbourg, L-1273, Luxembourg

Grand Duchy of Luxembourg

R.C.S. Luxembourg: B253360

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# Deloitte.

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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, 2021, 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, 2021, 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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**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*

PP

Ludovic Mosca, *Réviseur d'entreprises agréé*
Partner

May 30, 2022

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

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**

**For the years ended December 31, 2021, 2020 and 2019**

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

| | | For the year ended December 31 | | |
|---|---|---|---|---|
| | **Notes** | **2021** | **2020** | **2019** |
| **Revenue** | 7 | **$ 409,742** | **$ 331,467** | **$ 324,792** |
| Cost of sales | | (174,029) | (140,153) | (142,294) |
| **Gross profit** | | **235,713** | **191,314** | **182,498** |
| | | | | |
| Sales and marketing expenses | | (83,057) | (69,629) | (84,810) |
| Administrative expenses | | (82,187) | (58,631) | (60,257) |
| Finance expenses, net | 9 | (78,636) | (54,489) | (42,983) |
| Other expenses, net | 10 | (78,991) | (7,716) | (4,426) |
| **(Loss)/Income before tax** | | **(87,158)** | **849** | **(9,978)** |
| | | | | |
| Income tax expense | 11 | (13,705) | (11,296) | (7,035) |
| **Loss for the year** | | **$ (100,863)** | **$ (10,447)** | **$ (17,013)** |
| | | | | |
| **Loss for the year attributable to:** | | | | |
| Owners of the Company | | (100,863) | (10,447) | (17,008) |
| Non-controlling interests | | — | — | (5) |
| | | | | |
| **Earnings per share:** | | | | |
| Basic, loss for the period attributable to ordinary equity holders of the Company | 24 | ***(1.03)*** | ***(0.11)*** | ***(0.18)*** |

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, 2021, 2020 and 2019**

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

| | Notes | For the year ended December 31 2021 | 2020 | 2019 |
|---|---|---|---|---|
| **Loss for the year** | | **$ (100,863)** | **$ (10,447)** | **$ (17,013)** |
| | | | | |
| **Other comprehensive income/(loss)** | | | | |
| *Items that will not be reclassified to profit or loss:* | | | | |
| Remeasurement of net defined benefit liability | | 195 | (47) | 122 |
| Income tax relating to items that will not be reclassified subsequently to profit or loss | | (58) | 16 | (43) |
| *Net of Tax* | | 137 | (31) | 79 |
| *Items that will be reclassified subsequently to profit or loss:* | | | | |
| Exchange differences on translation of foreign operations | | (2,743) | (637) | 584 |
| Exchange difference from liquidated foreign transactions reclassified to profit or loss | | (751) | — | — |
| **Other comprehensive income/(loss) for the year, net of tax** | | **(3,357)** | **(668)** | **663** |
| **Total comprehensive loss for the year** | | **$ (104,220)** | **$ (11,115)** | **$ (16,350)** |
| | | | | |
| **Total comprehensive income/(loss) for the year attributable to:** | | | | |
| Owners of the Company | | (102,503) | (11,546) | (16,299) |
| Non-controlling interests | | (1,717) | 431 | (51) |

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, 2021 and 2020 and as of January 1, 2020**

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

| | Notes | As of December 31 | | As of January 1 |
|---|---|---|---|---|
| | | 2021 | 2020 As Restated* | 2020 As Restated* |
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment, net | 14 | 72,638 | 70,335 | 74,915 |
| Right-of-use assets | 15 | 40,167 | 43,195 | 38,296 |
| Goodwill | 12 | 6,803 | 6,863 | 7,020 |
| Intangible assets | 13 | 30,171 | 27,583 | 23,201 |
| Investments in joint ventures | 16 | 2,443 | 2,460 | 1,390 |
| Other financial assets | | 256 | 761 | 1,131 |
| Deferred tax assets | 20 | 7,067 | 21,769 | 16,215 |
| Other assets | | 4,531 | 1,870 | 3,111 |
| **Total non-current assets** | | **$ 164,076** | **$ 174,836** | **$ 165,279** |
| **Current assets** | | | | |
| Cash | | 72,112 | 4,229 | 2,042 |
| Trade and other receivables, net | 18 | 117,449 | 96,493 | 96,466 |
| Inventories, net | 17 | 79,430 | 64,284 | 65,002 |
| Amounts owed by related parties | 29 | 1,147 | 2,562 | 2,144 |
| Current tax assets | 11 | 22,082 | 16,774 | 6,697 |
| Other current assets | 26.1 | 5,839 | 360 | 98 |
| **Total current assets** | | **$ 298,059** | **$ 184,702** | **$ 172,449** |
| **Total assets** | | **$ 462,135** | **$ 359,538** | **$ 337,728** |
| | | | | |
| **Liabilities and Stockholders' Equity (Deficit)** | | | | |
| **Equity (Deficit)** | | | | |
| Share capital | 23 | 1,011 | 2,001 | 2,001 |
| Share premium | 23 | 377,677 | 54,412 | 54,412 |
| Reserves | 23 | 42,749 | 39,897 | 28,681 |
| Accumulated deficit | | (431,059) | (327,344) | (305,634) |
| Accumulated other comprehensive loss | | (27,778) | (24,421) | (23,753) |
| **Equity (deficit) attributable to owners of the company** | | **$ (37,400)** | **$ (255,455)** | **$ (244,293)** |
| Non-controlling interest | | (940) | 777 | 346 |
| **Total equity (deficit)** | | **$ (38,340)** | **$ (254,678)** | **$ (243,947)** |
| **Non-Current liabilities** | | | | |
| Borrowings | 19 | 178,720 | 339,738 | 320,462 |
| Amounts owed to related parties | 29 | - | 12,163 | - |
| Warrant liabilities | 25 | 23,112 | - | - |
| Shares held in escrow | | 101,859 | - | - |
| Deferred tax liabilities | 20 | 6,070 | 18,890 | 7,659 |
| Other liabilities | | 2,750 | 3,797 | 5,077 |
| **Total non-current liabilities** | | **$ 312,511** | **$ 374,588** | **$ 333,198** |
| **Current liabilities** | | | | |
| Borrowings | 19 | 74,646 | 114,780 | 99,975 |

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

**Consolidated Statement of Financial Position**

**As of December 31, 2021 and 2020**

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

| | | | | |
|---|---|---|---|---|
| Trade and other payables, net | 21 | 85,381 | 94,116 | 104,608 |
| Amounts owed to related parties | 29 | 8,450 | 8,459 | 25,091 |
| Current tax liabilities | 11 | 11,756 | 9,393 | 7,542 |
| Provisions | 22 | 501 | 1,829 | 2,276 |
| Other liabilities | | 7,230 | 11,051 | 8,985 |
| **Total current liabilities** | | **$ 187,964** | **$ 239,628** | **$ 248,477** |
| **Total liabilities and stockholders' equity (deficit)** | | **$ 462,135** | **$ 359,538** | **$ 337,728** |

*Refer to Note 2.4

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, 2021, 2020 and 2019**

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

| | Attributable to equity holders of the Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Issued Capital | Share premium | Reserves [1] | Accumulated deficit | Other Comprehensive Income | Total | Non-controlling interest | Total equity (deficit) |
| **Balance as of January 1, 2019** | **$ 2,493** | **$ 120,151** | **$ 28,322** | **$ (254,617)** | **$ (24,416)** | **$ (128,067)** | **$ 397** | **$ (127,670)** |
| Loss for the year | — | — | — | (17,008) | — | **(17,008)** | (5) | **(17,013)** |
| Transfer reserves | $ — | $ — | $ 359 | $ (359) | $ — | **$ —** | $ — | $ — |
| Other comprehensive income | — | — | — | — | 709 | **709** | (46) | **663** |
| Non-controlling interest | — | — | — | — | (46) | **(46)** | — | **(46)** |
| Put option issued to Hoche | $ (492) | $ (65,739) | $ — | $ (33,385) | $ — | **$ (99,616)** | **$ —** | **$ (99,616)** |
| Other | — | — | — | (265) | — | **(265)** | — | **(265)** |
| **Balance as of December 31, 2019** | **$ 2,001** | **$ 54,412** | **$ 28,681** | **$ (305,634)** | **$ (23,753)** | **$ (244,293)** | **$ 346** | **$ (243,947)** |
| Loss for the year | — | — | — | (10,447) | — | **(10,447)** | — | **(10,447)** |
| Transfer reserves | — | — | 11,216 | (11,216) | — | **—** | — | **—** |
| Other comprehensive income | — | — | — | — | (1,099) | **(1,099)** | 431 | **(668)** |
| Non-controlling interest | — | — | — | — | 431 | **431** | — | **431** |
| Other | — | — | — | (47) | — | **(47)** | — | **(47)** |
| **Balance as of December 31, 2020** | **$ 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 reserves | — | — | 2,852 | (2,852) | — | **—** | — | **—** |
| Other comprehensive income | — | — | — | — | (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)** |

[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 during 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, 2021, 2020 and 2019**

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

| | Notes | For the year ended December 31 2021 | 2020 As Restated* | 2019 As Restated* |
|---|---|---|---|---|
| **Operating activities** | | | | |
| **Loss for the year** | | **$ (100,863)** | **$ (10,447)** | **$ (17,013)** |
| *Adjustments to reconcile net loss with net cash from operating activities:* | | | | |
| Depreciation of property, plant and equipment | 14 | 6,072 | 5,900 | 6,773 |
| Depreciation of right-of-use assets | 15 | 4,223 | 4,598 | 5,133 |
| Amortization of intangibles | 13 | 4,816 | 5,979 | 4,560 |
| Income tax expense | 11 | 13,705 | 11,296 | 7,035 |
| Finance expenses | 9 | 78,636 | 54,489 | 42,983 |
| IFRS 2 Share-based payment expense (listing expense) | 10 | 73,917 | — | — |
| Share of result of joint ventures | | 305 | (806) | (240) |
| Net (gain)/loss on sale of property, plant and equipment | 14 | (317) | 134 | 115 |
| Net (gain)/loss on sale or disposal of intangibles | 13 | — | 161 | (7,157) |
| Inventory provision | 17 | 5,391 | 1,616 | 514 |
| Reversed provision for bad debt | 18 | (818) | (1,915) | (430) |
| Provisions | 22 | — | 761 | 12 |
| **Cash flow from operating activities before changes in working capital** | | **85,067** | **71,766** | **42,285** |
| | | | | |
| *(Increase)/decrease in operating assets and liabilities:* | | | | |
| Trade and other receivables | | (21,257) | 1,889 | 6,741 |
| Amounts owed by related parties | | 1,387 | (613) | (249) |
| Inventories | | (20,536) | (898) | (1,713) |
| Current tax assets | | (5,308) | (10,077) | (1,047) |
| Other current assets | | (5,441) | (9,635) | (9,826) |
| Trade and other payables | | 32,825 | 11,795 | 32,642 |
| Amounts owed to related parties | | (3,448) | 1,354 | 246 |
| Current tax liabilities | | 2,103 | 7,499 | (2,147) |
| Other liabilities | | (12,936) | 12,014 | 10,305 |
| Provisions | 22 | — | (821) | (38) |
| Other financial assets | | 505 | 370 | 757 |
| Other assets | | (2,699) | 1,256 | (1,354) |
| **Cash generated from operations** | | **50,262** | **85,899** | **76,602** |
| | | | | |
| Interest paid | | (1,697) | (1,839) | (2,216) |
| Dividends received | | 300 | — | — |

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

**Consolidated Statement of Cash Flows**

**For the years ended December 31, 2021, 2020 and 2019**

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

| | Note | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Income tax paid | | (11,562) | (13,140) | (6,100) |
| **Cash flow provided by operating activities** | | **$ 37,303** | **$ 70,920** | **$ 68,286** |
| **Investing activities** | | | | |
| Acquisition of property, plant and equipment | 14 | (14,122) | (7,699) | (11,802) |
| Proceeds from sale of property, plant and equipment | | 794 | 632 | 276 |
| Acquisition of intangibles | 13 | (10,403) | (10,219) | (7,896) |
| Proceeds from sale of intangible assets | | — | — | 7,310 |
| Advances to related parties | 29 | — | — | (289) |
| Proceeds from related parties | 29 | 28 | 195 | 332 |
| **Cash flow used in investing activities** | | **$ (23,703)** | **$ (17,091)** | **$ (12,069)** |
| **Financing activities** | | | | |
| Proceeds from borrowings | 19 | 280,795 | 106,736 | 96,392 |
| Payments on borrowings | 19 | (272,301) | (120,586) | (118,417) |
| Advances from related parties | 29 | — | 32 | |
| Payments to related parties | 29 | (9,154) | (5,856) | (4,570) |
| Interest paid on borrowings | | (17,428) | (15,102) | (16,284) |
| Payment of lease liabilities | 19 | (8,854) | (5,733) | (4,070) |
| Redeemed shares | 23 | (45,000) | — | — |
| Cash obtained in acquisition | 26 | 129,986 | — | — |
| **Cash flow generated from (used in) financing activities** | | **$ 58,044** | **$ (40,509)** | **$ (46,949)** |
| **Net increase in cash** | | **71,644** | **13,320** | **9,268** |
| Cash at beginning of the year/period | | 4,229 | 2,042 | 2,844 |
| Effect of exchange rate fluctuations | | (3,761) | (11,133) | (10,070) |
| **Cash at end of the year/period** | | **$ 72,112** | **$ 4,229** | **$ 2,042** |
| **Non-cash financing and investing activities [1]** | | **$ (145,286)** | **$ 40,759** | **$ 166,013** |

[1] As of December 31, 2021, non-cash investing and financing activities include acquisition of right-of-use assets $7,283 (2020: $11,022, 2019: 5,335), interest capitalization on property, plant and equipment under IAS 23 $571, 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) , conversion of SPAC Warrants to Warrants in Procaps Group S.A. $28,963, invoices from suppliers financed via reverse factoring classified as Trade and other payables $8,288 (2020: $7,311, 2019: 38,576) and invoices from suppliers financed via reverse factoring classified as Borrowings $48,138 (2020: $22,426, 2019: 22,486). For the year ended December 31, 2019, it also included the issuance of put option agreements for $99,616.

*Refer to Note 2.4

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

## Note 1. General Company Information

Procaps Group S.A., a public limited liability company (société anonyme) governed by the laws of the Grand Duchy of Luxembourg and its subsidiaries ("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 30. Related party transactions, respectively.

The Group's principal subsidiaries as of December 2021, 2020 and 2019 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 |
|---|---|---|---|---|---|---|---|---|
| | | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | |
| Procaps S.A. | Colombia | **100%** | 100% | 100% | **—%** | —% | —% | Manufacturing and distribution of prescription and over-the-counter pharmaceutical products. |
| C.I. Procaps S.A. | Colombia | **100%** | 100% | 100% | **—%** | —% | —% | |
| Procaps S.A. de C.V (previously Laboratorios Lopez S.A. de C.V.) | El Salvador | **100%** | 100% | 100% | **—%** | —% | —% | |
| Softcaps - Colbras | Brazil | **100%** | 100% | 100% | **—%** | —% | —% | |
| Diabetrics Healthcare S.A.S. | Colombia | **100%** | 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.

*Reverse reorganization*

Crynssen Pharma Group Limited ("OpCo") is a private limited liability company registered under the laws of Malta with company registration number C59671 and with registered office at Ground Floor, Palace Court, Church Street, St. Julians STJ 3049. Union Acquisition Corp. II is a Cayman Islands company previously listed on the NASDAQ under "LATNU". Union, a publicly-traded special purpose acquisition company ("SPAC"), had limited operations but was established as a public investment vehicle with the purpose of making an investment in an operating company, particularly in Latin America.

On March 31, 2021, SPAC, 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").

With the execution of the BCA, SPAC also entered into separate Subscription Agreements, each dated March 31, 2021, with certain investors (collectively, the "PIPE Investors"), pursuant to, and on the terms and subject to the conditions of which, the PIPE Investors collectively subscribed for an aggregate of 10,000,000 ordinary shares of SPAC, par value $0.0001 per share ("SPAC Ordinary Shares") for a purchase price of $10.00 per SPAC Ordinary Share and an

aggregate purchase price of $100,000,000 (the "PIPE Investment"). The PIPE Investment were consummated, and the SPAC Ordinary Shares subscribed for by the PIPE Investors were exchanged for ordinary shares of Holdco, nominal value $0.01 per share ("Holdco Ordinary Shares"), concurrently with the closing of 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.

Summary of significant steps to implement the reverse reorganization:

a. OpCo formed Holdco, a public limited liability company (société anonyme) governed by the laws of the Grand Duchy of Luxembourg, which issued redeemable A shares of Holdco (the "Holdco Redeemable A Shares") to OpCo. Holdco then formed Merger Sub, an exempted company incorporated under the laws of the Cayman Islands.
b. Merger Sub merged with and into the SPAC, with SPAC surviving such merger and becoming a direct wholly-owned subsidiary of Holdco (the "Merger") and, in the context of the Merger, (a) all SPAC Ordinary Shares outstanding were exchanged with Holdco for the right to receive Holdco Ordinary Shares pursuant to a share capital increase of Holdco and (b) the issued and outstanding SPAC warrants that became warrants of Holdco exercisable for Holdco Ordinary Shares, on substantially the same terms as the SPAC warrants.
c. Immediately following consummation of the Merger and pursuant to those certain individual Contribution and Exchange Agreements, each dated as of March 31, 2021, each of the shareholders of OpCo, immediately prior to the consummation of the Transaction (the "Opco Shareholders"), had contributed their respective ordinary shares of OpCo, nominal value $1.00 per share (the "OpCo Ordinary Shares") to Holdco in exchange for Holdco Ordinary Shares, and in the case of the International Finance Corporation ("IFC"), for Holdco Ordinary Shares and 4.5 million redeemable B shares of Holdco, nominal value $0.01 per share (the "Holdco Redeemable B Shares") which were subscribed for by each OpCo Shareholder (such contributions and exchanges of OpCo Ordinary Shares for Holdco Ordinary Shares and, in the case of IFC, Holdco Ordinary Shares and Holdco Redeemable B Shares, collectively, the "Exchange"). The Exchange transaction was termed 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.
d. Immediately following the consummation of the Merger but prior to the Exchange, Holdco redeemed all Holdco Redeemable A Shares held by OpCo.
e. Immediately following the Exchange, Holdco redeemed 4.5 million Holdco Redeemable B Shares for a total purchase price of $45 million in accordance with that certain Share Redemption Agreement entered into by and between Holdco and IFC on March 31, 2021.
f. 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.

As a result of the Exchange and following the consummation of the Transaction, OpCo and SPAC had become a 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.

The consolidated financial statements of the Company for the years ended December 31, 2021, 2020 and 2019 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 Group's Audit Committee on April 27, 2022.

## Note 2. Basis of preparation and accounting

The consolidated financial statements of the Group as of December 31, 2021, 2020 and 2019 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").

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 to the previous periods, 2020 and 2019 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, 2021, and the comparative information presented for the years ended December 31, 2020 and 2019.

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 has, at the time of approving the accompanying consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thereby these consolidated financial statements have been prepared on a 'going concern' basis..

As of December 31, 2020, Management had identified certain conditions and events that considered in the aggregate, rose a substantial doubt about the Group's ability to continue as a going concern. However, such consolidated financial statements had been prepared on a going concern basis, which contemplated the realization of assets and satisfaction of liabilities that could have been necessary if the Group were unable to continue as a going concern.

As of December 31, 2021, the following matters have been considered by management in determining the reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

As of December 31, 2021, the Group retains a negative equity position of $38,340 while it improved significantly compared to prior periods (2020: negative equity of $254,678, 2019: negative equity $243,947). This improvement is related to the effects of the reverse reorganization following the de-SPAC with Union Acquisition Corp II on September 29, 2021. This resulted in a net ‘capital contribution’ through the net assets obtained from the SPAC and the termination of the put option with IFC and Hoche for which the financial liability was reclassified back into equity in consideration for ordinary shares in Holdco. The negative equity balance as of December 31, 2021 is primarily driven by the classification of the Holdco Ordinary Shares held in escrow as a financial liability and does not impact the Group’s future operations and there are no further obligations to the Group.

For the year ended December 31, 2021, the Group incurred a loss of $100,863 (2020: $10,447, 2019: $17,013).
The Group generated $37,303 of cash in operating activities (2020: $70,920, 2019: $68,286) after changes in working capital.

As of December 31, 2021, the Group reported positive working capital of $110,095 compared to a deficit of $54,926 and 76,028 for fiscal years 2020 and 2019, respectively. The positive working capital was mainly due to the increase in units sold in the principal business lines at an average of 24%, and improvement in the collection of the portfolio, due to post-Covid recovery and current debt re-profiling activities.

The Transaction has brought an inflow of cash to the operation. The Group received $160,049 which was mainly used for the redemption of the Redeemable B Shares from IFC, capital expenditures and settlement of obligations with certain suppliers.

As of December 31, 2021, the Group had cash of $72,112 (2020: $4,229, 2019: $2,042). Currently, the Group maintains financing lines, which, together with the expected internal generation of funds, will allow it to finance its growth and working capital needs. Furthermore, the Group substantially improved its funding conditions through the subscription of new Senior Notes for $115 million. This transaction will result in a significant reduction in interest rate payable from 9% average to 4.75%, allowing the Group to early repay $102 million of previous facilities and the Senior Notes will not start to amortize before 2027.

Management has evaluated its capital position and its ability to continue its normal course of business for the foreseeable future and ability to meet its financial obligations for the next twelve months. The Group project it will generate excess cash over its current financial obligations through its current cash position and operating cash generated. The excess cash will be available to meet the Group's investment and capital expenditure objectives.

### 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 subsidiaries are fully consolidated from the date on which control is transferred to the Company. 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*

Management has evaluated all the indicators of control from IFRS 10 and IFRS 3. Although there is a higher level of judgement when it comes to the analysis of the conditions set forth in IFRS 3, the indicators of relative voting rights, composition of governing body, composition of senior management, terms of exchange, relative size, and other factors favored OpCo as the accounting acquirer. Therefore, the SPAC is considered to be the accounting acquiree.

However, SPAC does not meet the definition of a business under IFRS 3 because it lacks substantive processes as defined by IFRS 3. Thus, the transaction is not accounted for as a business combination but an asset acquisition transaction within the scope of IFRS 2 as a share-based payment transaction. As a result, the difference in the fair value of the shares deemed to have been issued by the accounting acquirer (OpCo) and the fair value of the accounting acquiree's (SPAC's) identifiable net assets represents a service received by the accounting acquirer. That difference is recognized as an expense on the date of the transaction close as the services have been deemed rendered at that point in time. See Note 10. Other expenses, net.

In the Transaction, the accounting acquiree (legal acquirer), becomes the ultimate parent holding company of the Group, however, the consolidated financial statement represents a continuation of Procaps Group S.A., the accounting acquirer (legal acquiree) with the exception of the legal capital structure.

As mentioned in Note 1. General Company Information, the Transaction can be termed a common control transaction. 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.

Shareholders' equity of the Group 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, for purposes of calculating earnings per share. Retained earnings and relevant reserves of the Group are carried forward after the Transaction. Any difference to shareholders' equity of Group arising from the restructuring of share capital and equity instruments issued is recorded in equity under share premium.

Refer to Note 26. Acquisitions 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 2.4. Restatement of Previously Issued Financial Statements

Subsequent to the issuance of the Group's 2020 financial statements and during the process of preparing the Group's consolidated financial statements, the Group revisited the classification of factoring and reverse factoring arrangements previously classified as part of Trade and other payables. As a result, management has identified the following errors that were concluded to be material to the previously issued financial statements.

• The Group's factoring arrangements with recourse are treated as 'secured borrowing' transactions since the Group has not transferred substantially all risks and rewards. A secured borrowing transaction is to be classified together with other borrowings. Previously, the Group classified certain factoring arrangements as Trade and other payables. Upon reassessing the facts and circumstances, the Group concluded that these should be reclassified to Borrowings (current). Based on this analysis of the factoring arrangements, the Group identified the following errors:

– As of December 31 and January 1, 2020, and June 30, 2021, the Group decreased Trade and other payables, net and increased Borrowings (current) by $1,919, $1,517, and $3,808 (unaudited), respectively.
– For the twelve-month period ended December 31, 2020, the Group's classification error of factoring arrangements from operating to financing cash flows amounted to $2,463. There was a net zero impact of the error of factoring arrangements in the cash flow statement for the twelve-month period ended December 31, 2019.
– Unaudited - For the six-months period ended June 30, 2021, the Group's classification error of factoring arrangements from operating to financing cash flows amounted to net $300 (unaudited) which consists of $596 thousand to *Proceeds from borrowings* and $896 thousand to *Payments on borrowings*. There was no error in the classification of factoring arrangements in the cash flow statement for the six-month period ended June 30, 2020.

• The Group's reverse factoring arrangements have both characteristics of operating and financing. Under IFRS 9 there is no explicit guidance as to when to classify a reverse factoring arrangement as operating or financing debt. The assessment involves judgment and careful consideration of all relevant facts and circumstances per arrangements. Previously, the Group classified all reverse factoring arrangements as Trade and other payables. Upon reassessing the facts and circumstances, the Group concluded that some reverse factoring arrangements are more akin to financing arrangements due to the fact the Group pays interest which it normally does not to suppliers. Therefore, the Group has reclassified such arrangements from Trade and other payables to Borrowings (current). Based on this analysis of the reverse factoring arrangements, the Group identified the following errors:

– As of December 31 and January 1, 2020, and June 30, 2021, the Group decreased Trade and other payables, net and increased Borrowings (current) by $10,240, $8,301, and $13,671 (unaudited), respectively.
– For the twelve-month period ended December 31, 2020 and 2019, the Group's classification error of reverse factoring arrangements that possess financing characteristics from operating to financing cash flows amounted to $17,481 and $20,526, respectively.
– Unaudited - For the six-months period ended June 30, 2021 and 2020, the Group's classification error of reverse factoring arrangements that possess financing characteristics from operating to financing cash flows amounted to $17,549 and $6,737, respectively.

These corrections discussed above, related to factoring and reverse factoring, have no effect on total current liabilities and are presented as "Restatement Adjustments" in the tables included below.

The following tables reflect the impact of the errors and other reclassifications to the specific financial statements line items presented in the Group´s previously reported consolidated financial statements.

## I. Effect of the restatement on annual financial information

The restated Statement of Financial Position for the historical periods presented is as follows.

| | As of December 31, 2020 | | | As of January 1, 2020 | | |
|---|---|---|---|---|---|---|
| **Balance Sheet, restated** | **As reported** | **Restatement Adjustments** | **As restated** | **As reported** | **Restatement Adjustments** | **As restated** |
| **Current liabilities** | | | | | | |
| Borrowings | 102,621 | 12,159 | 114,780 | 90,157 | 9,818 | 99,975 |
| Trade and other payables, net | 106,275 | (12,159) | 94,116 | 114,426 | (9,818) | 104,608 |

In addition to correcting the Statement of Financial Position and Consolidated Statement of Cash Flow, certain information within the following notes to the Consolidated Financial Statements have been restated to reflect the correction of misstatements discussed above:

- Note 19. Borrowings
- Note 21. Trade and other payables, net
- Note 27. Financial instruments

The restatement of the Consolidated Statement of Cash Flow for the historical periods resulted in the following impact:

| | For the twelve month period ending December 31, 2020 | | | | For the twelve month period ending December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | **As reported** | **Restatement Adjustments [1]** | **Other Reclassifications [2]** | **As restated** | **As reported** | **Restatement Adjustments [1]** | **Other Reclassifications [2]** | **As restated** |
| **Operating activities** | | | | | | | | |
| *(Increase)/decrease in operating assets and liabilities:* | | | | | | | | |
| Trade and other payables | (8,149) | 19,944 | — | 11,795 | 12,116 | 20,526 | — | 32,642 |
| Interest paid | — | (1,839) | — | (1,839) | — | (2,216) | — | (2,216) |
| **Cash flow provided by (used in) operating activities** | **52,815** | **18,105** | **—** | **70,920** | **49,976** | **18,310** | **—** | **68,286** |
| **Investing activities:** | | | | | | | | |
| Advances to related parties | — | — | — | — | — | — | (289) | (289) |
| Proceeds from related parties | — | — | 195 | 195 | — | — | 332 | 332 |
| **Cash flow provided by (used in) investing activities** | **(17,286)** | **—** | **195** | **(17,091)** | **(12,112)** | **—** | **43** | **(12,069)** |
| *Financing activities:* | | | | | | | | |
| Proceeds from borrowings | 106,736 | — | — | 106,736 | 96,392 | — | — | 96,392 |
| Payments on borrowings | (106,375) | (19,944) | 5,733 | (120,586) | (101,961) | (20,526) | 4,070 | (118,417) |
| Advances to related parties | — | — | — | — | (289) | — | 289 | — |
| Proceeds from related parties | 195 | — | (195) | — | 332 | — | (332) | — |
| Interest paid on borrowings | (16,941) | 1,839 | — | (15,102) | (18,500) | 2,216 | — | (16,284) |
| Payment of lease liabilities | — | — | (5,733) | (5,733) | — | — | (4,070) | (4,070) |
| **Cash Flow generated from (used in) financing activities** | **(22,209)** | **(18,105)** | **(195)** | **(40,509)** | **(28,596)** | **(18,310)** | **(43)** | **(46,949)** |

[1] In addition to the errors related to factoring and reverse factoring arrangements, this column includes an error related to the classification of interest paid on lease liabilities from financing into operating cash flows.
[2] Certain reclassifications have been made to prior years Consolidated Statement of Cash Flows to conform to the current year presentation, which include the separate disclosure for payment of lease liabilities and presentation of cash flow to/from related parties regarding loans to such entities in investing activities. These reclassifications had no impact on previously reported loss for the years nor accumulated losses.

The amounts financed under reverse factoring arrangements during each period are disclosed in the non-cash items footnote below the Consolidated Statement of Cash Flows.

## 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 statements of profit or loss.

Impairment losses recognized for cash-generating units first reduce allocated goodwill and then the carrying amounts of the other 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 and any initial direct costs. 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, 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 combined income statements 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 balance sheet. In addition, the principal portion of the lease payments is presented within financial activities and the interest component is presented within operating activities in the consolidated statements 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 Company 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 is 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 a provision 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 and other 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;
- 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 *Administrative 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 retain substantially 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.

**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 statements of 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 gain on sale 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 registration) 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 and those intangibles not yet available for use 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). 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 registration.

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 through profit or loss or 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, net

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 as of December 31, 2021 of $67 (2020: $60, 2019: $47) while remeasurements of the calculations are reflected in the Statement of Other Comprehensive Income. Remeasurements of the calculations represented a decrease of $195 (increase 2020: $47, decrease 2019: $122 ).

*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, 2021, the Group recognized employee benefits costs within profit or loss as cost of sales of $25,051 (2020: $27,421, 2019: $23,688) and $62,200 (2020: $48,913, 2019: $52,956) as administrative expenses.

**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 are 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 registration*

Revenue from contracts for the sale of a trademark or sanitary registration are 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 registration.
- The customer can redirect the use of the trademark or sanitary registration.
- The customer is responsible for sales, marketing and advertising activities.

**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 39 legal entities, of which 23 are operating entities, divided in strategic divisions, which are its reportable segments. These divisions offer different products and services and are managed separately as they require different technology and marketing strategies.

The following summary describes the operations of each reportable segment:

| Reportable segment | Operations |
|---|---|
| NextGel | Manufacturing and distribution of prescription and over-the-counter pharmaceutical products 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, statement of comprehensive income, statement of changes in equity and balance sheet 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. Net losses per ordinary share**

Basic loss per ordinary 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.

As of December 31, 2021, 2020 and 2019, considering that the loss per fully diluted share shall be calculated based on the result for the year divided by the weighted average number of fully diluted shares; The Group would not include the effects of potentially dilutive ordinary shares as their effect would be anti-dilutive.

Number of shares prior to the Transaction are 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.

*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.

*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.

*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 each of the four criteria carefully 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.

*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).

*Provisions for contingencies, litigation and lawsuits*

The litigation and lawsuits to which the Companies are 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 statements 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.

*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.

*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.

*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

*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.

The fair value of the OpCo was estimated using a combination of a market and income approach under IFRS 13 where the Company 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.

*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.

*Shares held in escrow*

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**

*New and amended IFRS Standards that are effective for the current year Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16*

In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
c) There is no substantive change to other terms and conditions of the lease

These changes have not given rise to financial effects for the Group as of December 31, 2021.

*Specific policies applicable from January 2021 for Interest Rate Benchmark Reform - Phase 2 (Amendment to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*

The Group has initially adopted Interest Rate Benchmark Reform Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (the Phase 2 amendments) from January 1, 2021.

The Group has applied the Phase 2 amendments retrospectively. However, in accordance with the exceptions permitted in Phase 2 amendments, the Group has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosures for 2020. There is no impact on opening equity balances as a result of retrospective application and the impact has considered not relevant to the Group.

Under the detailed rules of IFRS 9 Financial Instruments, modifying a financial contract can require recognition of a significant gain or loss in the income statement. However, the amendments introduce a practical expedient if a change results directly from IBOR reform and occurs on an 'economically equivalent' basis. In these cases, changes will be accounted for by updating the effective interest rate.

A similar practical expedient will apply under IFRS 16 Leases for lessees when accounting for lease modifications required by IBOR reform.

The amendments also allow a series of exemptions from the regular, strict rules around hedge accounting.

To allow users of financial statements to understand the effect of the reform on a company's financial instruments and risk management strategy, a company will need to provide additional information about:

- the nature and extent of risks to which the company is exposed arising from financial instruments subject to IBOR reform and how it manages those risks; and
- the company's progress in completing its transition to alternative benchmark rates and how it is managing that transition.

The evaluation performed by management determined that there was not significant impact in relation to the Group as of December 31, 2021.

**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, 2021 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 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 not yet been set by the IASB; however, early application of the amendments is permitted.

*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 derecognition of financial liabilities.

IFRS 16 *Leases* – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

IAS 41 A*griculture* – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

*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.

*Classification of Liabilities as Current or Non-current (Amendments to IAS 1) - Effective January 1, 2022*

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 waver 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.

The amendments must be applied retrospectively in accordance with the normal requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to January 1, 2023.

*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 Interpretation 21 *Levies*. The amendments also confirm that contingent assets should not be recognized at the acquisition date.

*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.

## 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 $3,637 (2020: $2,213, 2019: $10,159) 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, 2021, 2020 and 2019 are:

a. Business to Business
*Nextgel*
i. Softigel: Integrated CMDO, soft gelatin capsules, softgels, gummy-gels and GTabs.

b. Business to Consumer
*Procaps Colombia, CAN and CASAND*
i. VitalCare: Branded drugs, consumer over-the-counter and generics
ii. Clinical Specialties: High-complexity drugs and medical devices
iii. 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.

| **Year** | **Reportable segments** | | | | | | |
|---|---|---|---|---|---|---|---|
| **2021** | **NextGel** | **Procaps Colombia** | **CAN** | **CASAND** | **Diabetrics** | **Corporate** | **Total** |
| **Segment revenue** | 244,791 | 156,820 | 67,842 | 68,242 | 47,835 | — | 585,530 |
| Intra-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** |

| **Year** | **Reportable segments** | | | | | | |
|---|---|---|---|---|---|---|---|
| **2020** | **NextGel** | **Procaps Colombia** | **CAN** | **CASAND** | **Diabetrics** | **Corporate** | **Total** |
| **Segment revenue** | 201,294 | 121,532 | 44,808 | 40,094 | 39,221 | 2,431 | 449,380 |
| Intra-segment revenue | (95,315) | (6,637) | 805 | (1,538) | (16,432) | 1,204 | (117,913) |
| **Revenue from contracts with customers** | **105,979** | **114,895** | **45,613** | **38,556** | **22,789** | **3,635** | **331,467** |
| **Timing of revenue recognition** | | | | | | | |
| Goods transferred at a point in time | 103,766 | 114,895 | 45,613 | 38,556 | 22,789 | 3,635 | 329,254 |
| Services transferred over time | 2,213 | — | — | — | — | — | 2,213 |
| **Total revenue from contracts with customers** | **105,979** | **114,895** | **45,613** | **38,556** | **22,789** | **3,635** | **331,467** |

| Year | Reportable segments | | | | | | |
|---|---|---|---|---|---|---|---|
| 2019 | NextGel | Procaps Colombia | CAN | CASAND | Diabetrics | Corporate | Total |
| | | | | | | | |
| **Segment revenue** | 192,247 | 124,090 | 54,628 | 42,332 | 36,931 | 11,637 | 461,865 |
| Intra-segment revenue | (94,958) | (3,977) | (4,949) | (2,271) | (14,703) | (16,215) | (137,073) |
| **Revenue from contracts with customers** | **97,289** | **120,113** | **49,679** | **40,061** | **22,228** | **(4,578)** | **324,792** |
| | | | | | | | |
| **Timing of revenue recognition** | | | | | | | |
| Goods transferred at a point in time | 94,964 | 112,279 | 49,679 | 40,061 | 22,228 | (4,578) | 314,633 |
| Services transferred over time | 2,325 | 7,834 | — | — | — | — | 10,159 |
| **Total revenue from contracts with customers** | **97,289** | **120,113** | **49,679** | **40,061** | **22,228** | **(4,578)** | **324,792** |

Revenue recognized from goods transferred at a point in time include revenues related to “sales of goods” and “sales of trademarks and sanitary provisions”. 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 | NextGel | | | Procaps Colombia | | | CAN | | | CASAND | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2021 | 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 | Diabetrics | | | Corporate | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| **2021** | **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)** |

| Year | NextGel | | | Procaps Colombia | | | CAN | | | CASAND | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2020** | **Total** | **Inter-segment eliminations** | **External** | **Total** | **Inter-segment eliminations** | **External** | **Total** | **Inter-segment eliminations** | **External** | **Total** | **Inter-segment eliminations** | **External** |
| Revenue | 201,294 | (95,315) | 105,979 | 121,532 | (6,637) | 114,895 | 44,808 | 805 | 45,613 | 40,094 | (1,538) | 38,556 |
| Contribution margin [1] | 52,679 | (5,790) | 46,889 | 43,926 | (1,695) | 42,231 | 9,197 | 6,324 | 15,521 | 9,001 | 813 | 9,814 |

| Year | Diabetrics | | | Corporate | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| **2020** | **Total** | **Inter-segment eliminations** | **External** | **Total** | **Inter-segment eliminations** | **External** | **Total** | **Inter-segment eliminations** | **External** |
| Revenue | 39,221 | (16,432) | 22,789 | 2,431 | 1,204 | 3,635 | 449,380 | (117,913) | 331,467 |
| Contribution margin [1] | 6,294 | (807) | 5,487 | (10,157) | 11,901 | 1,744 | 110,940 | 10,745 | 121,685 |
| Administrative expenses | — | — | — | 58,631 | — | 58,631 | 58,631 | — | 58,631 |
| Finance expenses | — | — | — | 54,489 | — | 54,489 | 54,489 | — | 54,489 |
| Other expenses | — | — | — | 7,716 | — | 7,716 | 7,716 | — | 7,716 |
| **Income (loss) before tax** | | | | | | | **(9,896)** | **10,745** | **849** |

| Year | NextGel | | | Procaps Colombia | | | CAN | | | CASAND | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2019** | **Total** | **Inter-segment eliminations** | **External** | **Total** | **Inter-segment eliminations** | **External** | **Total** | **Inter-segment eliminations** | **External** | **Total** | **Inter-segment eliminations** | **External** |
| Revenue | 192,247 | (94,958) | 97,289 | 124,090 | (3,978) | 120,112 | 54,628 | (4,949) | 49,679 | 42,332 | (2,271) | 40,061 |
| Contribution margin [1] | 59,590 | (20,394) | 39,196 | 46,885 | (9,465) | 37,420 | 9,625 | 7,377 | 17,002 | 5,474 | 4,948 | 10,422 |

| **Year** | **Diabetrics** | | | **Corporate** | | | **Total** | | |
|---|---|---|---|---|---|---|---|---|---|
| **2019** | **Total** | **Inter-segment eliminations** | **External** | **Total** | **Inter-segment eliminations** | **External** | **Total** | **Inter-segment eliminations** | **External** |
| Revenue | 36,931 | (14,703) | 22,228 | 11,637 | (16,215) | (4,578) | 461,865 | (137,074) | 324,791 |
| Contribution margin [1] | 5,426 | (580) | 4,846 | (8,847) | (2,351) | (11,198) | 118,153 | (20,465) | 97,688 |
| Administrative expenses | — | — | — | 60,257 | — | 60,257 | 60,257 | — | 60,257 |
| Finance expenses | — | — | — | 42,983 | — | 42,983 | 42,983 | — | 42,983 |
| Other expenses | — | — | — | 4,426 | — | 4,426 | 4,426 | — | 4,426 |
| **Income (loss) before tax** | | | | | | | **10,487** | **(20,465)** | **(9,978)** |

[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 in excess of ten percent of its consolidated revenue.

*Geographical information*

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

| | **2021** | **2020** | **2019** |
|---|---|---|---|
| South America | $ 284,068 | $ 249,983 | $ 241,654 |
| Central America | 72,188 | 58,082 | 63,812 |
| North America | 44,857 | 12,576 | 15,202 |
| Europe | 8,629 | 10,826 | 4,124 |
| **Total** | **$ 409,742** | **$ 331,467** | **$ 324,792** |

*Changes in measurement methods*

The Group may periodically change business segments or reclassify business segment results based on modifications in management reporting methodologies or changes in organizational alignment. After the second quarter of 2021, the Group changed its internal measurement of segment profit and loss, reported to the chief operating decision maker for allocating resources to the segments and assessing its performance purposes. A modification was made in how cost of goods sold is measured in each segment by revising the allocation of standard cost inventory variances. As such, 2020 and 2019 results have been recast to conform with the current period presentation. The result of this measurement change reduced the 2020 (2019) reported contribution margin for NextGel, Procaps Colombia and CAN, by $2.4 million ($3.8 million), $3.2 million ($4.0 million) and $1.9 million ($1.5 million), respectively, with an offsetting increase in the Corporate category. This change in measurement of our segment results did not have any impact to the consolidated financial statements.

## Note 9. Finance expenses, net

| | As of December 31 | | |
|---|---|---|---|
| | **2021** | **2020** | **2019** |
| Banking expenses | $ 1,056 | $ 590 | $ 428 |
| Bank fees | 2,263 | 986 | 855 |
| Other financial expenses | 354 | 281 | 157 |
| Net fair value gain of warrant liabilities | (5,851) | — | — |
| Net fair value gain of shares held in escrow | (4,506) | — | — |
| Interest expense | 85,320 | 52,632 | 41,543 |
| **Total** | **$ 78,636** | **$ 54,489** | **$ 42,983** |

In 2021, interest on lease liabilities amounted to $720 (2020: $601, 2019: $771). Refer to Note 3.3. Leases - Right-of-use assets & lease liabilities for method of recognition of interest expense applied by the Group.

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 (2020: $27,344, 2019: $13,664). Additionally, an extinguishment loss of $35,920 was recognized, 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.

The Group did not realize any significant finance income during 2021, 2020 or 2019.

## Note 10. Other expenses, net

| | As of December 31 | | |
|---|---|---|---|
| | **2021** | **2020** | **2019** |
| Currency exchange rate differences | $ 4,026 | $ 3,905 | $ 1,827 |
| Economic emergency contribution expenses | 1,385 | 811 | 796 |
| Fines, surcharges, penalties and taxes assumed | 775 | 1,440 | 1,426 |
| Donations | 720 | 716 | 650 |
| Listing expense (a) | 73,917 | — | — |
| Other | (1,832) | 844 | (273) |
| **Total** | **78,991** | **7,716** | **4,426** |

(a) Corresponds to the difference between the fair value of the net assets received through the 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.

**Note 11. Income tax**

*Income tax recognized through profit or loss*

| | As of December 31 | | |
|---|---|---|---|
| | **2021** | **2020** | **2019** |
| Current year | 12,250 | 7,491 | 8,118 |
| **Current tax expense** | **12,250** | **7,491** | **8,118** |
| | | | |
| Origination and reversal of temporary differences | 1,455 | 3,805 | (1,083) |
| **Deferred tax expense** | **1,455** | **3,805** | **(1,083)** |
| | | | |
| **Total tax expense** | **13,705** | **11,296** | **7,035** |

*Reconciliation of effective tax rate*

| | As of December 31 | | |
|---|---|---|---|
| | **2021** | **2020** | **2019** |
| Profit/ (loss) before tax | (87,158) | 849 | (9,978) |
| Income tax (benefit)/expense | (14,817) | 297 | (3,492) |
| Tax effect of expenses that are not deductible in determining taxable profit | 49,442 | 13,525 | 8,289 |
| Tax effect of income not taxable in determining taxable profit | (8,822) | (7,754) | (10,550) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (9,423) | 1,960 | 160 |
| 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 | (2,675) | 3,200 | 12,343 |
| Tax effect of utilization of tax losses not previously recognized | — | 68 | 285 |
| **Tax expense for the year** | **13,705** | **11,296** | **7,035** |

The tax rate used for 2021 represents the corporate tax rate of 17% (2020: 35%, 2019: 35%) 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 17%.

On September 14, 2021, Colombia's President approved the Social Investment Law (Ley de Inversión Social, or the "2021 Colombian Tax Reform"), which included 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.

*Current tax assets and current tax liabilities:*

| | As of December 31 | |
|---|---|---|
| **Current tax assets** | **2021** | **2020** |
| Income Tax Advance | 6,081 | 1,070 |
| Income Tax Withholding | — | 5,880 |
| Surplus in Private Liquidation | 15,732 | 8,839 |
| Other Tax Assets | 269 | 985 |
| **Total** | **22,082** | **16,774** |

| **Current tax liabilities** | | |
|---|---|---|
| Income Tax Withholding | (8,982) | (4,690) |
| Income Tax Payable | (2,652) | (4,296) |
| Other Tax Liabilities | (122) | (407) |
| **Total** | **(11,756)** | **(9,393)** |

As of December 31, 2021 and 2020, the following is the detail of the tax losses and excess presumptive income of the Company that have not been used and on which no active deferred tax has been recognized:

| | As of December 31 | |
|---|---|---|
| | **2021** | **2020** |
| Tax Losses not utilized | 3,242 | 2 |
| Tax Credits not utilized | — | 257 |
| **Total** | **3,242** | **259** |

**Note 12. Goodwill**

| | As of December 31 | |
|---|---|---|
| | **2021** | **2020** |
| **Balance at beginning of the year/period** | **$ 6,863** | **$ 7,020** |
| Effect of movements in foreign exchange | (60) | (157) |
| **Balance at end of the year/period** | **$ 6,803** | **$ 6,863** |

As of December 31, 2021 and 2020, no goodwill impairment losses were recognized.

The Group completed its annual impairment test for goodwill for the years ended December 31, 2021 and 2020 and concluded that no impairment charge was warranted. The results of the impairment tests indicate the excess of the recoverable amounts over the carrying amounts for each cash generating unit. 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:

| | 2021 | 2020 |
|---|---|---|
| Procaps S.A. de C.V (previously Laboratorios Lopez S.A. de C.V.) | $ 549 | $ 549 |
| Biokemical S.A. de C.V. | 5,242 | 5,241 |
| Rymco S.A. | 1,012 | 1,073 |
| | **$ 6,803** | **$ 6,863** |

*Procaps S.A. de C.V (previously Laboratorios Lopez S.A. de C.V.)* (manufacturer and distributor of pharmaceutical products) – The recoverable amount of this cash generating unit was determined based on a value-in-use calculation that utilizes cash flow projections from financial budgets approved by the company's directors over a six-year period, and an annual discount rate of 12.2%. Cash flows that exceed this six-year period have been extrapolated using a fixed annual growth rate of 1.0%. The company use a six-year period for cash flow projection because the position expected at the end of the sixth year represents the stable long-term position. Therefore, the company extrapolates those cash flows into the future using a steady growth rate (second stage).

Cash flow projections during the budgeted period are based on a sales growth rate and fixed gross margins of 6.2% and 49.0%, respectively. The growth rate is estimated by the directors based on past performance and their expectations of market development. The estimated recoverable amount of the cash generated unit exceeded its carrying amount by $10,386 (2020: $8,833).

*Biokemical S.A. de C.V.* (manufacturer and distributor of pharmaceutical products) – The recoverable amount of this cash generating unit was determined based on a value-in-use calculation that utilizes cash flow projections from financial budgets approved by the company's directors over a six-year period, and an annual discount rate of 13.3%. Cash flows that exceed this six-year period have been extrapolated using an average annual growth rate of 1.0%. The company use a six-year period for cash flow projection because the position expected at the end of the sixth year represents the stable long-term position. Therefore, the company extrapolates those cash flows into the future using a steady growth rate (second stage).

Cash flow projections during the budgeted period are based on a sales growth rate and average gross margins of 3.8% and 41.4%, respectively. The growth rate is estimated by the directors based on past performance and their expectations of market development. The estimated recoverable amount of the cash generated unit exceeded its carrying amount by $5,932 (2020: $1,426).

*Rymco* (manufacturer and seller of syringes, needles and infusion equipment) - The recoverable amount of this cash generating unit was determined based on a value-in-use calculation that utilizes cash flow projections from financial budgets approved by the company's directors over a five-year period, and an annual discount rate of 11.5%. Cash flows that exceed this five-year period have been extrapolated using a fixed annual growth rate of 3.1%.

Cash flow projections during the budgeted period are based on a sales growth rate and average gross margins of 11.6% and 18.0%, respectively. The growth rate is estimated by the directors based on past performance and their expectations

of market development. The estimated recoverable amount of the cash generated unit exceeded its carrying amount by $5,766 (2020: $4,283).

The key assumptions used in the value-in-use calculations for the cash generating units are the following:

- Growth rate: the 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. Management considers any potential reasonable change in the key assumptions on which the recoverable amount is based would not cause the total carrying amount to exceed the total recoverable amount of the cash generating unit.
- Expected market share: Growth of 6.2% and 3.8% for Procaps S.A. de C.V (previously Laboratorios Lopez S.A. de C.V.) and Biokemical, respectively, in sales is consistent with the increase in population, the increase in life expectancy and the growth of the industry in Latin America. Management considers that the planned growth of market share for the next six years is reasonably achievable.
    - For Rymco, its commercial portfolio is dedicated to assist with the COVID-19 epidemic resulting in enhanced market share. Rymco offers three-layer hospital masks and has the capacity to produce more than 12 million units of masks per month, which has positively impacted market share. Lastly, purchase orders resulted in production at capacity during 2021.
- Expected gross margin: Gross margin decreased by 71.5% in 2021 when compared to 2020. Out of the mentioned decrease, 67.7% is due to Rymco.

**Note 13. Intangible assets**

| **Cost** | **Trademarks and sanitary records** | **Licenses, customers and agreements** | **Product development** | **Total** |
|---|---|---|---|---|
| **Balance as of January 1, 2020** | **10,908** | **17,719** | **10,514** | **39,141** |
| Additions | 24 | 1,130 | — | 1,154 |
| Additions from internal developments | 421 | 970 | 7,674 | 9,065 |
| Derecognition of assets | — | (162) | — | (162) |
| Foreign currency exchange | 88 | (748) | 84 | (576) |
| Reclassifications | 1,735 | (1,735) | — | — |
| **Balance as of December 31, 2020** | **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) |
| Reclassifications and others | 489 | (512) | 23 | — |
| **Balance as of December 31, 2021** | 14,706 | 15,935 | 23,285 | 53,926 |

| **Accumulated amortization** | **Trademarks and sanitary records** | **Licenses, customers and agreements** | **Product development** | **Total** |
|---|---|---|---|---|
| **Balance as of January 1, 2020** | **2,146** | **12,370** | **1,424** | **15,940** |
| Amortization expense | 1,310 | 1,633 | 3,036 | 5,979 |
| Foreign currency exchange | 25 | (1,235) | 330 | (880) |
| **Balance as of December 31, 2020** | **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) |
| Reclassifications and others | 241 | (237) | (4) | — |
| **Balance as of December 31, 2021** | 4,232 | 12,513 | 7,010 | 23,755 |
| | | | | |
| **As of December 31, 2020** | | | | |
| Net book value | 9,695 | 4,406 | 13,482 | **27,583** |
| **As of December 31, 2021** | | | | |
| Net book value | 10,474 | 3,422 | 16,275 | **30,171** |

For the years ended December 31, 2021, 2020 and 2019 amortization expenses are recognized within the Statement of Profit and loss as sales and marketing expenses.

Also, 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, 2020** | **28,111** | **69,511** | **8,444** | **8,537** | **114,603** |
| Additions | 32 | 1,419 | 5,118 | 1,130 | 7,699 |
| Disposals | (274) | (527) | — | (55) | (856) |
| Effect of exchange differences in foreign currency | (1,567) | (4,159) | (272) | (157) | (6,155) |
| Reclassification between categories | 517 | 3,420 | (3,960) | 23 | — |
| **Balance as of December 31, 2020** | **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) |
| Reclassifications and others | 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** |

| **Accumulated depreciation** | **Land and buildings** | **Machinery and equipment, furniture and fixtures** | **Projects in progress** | **Other [1]** | **Total** |
|---|---|---|---|---|---|
| **Balance as of January 1, 2020** | **7,323** | **29,011** | **—** | **3,354** | **39,688** |
| Disposals | — | (82) | — | (7) | (89) |
| Depreciation expense | 861 | 4,061 | — | 978 | 5,900 |
| Effect of exchange differences in foreign currency | (113) | (366) | — | (64) | (543) |
| **Balance as of December 31, 2020** | **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) |
| Reclassifications and others | (907) | (587) | — | (798) | (2,292) |
| **Balance as of December 31, 2021** | **7,637** | **32,856** | **—** | **3,523** | **44,016** |
| | | | | | |
| **As of December 31, 2020** | | | | | |
| Net book value | 18,748 | 37,040 | 9,330 | 5,217 | **70,335** |
| **As of December 31, 2021** | | | | | |
| Net book value | 22,682 | 38,810 | 10,641 | 505 | **72,638** |

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

As of December 31, 2021, depreciation expense was recognized as follows: $4,382 within cost of goods sold (2020: $3,661), for manufacturing costs, and $1,690 (2020: $2,239) within administrative expense.

*Financial Commitments*

As of year-end 2021, the Group has commitments to acquire capital expenditures for $3,585 (2020: $4,832).

*Asset Acquisition of a 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. The purchase price allocated to property, plant and equipment based on the estimated fair value of the assets acquired at the date of acquisition was $1,487. On the Closing Date, December 31, 2021, Procaps paid the amount corresponding to the 50% of the Purchase Price and the remaining 50% will be paid at December 31, 2023. 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.

<u>*Right-of-use assets*</u>

*Reconciliation of asset balances:*

| | Land and Buildings | Equipment and Machinery | Vehicles | Computers | Total |
|---|---|---|---|---|---|
| **Balance as of January 1, 2020** | **30,874** | **6,609** | **79** | **734** | **38,296** |
| Addition to right-of-use asset | 8,543 | 1,415 | (12) | 1,076 | 11,022 |
| Depreciation | (3,345) | (744) | (34) | (475) | (4,598) |
| Effect of changes in foreign exchange rates | (1,186) | (305) | (1) | (33) | (1,525) |
| **Balance as of December 31, 2020** | **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) |
| Reclassifications and others | 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** |

As of December 31, 2021 depreciation expense was recognized as follows: $3,633 (2020: $3,784) within administrative costs and $590 (2020: $814) within cost of goods sold, related to plant leases.

Due to the pharmaceutical production facility that was purchased from Strides Pharma, Inc., a U.S. subsidiary of the Indian-based pharmaceutical corporation, the Strides Group, the Group assumed some rights of use that were part of the acquisition transaction for an amount of $4,533.

*Lease Liabilities*

The Group's lease liabilities are guaranteed by the lessor's title to the leased assets. As of December 31, 2021 and 2020, the Group maintains the following opened balances:

| | 2021 | 2020 |
|---|---|---|
| Non-current | 21,894 | 26,537 |
| Current | $ 9,853 | 10,262 |
| **Total** | **$ 31,747** | **$ 36,799** |

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.

Due to the pharmaceutical production facility that was purchased from Strides Pharma, Inc., a U.S. subsidiary of the Indian-based pharmaceutical corporation, the Strides Group, the Group assumed all obligations and liabilities undertaken as sublessee under the Sublease Agreement, that is part of the acquisition transaction with a pending balance of $4,533.

*Amounts recognized in the Consolidated Statement of Profit or Loss*

| | For the year ended December 31 | |
|---|---|---|
| | **2021** | **2020** |
| Interest on lease liabilities | 720 | 601 |
| Expense relating to low value assets | 123 | 668 |
| Expense relating to short term leases | 1,217 | 828 |

*Amounts recognized in Consolidated Statements of Cash Flows*

The total cash outflow for leases amounts to $8,854 (2020: $5,733). 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, 2021 | As of December 31, 2020 |
| 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 Company 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, 2019, December 31, 2020 and December 31, 2021. For the purposes of applying the equity method of accounting, the financial statements of Promedical S.A. for the years ended December 31, 2021, 2020 and 2019 have been used.

The other summary information that precedes the reconciliation to the Company'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 Company for equity accounting purposes.

| | As of December 31, 2021 | As of December 31, 2020 |
|---|---|---|
| Current assets | 10,324 | 11,672 |
| Non-current assets | 3,136 | 2,551 |
| Current liabilities | 6,231 | 5,899 |
| Non-current liabilities | 795 | 1,890 |
| Equity | 6,434 | 6,434 |
| Revenue | 23,704 | 19,428 |
| Profit/(loss) for the year | 1,423 | 1,612 |
| Total comprehensive income | 1,423 | 1,612 |

| | As of December 31, 2021 | As of December 31, 2020 |
|---|---|---|
| Net assets of Promedical S.A. | 6,434 | 6,434 |
| Proportion of the Company's ownership interest in Promedical S.A. | 3,217 | 3,217 |
| Other adjustments | (774) | (757) |
| **Carrying amount of the Company's interest in Promedical S.A.** | **2,443** | **2,460** |

**Note 17. Inventories, net**

| | 2021 | 2020 |
|---|---|---|
| Raw materials and supplies | $ 38,024 | $ 30,198 |
| Products in process | 6,240 | 5,960 |
| Finished products and merchandise | 31,791 | 27,886 |
| Inventory in transit | 9,645 | 5,374 |
| **Subtotal** | **85,700** | **69,418** |
| Less: Provision | (6,270) | (5,134) |
| **Total** | **$ 79,430** | **$ 64,284** |

Inventories recognized as an expense during the year ended December 31, 2021 amounted to $174,029 (2020: $140,153). These were included in cost of goods sold. Inventories used as samples amounted to $3,867 (2020: $4,062) were recognized as marketing expenses.

Write-downs of inventories to net realizable value and obsolescence adjustments amounted to $5,391 (2020: $1,616), were recognized as a provision expense during the year ended December 31, 2021.

**Note 18. Trade and other receivables, net**

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Trade receivables, net of discounts [1] | $ 111,071 | $ 95,819 |
| Impairment of trade receivables | (8,755) | (9,573) |
| Other receivables | 15,133 | 10,247 |
| **Trade receivables, net of discounts and impairment** | **$ 117,449** | **$ 96,493** |

[1] Discount and return provision amounts to $7,345 (2020: $3,878).

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. Refer to Note 19.

**Note 19. Borrowings**

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | | Restated | Restated |
| **Unsecured borrowings at amortized cost** | | | |
| Syndicated term loan (1) | $ 46,505 | $ 81,906 | $ 88,781 |
| Other term loan (2) | 51,593 | 85,645 | 75,008 |
| Lease liabilities (3) | 31,747 | 36,799 | 29,794 |
| Factoring obligations (4) | 10,609 | 9,993 | 11,927 |
| Put option agreement (5) | — | 239,273 | 211,880 |
| Bank overdrafts (6) | 55 | 902 | 3,047 |
| Notes (7) | 112,857 | — | — |
| **Total Interest bearing liabilities** | **$ 253,366** | **$ 454,518** | **$ 420,437** |
| | | | |
| **Current** | **74,646** | **114,780** | **99,975** |
| **Non- Current** | **$ 178,720** | **339,738** | **320,462** |

*1. Syndicated term loan*

| | Currency | Range of Interest | Maturity Year | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Syndicated term loan | COP | IBR+ 5.3% (Variable) | 2025 | $ 39,521 | 51,970 | $57,492 |
| Syndicated term loan | USD | Libor+ 4.8% (Variable) | 2025 | 7,850 | 31,150 | $32,900 |
| Amortized cost | COP | N/A | 2025 | (866) | (1,214) | (1,611) |
| **Total Syndicated term loan** | | | | **46,505** | **81,906** | **$ 88,781** |

On November 20, 2018, Procaps S.A. signed a 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 (previously Laboratorios Lopez 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., 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 a new agreement with and improvement in terms and conditions with Prudential Senior Notes.

Main covenants required by the loan contract:

Financial commitments

- 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 < 1.0 on the last day of each semester.
- EBITDA ratio / financial expenses = or > 3.0 on the last day of each semester.

Other commitments

- The syndicated credit 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 debts.

Management continuously monitors the observation of these obligations, and was in compliance as of the date of these financial statements.

2. *Other term loan*

| | Currency | Range of Interest | Maturity Year | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Other term loan | COP | IBR+ 2.25%-5.0% (Variable) | 2022-2024 | 9,442 | 12,205 | 9,939 |
| | COP | DTF + 6.74% | 2022 | 3,154 | 6,161 | 6,904 |
| | COP | 24% (Fixed) | 2021 | — | 1,296 | 12 |
| | SOL | 5.00% - 10.01% (Fixed) | 2021-2024 | 5,953 | 7,499 | 4,392 |
| | REAIS | 9.84% - 13.08% (Fixed) | 2021-2024 | 1,762 | 7,436 | 1,633 |
| | USD | Libor + 4.49% | 2022 | 739 | — | — |
| | USD | Libor + 2.99% / 6.5% - 8.7% (fixed) | 2022-2024 | 16,145 | 40,808 | 43,827 |
| | COP | 10.00% -30.00% | 2022 | 14,398 | 10,240 | 8,301 |
| **Total Other term loans** | | | | **51,593** | **85,645** | **75,008** |

3. *Lease liabilities*

| | Currency | Range of Interest | Maturity Year | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Lease liabilities | COP | DTF +5.18% - DTF 10.11% T.A. IBR + 7.50% | 2030 | 10,334 | 15,945 | 15,164 |
| | COP | DTF+ 4.54% + DTF 8.5%T.A. + DTF+10.42% | 2025 | 6,662 | 7,524 | 6,930 |
| | COP | DTF+17% / (DTF+13.72%) | 2022 | — | 676 | 706 |
| | USD | 14.70% E.A. | 2023 | — | 740 | — |
| | USD | 9.28% T.A. | 2022 | — | 86 | 247 |
| | USD | 9.75% N.M. | 2021 | — | 103 | — |
| | COP | 8.29% - 21.48% E.A. | 2027 | 14,689 | 11,591 | 6,422 |
| | Reales | 1.68% (Fixed) | 2022 | 62 | 134 | 325 |
| **Total Lease liabilities** | | | | **31,747** | **36,799** | **29,794** |

4. *Factoring obligations*

| | Currency | Range of Interest | Maturity Year | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Portfolio factoring | COP | DTF+8% / 24.6% (Fixed) | 2022 | 1,383 | 8,074 | 4,731 |
| | Reales | 12% (Fixed) | 2021 | — | — | 5,679 |
| | COP | DTF+8% / 24.6% (Fixed) | 2022 | 9,226 | 1,919 | 1,517 |
| **Total Factoring** | | | | **10,609** | **9,993** | **11,927** |

5. *Put option agreement*

| | Currency | Range of Interest | Maturity Year | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| IFC | USD | 12% | 2028 | — | 127,821 | 112,263 |
| Hoche | USD | 12% | 2028 | — | 111,452 | 99,617 |
| **Total Put option** | | | | **—** | **239,273** | **211,880** |

*Put Option with International Finance Corporation ("IFC")*

On September 1, 2017, the Company and IFC entered into various agreements, including an agreement that granted the right to IFC to put back all or some of the 410,755 ordinary shares it holds in the Company, during a three year period after the eight anniversary of such agreement, in exchange for cash. The amount payable by the Company, if IFC exercised its option, would have equal to an amount that generates a 12% internal rate of return over IFC's subscription.

The Company classified and measured the obligation to buy back its ordinary shares from IFC at amortized cost and recognized finance expense using the effective interest rate method, including transaction costs, until the effectiveness of the Transaction.

In the event of a breach of obligations prior to the first anniversary of the agreement, IFC had the right to put back its shares as well in exchange for cash where the cash amount would have been based on a 15% internal rate of return. The Company has not been in breach of such obligations during 2021 and 2020.

The obligations of the Company were guaranteed through a 37% pledge of Company ordinary shares to IFC.

*Put Option with Hoche Partners Pharma Holding S.A. ("Hoche")*

Similar to IFC, the Company and Hoche entered into various agreements, including an agreement on December 23, 2019 that granted the right to Hoche to put back all or some of the 492,320 ordinary shares it holds in the Company, during a three year period after the eight anniversary after September 1, 2017, in exchange for cash. The amount payable by the Company, if Hoche exercised its option, would have been equal to an amount that generates a 12% internal rate of return over Hoche's subscription.

The Company classified and measured the obligation to buy back its ordinary shares from Hoche at amortized cost and recognized finance expense using the effective interest rate method, until the effectiveness of the Transaction.

The following comprised the covenants established for the put option:

- Do not incur any financial debt to any shareholder of the Company or any of its Subsidiaries in excess of US$ 3,000,000, beyond the existing shareholder loans set forth in the consolidated audited financial statements of the Company; provided, however, that any Financial Debt to any such shareholder of the Company or any of its Subsidiaries below US$ 3,000,000, shall not require IFC/Hoche consent so long as such Financial Debt is on market terms or terms more favorable for the Company or any Subsidiaries;
- Do not enter into any obligation outside of the normal course of business with a consideration in excess of 4% of the total assets of the Company as reported in the last available consolidated audit financial statements of the Company for the most recent Financial Year.
- Do not enter into any commitments for acquisitions of other entities (whether by the acquisition of shares, assets, or otherwise) where the aggregate consideration of all such commitments in any financial year is in excess of 4% of the total assets of the Company as reported in the latest available consolidated audited financial statements of the Company for the most recent Financial Year
- Do not incur any financial debt if the Debt-to-Ebitda Ratio of the Company would exceed 3,5x, provided, that for so long as 2 independent directors have not been appointed to the board, the financial entity´s consent shall

be required prior to the Company or any Subsidiary incurring additional Financial Debt if the Debt-Ebitda Ratio would exceed 3,25x.

Management continuously monitored the observation of these obligations, and was in compliance as of the date of these financial statements.

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. The termination of the put option resulted in the associated liabilities to be reclassified into Company's equity. A true-up of $35,920 has been recognized in September 2021 to reflect the commencement date, re-negotiated during current year, for the annual return with Hoche.

*6. Bank overdraft*

| | Currency | Range of Interest | Maturity Year | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Overdrafts and credit cards | COP | 19.68% - 32% E.A. (Fixed) | 2022 | 55 | 902 | 3,047 |

*7. Notes*

| | Currency | Range of Interest | Maturity Year | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| The Prudential Insurance Company Of America | USD | 4.75% (Fixed) | 2031 | $58,906 | — | — |
| Prudential Annuities Life Assurance Corporation | USD | 4.75% (Fixed) | 2031 | 29,423 | — | — |
| Healthspring Life & Health Insurance Company, Inc | USD | 4.75% (Fixed) | 2031 | 18,007 | — | — |
| CIGNA Health and Life Insurance Company | USD | 4.75% (Fixed) | 2031 | 6,521 | — | — |
| **Total Senior Notes** | | | | **112,857** | **—** | **—** |

On November 12, 2021, the Company 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 Company, due November 12, 2031, pursuant to a note purchase agreement 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 Company: 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.

The Senior Notes require Procaps, S.A., the Company and the other obligors thereunder to comply with the following financial ratios:

- A consolidated total debt of Procaps, S.A., the Company and the other obligors thereunder to consolidated EBITDA for the last twelve months of 3.50:1.00 or less, 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 Company and the other obligors thereunder divided by the consolidated interest expenses of Procaps, S.A., the Company and the other obligors thereunder) in excess of, or equal to, 3.00:1.00, calculated at certain dates of determination.

As of December 31, 2021, the Company was in compliance with all of the financial covenants related to the Senior Notes, and management expects that the Company will be able to maintain compliance with the financial covenants in the future.

The Senior Notes are classified as long-term debt on the Company's consolidated balance sheets and will be until such Senior Notes are within one year of maturity.

*Reconciliation of liabilities arising from financing activities*

| | 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 |
| Senior Notes | — | — | 112,857 | — | 112,857 |
| **Total liabilities from financing activities** | **454,518** | **(281,155)** | **336,216** | **(256,213)** | **253,366** |

| | January 1, 2020 | Payment cash flows | New liabilities [1] | Other changes [2] | December 31, 2020 |
|---|---|---|---|---|---|
| Syndicated term loan | 88,781 | (4,670) | — | (2,205) | 81,906 |
| Other term loan | 75,008 | (76,942) | 94,122 | (6,543) | 85,645 |
| Lease liabilities | 29,794 | (5,733) | 11,022 | 1,716 | 36,799 |
| Factoring obligations | 11,927 | (38,953) | 35,040 | 1,979 | 9,993 |
| Put option agreement | 211,880 | — | — | 27,393 | 239,273 |
| Bank overdrafts | 3,047 | (21) | — | (2,124) | 902 |
| **Total liabilities from financing activities** | **420,437** | **(126,319)** | **140,184** | **20,216** | **454,518** |

| | January 1, 2019 | Payment cash flows | New liabilities | Other changes | December 31, 2019 |
|---|---|---|---|---|---|
| Syndicated term loan | 94,919 | (5,770) | — | (368) | 88,781 |
| Other term loan | 66,773 | (75,235) | 80,859 | 2,611 | 75,008 |
| Lease liabilities | 30,843 | (4,070) | 5,335 | (2,314) | 29,794 |
| Factoring obligations | 12,807 | (37,412) | 38,019 | (1,487) | 11,927 |
| Put option agreement | 98,599 | — | 99,616 | 13,665 | 211,880 |
| Bank overdrafts | 1,236 | — | — | 1,811 | 3,047 |
| **Total liabilities from financing activities** | **305,177** | **(122,487)** | **223,829** | **13,918** | **420,437** |

[1] New liabilities include non-cash activities for invoices from suppliers financed via reverse factoring $48,138 (2020: $22,426, 2019: 22,486 ) and acquisition of right-of-use assets $ 7,283 (2020: $11,022, 2019: 5,335). For the year ended December 31, 2019, it also included the issuance of put option agreements for $99,616.

[2] Other changes include exchange differences and in 2021 the termination of the put option agreements in exchange for new equity instruments in Procaps Group S.A. Refer to Note 19.5. Put option.agreement

## Note 20. Deferred tax

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

| | As of December 31 | |
|---|---|---|
| | 2021 | 2020 |
| **Net deferred tax asset (liability)** | | |
| Trade and other receivables | (1,357) | (3,301) |
| Inventories | 3,142 | 1,735 |
| Property, plant and equipment | (3,486) | (6,817) |
| Intangibles | (875) | (634) |
| Borrowings and Trade and other payables | 3,639 | 3,071 |
| Provisions and Other liabilities | 1,005 | 737 |
| Others | (1,071) | 8,088 |
| **Total net deferred tax asset (liability)** | **997** | **2,879** |

| | As of December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Deferred Tax Asset | 7,067 | 21,769 |
| Deferred Tax Liability | (6,070) | (18,890) |
| **Net Deferred Tax Asset (Liability)** | **997** | **2,879** |

| | As of December 31 | | |
|---|---|---|---|
| | **2021** | **2020** | **2019** |
| **Balance as on January 1** | **2,879** | **8,556** | **7,396** |
| Recognized in Profit and Loss | (1,455) | (3,805) | 1,083 |
| Recognized in Other Comprehensive Income [1] | (58) | 16 | (43) |
| Others [2] | (369) | (1,888) | 120 |
| **Balance as of December 31** | **997** | **2,879** | **8,556** |

[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. (previously Laboratorios Lopez 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. As of December 31, 2021 and 2020, the deferred tax asset balance does not comprise unused tax losses or unused tax credits. 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 $1,135 as of December 31, 2021 for temporary differences of $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, net**

| | As of December 31 | | |
|---|---|---|---|
| | **2021** | **2020** | **2019** |
| | | **Restated** | **Restated** |
| **Trade payables** | **$ 70,167** | **$ 84,480** | **$ 94,207** |
| | | | |
| **Other payables** | | | |
| Trade current accounts | 3,259 | 4,430 | 4,277 |
| Interest payable | 1,870 | 2,236 | 1,525 |
| Withholdings and payroll contributions | 6,619 | 2,831 | 3,243 |
| Others | 3,466 | 139 | 1,356 |
| **Total other payables** | **15,214** | **9,636** | **10,401** |
| **Total accounts payable** | **$ 85,381** | **$ 94,116** | **$ 104,608** |

**Note 22. Provisions and contingencies**

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| **Contingencies** | | | |
| Balance as of January 1 | **$ 1,829** | **$ 2,276** | $ 2,379 |
| Effect of changes in foreign exchange rates | (209) | (387) | (77) |
| Provisions made | — | 761 | 12 |
| Provisions used | (1,119) | (821) | (38) |
| **Balance as of December 31** | **$ 501** | **$ 1,829** | **$ 2,276** |

*Provisions*

The Group recognizes provisions for contingencies that are probable of requiring an outflow of resources due to adverse effects. Such contingencies are disclosed with possible adverse effects for the entity, as follows:

*Legal provisions*

*Softcaps legal proceedings* - Provisions for legal proceedings are recognized for the estimated probable losses against the company for labor, administrative and tax litigation, 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. The total balance of $459 (2020: $630, 2019: $1,777) is comprised of $60 (2020: $108, 2019: $248) for labor litigation, $52 (2020: $154, 2019: $1,032) for administrative and civil litigation, $347 (2020: $368, 2019: $419) for tax litigation.

*Rymco Medical legal proceeding*s - Provisions for legal proceedings are recognized for probable losses estimated against the company for labor and administrative litigation, which are calculated based on the best estimate of the disbursement required to pay the obligation as of the date of preparation of the financial statements. As of December 31, 2020 provisioned amounts were used for compensating the open labor litigation and new provision was not recognized from then on as of December 31, 2021 for labor litigation (2020 opening balance: $38, 2019 opening balance: $38).

*Procaps legal proceedings* – Provisions for legal proceedings are recognized to cover probable losses estimated against the company for labor and administrative litigation, which are calculated based on the best estimate of the disbursement required to cancel the obligation at the date of preparation of the financial statements. The total balance of $42 (2020: $845, 2019: $326) is for labor litigation.

*Legal proceedings of Industrias Kadima, Inversiones Jades, Inversiones Ganeden, Inversiones Crynseen and Colmed* – Provisions for legal proceedings are recognized for estimated probable losses against these companies for labor and administrative litigation, which are calculated based on the best estimate of the disbursement required to pay the obligation as of the date of preparation of the financial statements. As of December 31, 2020 provisioned amounts were used for compensating the open administrative litigation and new provision was not recognized from then on as of December 31, 2021 for administrative litigation (2020 opening balance: $67, 2019 opening balance: $67).

*Tax provisions*

*Transfer pricing Procaps* – The Procaps and CI Procaps companies used to recognize provisions for the impact of transfer pricing in an amount of 2020: $354 and 2019: $173. However, as of December 31, 2021, those provisions were reversed under the risk analysis carried out by the Company.

*Contingencies*

The general direction of taxes of El Salvador, has tried to deny reductions applied to sales of the taxable year, indicating they are not documented as regulated by the DGII, the proposed sanction amounts to $954. 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 (2020: 2,001,071, 2019: 2,493,391) ordinary shares with a par value of one cent each, of which 112,824,184 (2020: 2,001,071, 2019: 2,493,391) are issued and outstanding as of December 31, 2021. 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 Company and 4,500,000 Redeemable B Shares are issued and held in treasury by the Company.

*Reconciliation of share capital and share premium*

| *Ordinary authorized and issued shares* | **Number of shares** | **Share capital amount** | **Share premium** |
|---|---|---|---|
| **As of January 1, 2019 pre-restructuring** | **2,493,391** | **2,493** | **120,151** |
| Issuance of put option with Hoche | (492,320) | (492) | (65,739) |
| ***Subtotal*** | 2,001,071 | 2,001 | 54,412 |
| Capital restructuring of Crynssen (1:33.4448 exchange ratio) (b) | 64,924,413 | (1,332) | 1,332 |
| **As of December 31, 2019 restructured** | **66,925,484** | **669** | **55,744** |
| | — | — | — |
| **As of January 1, 2020 pre-restructuring** | 2,001,071 | 2,001 | 54,412 |
| Capital restructuring of Crynssen (1:33.4448 exchange ratio) (b) | 64,924,413 | (1,332) | 1,332 |
| **As of December 31, 2020 restructured** | **66,925,484** | **669** | **55,744** |
| | — | — | — |
| **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 Company (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 Company.

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 and loss. As of December 31, 2021 shares to be delivered are presented at fair value as non-current liabilities for the amount of $101,859, representing a decrease of $4,506 recognized in Finance expenses, net.

e. Immediately following the Exchange, the Company 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 Company 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 | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Legal[1] | $ 4,892 | $ 4,892 | $ 4,892 |
| Working Capital[2] | 37,857 | 35,005 | 23,789 |
| | **$ 42,749** | **$ 39,897** | **$ 28,681** |

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| **Balance as of January 1** | **$ 39,897** | **$ 28,681** | **$ 28,322** |
| Increase in legal reserves | — | — | 31 |
| Increase in working capital reserves | 2,852 | 11,216 | 328 |
| **Balance as of December 31** | **$ 42,749** | **$ 39,897** | **$ 28,681** |

[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 loss per share is calculated by dividing the profit or loss for the period by the weighted average number of ordinary shares outstanding in the year.

The profit (loss) per fully diluted share shall be calculated based on the result for the year divided by the weighted average number of fully diluted shares. The effects of potentially dilutive ordinary shares are not included in the calculation of diluted EPS because their effect would be anti-dilutive.

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| Net loss of the year | (100,863) | (10,447) | (17,013) |
| Number of ordinary shares issued at December 31* | 101,110 | 97,129 | 97,129 |
| Weighted average basic number of ordinary shares | **98,143** | **97,129** | **97,129** |
| Assumed exercise of share equivalents | — | — | — |
| **Weighted average diluted number of shares** | **98,143** | **97,129** | **97,129** |
| Basic and diluted loss per share in the year | ***(1.03)*** | ***(0.11)*** | ***(0.18)*** |

**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 | | |
|---|---|---|---|
| | **2021** | **2020** | **2019** |
| Public warrants | $ 16,000 | $ — | $ — |
| Private warrants[1] | 7,112 | — | — |
| | **$ 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

| | **2021** | **2020** | **2019** |
|---|---|---|---|
| **As of January 1** | **$ —** | **$ —** | **$ —** |
| Acquired public warrants | $ 21,600 | $ — | $ — |
| Warrants exercised | $ — | $ — | $ — |
| Fair value remeasurement | $ (5,600) | $ — | $ — |
| **As of December 31** | **$ 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 Company 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 fair value. On 30 September, 2021, the warrants had a fair value of $21,600 (20,000,000 warrants valued at $1.08 each), which is included as a Finance expense in the consolidated statement of profit or loss.

Note 25.2. Private warrants

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| **As of January 1** | **$ —** | **$ —** | **$ —** |
| Acquired private warrants | $ 7,363 | $ — | $ — |
| Fair value remeasurement | $ (251) | $ — | $ — |
| **As of December 31** | **$ 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 Company 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 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 and loss. Refer to Note 9. Finance expenses, net.

*Warrants in escrow*

On March 31, 2021, concurrently with the execution of the Business Combination Agreement, the SPAC, the Company, 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 Company 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 and loss as a Finance expense. Refer to Note 9. Finance expenses, net.

## Note 26. Acquisitions

*Note 26.1. Reverse reorganization*

As further outlined in Note 2.3, the Company underwent a reverse reorganization as a result of the Transaction.

The amount of the net identifiable assets of $131,086 acquired on September 29, 2021, 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** |

As Procaps Group S.A. is considered to be the accounting acquirer and the merger between the Procaps Group S.A. and Union Acquisition Corp II (SPAC) would be accounted for as an asset acquisition under IFRS, as the SPAC is not considered a business. IFRS 2 would be applied for the accounting of the transaction if the value of equity interests issued is 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 and loss within O*ther expenses, net*. 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.

*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 which are held in escrow 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 and loss within *Finance expense*. Refer to Note 9. Finance expenses, net.

*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 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, Procaps will pay 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 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, 2021** | | **As of December 31, 2020** | |
|---|---|---|---|---|
| | **FVTPL[1]** | **Amortized cost[2]** | **FVTPL** | **Amortized cost[2]** |
| **Financial assets not measured at fair value** | | | | |
| Trade and other receivables, net | — | 117,449 | — | 96,493 |
| Amounts owed by related parties | — | — | — | 2,562 |
| Cash | — | 72,112 | — | 4,229 |
| Other financial assets | — | 256 | — | 761 |
| **Total financial assets not measured at fair value** | **—** | **189,817** | **—** | **104,045** |
| | | | | |
| **Financial liabilities measured at fair value** | | | | |
| Warrant liabilities | 23,112 | — | — | — |
| Shares held in escrow | 101,859 | — | — | — |
| **Total financial liabilities measured at fair value** | **124,971** | **—** | **—** | **—** |
| **Financial liabilities not measured at fair value** | | | | |
| Borrowings | — | 253,365 | — | 442,359 |
| Trade and other payables, net | — | 85,381 | — | 106,275 |
| Amounts owed to related parties | — | 8,450 | — | 20,622 |
| **Total financial liabilities not measured at fair value** | **—** | **347,196** | **—** | **569,256** |

[1] The fair value is comprised of $16,000 level 1 and $108,971 level 3 as of December 31, 2021.
[2] The fair value  is similar to their amortized cost as of December 31, 2021 and 2020, respectively.

*27.2 Measurement of fair values*

The following tables show the valuation techniques used in measuring Level 3 fair values for financial instruments in the statement of financial position, as well as the significant unobservable inputs used.

| Type | Valuation Technique | Significant unobservable input | Inter-relationship between significant unobservable input and fair value measurement |
|---|---|---|---|
| Warrants | 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 | The estimated fair value would increase (decrease) if the expected volatility were higher (lower). |
| Shares held in escrow | 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 | The estimated fair value would increase (decrease) if the expected volatility were higher (lower). |

*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, 2021 or 2020 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, 2021 and 2020.

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.

| **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** |

| **December 31, 2020** | **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 | 0.53% | 2.59% | 2.81% | 5.82% | 14.78% | 59.77% | 9.60% |
| Gross carrying amount | 74,639 | 5,216 | 2,958 | 1,754 | 406 | 14,724 | 99,697 |
| Impairment loss allowance | (393) | (135) | (83) | (102) | (60) | (8,800) | (9,573) |
| | **74,246** | **5,081** | **2,875** | **1,652** | **346** | **5,924** | **90,124** |

| December 31, 2019 | Current (not past | 1-30 days past due | 31-60 days past due | 61-90 days past due | 91-120 days past | More than 120 days | Total |
|---|---|---|---|---|---|---|---|
| Weighted-average loss rate | 0.68% | 1.98% | 2.49% | 4.36% | 5.10% | 80.12% | 10.99% |
| Gross carrying amount | 69,478 | 13,584 | 4,989 | 2,224 | 1,176 | 13,061 | 104,512 |
| Impairment loss allowance | (474) | (269) | (124) | (97) | (60) | (10,464) | (11,488) |
| | 69,004 | 13,315 | 4,865 | 2,127 | 1,116 | 2,597 | 93,024 |

As of December 31, 2021 no impairment losses were recognized for balances in connection with related parties. However, as of December 31, 2020 and 2019 an allowance was constituted to open balances referred to goods sold with *Industrias Intercaps de Venezuela* and *Laboratorios Vivax Pharmaceuticals*, due to the critical political and social situation that the location country of precedence is experiencing, See Note 30. Related party transactions.

*27.3.4. 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 | | |
|---|---|---|---|---|---|---|
| | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 |
| COP | 124,545 | 100,077 | 92,849 | (99,371) | (124,957) | (99,880) |
| Reales | 7,002 | 4,808 | 6,700 | (9,125) | (5,385) | (2,978) |
| Córdoba | — | — | 2,719 | — | — | (2,600) |
| Quetzales | 1,946 | 90 | 1,558 | (4,115) | — | (4,805) |
| Soles | 7,024 | 5,249 | 4,819 | — | (8,564) | (6,928) |
| DOP | 809 | 817 | — | (2,869) | (3,093) | — |
| Colones | 1,270 | 1,234 | — | (2,371) | (2,410) | — |

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 | | |
|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2019** | **2021** | **2020** | **2019** |
| COP | (2,289) | 2,262 | 639 | 2,797 | (2,764) | (781) |
| Reales | 193 | 52 | (338) | (236) | (64) | 414 |
| Córdoba | — | — | (11) | — | — | 13 |
| Quetzales | 197 | (8) | 295 | (241) | 10 | (361) |
| Soles | (639) | 301 | 192 | 781 | (368) | (234) |
| DOP | 187 | 207 | — | (229) | (253) | — |
| Colones | 100 | 107 | — | (122) | (131) | — |

Interest rate risk

The Group is exposed to interest rate risks because it borrows money at both fixed and variable interest rates connected with LIBOR and IBR/DTF (According to it´s 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.

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

| | **2021** | | | **2020** | | | **2019** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Carrying amount** | **+1%** | **-1%** | **Carrying amount** | **+1%** | **-1%** | Carrying amount | **+1%** | **-1%** |
| DTF/IBR | 67,970 | 68,650 | 67,290 | 105,039 | 106,089 | 103,989 | 91,443 | 92,357 | 90,529 |
| Libor | 19,451 | 19,646 | 19,256 | 45,301 | 45,754 | 44,848 | 51,244 | 51,756 | 50,732 |
| **Total** | **87,421** | **88,296** | **86,546** | **150,340** | **151,843** | **148,837** | **142,687** | **144,113** | **141,261** |

$87,421 or 34.50% as of December 31, 2021 and 150,340 or 32.26%% as of December 31, 2020, 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, 2021 would have decreased profit before tax by $875 in 2021 and decreased profit before tax by $1,503 in 2020. 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.

*27.3.5. 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 company 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.

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 company must make the final payments.

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.:

| | 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** |

| | As of December 31, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **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 | 417,719 | 628,874 | 114,214 | 65,966 | 447,035 | 1,103 | 556 |
| Trade and other payables | 94,116 | 94,116 | 94,116 | — | — | — | — |
| Lease liabilities | 36,799 | 39,571 | 11,392 | 12,963 | 6,759 | 3,441 | 5,016 |
| Amounts owed to related parties | 20,622 | 20,622 | 8,459 | 12,163 | — | — | — |
| | **569,256** | **783,183** | **228,181** | **91,092** | **453,794** | **4,544** | **5,572** |

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 Companies, 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:

| | **2021** | **2020** | **2019** |
|---|---|---|---|
| Total assets [1] | 462,135 | 359,538 | 337,728 |
| Total liabilities [2] | 500,475 | 614,216 | 581,675 |
| Liabilities to assets ratio | 1.08 | 1.71 | 1.72 |

[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*

On May 16, 2022, Procaps Group, S.A. (the "Company") entered into a Stock Purchase Agreement (the "SPA") with AI Global Investments (Netherlands) PCC Limited, 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 sociedad anónima de capital variable 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").

Somar specializes in the production of generic and own-brand pharmaceutical products, sold mainly to the private sector, with the majority of its operations within Mexico. Pearl Mexico specializes in the production and sale of pharmaceutical products, organic chemicals, biological products and over the counter products, with the majority of its operations within Mexico.

Pursuant to the SPA, the Company will acquire all of the issued and outstanding capital stock of the Targets from the Sellers, in exchange for an estimated upfront consideration in the form of:

(i) an aggregate amount of cash in U.S. dollars equal to approximately $303.0 million, subject to customary adjustments for working capital, net debt and other items (the "Closing Cash Consideration Payment"), which will be allocated to each Seller in accordance with the percentages set forth in the SPA; and

(ii) a vendor loan receivable in an aggregate amount in U.S. dollars equal to approximately $24.3 million (the "Stock Consideration Receivables" and together with the Closing Cash Consideration Payment, the "Closing Consideration Payments"), which will be allocated to Triana and PCC in accordance with the percentages set forth in the SPA.

On the closing (the "Closing") of the transactions contemplated by the SPA (the "Acquisition"), the Company shall issue to PCC and Triana, pursuant to the terms of the SPA and those certain Stock Consideration Subscription Agreements to be entered into on or about the date of the Closing, between the Company and each of PCC and Triana (the "Stock Consideration Subscription Agreements"), approximately 3,081,730 ordinary shares of the Company, nominal value $0.01 per share (the "Ordinary Shares"), based on a price per Ordinary Share of $7.8878 (the volume-weighted average price per share, rounded to the nearest four decimal points, of Ordinary Shares quoted on the Nasdaq (as reported on Bloomberg L.P. under the function "VWAP"), for the period of 30 consecutive trading days ending on the trading day immediately prior to the date of the SPA) (the "Closing Stock Consideration Payment"), which shall be paid-up by each of PCC and Triana by way of set-off against the respective portions of the Stock Consideration Receivables held by PCC and Triana against the Company, in accordance with article 420-23 of the Luxembourg Law on Commercial Companies dated 10 August 1915, as amended.

Additionally, at the Closing, the Company shall pay the Sellers an aggregate amount of cash in U.S. dollars, as converted based on the exchange rate of MXN$20.5693 to US$1.00 (the "Applicable Exchange Rate"), equal to 70.0% of PCC's good faith estimate of the valued added tax receivables of Pearl Mexico and its subsidiaries that have been reported to the tax authorities as a result of the filing of any value-added tax return on or prior to the date of the Closing (the "Filed VAT Receivables"), minus MXN$48,177,093, and subject to certain adjustments set forth in the SPA.

In addition to the upfront consideration paid or issued at the Closing, the Sellers have a right to receive a contingent payment in U.S. dollars, as converted based on the Applicable Exchange Rate, in the amount by which the gross profit of Targets and its subsidiaries for the fiscal year ended December 31, 2022 exceeds MXN$1,490,000,000, multiplied by 3.85, with a maximum amount payable of MXN$300,000,000.

The transaction, which has been approved by the board of directors of the Company and the Sellers, is expected to close in the third quarter of 2022, subject to the satisfaction or waiver of customary closing conditions at or prior to the closing of the transaction, including the receipt of all consents, approvals, orders and authorizations of any governmental authority required in connection with the execution or performance of the SPA, including any regulatory antitrust approvals.

*Debt Commitment Letter*

Concurrently with the execution of the SPA, the Company, 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 will be guaranteed by each existing and future direct and indirect material subsidiary of the Company, and the Targets and each of their subsidiaries upon the Closing. The Bridge Loan will also be secured by a pledge from the Company of its shares in the Targets. The proceeds of the Bridge Loan will be used, together with the Company'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 Company's existing debt. The Bridge Loan will accrue interest at a rate of Term SOFR plus a spread between 5.00%-7.25%, determined according to the time the Bridge Loan has been outstanding and the credit

rating of the Company, and will mature 12 months after the initial disbursement to the Company in connection with the Acquisition.

Pursuant to the terms of the Commitment Letter, while the Bridge Loan is outstanding, the Company, as the borrower, and the subsidiary guarantors will be subject to customary affirmative, negative and financial covenants which will, among other things, (i) restrict, subject to certain exceptions, the Company's ability to incur debt or grant liens; sell or transfer title to operating assets; pay dividends and distributions; engage in mergers and consolidations; guarantee, indemnify or assume the liabilities of third parties; change its fiscal year reporting; engage in certain transactions with affiliates; change its lines of business; or amend its organizational documents, and (ii) require the Company and the subsidiary guarantors to maintain an interest coverage ratio of 3.0x EBITDA at all times, and a leverage ratio of 4.25x to 4.75x EBITDA, according to the time the Bridge Loan has been outstanding, calculated on an annual basis. Additionally, the Bridge Loan may be prepaid by the Company or refinanced at any time, without penalty. The Company must prepay the Bridge Loan with, (i) subject to certain exceptions, all proceeds from asset sales or the incurrence of debt by the Borrower and its subsidiaries, and (ii) 75% of net cash proceeds from any issuances of equity or equity-like instruments by the Company.

*Ongoing Military Operation in Ukraine and Related Sanctions*

The ongoing military operation in Ukraine and the related sanctions targeted against the Russian Federation may have an impact on the European economies and globally. The Company does not have any significant direct exposure to Ukraine, Russia or Belarus considering there are not any existing operations or sales in those locations.

However, the impact on the general economic situation may require revisions of certain assumptions and estimates. This may lead to material adjustments to the carrying value of certain assets and liabilities including property plant and equipment, intangible assets, goodwill, warrant liabilities and shares held in escrow within the next financial year. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day, but to date the impact, if any, has not been significant.

The longer-term impact may also affect trading volumes, cash flows and our supply of critical components among our manufacturing facilities in El Salvador, Colombia, Brazil, and the U.S. Such disruptions could negatively affect our ability to provide critical components to affiliates or produce pharmaceutical products for customers, which could increase our costs, require capital expenditures, and harm our results of operations and financial condition. Nevertheless, at the date of these financial statements the Company continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

**Note 29. Contractual Obligations and Commitments**

A summary of our enforceable and legally binding obligations as of December 31, 2021 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, 2021 | | | | |
|---|---|---|---|---|---|
| *(U.S. dollars in thousands)* | **2022** | **2023-** | **2025-** | **After** | **Total** |
| Long-term debt obligations[(1)] | 71,987 | 16,895 | 15,330 | 148,799 | 253,011 |
| Finance lease obligations[(2)] | 9,853 | 7,403 | 5,333 | 17,315 | 39,904 |
| Trade and other payables | 85,381 | — | — | — | 85,381 |
| Amounts owed to related parties | 8,450 | — | — | — | 8,450 |
| Other commitments[(3)] | 3,585 | 1,600 | — | — | 5,185 |
| **Total** | **179,256** | **25,89** | **20,663** | **166,114** | **391,931** |

[1] Represents gross maturities of our long-term debt obligations, excluding finance lease obligations as of December 31, 2021, 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, 2021.
[2] Represents maturities of our finance lease obligations included within long-term debt as of December 31, 2021, 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, 2021.
[3] Represent commitments to acquire capital expenditures in the amount of $3.6 million and asset acquisition obligations of one of our pharmaceutical production facilities in the amount of $1.6 million. Please see Note 14 to the Audited Consolidated Financial Statements included elsewhere in this annual report for more information.

Deferred tax liabilities were $6.1 million as of December 31, 2021. 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.

**Note 30. 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 | | |
|---|---|---|---|
| | **2021** | **2020** | **2019** |
| Sale of finished products | 3,825 | 3,757 | 3,240 |
| Revenue from services and consulting | 116 | 87 | 222 |
| Purchases of raw materials and other services | 10,240 | 11,339 | 11,401 |

Interest expense derived from related parties amount to $61 (2020: $49).

The following amounts were outstanding at the reporting date:

| | For the year ended December 31 | |
|---|---|---|
| | **2021** | **2020** |
| **Amounts owed by related parties, net** | **1,147** | **2,562** |

The Group has net receivables of $1,147 (2020: $2,562). These amounts include fully provisioned balances of $18,060 (2020: $18,148) with I*ndustrias Intercaps de Venezuela* and $5,333 (2020: $5,472) with *Laboratorios Vivax Pharmaceuticals*. These respective amounts contain the corresponding exchange differences.

| | For the year ended December 31 | |
|---|---|---|
| | **2021** | **2020** |
| Amounts owed to related parties | 1,335 | 4,778 |
| Loans owed to related parties | 7,115 | 15,844 |
| **Amounts owed to related parties** | **8,450** | **20,622** |
| | | |
| **Current** | **8,450** | **8,459** |
| **Non-current** | **—** | **12,163** |

Donations to *Fundación Procaps* amount to $427 (2020: $325, 2019: $319) and are recognized as other expenses in profit and 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** | **2021** | **2020** | **2019** |
|---|---|---|---|
| **Balance as of January 1** | **$ 304** | **$ 499** | **$ 542** |
| Loans advanced | — | — | 289 |
| Loan repayments received | (28) | (195) | (332) |
| **Balance as of December 31** | **$ 276** | **$ 304** | **$ 499** |

| **Loans from related parties** | **2021** | **2020** | **2019** |
|---|---|---|---|
| **Balance as of January 1** | **$ 15,844** | **$ 20,963** | **$ 24,557** |
| Loans advanced | — | 32 | — |
| Loan repayments | (9,154) | (5,856) | (4,570) |
| Interest accrued | 425 | 705 | 976 |
| **Balance as of December 31** | **$ 7,115** | **$ 15,844** | **$ 20,963** |

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% (2020: 6%). Outstanding balances are unsecured and are repayable in cash. No loss allowance was recognized in expense in 2021 or 2020.

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 are as follows:

| | **For the year ended December 31** | |
|---|---|---|
| | **2021** | **2020** |
| Short-term employee benefits | $ 3,359 | $ 2,617 |
| Consulting fees | 1,912 | 100 |
| | **$ 5,271** | **$ 2,717** |

**Note 31. Employees**

As of December 31, 2021, we had more than 4,900 full-time and temporary employees worldwide. Approximately 0.8% of our employees in our Rymco (2 employees) and Softgel (39 employees) manufacturing facilities are currently represented by industry labor union organizations. With respect to our technical talent, we employ more than 305 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, 2021.

| | South America | Central America | North America | Total |
|---|---|---|---|---|
| Approximate number of employees as of December 31, 2021 | 4,160 | 822 | 11 | 4,993 |

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.

Total employee costs are disclosed in Note 3.12.2. Short-term and other long-term employee benefits.

## Note 32. 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, and (ii) Mr. Weinstein who receives compensation in the amount of $150,000 per annum which amount includes all services which Mr. Weinstein provides to us.

### Compensation of Executive Officers and Senior Management Team

For the years ended December 31, 2021, 2020 and 2019, our executive officers and senior management team received an aggregate compensation of approximately $3.3 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), $2.7 million and $1.9 million, 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.

## Note 33. Principal Accountant Fees and Services

*Fees Paid to the Company's Principal Accountant*

In 2021, Deloitte Audit S.à r.l served as the principal external auditor for the Company. Fees paid to Deloitte Audit S.à r.l in 2021 and 2020 are detailed below:

| | For the Year Ended December 31 |
|---|---|

| | **2021** | **2020** |
|---|---|---|
| | (*in thousands of U.S. dollars*) | |
| Audit fees | 4,724 | 755 |
| Audit related fees | - | - |
| Tax fees | - | - |
| All other fees | - | - |
| **Total** | 4,724 | 755 |

*Audit Fees*

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 in the Americas and over 4,900 employees working under our sustainable model. We develop, manufacture and market OTC and Rx pharmaceutical products, nutritional supplements and clinical solutions.

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 305 scientists, technicians and skilled personnel and over 500 formulations as of December 31, 2021, allowing us to develop an average of over 150 new products, including more than 50 first time launch 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 sell and distribute products to over fifty distinct markets. Additionally, on December 31, 2021, we acquired an FDA approved 86,000 square feet pharmaceutical production facility located in West Palm Beach, Florida from Strides Pharma, Inc., our first US-based Softgel production facility and R&D center, which is expected to begin operations in May 2022. 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 incubations, 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 and our operations consist of the following five business segments: NextGel, Procaps Colombia, Central America North (“CAN”), Central America South and the Andean Region (“CASAND”) and Diabetrics. These segments operate in both the B-to-B and the B-to-C market.

### Business Segments

#### *NextGel*

Our NextGel business segment, operated under our Softigel brand, is the iCDMO arm of Procaps which offers services specializing in Softgel 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 126 clients across more than 35 countries and the key products that we manufacture in this segment includes 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). As of December 31, 2021, Farma Procaps formulates and manufactures more than 465 products for over 200 brands.

Clinical Specialties is a leading provider of high-complexity care treatments to private institutions regionally. Its diverse product portfolio, including more than 150 products, and over 30 brands, 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 and includes more than 150 brands. 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 6% of the global population living with diabetes and 10% 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 experienced significant growth since it began its operations in 2015. 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**

Previously, we had identified certain conditions and events that our management considered in the aggregate, to result in substantial doubt about our ability to continue as a going concern, including having negative equity of $254.7 million as of December 31, 2020. However, as a result of the reverse reorganization following the Business Combination with Union on September 29, 2021, we had a net "capital contribution" through the net assets obtained from Union and the termination of the put options with IFC and Hoche, resulting in total negative equity of $38.3 million as of December 31, 2021. The negative equity balance as of December 31, 2021 is primarily driven by the classification of the Ordinary Shares held in escrow pursuant to the terms of the Transaction Support Agreement and the related escrow agreements as a financial liability and does not impact our future operations.

Additionally, as of December 31, 2021, we reported positive working capital of $110.1 million, compared to a deficit of $54.9 million as of December 31, 2020. Furthermore, as a result of the Business Combination, we had cash inflow of approximately $160.0 million, of which $72.1 million was still on hand as of December 31, 2021, compared to $4.2 million as of December 31, 2020. Currently, we maintain uncommitted financing lines, which we believe, together with the expected internal generation of funds, will allow us to finance our growth and working capital needs for the next twelve months. Additionally, we improved our funding conditions, through the issuance of the Senior Notes, the proceeds of which were primarily used to repay certain existing indebtedness (approximately $102 million), resulting in a significant reduction in financing rates (from a 9% average to 4.75% in U.S. dollars), and an amortization schedule of five annual equal payments commencing on the sixth anniversary of the closing.

Based on the above, management believes that our cash position, together with forecasted results, cash flow from operating activities, available debt financing arrangements and financial support from our shareholders as a result of the Company entering the capital markets and listing on the Nasdaq, we will be able to meet our anticipated cash needs for working capital, capital expenditures and general and administrative expenses for at least the next twelve months.

For more information, see Note 2.1 to our Annual Audited Consolidated Financial Statements, included elsewhere in this annual report.

**Restatement of Previously Issued Financial Statements**

As described in more detail in Note 2.4 to the Audited Consolidated Financial Statements, included elsewhere in this annual report, the Company, in consultation with its Audit Committee and its principal external auditor,

determined that we will be required to restate our consolidated financial statements as of and for the years ended December 31, 2020 and 2019. The restatement is related to the revised classification of certain factoring and reverse factoring arrangements previously classified as part of *Trade and other payables (current)* into *Borrowings (current)*. The impact of the restatement is reflected in our balance sheet as of December 31, 2020 and 2019 included in our statement of cash flow for the year ended December 31, 2020 and 2019 included under the heading *"Liquidity and Capital Resources"* below.

**Results of Operations**

***Comparison of the years ended December 31, 2021 and December 31, 2020***

The following table sets forth historical operating results for the periods indicated, which were not impacted by the restatement described above:

| | For the year ended December 31, | | Increase/(Decrease) | | For the year ended December 31, | | Constant Currency Increase/(Decrease) | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change | 2021 - Constant Currency Adjustment[2] | 2021 - Constant Currency Basis[2] | $ Change | % Change |
| | *(in thousands of U.S. dollars except percentages)* | | | | | | | |
| Revenue | 409,742 | 331,467 | 78,275 | 23.6% | 6,641 | 416,383 | 84,916 | 25.6% |
| Cost of sales | (174,029) | (140,153) | (33,876) | 24.2% | (4,224) | (178,253) | (38,100) | 27.2% |
| **Gross profit** | **235,713** | **191,314** | **44,399** | **23.2%** | **2,417** | **238,130** | **46,816** | **24.5%** |
| Sales and marketing expenses | (83,057) | (69,629) | (13,428) | 19.3% | (817) | (83,874) | (14,245) | 20.5% |
| Administrative expenses | (82,187) | (58,631) | (23,556) | 40.2% | (959) | (83,146) | (24,515) | 41.8% |
| Finance expenses, net | (78,636) | (54,489) | (24,147) | 44.3% | | | | |
| Other expenses, net | (78,991) | (7,716) | (71,275) | 923.7% | | | | |
| (Loss)/Income before tax | **(87,158)** | **849** | **(88,007)** | **10,366.0%** | | | | |
| Income tax expense | (13,705) | (11,296) | (2,409) | 21.3% | | | | |
| **Loss for the year** | **(100,863)** | **(10,447)** | **(90,416)** | **865.5%** | | | | |
| **Adjusted EBITDA[1]** | **99,678** | **84,619** | **15,059** | **17.8%** | **706** | **100,384** | **15,765** | **18.6%** |
| **Contribution Margin[1]** | **152,656** | **121,685** | **30,971** | **25.5%** | **1,600** | **154,256** | **32,571** | **26.8%** |

(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, 2021) using prior-period (year ended December 31, 2020) 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 $78.3 million, or 23.6%, from $331.5 million for the year ended December 31, 2020 to $409.7 million for 2021. On a constant currency basis, revenue increased by $84.92 million, or 25.6%, from $331.5 million for the year ended December 31, 2020 to $416.4 million for the year ended December 31, 2021.

The increase in revenue for the year ended December 31, 2021 compared to the year ended December 31, 2020 was primarily due to an increase in demand for our products and services across all strategic business segments (Procaps Colombia, NextGel, CAN, CASAND and Diabetrics), including (i) an increase of approximately $60.7 million in sales from existing brands in several therapeutic categories, such as gastrointestinal, respiratory, anesthetics and wellness products, among others, and (ii) an increase in revenue from the sales of new products of approximately $17.6 million, or 22.3%, from $78.7 million for the year ended December 31, 2020 to $96.3 million for the year ended December 31, 2021 amounting to 23.5% of total revenue for the year ended December 31, 2021.

***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 increased by $33.9 million, or 24.2%, from $140.2 million for the year ended December 31, 2020 to $174.0 million for the year ended December 31, 2021. Gross profit increased by $44.4 million, or 23.2%, from $191.3 million for the year ended December 31, 2020 to $235.7 million for the year ended December 31, 2021.

On a constant currency basis, cost of sales increased by $38.1 million, or 27.2%, from $140.2 million for the year ended December 31, 2020 to $178.3 million for the year ended December 31, 2021. Gross profit increased by $46.8 million, or 24.5%, from $191.3 million for the year ended December 31, 2020 to $238.1 million for the year ended December 31, 2021.

The increase in cost of sales for the year ended December 31, 2021 compared to the year ended December 31, 2020 was primarily due to the strong increase in the volume of products sold as described in the "Revenue" section above.

The increase in gross profit for the year ended December 31, 2021 compared to the year ended December 31, 2020 was also primarily attributable to strong increase in our sales volume of products sold as described above.

***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 $13.4 million, or 19.3%, from

$69.6 million for the year ended December 31, 2020, which represents approximately 21.0% of revenue for the year ended December 31, 2020, to $83.1 million for the year ended December 31, 2021, which represents approximately 20.3% of the revenue for the year ended December 31, 2021. On a constant currency basis, sales and marketing expenses increased by $14.2 million, or 20.5%, from $69.6 million for the year ended December 31, 2020 to $83.9 million for the year ended December 31, 2021.

The increase in sales and marketing expenses for the year ended December 31, 2021 compared to the year ended December 31, 2020 was primarily due to the increase in expenditures in the amount of $12.1 million related to advertising and marketing activities, and an increase in expenses related to in-person sales events and travel, which returned as the COVID-19 pandemic situation improved worldwide and travel and gathering restrictions were eased, permitting such events and activities.

***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 $23.6 million, or 40.2%, from $58.6 million for the year ended December 31, 2020 to $82.2 million for the year ended December 31, 2021. On a constant currency basis, administrative expenses increased by $24.5 million, or 41.8%, from $58.6 million for the year ended December 31, 2020 to $83.1 million for the year ended December 31, 2021.

The increase in administrative expenses for the year ended December 31, 2021 compared to the year ended December 31, 2020 was primarily due to (i) the transaction expenses incurred in connection with the Business Combination which amounted to $10.2 million for the year ended December 31, 2021, (ii) an increase in expenditures related to employee safety in connection with the COVID-19 pandemic, such as transportation, personal protection equipment, COVID-19 testing for employees, vaccination, among other expenditures, in the amount of $3.8 million, (iii) an increase in travel expenses as most countries relaxed lockdowns and travel restrictions as the situation surrounding the COVID-19 pandemic has gradually improved during the year ended December 31, 2021, and (iv) an increase in costs and other expenses to accommodate new, emerging roles within the administrative and finance departments of the Company as a result of our growth and becoming a publicly listed company on the Nasdaq. In addition, certain of our departments have also initiated a plan to return to work at our facilities, which has also contributed to the increase in administrative expenses.

***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, aligns the carrying value of such put option on the termination date to the fair value of the Ordinary Shares issued.

Finance expenses, net increased by $24.1 million, or 44.3%, from $54.5 million for the year ended December 31, 2020 to $78.6 million for the year ended December 31, 2021. The increase in finance expenses, net was primarily due to the increase of the one-time extinguishment loss of the Hoche put option in the amount of $35.9 million. The increase was partially offset by (i) a decrease of approximately $3.8 million, or 14.0%, in interest expenses related to the put options financial liabilities, from $27.3 million for the year ended December 31, 2020 to $23.5 million for the year ended December 31, 2021, and (ii) a net fair value gain related to warrants liabilities and shares held in escrow.

***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 expenses increased by $71.3 million, or 923.7%, from $7.7 million for the year ended December 31, 2020 to $79.0 million for the year ended December 31, 2021. The increase in other expenses was primarily due to 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.

***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 increased by $2.4 million, or 21.3%, from $11.3 million for the year ended December 31, 2020 to $13.7 million for the year ended December 31, 2021. The increase in income tax expense was primarily due to (i) higher profits before taxes in some jurisdictions, and an increase in deferred tax liabilities due to the increase in the tax rate in Colombia, resulting in an increase in income tax expenses of approximately $1.7 million, and (ii) certain amendments to the tax returns of certain of our subsidiaries during the year ended December 31, 2021, resulting in $0.7 million in penalties and related nondeductible interest expenses, resulting in higher tax expenses recognized in the period.

***Comparison of the Years Ended December 31, 2020 and December 31, 2019***

The following table sets forth historical operating results for the periods indicated, which were not impacted by the restatement described above:

| | For the year ended December 31 | | Increase/(Decrease) | | For the year ended December 31 | | Constant Currency Increase/(Decrease) | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | $ Change | % Change | 2020 - Constant Currency Adjustment(2) | 2020 - Constant Currency Basis(2) | $ Change | % Change |
| | (in thousands of U.S. dollars except percentages) | | | | | | | |
| Revenue | 331,467 | 324,792 | 6,675 | 2.1% | 32,070 | 363,537 | 38,745 | 11.9% |
| Cost of sales | (140,153) | (142,294) | 2,141 | (1.5)% | (13,808) | (153,961) | (11,667) | 8.2% |
| **Gross profit** | **191,314** | **182,498** | **8,816** | **4.8%** | **18,262** | **209,576** | **27,078** | **14.8%** |
| Sales and marketing expenses | (69,629) | (84,810) | 15,181 | (17.9)% | (5,362) | (74,991) | 9,819 | (11.6%) |
| Administrative expenses | (58,631) | (60,257) | 1,626 | (2.7)% | (5,759) | (64,390) | (4,133) | 6.9% |
| Finance expenses, net | (54,489) | (42,983) | (11,506) | 26.8% | | | | |
| Other expenses | (7,716) | (4,426) | (3,290) | 74.3% | | | | |
| **Income (loss) before tax** | **849** | **(9,978)** | **10,827** | **(108.5%)** | | | | |
| Income tax expense | (11,296) | (7,035) | (4,261) | 60.6% | | | | |
| **Loss for the year** | **(10,447)** | **(17,013)** | **6,566** | **(38.6%)** | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Adjusted EBITDA(1)** | **84,619** | **59,136** | **25,483** | **43.1%** | **8,836** | **93,455** | **34,319** | **58.0%** |
| **Contribution Margin(1)** | **121,685** | **97,688** | **23,997** | **24.6%** | **12,900** | **134,585** | **36,897** | **37.8%** |

(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, 2020) using prior-period (year ended December 31, 2019) 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. Certain constant currency figures for the year ended December 31, 2020 have been updated to correct amounts reflected in the Company's Registration Statement on Form F-1 (Registration No. 333-261366). 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. Net revenue increased by $6.7 million, or 2.1%, from $324.8 million for the year ended December 31, 2019 to $331.5 million in December 31, 2020. On a constant currency basis, net revenue increased by $38.7 million, or 11.9%, from $324.8 million for the year ended December 31, 2019 to $363.5 million for the year ended December 31, 2020.

The increase in revenue in the year ended December 31, 2020 compared to the year ended December 31, 2019 was primarily due to the launch of certain new innovative products and the increase in demand for certain existing products due to promotional and marketing activities, as well as consumers' increased health awareness.

Products such as Levothyroxine, Azithromycin, Esomeprazole and Deferon experienced increased sales, resulting in an increase in sales of $3.5 million from $8.7 million for the year ended December 31, 2019 to $12.2 million for the year ended December 31, 2020. Additionally, the sale of new products in our Diabetrics segment (primarily Preventia complex and Atovarol 80) increased sales revenue in the segment by $0.9 million in the year ended December 31, 2020 compared to the year ended December 31, 2019. Furthermore, the roll out of new products (such as Gestavid DHA, Ezolium and Clenox) in the CASAND region generated an additional $3.4 million in sales in the year ended December 31, 2020 compared to the year ended December 31, 2019. Also, our Funtrition product line increased its sales by approximately $7.0 million in the year ended December 31, 2020 compared to the year ended December 31, 2019, primarily from an increase in sales of its gummies and probiotics line (including sleep, stress, focus, mood, turmeric and immunity gummies). The increase in sales of vitamin D in Brazil and Acetaminophen in Ecuador contributed to an increase in revenue of $3.2 million and $3.0 million, respectively, in the year ended December 31, 2020 compared to the year ended December 31, 2019.

The increase in revenue was partially offset by the revenues generated by our divestiture of certain product brands in 2019, which generated revenues of approximately $7.0 million for the year ended December 31, 2019, which did not

occur in 2020 as we did not divest itself of any product brands that year, resulting in no revenue from product brand divestitures for the year ended December 31, 2020. Additionally, we have observed an increase in demand for our products due to our implementation of marketing strategies focused on adapting to mandatory lockdowns imposed by several countries, which prevented sales representatives from operating within hospitals and clinics, by increasing the promotional presence of our products through attractive pricing and increased investment in digital advertising, all of which enabled us to directly promote our products to the general public. We also initiated a strategy to more efficiently manage our sales to distributors to reduce such distributors' inventory on hand (the "Trade Day Reduction Strategy"). The Trade Day Reduction Strategy has mainly been implemented by us in Colombia and the CASAND region. The strategy has decreased our revenue growth for the year ended December 31, 2020 but increased our bargaining power vis-a-vis distributors and reduced distributors' bargained discount, resulting in improved product margins. The Trade Day Reduction Strategy reduced the distributors' days of inventory on hand (i.e., "trade days") by 33 days in CASAND and 25 days in Colombia.

***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 $2.1 million, or 1.5%, from $142.3 million for the year ended December 31, 2019 to $140.2 million for the year ended December 31, 2020. Gross profit increased by $8.8 million, or 4.8%, from $182.5 million for the year ended December 31, 2019 to $191.3 million for the year ended December 31, 2020. On a constant currency basis, cost of sales increased by $11.7 million, or 8.2%, from $142.3 million for the year ended December 31, 2019 to $154.0 million for the year ended December 31, 2020. Gross profit increased by $27.1 million, or 14.8%, from $182.5 million for the year ended December 31, 2019 to $209.6 million for the year ended December 31, 2020.

The decrease in cost of sales in the year ended December 31, 2020 compared to the year ended December 31, 2019 was primarily due to the increase in efficiency as a result of certain strategic planning activities for Procaps. Strategic planning activities focused marketing and sales efforts on customers and products that have higher margins due to lower production costs, which decreased cost of sales by approximately $1.5 million in the year ended December 31, 2020 compared to the year ended December 31, 2019, Furthermore, we increased our production efficiencies through process automation and improvements in batch production management. For example, we started a project in our Northern Central America operations to standardize packaging for similar products that in turn reduces unit manufacturing costs and expenses. Optimized batch production management allows us to manufacture our products in increased batch sizes which in turn reduces per-unit production costs and resulted in a decrease in costs of approximately $2 million in the year ended December 31, 2020 compared to the year ended December 31, 2019.

We have also invested in certain technologies in our production plants that reduces cost of production, such as technology to shorten the drying time of gummies in our Funtrition product line, which is traditionally one of the more expensive processes for gummy production, resulting in an increase in production of approximately 255 tons in the year ended December 31, 2020 compared to the year ended December 31, 2019, and a decrease in costs and expenses associated with production of approximately $1.5 million in the year ended December 31, 2020 compared to the year ended December 31, 2019.

***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 expense decreased by $15.2 million, or 17.9%, from $84.8 million for the year ended December 31, 2019 to $69.6 million for the year ended December 31, 2020. On a constant currency basis, sales and marketing expense decreased by $9.8 million, or 11.6%, from $84.8 million for the year ended December 31, 2019 to $75.0 million for the year ended December 31, 2020.

The decrease in sales and marketing expenses in the year ended December 31, 2020 compared to the year ended December 31, 2019. was primarily due to the increase in usage of the digital marketing channels, which is a new trend in the market that is more cost effective than traditional advertising and promotional activities, and a decrease in usage of traditional advertising and promotional activities, resulting in a decrease in sales and marketing expense of approximately $3.5 million in the year ended December 31, 2020 compared to the year ended December 31, 2019. In

the year ended December 31, 2020, we initiated a staggered process for migrating to a demand-generating digital scheme, achieving a reduction in the total investment amount needed to obtain certain market presence levels while continuing to expose the market to a wide range of product advertising. The use of digital marketing channels requires certain initial set-up costs and maintenance costs, however, our investment in digital marketing channels has allowed us to substantially reduce expenses, such as transportation and lodging, that are incurred for traditional non-digital advertising activities that would typically require in-person interaction. For example, virtual conferences organized by technical subjects and regions allow participants to participate without the need to travel, reducing costs and generating a better return on investment and marketing, and increasing attendance.

***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 decreased by $1.6 million, or 2.7%, from $60.3 million for the year ended December 31, 2019 to $58.6 million for the year ended December 31, 2020.

The decrease in administrative expenses in the year ended December 31, 2020 compared to the year ended December 31, 2019 was primarily due to the reduction in expenses due to less business travel and associated lodging and the reduction in office and utility expenses due to some of our employees working from home as a result of the COVID-19 pandemic, which is anticipated to be an ongoing trend even after the pandemic. The decrease in administrative expenses was partially offset by certain administrative expenses that were incurred as a result of the COVID-19 pandemic, such as expenses incurred for safety precautions during the pandemic to maintain a safe work and production environment for our employees and expenses incurred for certain logistic arrangements to minimize our employees' exposure to COVID-19 through arranging transportation from home to work, lodgings, face masks and PPE, all of which resulted in an increase in administrative expenses of approximately $5 million in the year ended December 31, 2020 compared to the year ended December 31, 2019.

***Finance expenses, net***

Finance expenses, net includes certain banking expenses and bank fees, financing interest expenses and interest recognized on the financial liabilities associated with certain put options held by IFC and Hoche and the underlying financial instruments. Finance expenses, net increased by $11.5 million, or 26.8%, from $43.0 million for the year ended December 31, 2019 to $54.5 million for the year ended December 31, 2020. The increase in finance expenses, net was primarily due to the increase in interest recognized for the put options financial liabilities, which resulted in increased finance expenses of approximately $11.2 million from $10.8 million for the year ended December 31, 2019 to $22.0 million for the year ended December 31, 2020. The put options held by IFC and Hoche were cancelled upon the Closing of the Business Combination as described above, and these associated finance expenses will no longer be incurred. Excluding the finance expenses associated with the put options, finance expenses increased by $0.3 million from $32.2 million for the year ended December 31, 2019 to $32.5 million for the year ended December 31, 2020.

***Income tax expense***

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

Income tax expense increased by $4.3 million, or 60.6%, from $7.0 million for the year ended December 31, 2019 to $11.3 million for the year ended December 31, 2020. The increase in income tax expense was primarily due to the increase in tax expenses due to the increase in profit before taxes (excluding the interest recognized on the financial liabilities associated with the Hoche and IFC put options) from a loss of $5.3 million for the year ended December 31, 2019 to an income before taxes of $15.0 million for the year ended December 31, 2020. The increase was offset by the increase in tax benefits of $1.2 million due to certain R&D activities, and the increase in deductions from Colombia's Industry and Commerce Tax (Impuesto de Industria, Comercio, Avisos y Tableros) of $0.6 million.

**Results by Segments After Inter-Segment Elimination, Excluding Corporate for the years ended December 31, 2021 and December 31, 2020**

| | Reportable segments | | | | |
|---|---|---|---|---|---|
| **Results for the year ended December 31, 2021** | **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 |
| **Constant currency basis** | | | | | |
| Revenue | 123,681 | 157,890 | 51,658 | 54,027 | 29,081 |
| Gross profit | 65,951 | 81,956 | 34,205 | 43,264 | 12,720 |
| Contribution Margin | 54,528 | 52,025 | 18,742 | 21,713 | 6,923 |

| | Reportable segments | | | | |
|---|---|---|---|---|---|
| **Results for the year ended December 31, 2020(1)** | **NextGel** | **Procaps Colombia** | **CAN** | **CASAND** | **Diabetrics** |
| | | *(in thousands of U.S. dollars)* | | | |
| Revenue | 105,979 | 114,895 | 45,613 | 38,556 | 22,789 |
| Gross profit | 57,577 | 63,303 | 29,606 | 27,331 | 9,863 |
| Contribution Margin | 46,889 | 42,231 | 15,521 | 9,814 | 5,487 |

| | Reportable segments | | | | |
|---|---|---|---|---|---|
| **Comparison of results for the years ended December 31, 2021 and 2020(1)** | **NextGel** | **Procaps Colombia** | **CAN** | **CASAND** | **Diabetics** |
| | | *(in thousands of U.S. dollars)* | | | |
| Revenue | 14,848 | 40,432 | 5,324 | 15,400 | 5,906 |
| Gross profit | 7,302 | 17,862 | 4,263 | 15,905 | 2,701 |
| Contribution Margin | 7,217 | 9,690 | 3,015 | 11,889 | 1,361 |
| **Constant currency basis** | | | | | |
| Revenue | 17,702 | 42,995 | 6,045 | 15,471 | 6,292 |
| Gross profit | 8,374 | 18,653 | 4,599 | 15,934 | 2,857 |
| Contribution Margin | 7,639 | 9,794 | 3,221 | 11,900 | 1,436 |

(1) During the year ended December 31, 2021, we changed our methodology for calculating our internal measurement of segment profit and loss. We revised how cost of goods sold is measured in our businesses segments by revising the allocation of standard cost inventory variances. As a result of such changes, the segment results for the year ended December 31, 2020 have been recast to conform with the new methodology adopted for the year ended December 31, 2021. This change did not have any impact on our consolidated results of operations, EBITDA or Adjusted EBITDA for the year ended December 31, 2020. For further information, see Note 8 “Segment reporting” to the Annual Audited Consolidated Financial Statements included elsewhere in this annual report.

***NextGel***

Revenue of the NextGel segment increased by $14.8 million, or 14.0%, from $106.0 million for the year ended December 31, 2020 to $120.8 million for the year ended December 31, 2021, primarily as a result of (i) an increase in sales in our Funtrition (gummies) product line of approximately $8.8 million due to increased demand for our immunity gummies and probiotics product lines, the launch of new products such as Kids Multi Pro and an increase in the numbers of product portfolio offered to important clients such as Olly, Amway, and Trace among others, and (ii) an increase in sales of approximately $6.0 million of our iCDMO products such as Advil and Dronabinol, as well as an increase in sales in Brazil primarily due to the launch of new products in the country.

Gross profit of the NextGel segment increased by $7.3 million, or 12.7%, from $57.6 million for the year ended December 31, 2020 to $64.9 million for the year ended December 31, 2021, primarily driven by the increase in sales volume and partially offset by changes in our portfolio product mix.

Contribution Margin of the NextGel segment increased by $7.2 million, or 15.4%, from $46.9 million for the year ended December 31, 2020, to $54.1 million for the year ended December 31, 2021, primarily as a result of the increase in sales volume described above and better management of our sales and marketing expenses.

On a constant currency basis, revenue attributable to the NextGel segment increased by $17.7 million, or 16.7%, from $106.0 million for the year ended December 31, 2020 to $123.7 million for the year ended December 31, 2021. Gross profit attributable to the NextGel segment increased by $8.4 million, or 14.5%, from $57.6 million for the year ended December 31, 2020 to $66.0 million for the year ended December 31, 2021, and Contribution Margin attributable to the NextGel segment increased by $7.6 million, or 16.3%, from $46.9 million gain for the year ended December 31, 2020 to $54.5 million loss for the year ended December 31, 2021.

***Procaps Colombia***

Revenue of the Procaps Colombia segment increased by $40.4 million, or 35.2%, from $114.9 million for the year ended December 31, 2020 to $155.3 million for the year ended December 31, 2021, primarily as a result of (i) increased demand for existing Rx and OTC products resulting in an increase in sales of approximately $21.7 million, including $8.2 million from Clenox, $2.9 million from Tracurion, and $1.6 million from B-Vit, among other existing brands, and (ii) an increase of approximately $18.7 million in sales from new products, which includes $3.9 million in sales from new products launched during 2021, such as Minoxidil and Maball.

Gross profit of the Procaps Colombia segment increased by $17.9 million, or 28.3%, from $63.3 million for the year ended December 31, 2020 to $81.2 million for the year ended December 31, 2021, primarily as a result of the increase in sales volume as described above which was partially offset by a change in the product portfolio mix sold.

Contribution Margin of the Procaps Colombia segment increased by $9.7 million, or 23.0%, from $42.2 million for the year ended December 31, 2020 to $51.9 million for the year ended December 31, 2021, as a result of the increase in sales as described above, which was partially offset by an increase in sales and marketing expenses and a change in the product portfolio mix sold.

On a constant currency basis, revenue attributable to Procaps Colombia increased by $43.0 million, or 37.4%, from $114.9 million for the year ended December 31, 2020 to $157.9 million for the year ended December 31, 2021, gross profit attributable to Procaps Colombia increased by $18.7 million, or 29.5%, from $63.3 million for the year ended December 31, 2020 to $82.0 million for the year ended December 31, 2021, and Contribution Margin attributable to Procaps Colombia increased by $9.8 million, or 23.3%, from $42.2 million for the year ended December 31, 2020 to $52.0 million for the year ended December 31, 2021.

***CAN***

Revenue of the CAN segment increased by $5.3 million, or 11.6%, from $45.6 million for the year ended December 31, 2020 to $50.9 million for the year ended December 31, 2021, due to (i) an increase of approximately $4.2 million in sales of existing brands and new products launched in 2019 and 2020, which includes an increase of approximately $1.8 million in sales from Testiton and $1.5 million in sales from Artribion, among other products, and (ii) an increase of approximately $1.1 million in sales of new products launched during 2021, such as Glucoquick, Dolantag and Alercet.

Gross profit of the CAN segment increased by $4.3 million, or 14.5%, from $29.6 million for the year ended December 31, 2020 to $33.9 million for the year ended December 31, 2021, primarily as a result of (i) an increase in the revenue described above, (ii) greater inventory turnover of Farma Procaps products, which yielded a higher margin sales mix as compared to the year ended December 31, 2020 and (iii) increased production efficiencies through process automation and improvement in batch production management in our El Salvador facilities by standardizing packaging for similar products, reducing unit manufacturing costs and expenses, and eliminating import tariff duties for most products imported from Colombia.

Contribution Margin of the CAN segment increased by $3.0 million, or 19.4%, from $15.5 million for the year ended December 31, 2020 to $18.5 million for the year ended December 31, 2021, as a result of the increase in gross profit described above and a better management of sales and marketing expenses.

On a constant currency basis, revenue attributable to the CAN segment increased by $6.1 million, or 13.3%, from $45.6 million for the year ended December 31, 2020 to $51.7 million for the year ended December 31, 2021, gross profit attributable to the CAN segment increased by $4.6 million, or 15.6%, from $29.6 million for the year ended December 31, 2020 to $34.2 million for the year ended December 31, 2021, and Contribution Margin attributable to the CAN segment increased by $3.2 million, or 20.9%, from $15.5 million for the year ended December 31, 2020 to $18.7 million for the year ended December 31, 2021.

***CASAND***

Revenue of the CASAND segment increased by $15.4 million, or 39.9%, from $38.6 million for the year ended December 31, 2020 to $54.0 million for the year ended December 31, 2021, primarily as a result of (i) an increase of approximately $10.5 million in sales of existing brands and new products launched in 2019 and 2020, (ii) an increase of approximately $2.8 million in sales of new products launched during 2021, such as Tapectam, Ezolium, Cuticlin and Vitybelle, (iii) an increase in sales of approximately $1.6 million as a result of successful negotiations with distributors in the Dominican Republic which expanded our business with new product launches and higher profitability in the country, and (iv) an increase in revenue of approximately $0.5 million as a result of an increase in prices.

Gross profit of the CASAND segment increased by $15.9 million, or 58.2%, from $27.3 million for the year ended December 31, 2020 to $43.2 million for the year ended December 31, 2021, primarily as a result of the increase in sales explained above, and successful price negotiations with distributors.

Contribution Margin of the CASAND segment increased by $11.9 million, or 121.4%, from $9.8 million for the year ended December 31, 2020 to $21.7 million for the year ended December 31, 2021, primarily as a result of (i) the increase in revenue and gross profit described above, and (ii) our investment in product launches and digital marketing during the year ended December 31, 2020, which started ramping up during the year ended December 31, 2021, which resulted in decreasing sales and marketing expenses while strengthening our sales for the year ended December 31, 2021.

On a constant currency basis, revenue attributable to the CASAND segment increased by $15.4 million, or 40.0%, from $38.6 million for the year ended December 31, 2020 to $54.0 million for the year ended December 31, 2021, gross profit attributable to the CASAND segment increased by $16.0 million, or 58.5%, from $27.3 million for the year ended December 31, 2020 to $43.3 million for the year ended December 31, 2021, and Contribution Margin attributable to the CASAND segment increased by $11.9 million, or 121.6%, from $9.8 million for the year ended December 31, 2020 to $21.7 million for the year ended December 31, 2021.

***Diabetrics***

Revenue of the Diabetrics segment increased by $5.9 million, or 25.9%, from $22.8 million for the year ended December 31, 2020 to $28.7 million for the year ended December 31, 2021, primarily as a result of the increase in the demand for our product portfolio as a result of the expansion of our products offering in this segment to a more complete diabetes solution focus. In particular, demand for blood glucose meters, Rx, oral antidiabetic medicine and insulin in the form of Glargine,a new product launched during the year ended December 31, 2021, continue to be our focus and were the largest growth areas for our Diabetrics segment, enabling us to work with *Entidad Promotora de Salud*, one of the largest government sponsored health insurance available in Colombia, and reach more patients during the year ended December 31, 2021. Additionally, we launched diabetes therapeutic solutions and medical devices in El Salvador in April 2021, which contributed to our increased sales for the year ended December 31, 2021.

Gross profit of the Diabetrics segment increased by $2.7 million, or 27.3%, from $9.9 million for the year ended December 31, 2020, to $12.6 million for the year ended December 31, 2021, primarily as a result of a shift in sales to

a more profitable product portfolio mix focused on Rx products, which was partially offset by a devaluation of the Colombian peso of approximately 15% which we were able to mitigate due to the efficiencies we were able to generate.

Contribution Margin of the Diabetrics segment increased by $1.3 million, or 23.6%, from $5.5 million for the year ended December 31, 2020 to $6.8 million for the year ended December 31, 2021, primarily as a result of the increase in revenue and the shift to a more profitable product mix described above, which was partially offset by the increase in sales and marketing expenses due to such activities gradually returning to pre-pandemic levels, as well as the launching of our new insulin product Insulin Glargine (Glaritus).

On a constant currency basis, revenue attributable to the Diabetrics segment increased by $6.3 million, or 27.5%, from $22.8 million for the year ended December 31, 2020 to $29.1 million for the year ended December 31, 2021, gross profit attributable to the Diabetrics segment increased by $2.8 million, or 28.5%, from $9.9 million for the year ended December 31, 2020 to $12.7 million for the year ended December 31, 2021, and Contribution Margin attributable to the Diabetrics segment increased by $1.4 million, or 25.9%, from $5.5 million for the year ended December 31, 2020 to $6.9 million for the year ended December 31, 2021.

**Results by Segments After Inter-Segment Elimination Excluding Corporate for the years ended December 31, 2020 and December 31, 2019**

| | Reportable segments | | | | |
|---|---|---|---|---|---|
| **Results for the year ended December 31, 2020(1)** | **NextGel** | **Procaps Colombia** | **CAN** | **CASAND** | **Diabetrics** |
| | (in thousands of U.S. dollars) | | | | |
| Revenue | 105,979 | 114,895 | 45,613 | 38,556 | 22,789 |
| Gross profit | 57,577 | 63,303 | 29,606 | 27,331 | 9,863 |
| Contribution Margin | 46,889 | 42,231 | 15,521 | 9,814 | 5,487 |
| *Constant currency basis(2)* | | | | | |
| Revenue | 120,250 | 129,331 | 45,996 | 39,028 | 25,653 |
| Gross profit | 65,028 | 72,199 | 30,045 | 27,927 | 11,098 |
| Contribution Margin | 53,007 | 48,480 | 15,527 | 10,366 | 6,172 |

| | Reportable segments | | | | |
|---|---|---|---|---|---|
| **Results for the year ended December 31, 2019(1)** | **NextGel** | **Procaps Colombia** | **CAN** | **CASAND** | **Diabetrics** |
| | (in thousands of U.S. dollars) | | | | |
| Revenue | 97,289 | 120,112 | 49,679 | 40,061 | 22,228 |
| Gross profit | 50,328 | 66,482 | 32,256 | 28,300 | 9,711 |
| Contribution Margin | 39,196 | 37,420 | 17,002 | 10,422 | 4,846 |

| | Reportable segments | | | | |
|---|---|---|---|---|---|
| **Comparison of results for the years ended December 31, 2020 and 2019(1)** | **NextGel** | **Procaps Colombia** | **CAN** | **CASAND** | **Diabetrics** |
| | (in thousands of U.S. dollars) | | | | |
| Revenue | 8,690 | (5,217) | (4,066) | (1,505) | 561 |
| Gross profit | 7,249 | (3,179) | (2,650) | (969) | 151 |
| Contribution Margin | 7,693 | 4,811 | (1,481) | (609) | 640 |
| *Constant currency basis(2)* | | | | | |
| Revenue | 22,961 | 9,219 | (3,683) | (1,033) | 3,425 |
| Gross profit | 14,700 | 5,717 | (2,210) | (372) | 1,387 |
| Contribution Margin | 13,811 | 11,060 | (1,474) | (56) | 1,326 |

(1) During the year ended December 31, 2021, we changed our methodology for calculating our internal measurement of segment profit and loss. We revised how cost of goods sold is measured in our businesses segments by revising

the allocation of standard cost inventory variances. As a result of such changes, the segment results for the years ended December 31, 2020 and 2019 have been recast to conform with the new methodology adopted for the year ended December 31, 2021. This change did not have any impact on our consolidated results of operations, EBITDA or Adjusted EBITDA for the years ended December 31, 2020 and 2019. For further information, see Note 8 "Segment reporting" to the Annual Audited Consolidated Financial Statements included elsewhere in this annual report.

(2) Certain constant currency figures for the year ended December 31, 2020 have been updated to correct amounts reflected in the Company's Registration Statement on Form F-1 (Registration No. 333-261366).

***NextGel***

Revenue of the NextGel segment increased by $8.7 million, or 8.9%, from $97.3 million for the year ended December 31, 2019 to $106.0 million for the year ended December 31, 2020, primarily as a result of an increase in revenue attributable to Procaps Funtrition product line of approximately $7 million in the year ended December 31, 2020 compared to the year ended December 31, 2019. The vitamin D supplement iCDMO product was launched in Brazil, resulting in an increase in sales of approximately $3.2 million in the year ended December 31, 2020 compared to the year ended December 31, 2019. Production capacity was also expanded as a result of the increase in market opportunities. In addition, certain new analgesic products, such as Acetaminophen and Naproxen, were launched in Ecuador and Australia, resulting in an increase in revenue of approximately $3.0 million in the year ended December 31, 2020 compared to the year ended December 31, 2019.

Gross profit of the NextGel segment increased by $7.3 million, or 14.5%, from $50.3 million for the year ended December 31, 2019 to $57.6 million for the year ended December 31, 2020, primarily as a result of the increase in revenues described above and certain investments in new technology to shorten the drying time of gummies in our Funtrition product line, which is traditionally one of the more expensive processes for gummy production, resulting in a decrease in costs and expenses associated with production of approximately $1.5 million in the year ended December 31, 2020 compared to the year ended December 31, 2019.

Contribution Margin of the NextGel segment increased by $7.7 million, or 19.6%, from $39.2 million for the year ended December 31, 2019 to $46.9 for the year ended December 31, 2020, primarily as a result of the increase in gross profit that was discussion above and our successful transition to increase digital marketing discussed above in "*Results of Operations*" that resulted in a decrease in selling expenses of approximately $1.0 million in the year ended December 31, 2020 compared to the year ended December 31, 2019.

On a constant currency basis, net revenue attributable to the NextGel segment increased by $23.0 million, or 23.6%, from $97.3 million for the year ended December 31, 2019 to $120.3 million for the year ended December 31, 2020, gross profit attributable to the NextGel segment increased by $14.7 million, or 29.3%, from $50.3 million for the year ended December 31, 2019 to $65.0 million for the year ended December 31, 2020, and contribution margin attributable to the NextGel segment increased by $13.8 million, or 35.2%, from $39.2 million for the year ended December 31, 2019 to $53.0 million for the year ended December 31, 2020.

***Procaps Colombia***

Revenue of the Procaps Colombia segment decreased by $5.2 million, or 4.3%, from $120.1 million for the year ended December 31, 2019 to $114.9 million for the year ended December 31, 2020, primarily as a result of the devaluation of the Colombian Peso when compared to the U.S. dollar that contributed to a decrease in net revenue of approximately $14.3 million in the year ended December 31, 2020 compared to the year ended December 31, 2019. Furthermore, the Trade Day Reduction Strategy in connection with the Farma Procaps and VitalCare product lines decreased our revenue growth for the year ended December 31, 2020. The Trade Day Reduction Strategy reduced the distributor's trade days for the Farma Procaps and VitalCare product lines by 25 days and 7 days, respectively.

The decrease in net revenue was partially offset by (i) increased demand for certain of our' products due to our digital advertising strategy referenced above, and (ii) our initiative to focus resources on customers and products that generate higher margins and require less working capital. Products such as Levothyroxine, Azithromycin, Esomeprazole and Deferon experienced an increase in sales, resulting in an increase in sales of $3.5 million from $8.7 million for the

year ended December 31, 2019 to $12.2 million for the year ended December 31, 2020. The production capacity of our Rymco manufacturing facilities was expanded as a result of the increase in demand for these products.

Gross profit of the Procaps Colombia segment decreased by $3.2 million, or 4.8%, from $66.5 million for the year ended December 31, 2019 to $63.3 million for the year ended December 31, 2020, primarily as a result of the decrease in net revenues as discussed above. Procaps Colombia was able to negotiate higher discounts for certain raw materials (such as Enoxaparin, Menoperen, Tapectam and glass) used in the manufacturing of certain products due to an increase in purchase quantities, resulting in a decrease in raw material costs of approximately $1.3 million in the year ended December 31, 2020 compared to the year ended December 31, 2019. Furthermore, we have increased our production efficiencies through process automation and improvements in batch production management that reduce per-unit production costs.

Contribution Margin of the Procaps Colombia segment increased by $4.8 million, or 12.8%, from $37.4 million for the year ended December 31, 2019 to $42.2 million for the year ended December 31, 2020, primarily as a result of our successful transition to increase digital marketing discussed above in "——Results of Operations" that resulted in a decrease in selling expenses of approximately $8.0 million in the year ended December 31, 2020 compared to the year ended December 31, 2019 and as a result of increased sales due to the roll out of new products during the year ended December 31, 2020.

On a constant currency basis, net revenue attributable to Procaps Colombia increased by $9.2 million, or 7.7%, from $120.1 million for the year ended December 31, 2019 to $129.3 million for the year ended December 31, 2020, gross profit attributable to Procaps Colombia increased by $5.7 million, or 8.6%, from $66.5 million for the year ended December 31, 2019 to $72.2 million for the year ended December 31, 2020, and contribution margin attributable to Procaps Colombia increased by $11.1 million, or 29.6%, from $37.4 million for the year ended December 31, 2019 to $48.5 million for the year ended December 31, 2020.

***CAN***

Revenue of the CAN segment decreased by $4.1 million, or 8.2%, from $49.7 million for the year ended December 31, 2019 to $45.6 million for the year ended December 31, 2020, primarily as a result the divestiture of certain product brands that were no longer strategic, which generated revenues of approximately $3.1 million for the year ended December 31, 2019, which did not occur in 2020 as we did not divest itself of any product brands that year, resulting in no revenue from product brand divestitures for the year ended December 31, 2020. Furthermore, as part of the corporate strategy, CAN discontinued a portfolio of renal failure and hemodialysis treatment products during the year ended December 31, 2020, which had generated revenues of $4 million for the year ended December 31, 2019.

Excluding the divestiture of product brands in 2019 and the discontinuing of its portfolio of renal failure and hemodialysis treatment products, CAN would have had an increase in net revenue of $3.0 million, primarily due to an increase in sales and distribution of VitalCare products for El Salvador, Guatemala, and Honduras due to an increase in the number of distributors in those countries, allowing us to increase the number of sales points in products are sold and the sales quota in each single one of the pharmacies where our products are present.

Gross profit of the CAN segment decreased by $2.7 million, or 8.4%, from $32.3 million for the year ended December 31, 2019 to $29.6 million for the year ended December 31, 2020, primarily as a result of the divestiture of certain product brands in 2019 and the discontinuing of our portfolio of renal failure and hemodialysis treatment products described above. This decrease in gross profit was partially offset by increasing our media presence by changing our advertisement contracts from individual to a more regional approach, resulting in lower costs, and a restructuring of the management for CAN segment by introducing new regional management for every business unit, resulting in cost reductions of approximately $2.5 million in the year ended December 31, 2020 compared to the year ended December 31, 2019. Furthermore, we increased our production efficiencies through process automation and improvement in batch production management in our El Salvador facilities by standardizing packaging for similar products, reducing unit manufacturing costs and expenses.

Contribution Margin of the CAN segment decreased by $1.5 million, or 8.8%, from $17.0 million for the year ended December 31, 2019 to $15.5 million for the year ended December 31, 2020, primarily as a result of the decrease in gross profit described above, despite of our successful transition to increase digital marketing discussed above in "—

Results of Operations" that resulted in a decrease in selling expenses of approximately $1.2 million in the year ended December 31, 2020 compared to the year ended December 31, 2019.

On a constant currency basis, net revenue attributable to the CAN segment decreased by $3.7 million, or 7.5%, from $49.7 million for the year ended December 31, 2019 to $46.0 million for the year ended December 31, 2020, gross profit attributable to the CAN segment decreased by $2.3 million, or 7.0%, from $32.3 million for the year ended December 31, 2019 to $30.0 million for the year ended December 31, 2020, and contribution margin attributable to the CAN segment decreased by $1.5 million, or 8.7%, from $17.0 million for the year ended December 31, 2019 to $15.5 million for the year ended December 31, 2020.

***CASAND***

Revenue of the CASAND segment decreased by $1.5 million, or 3.7%, from $40.1 million for the year ended December 31, 2019 to $38.6 million for the year ended December 31, 2020, primarily due to the adoption of the Trade Day Reduction Strategy as discussed above, which resulted in distributors' trade days decreasing by 33 days for the year ended December 31, 2020. The decrease in net revenue was partially offset by (i) the launch of certain new products, such as Gestavid DHA, Ezolimum and Clenox that resulted in an increase in revenue of $3.4 million in the year ended December 31, 2020 compared to the year ended December 31, 2019, and (ii) the implementation of a new policy to lower product discounts, which resulted in additional net revenues of $1.0 million in the year ended December 31, 2020 compared to the year ended December 31, 2019.

Gross profit of the CASAND segment decreased by $1.0 million, or 3.5%, from $28.3 million for the year ended December 31, 2019 to $27.3 million for the year ended December 31, 2020, primarily as a result of the reduction in net revenue as discussed above.

Contribution Margin of the CASAND segment decreased by $0.6 million, or 5.8%, from $10.4 million for the year ended December 31, 2019 to $9.8 million for the year ended December 31, 2020, primarily as a result of our successful transition to increase digital marketing discussed above in "Results of Operations" that resulted in a decrease in selling expenses of approximately $2.0 million in the year ended December 31, 2020 compared to the year ended December 31, 2019.

On a constant currency basis, net revenue attributable to the CASAND segment decreased by $1.1 million, or 2.7%, from $40.1 million for the year ended December 31, 2019 to $39.0 million for the year ended December 31, 2020, gross profit attributable to the CASAND segment decreased by $0.4 million, or 1.3%, from $28.3 million for the year ended December 31, 2019 to $27.9 million for the year ended December 31, 2020, and contribution margin attributable to the CASAND segment decreased by $56,200, or 0.3%, from $10.4 million for the year ended December 31, 2019 to $10.4 million for the year ended December 31, 2020.

***Diabetrics***

Revenue of the Diabetrics segment increased by $0.6 million, or 2.7%, from $22.2 million for the year ended December 31, 2019 to $22.8 million for the year ended December 31, 2020, primarily as a result of the increase in demand for certain products and integral solutions for diabetes due to the increase in the number of patients diagnosed with diabetes. In Colombia, generally between 35% and 40% of patients with diabetes are diagnosed every year by the Colombia healthcare system, which usually results in an increase in the number of diabetes patients every year. Furthermore, we launched several new products including Preventia complex, an insulin needle, which resulted in an increase in sales revenue of approximately $0.9 million in the year ended December 31, 2020 compared to the year ended December 31, 2019. The increase in net revenue was partially offset by a decrease in revenue of $3.0 million in the year ended December 31, 2020 compared to the year ended December 31, 2019 due to the devaluation of the Colombian Peso when compared to the U.S. dollar.

Gross profit of the Diabetrics segment increased by $0.2 million, or 2.1%, from $9.7 million for the year ended December 31, 2019 to $9.9 million for the year ended December 31, 2020, primarily as a result of the increase in net revenue as discussed above.

Contribution Margin of the Diabetrics segment increased by $0.7 million, or 14.6%, from $4.8 million for the year ended December 31, 2019 to $5.5 million for the year ended December 31, 2020, primarily as a result of our successful transition to increase digital marketing discussed above in "Results of Operations" that resulted in a decrease in selling expenses of approximately $0.5 million in the year ended December 31, 2020 compared to the year ended December 31, 2019.

On a constant currency basis, net revenue attributable to the Diabetrics segment increased by $3.5 million, or 15.6%, from $22.2 million for the year ended December 31, 2019 to $25.7 million for the year ended December 31, 2020, gross profit attributable to the Diabetrics segment increased by $1.4 million, or 14.4%, from $9.7 million for the year ended December 31, 2019 to $11.1 million for the year ended December 31, 2020, and contribution margin attributable to the Diabetrics segment increased by $1.4 million, or 28.6%, from $4.8 million for the year ended December 31, 2019 to $6.2 million for the year ended December 31, 2020.

**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 annual 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, 2021 and 2020 using prior-periods (year ended December 31, 2020 and December 31, 2019, 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 $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, and COP $3,281.09 per U.S. $1.00 and R$3.9443 per U.S. $1.00, respectively, for the year ended December 31, 2020. 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, 2021 and 2020.

| | For the year ended December 31, | | Increase/(Decrease) | |
|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change |
| | *(in thousands of U.S. dollars except percentages)* | | | |
| **Loss for the year** | **(100,863)** | **(10,447)** | **(90,416)** | **865%** |
| Interest expense, net | 78,636 | 54,489 | 24,147 | 44% |
| Income tax expense | 13,705 | 11,296 | 2,409 | 21% |
| Depreciation and amortization | 15,111 | 16,477 | (1,366) | (8)% |
| **EBITDA** | **6,589** | **71,815** | **(65,226)** | **(91)%** |
| COVID-19 impact adjustments[1] | 3,788 | 5,180 | (1,392) | (27)% |
| Business transformation initiatives[2] | — | 1,723 | (1,723) | (100)% |
| Foreign currency translation adjustments[3] | 4,026 | 3,905 | 121 | 3% |
| Other finance costs adjustments[4] | 696 | 1,996 | (1,300) | (65)% |
| Transactions expenses[5] | 10,662 | — | 10,662 | 100% |
| Listing expense[6] | 73,917 | — | 73,917 | 100% |
| **Adjusted EBITDA** | **99,678** | **84,619** | **15,059** | **18%** |
| Constant Currency Adjustments | 706 | — | 706 | 100% |
| **Adjusted EBITDA on Constant Currency Basis** | **100,384** | **84,619** | **15,765** | **19%** |
| | | | | |
| **Adjusted EBITDA margin** | **24.3%** | **25.5%** | | **(1.2)%** |
| **Adjusted EBITDA margin (on Constant Currency Basis)** | **24.1%** | | | |

(1) COVID-19 impact adjustments primarily include: (i) for the year ended December 31, 2021, $1.7 million ($0.5 million for the year ended December 31, 2020) 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) for the year ended December 31, 2021, $0.6 million ($1.2 million for the year ended December 31, 2020) 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) for the year ended December 31, 2021, $1.2 million ($0.9 million for the year ended December 31, 2020) 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, (iv) for the year ended December 31, 2020, $1.4 million additional costs incurred to acquire certain raw materials that are essential to production due to the lockdowns of suppliers' factories and ports of entry worldwide, and additional logistic costs due to delays, (v) for the year ended December 31, 2020, $0.9 million expense of certain one-off financial discounts that Procaps provided to its customers, such as medicine distributors, during the COVID-19 pandemic due to financial and liquidity difficulties and customers' inability to settle invoices as a result of the effects of the COVID-19 pandemic and governmental restrictions such as lockdowns, and (vi) for the year ended December 31,

2021, $0.4 million ($0.2 million for the year ended December 31, 2020) of other miscellaneous expenses resulted from COVID-19 pandemic.

(2) Business transformation initiatives consists of costs and expenses in connection with severance payments made to separate our employees for certain business transformation initiatives implemented during the year ended December 31, 2020.

(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, 2021 and 2020.

(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 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 closing 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 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) 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.

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, 2020 and December 31, 2019:

| | For the year ended December 31 | | Increase / (Decrease) | |
|---|---|---|---|---|
| | 2020 | 2019 | $ Change | % Change |
| | (in thousands of U.S. dollars except percentages) | | | |
| **Loss for the year** | **(10,447)** | **(17,013)** | **6,566** | **(38.6)%** |
| Interest expense, net | 54,489 | 42,983 | 11,506 | 26.8% |
| Income tax expense | 11,296 | 7,035 | 4,261 | 60.6% |
| Depreciation and amortization | 16,477 | 16,466 | 11 | 0.1% |
| **EBITDA** | **71,815** | **49,471** | **22,344** | **45.2%** |
| COVID-19 impact adjustments (1) | 5,180 | — | 5,180 | 100% |
| Business transformation initiatives (2) | 1,723 | 676 | 1,047 | 154.9% |
| Foreign currency translation adjustments (3) | 3,905 | 1,827 | 2,078 | 113.7% |
| Other finance costs adjustments (4) | 1,996 | 1,883 | 113 | 6.0% |
| Colombia VAT tax reform (5) | — | 5,279 | (5,279) | (100.0)% |
| **Adjusted EBITDA** | **84,619** | **59,136** | **25,483** | **43.1%** |
| Constant Currency Adjustments | 8,836 | — | 8,836 | 100% |
| **Adjusted EBITDA on Constant Currency Basis** | **93,455** | **59,136** | **34,319** | **58.0%** |
| | | | | |
| **Adjusted EBITDA margin** | **25.5%** | **18.2%** | | **7.3%** |
| **Adjusted EBITDA margin (on Constant Currency Basis)** | **25.7%** | | | |

(1) COVID-19 impact adjustments primarily include: (i) $0.5 million expenses incurred for safety pre-cautions during the pandemic, such as office and production infrastructure adaptation to practice social distancing, to maintain a safe work and production environment for the employees, (ii) $1.2 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 our production and operating capabilities as a result of employees absenteeism or attrition as a result of the COVID-19 pandemic, (iii) $0.9 million expense incurred for certain logistic arrangements to minimize our employees' exposure to COVID-19 through arranging transportation from home to work, lodgings, face masks and PPE, (iv) $1.4 million additional costs incurred to acquire certain raw materials that are essential to production due to the lockdowns of suppliers' factories and ports of entry worldwide, and additional logistic costs due to delays, (v) $0.9 million expenses of certain one-off financial discounts that we provided to our customers, such as medicine distributors, during the COVID-19 pandemic due to financial and liquidity difficulties and customers' inability to settle invoices as a result of the effects of the COVID-19 pandemic and governmental restrictions such as lockdowns, and (vi) $0.2 million of other miscellaneous expenses resulted from COVID-19 pandemic.

(2) Business transformation initiatives consists of costs and expenses in connection with severance payments made to separate our employees for certain business transformation initiatives implemented during the years ended December 31, 2020 and 2019.

(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, 2020 and 2019.

(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) The Colombian government implemented a tax reform in 2019 to exempt value-added tax ("VAT") from the purchase and sale of drugs within Colombia starting in 2020. The impact from the Colombian tax reform consists of the VAT tax expense due to drug sales incurred in 2019 and that will not occur going forward.

***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, 2021 and 2020.

| | **For the year ended December 31** | | **Increase / (Decrease)** | |
|---|---|---|---|---|
| | **2021** | **2020** | **$ Change** | **% Change** |
| | *(in thousands of U.S. dollars except percentages)* | | | |
| Gross Profit | 235,713 | 191,314 | 44,399 | 23.2% |
| Selling Expenses | (83,057) | (69,629) | (13,428) | 19.3% |
| **Contribution Margin** | **152,656** | **121,685** | **30,971** | **25.5%** |
| Constant Currency Adjustments | 1,600 | — | 1,600 | 100.0% |
| **Contribution Margin (on Constant Currency Basis)** | **154,256** | **121,685** | **32,571** | **26.8%** |

The following table provides a reconciliation from gross profit to Contribution Margin for the years ended December 31, 2020 and December 31, 2019.

| | For the year ended December 31 | | Increase/(Decrease) | |
|---|---|---|---|---|
| | **2020** | **2019** | **$ Change** | **% Change** |
| | (in thousands of U.S. dollars except percentages) | | | |
| Gross Profit | 191,314 | 182,498 | 8,816 | 4.8% |
| Selling Expenses | (69,629) | (84,810) | 15,181 | (17.9)% |
| **Contribution Margin** | **121,685** | **97,688** | **23,997** | **24.6%** |
| Constant Currency Adjustments | 12,900 | — | 12,900 | 100% |
| **Contribution Margin (on Constant Currency Basis)** | **134,585** | **97,688** | **36,897** | **37.8%** |

## 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, 2021, our cash and cash equivalents amounted to $72.1 million. The Business Combination was consummated on September 29, 2021, resulting in gross cash proceeds of $160.0 million, (comprised of $100.0 million gross proceeds from the PIPE investment and $60.0 million cash in trust), which was offset by the cash payment for the redemption of 4.5 million Redeemable B Shares for a total purchase price of $45.0 million, the payment of certain transaction expenses of $33.6 million. Our cash and cash equivalents were approximately $91.6 million higher immediately following the Closing of the Business Combination. We expect our capital expenditures to substantially increase in the near future as we seek to execute our strategic objectives, including the possibility of expanding our businesses into new markets and making strategic investments and acquisitions.

We believe that our existing cash and cash equivalents, cash inflows from operations, current uncommitted lines of credit and the net proceeds to us from the Business Combination will be adequate to meet our anticipated cash needs for the next twelve months and that the net proceeds from the Business Combination will provide us with additional financial flexibility to execute our strategic objectives. 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 current 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, 2021 and 2020***

The following table summarizes our consolidated statements of cash flows from operations for the years ended December 31, 2021 and 2020:

| | For the Year Ended December 31, | Increase/(Decrease) |
|---|---|---|

| | 2021 | 2020 (as restated)[1] | $ Change |
|---|---|---|---|
| | *(in thousands of U.S. dollars)* | | |
| Cash flow provided by operating activities | 37,303 | 70,920 | (33,617) |
| Cash flow used in investing activities | (23,703) | (17,091) | (6,612) |
| Cash flow generated from (used in) financing activities | 58,044 | (40,509) | 98,553 |
| **Net increase in cash** | **71,644** | **13,320** | **58,324** |

(1) Comparative figures for the year ended December 31, 2020 were restated to reflect the revised classification of certain factoring and reverse factoring arrangements previously classified as part of *Trade and other payables (current)* into *Borrowings (current)* on “trade and other payables” and “payments on borrowings” in the statement of cash flows. Additionally, certain reclassifications have been made to the years ended December 31, 2020 statement of cash flows to conform to the current year’s presentation, which include the separate disclosure for payment of lease liabilities, reclassification of interest paid on lease liabilities to operating activities and presentation of cash flow to/from related parties regarding loans to such entities in investing activities, which had no impact on previously reported loss for the years and accumulated losses. For further information, see Note 2.4 “Restatement of Previously Issued Financial Statements” to the Annual Audited Consolidated Financial Statements included elsewhere in this annual report.

*Cash flow provided by operating activities*

For the year ended December 31, 2021, net cash provided by operating activities was $37.3 million, compared to $70.9 million for the year ended December 31, 2020, a decrease of $33.6 million. The decrease was primarily the result of (i) an increase in trade receivables together with a reduction in the collectability of certain trade receivables between the periods, (ii) an increase inventory held as of December 31, 2021 compared to December 31, 2020 as a result of an increase in production in anticipation of an expected increase in demand, and (iii) a decrease in other liabilities due to the payment of certain aged payables that became due.

*Cash flow used in investing activities*

For the year ended December 31, 2021, net cash used in investing activities was $23.7 million compared to $17.1 million during the year ended December 31, 2020, an increase of $6.6 million. Net cash used in investing activities for the year ended December 31, 2021 consisted primarily of $14.1 million in cash used in the acquisition of property, plant and equipment for certain strategic capacity expansion, including, the acquisition of an FDA approved 86,000 square feet pharmaceutical production facility located in West Palm Beach, Florida, which increased when compared to the year ended December 31, 2020. Furthermore, we invested $8.0 million in R&D during the year ended December 31, 2021.

*Cash flow generated from (used in) financing activities*

For the year ended December 31, 2021, net cash generated from financing activities increased by $98.6 million from net cash used in financing activities of $40.5 million for the year ended December 31, 2020 to net cash generated from financing activities of $58.0 million for the year ended December 31, 2021. The increase was primarily due to (i) the closing of the private placement of the Senior Notes in the amount of $112.9 million, (ii) entering into other term loans in the amount of $193.1 million, and (iii) the consummation of the Business Combination resulting in gross cash proceeds of $160.0 million as described above. The increase in net cash generated from financing activities was partially offset by (i) the prepayment of a portion of the Syndicated Loan facility (as defined below) in the amount of $28.2 million, (ii) the payment of other term loans in the amount of $224.4 million, and (iii) factoring obligations in the amount of $18.8 million.

***Cash Flow for the Year Ended December 31, 2020 Compared to Year Ended December 31, 2019***

The following table summarizes our consolidated statements of cash flows from operations for the year ended December 31, 2020 compared with the year ended December 31, 2019:

| | For the year ended December 31 | | Increase/(Decrease) |
|---|---|---|---|
| | 2020 (as restated)[1] | 2019 (as restated)[1] | $ Change |
| | (in thousands of U.S. dollars) | | |
| Cash flow provided by operating activities | 70,920 | 68,286 | 2,634 |
| Cash flow used in investing activities | (17,091) | (12,069) | (5,022) |
| Cash flow used in financing activities | (40,509) | (46,949) | 6,440 |
| **Net increase in cash** | **13,320** | **9,268** | **4,052** |

(1) Comparative figures for the years ended December 31, 2020 and 2019 were restated to reflect the revised classification of certain factoring and reverse factoring arrangements previously classified as part of *Trade and other payables (current)* into *Borrowings (current)* on "trade and other payables" and "payments on borrowings" in the statement of cash flows. Additionally, certain reclassifications have been made to the years ended December 31, 2020 and 2019 statement of cash flows to conform to the current year's presentation, which include the separate disclosure for payment of lease liabilities, reclassification of interest paid on lease liabilities to operating activities and presentation of cash flow to/from related parties regarding loans to such entities in investing activities, which had no impact on previously reported loss for the years and accumulated losses. For further information, see Note 2.4 "Restatement of Previously Issued Financial Statements" to the Annual Audited Consolidated Financial Statements included elsewhere in this annual report.

*Cash flows provided by operating activities*

For the year ended December 31, 2020, net cash provided by operating activities was $70.9 million compared to $68.3 million for the year ended December 31, 2019, an increase of $2.6 million. The increase was primarily the result of an increase in net income excluding non-cash expenses and gains of $29.5 million. This increase was partially offset by an increase in income tax paid for the year ended December 31, 2020 in the amount of $7.0 million.

*Cash flows used in investing activities*

For the year ended December 31, 2020, net cash used in investing activities was $17.1 million compared to $12.1 million during the year ended December 31, 2019. Net cash used in investing activities for the year ended December 31, 2020 consisted primarily of $7.7 million in cash used to acquire property, plant and equipment for certain strategic capacity expansion efforts. Furthermore, we invested $10.2 million in R&D during the year ended December 31, 2020. Net cash used in investing activities increased by $5.0 million primarily as a result of the sale of certain intangible assets in the amount of $7.3 million for the year ended December 31, 2019, which did not occur for the year ended December 31, 2020.

*Cash flows used in financing activities*

For the year ended December 31, 2020, net cash used in financing activities increased by $6.4 million from $46.9 million for the year ended December 31, 2019 to $40.5 million for the year ended December 31, 2020. This increase was primarily driven by an increase in payments on borrowings by $2.2 million, from $118.4 million for the year ended December 31, 2019 to $120.6 million for the year ended December 31, 2020. Such increase in payments was driven by the expansion of reverse factoring activities in 2020. The increase in net cash used in financing activities was partially offset by an increase in proceeds from borrowings in the amount of $10.3 million and an increase in accessible working capital lines of credit from $96.4 million for the year ended December 31, 2019 to $106.7 million for the year ended December 31, 2020.

**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 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, 2021, 2020 and 2019 we had total borrowings of $253.4 million, $454.5 million and $420.4 million, respectively.

**Debt Financing and Borrowings**

The table below summarizes our outstanding interest-bearing liabilities for year ended December 31, 2021.

| | For the Year Ended December 31, 2021 |
|---|---|
| | (in thousands of U.S. dollars) |
| Syndicated Loan | 46,505 |
| Other term loan | 51,593 |
| Lease liabilities | 31,747 |
| Factoring obligations | 10,609 |
| Put option agreements | — |
| Bank overdrafts | 55 |
| Senior Notes | 112,857 |
| **Total Interest bearing liabilities** | **253,366** |

***Syndicated Loan***

On November 20, 2018, the following entities: (i) Procaps S.A., a subsidiary of the Company, as borrower; (ii) Laboratorios López S.A. de C.V., C.I. Procaps S.A., Biokemical S.A. de C.V., Pharmarketing Salvador S.A. de C.V., Corporación Distribuidora Internacional S.A. de C.V., CDI Nicaragua S.A., CDI Guatemala S.A., Pharmarketing S.A. (Guatemala), Pharmarketing S.A. (Panama), Pharmarketing Dominicana SRL, Pharmarketing Costa Rica S.A., Diabetrics S.A.S and Crynssen Pharma S.A.S., all of which are subsidiaries of the Company, as co-debtors; and (iii) Inversiones Crynseen S.A.S., Inversiones Ganeden S.A.S., Inversiones Henia S.A.S., Inversiones Jades S.A.S., Industrias Kadima S.A.S. and Pharmayect S.A all of which are subsidiaries of the Company, as guarantors; entered into that certain Loan Agreement (*Contrato de Crédito*) with the following financial institutions: Bancolombia S.A., Bancolombia S.A. (Panama), Banco Davivienda S.A., Banco de Sabadell S.A. Miami Beach and Banco de Crédito del Perú, as lenders, and Fiduciaria Bancolombia S.A., as administrative agent, which was subsequently amended by Amendment No. 1 to the Loan Agreement (*Otrosí No. 1 al Contrato de Crédito*) dated December 12, 2018, and Amendment No. 2 to the Loan Agreement (*Otrosí No. 2 al Contrato de Crédito*) dated June 15, 2020 (collectively, the "Syndicated Loan").

The Syndicated Loan is comprised of two tranches; tranche A, which is denominated in Colombian Pesos and tranche B, which is denominated in U.S. dollars. Pursuant to the terms of the Syndicated Loan, the borrower can borrow up to (i) COP $131,848,000,000 plus the equivalent of U.S. $21,100,000 in Colombian Pesos, calculated as of the disbursement date, under tranche A and (ii) U.S. $35,000,0000 in U.S. dollars under tranche B. The Syndicated Loan

will mature on the seventh anniversary of the initial disbursement to the borrower and shall accrue interest at a rate of IBR (as defined below) plus a spread of 5.30% on the amounts owed under the Colombian Peso denominated tranche A and LIBOR (as defined below) plus a spread of 4.80% on the amounts owed under the U.S. dollar denominated tranche B. The proceeds of the Syndicated Loan are to be used for the pre-payment or refinancing of certain debt obligations of the borrower enumerated in the Syndicate Loan agreement.

Effective as of November 12, 2021, the syndicated loans granted by Banco de Sabadell S.A. Miami Beach and Banco de Crédito del Perú, were paid in full and terminated with the proceeds from the Senior Notes. As of December 31, 2021, the total amount outstanding under the Syndicated Loan was U.S. $46.5 million, divided as follows: (i) $38.6 million (or COP $153,493.6 million) outstanding under tranche A, and (ii) $7.9 million outstanding under tranche B.

*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 3.0; 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 ("Debt/EBITDA Ratio") of 3.5 or less, measured every June 30 and December 30; (ii) a short-term leverage ratio (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 (calculated as the pro forma consolidated EBITDA for the last twelve months of the borrower and co-debtors divided by the pro forma consolidated interest expenses of the borrower and the co-debtors) of greater than or equal to 3.0, calculated at the end of each semester.

We continuously monitor our covenants obligations and requirements and, as of the date of the issuance of the Annual Audited Financial Statements, we were in compliance with the covenants of the Syndicated Loan.

***Other Term Loans***

The table below summarizes the terms of our other term loans as of December 31, 2021.

| Currency | Range of Interest | Maturity Year | Outstanding Balance for the year ended December 31, 2021 |
|---|---|---|---|
| | | | *(in thousands of U.S. dollars)* |
| COP | IBR+ 2.25%-5.0% (Variable) | 2022-2024 | $ 9,442 |
| COP | DTF + 6.74% | 2022 | $ 3,154 |

| | | | | |
|---|---|---|---|---|
| SOL | 5.00% - 10.01% (Fixed) | 2021-2024 | $ | 5,953 |
| REAIS | 9.84% - 13.08% (Fixed) | 2021-2024 | $ | 1,762 |
| USD | Libor + 2.99% / 6.5% - 8.7% (fixed) | 2022-2024 | $ | 16,145 |
| USD | Libor + 4.49% | 2022 | $ | 739 |
| COP | 10.00% - 30.00% | 2022 | $ | 14,398 |
| **Total** | | | **$** | **51,593** |

***Lease Liabilities***

We had $31.7 million of lease liabilities as of December 31, 2021.

***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 $10.6 million as of December 31, 2021.

***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, 2021.

***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 agreement 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.

*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 of 3.50:1.00 or less, measured at certain quarterly determination dates and (ii) an EBITDA 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.

The table below sets forth the outstanding balance and certain other information on the Senior Notes as of December 31, 2021.

| | Currency | Range of Interest | Maturity Year | | Outstanding Balance as of December 31, 2021 |
|---|---|---|---|---|---|
| The Prudential Insurance Company of America | USD | 4.75% (Fixed) | 2031 | $ | 58,906 |
| Prudential Annuities Life Assurance Corporation | USD | 4.75% (Fixed) | 2031 | $ | 29,423 |
| Healthspring Life & Health Insurance Company, Inc | USD | 4.75% (Fixed) | 2031 | $ | 18,007 |
| CIGNA Health and Life Insurance Company | USD | 4.75% (Fixed) | 2031 | $ | 6,521 |
| **Total** | | | | **$** | **112,857** |

**Contractual Obligations and Commitments**

A summary of our enforceable and legally binding obligations as of December 31, 2021 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, 2021* | | | | |
|---|---|---|---|---|---|
| *(U.S. dollars in thousands)* | **2022** | **2023-2024** | **2025-2026** | **After 2026** | **Total** |
| Long-term debt obligations(1) | 71,987 | 16,895 | 15,330 | 148,799 | 253,011 |
| Finance lease obligations(2) | 9,853 | 7,403 | 5,333 | 17,315 | 39,904 |
| Trade and other payables | 85,381 | — | — | — | 85,381 |
| Amounts owed to related parties | 8,450 | — | — | — | 8,450 |
| Other commitments(3) | 3,585 | 1,600 | — | — | 5,185 |
| **Total** | **179,256** | **25,898** | **20,663** | **166,114** | **391,931** |

(1) Represents gross maturities of our long-term debt obligations, excluding finance lease obligations as of December 31, 2021, 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, 2021.

(2) Represents maturities of our finance lease obligations included within long-term debt as of December 31, 2021, 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, 2021.

(3) Represent commitments to acquire capital expenditures in the amount of $3.6 million and asset acquisition obligations of one of our pharmaceutical production facilities in the amount of $1.6 million. Please see Note 14 to the Audited Consolidated Financial Statements included elsewhere in this annual report for more information.

Deferred tax liabilities were $6.1 million as of December 31, 2021. 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 and services, and the improvement of our manufacturing processes and delivery technologies. Our R&D platform is decentralized with research centers in Barranquilla, Colombia, Cotia, Brazil, and West Palm Beach, Florida. We employ more than 304 scientists, technicians and skilled personnel in R&D and innovation. Our main R&D operation is in the city of Barranquilla, Colombia, which employs over 270 scientists, technicians and skilled personnel in R&D and technological innovation. Our R&D team has developed over 500 pharmaceutical products formulations as of December 31, 2021, resulting in the development of an average of over 150 new products, including more than 50 first time launch products per year over the last three years. Procaps has invested $16.0 million, $15.8 million and $13.2 million in R&D for the years ended December 31, 2021, 2020 and 2019, respectively. We expect to increase our R&D expenses for the foreseeable future as we continue the development of product candidates and explore further potential applications of our proprietary technologies

Our corporate culture focuses on innovation and R&D, which has resulted in the development of over 500 pharmaceutical product formulations as of December 31, 2021. 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. These proprietary rights are important to our ongoing operations as 99% of our current Rx and OTC product portfolio is proprietary.

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. As of December 31, 2021, we have been granted 39 patents and have 38 patents pending approval.

## D. TREND INFORMATION

### Impact of COVID-19

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. The rapid spread of COVID-19 around the world led to the shutdown of cities as national, state, and local authorities implemented social distancing, quarantine and self-isolation measures. Many such restrictions remain in place, and some state and local governments are re-imposing certain restrictions due to the increasing rates of COVID-19 cases.

The COVID-19 pandemic and the responses by government entities to combat the virus have had an adverse impact on our operations by, among other things, increasing absenteeism, affecting logistics and the supply of raw materials and third party supplied finished goods, and preventing many of our employees from coming to work during mandatory quarantine periods. We have responded to such impacts by, among other things, hiring additional personnel to substitute unavailable staff due to quarantine for potential exposure to COVID-19, implementing protocols to protect the health of factory workers, adjusting production schedules, and seeking alternate suppliers where available, and so far, most of our facilities have continued to produce at high levels despite these challenges. However, a number of jurisdictions that relaxed such restrictions, or have experienced limited public adherence with suggested safety measures, such as Brazil, have experienced new surges in COVID-19 cases and the emergence of new strains such as the Omicron or Delta variant. Many of these jurisdictions continue to contemplate or implement new or renewed restrictions. In addition, as conditions worldwide continue to evolve, there is uncertainty about the timing of widespread availability and acceptance of vaccines. As such, if the pandemic continues or intensifies, it is possible that these or other challenges may begin having a larger impact on our operations.

We are closely monitoring the impact of COVID-19 on all aspects of our business in all of our locations. Our first priority has been, and will continue to be, the safety of our employees who continue to come to work and are dedicated to keeping our essential products flowing into the market. We have taken extra precautions at our facilities to help ensure the health and safety of our employees that are in line with guidance from global and local health authorities. Among the precautions implemented, we have generally restricted access to our manufacturing and administrative facilities to essential employees only and permitted a limited number of nonessential employees into other facilities with a strict approval process, implemented a multi-step pre-screening access process before an employee can enter a facility, communicated regularly with employees and provided education and implemented controls related to physical distancing and hygiene measures, implemented remote work arrangements where appropriate, restricted business travel, and shifted the production of our products to a different mix of products in order to meet the changes in demand as a result of the COVID-19 pandemic. To date, these arrangements have not materially affected our ability to maintain our business operations, including the operation of financial reporting systems and our internal audit and accounting controls and procedures.

The COVID-19 pandemic did not have a material impact on our results of operations, cash flows and financial position for the years ended December 31, 2021 and 2020, however, the pandemic had a negative impact on certain aspects of our business and a positive impact on others. The COVID-19 pandemic caused complications in logistics and personnel transport during mandatory quarantine periods. Also, we had to hire additional personnel to substitute unavailable staff due to quarantine for potential exposure to COVID-19. We also incurred additional expenses by contracting third parties to substitute unavailable personnel and purchasing personal protective equipment (“PPE”). Price changes in raw materials also impacted our business, however, we were able counteract the impact of these

effects by launching new products, training our sales forces to capitalize on opportunities, implementing fewer discount promotions, generating demand in markets such as Colombia and Central America, and by growing our generic drug business. Although revenue initially decreased during the second quarter of 2020, sales are improving and returning to pre-pandemic levels, although with a different mix of products as of year-end December 31, 2020 and continue to increase during the year ended December 31, 2021.

For the years ended December 31, 2021 and 2020, most of our segments experienced product demand shifts that caused net sales to increase in certain product categories and decrease in other categories. We attribute these demand shifts to consumer and customer behavior changes surrounding the COVID-19 pandemic and the movement and social distancing restrictions put in place to combat the spread of the virus. Furthermore, the COVID-19 pandemic resulted in changes to morbidity rates for certain underlying health conditions which resulted in increased demand for certain products and decreased the demand for other products. We benefited operationally and financially from a significant growth in the sale of certain products such as (i) products that are associated with immunity, such as Vitamin C products (Lemovit, Gumivit, Vitamin C Colmed), Vitamin D products (Deferol, Vitamin D Colmed) and Zinc products (FortZink), (ii) products for preventive or curative effects of COVID-19, such as Kimod (Ivermectin) and Azithromycin Colmed, (iii) anesthetic corticosteroids for use in intensive care unit, such as Tracurion (cisatracurium), rocuronium and vecuronium, and (iv) anti-fluid masks manufactured by our Rymco facilities. The increase in revenue from the increased sales of such COVID-19 related products was partially offset by a decrease in sales of certain products due to the reduction of morbidity rates in connection with certain underlying health conditions that reduced the demand for products such as (i) gastrointestinal products, such as Ezolium, Nytax and Ifaxim, as a result of what we believe to be a healthier diet from eating at home, (ii) products for vaginal infectious diseases, such as Vaxiduo and Albisec, (iii) respiratory products, such as Alercet, Alercet D and Cloperax, as a result of people being at home and having less exposure to smog in cities, and (iv) Intra-hospital anti-infectives products such as Meropenen and Tapectan as a result of the reduction in elective surgical procedures. We also benefited from our sales distribution model which enables us to have a wide exposure to various pharmaceutical company customers.

Also, for the years ended December 31, 2021 and 2020, we had incremental operating costs of approximately $3.8 million and $5.2 million, respectively, related to COVID-19 pandemic, primarily due to the precautions implemented to keep our employees safe as well as increased material costs.

The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, future results of operations and financial condition will depend on future factors that are highly uncertain and cannot be accurately predicted. These factors include, but are not limited to, new information that may emerge concerning COVID-19, the scope and duration of business closures and restrictions, and the duration and severity of the COVID-19 pandemic, including if new strains of the virus become more prevalent, contagious or harmful. These factors may continue to increase or decrease consumer and/or customer demand for certain products within our business segments. Due to these and other uncertainties, we cannot estimate the length or severity of the impact of the pandemic on our business.

The impact of COVID-19 vaccination efforts on the evolution of the pandemic globally, and the effectiveness of vaccines on new strains and variants of the COVID-19 virus, remains uncertain at this time. The situation surrounding COVID-19 remains fluid, and we are actively managing our response and assessing potential impacts to our financial condition, supply chains and other operations, employees, results of operations, consumer demand for our products, and our ability to access capital. In addition, during the year ended December 31, 2021 we deployed our vaccination plan with the end goal of improving safety conditions and protecting our employees. As mandatory lockdowns in most countries have been relaxed certain of our departments have initiated a return-to-work plan at our facilities, resulting in an increase of COVID-19 testing for employees, as well as personal protective equipment.

**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 $16.0 million, $15.8 million and $13.2 million in R&D for the years ended December 31, 2021, 2020 and 2019, 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 (estimated at a compounded annual growth rate of 7% from 2020 to 2024, according to independent third-party industry reports) 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 is expected to reach a compounded annual growth rate of 7% from 2020 to 2022 globally and for Latin America, when compared to 5% globally and 3% for Latin America for the period from 2016 to 2019, according to independent third-party industry reports. 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.

***Business Transformation Initiatives***

At the end of 2018, we began a process of updating our business model, migrating our product line management scheme to a B-to-B market scheme for our NextGel iCDMO business segment, and a B-to-C market scheme for its Farma Procaps, Clinical Specialties and VitalCare product lines by dividing them into business segments based on by strategic regions: Colombia, CASAND and CAN, while segmenting Diabetrics as its own business segment. This change in our operating model was formally implemented as of the first three months of 2019. As part of this change in management structure, we appointed executive vice presidents for each new segment/region and certain corporate areas that provide support and guidelines for each business segment.

***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, 2021 and 2020, approximately 41% and 56% 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 2021 and for the year ended December 31, 2020, 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 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, 2021 and 2020, especially gross profits and our margins.

## 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 this 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.

While we believe that climate change could present risks to our business, including increased operating costs due to additional regulatory requirements, physical risks to our facilities, water limitations and disruptions to our supply chain, we do not believe these risks are material to our business in the near term.

***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 classified into four pillars: (i) access to medicine, (ii) social impact and community engagement, (iii) efficient use of natural resources and (iv) climate strategy and innovation and R&D.

*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.

***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 obtained at the beginning of 2022 and will be published in the 2021 sustainability report, which is expected to be released during the first half of 2022. In 2022, we expect to measure the carbon footprint of our other facilities in El Salvador and Brazil, which will provide us with a full dimension of our carbon footprint. Although we have not yet defined a corporate baseline, the measuring of the carbon footprint of our Barranquilla facility has provided us with a reference point that will allow us to make carbon footprint comparisons with our other facilities, and with other similar businesses.

We have also identified viable opportunities 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 2022. We have classified these opportunities into three scopes:

Scope 1: (i) Replacement of refrigerant gases by less polluting alternative gases; and (ii) optimization of personnel routes with driver role.

Scope 2: (i) enhancement of the self-generation plant; 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 both to reduce and offset, however we have to have a complete baseline in order to measure the effort needed to reduce and offset emissions to be able to commit to targets and timeframes. We are establishing goals for 2022 in different environmental indicators that contribute to reducing emissions and, in general, our environmental impact. These goals are expected to be published in our 2021 sustainability report which we expect will be released during the first half of 2022.

Emissions goals at the corporate level will be defined once we have the complete baseline, which we expect will be completed in 2022. We are in the process of reviewing carbon footprint measurement proposals. Once we have the 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.

***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, 2021, 2020 and 2019, we were subject to seven regulatory audits by INVIMA, ANVISA, the FDA, Health Canada, MHRA, the Saudi Arabia Food and Drug Administration, and the TGA, 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.

We are evaluating the potential impact of the 2021 Colombia Tax Reform on our business, financial condition and results of operations. We cannot anticipate the impact that the 2021 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.

**Share Capital**

The Company did not acquire any of its own shares during the reporting period.

**Future Developments**

*Grupo Somar and Pearl Mexico Acquisition*

On May 16, 2022, Procaps Group, S.A. (the "Company") entered into a Stock Purchase Agreement (the "SPA") with AI Global Investments (Netherlands) PCC Limited, 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 sociedad anónima de capital variable 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").

Somar specializes in the production of generic and own-brand pharmaceutical products, sold mainly to the private sector, with the majority of its operations within Mexico. Pearl Mexico specializes in the production and sale of

pharmaceutical products, organic chemicals, biological products and over the counter products, with the majority of its operations within Mexico.

Pursuant to the SPA, the Company will acquire all of the issued and outstanding capital stock of the Targets from the Sellers, in exchange for an estimated upfront consideration in the form of:

(i) an aggregate amount of cash in U.S. dollars equal to approximately $303.0 million, subject to customary adjustments for working capital, net debt and other items (the "Closing Cash Consideration Payment"), which will be allocated to each Seller in accordance with the percentages set forth in the SPA; and

(ii) a vendor loan receivable in an aggregate amount in U.S. dollars equal to approximately $24.3 million (the "Stock Consideration Receivables" and together with the Closing Cash Consideration Payment, the "Closing Consideration Payments"), which will be allocated to Triana and PCC in accordance with the percentages set forth in the SPA.

On the closing (the "Closing") of the transactions contemplated by the SPA (the "Acquisition"), the Company shall issue to PCC and Triana, pursuant to the terms of the SPA and those certain Stock Consideration Subscription Agreements to be entered into on or about the date of the Closing, between the Company and each of PCC and Triana (the "Stock Consideration Subscription Agreements"), approximately 3,081,730 ordinary shares of the Company, nominal value $0.01 per share (the "Ordinary Shares"), based on a price per Ordinary Share of $7.8878 (the volume-weighted average price per share, rounded to the nearest four decimal points, of Ordinary Shares quoted on the Nasdaq (as reported on Bloomberg L.P. under the function "VWAP"), for the period of 30 consecutive trading days ending on the trading day immediately prior to the date of the SPA) (the "Closing Stock Consideration Payment"), which shall be paid-up by each of PCC and Triana by way of set-off against the respective portions of the Stock Consideration Receivables held by PCC and Triana against the Company, in accordance with article 420-23 of the Luxembourg Law on Commercial Companies dated 10 August 1915, as amended.

Additionally, at the Closing, the Company shall pay the Sellers an aggregate amount of cash in U.S. dollars, as converted based on the exchange rate of MXN$20.5693 to US$1.00 (the "Applicable Exchange Rate"), equal to 70.0% of PCC's good faith estimate of the valued added tax receivables of Pearl Mexico and its subsidiaries that have been reported to the tax authorities as a result of the filing of any value-added tax return on or prior to the date of the Closing (the "Filed VAT Receivables"), minus MXN$48,177,093, and subject to certain adjustments set forth in the SPA.

In addition to the upfront consideration paid or issued at the Closing, the Sellers have a right to receive a contingent payment in U.S. dollars, as converted based on the Applicable Exchange Rate, in the amount by which the gross profit of Targets and its subsidiaries for the fiscal year ended December 31, 2022 exceeds MXN$1,490,000,000, multiplied by 3.85, with a maximum amount payable of MXN$300,000,000.

The transaction, which has been approved by the board of directors of the Company and the Sellers, is expected to close in the third quarter of 2022, subject to the satisfaction or waiver of customary closing conditions at or prior to the closing of the transaction, including the receipt of all consents, approvals, orders and authorizations of any governmental authority required in connection with the execution or performance of the SPA, including any regulatory antitrust approvals.

*Debt Commitment Letter*

Concurrently with the execution of the SPA, the Company, 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 will be guaranteed by each existing and future direct and indirect material subsidiary of the Company, and the Targets and each of their subsidiaries upon the Closing. The Bridge Loan will also be secured by a pledge from the Company of its shares in the Targets. The proceeds of the Bridge Loan will be used, together with the Company'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 Company's existing debt. The Bridge Loan will accrue interest at a rate of Term SOFR plus a spread between 5.00%-7.25%, determined according to the time the Bridge Loan has been outstanding and the credit rating of the Company, and will mature 12 months after the initial disbursement to the Company in connection with the Acquisition.

Pursuant to the terms of the Commitment Letter, while the Bridge Loan is outstanding, the Company, as the borrower, and the subsidiary guarantors will be subject to customary affirmative, negative and financial covenants which will, among other things, (i) restrict, subject to certain exceptions, the Company's ability to incur debt or grant liens; sell or transfer title to operating assets; pay dividends and distributions; engage in mergers and consolidations; guarantee, indemnify or assume the liabilities of third parties; change its fiscal year reporting; engage in certain transactions with affiliates; change its lines of business; or amend its organizational documents, and (ii) require the Company and the subsidiary guarantors to maintain an interest coverage ratio of 3.0x EBITDA at all times, and a leverage ratio of 4.25x to 4.75x EBITDA, according to the time the Bridge Loan has been outstanding, calculated on an annual basis. Additionally, the Bridge Loan may be prepaid by the Company or refinanced at any time, without penalty. The Company must prepay the Bridge Loan with, (i) subject to certain exceptions, all proceeds from asset sales or the incurrence of debt by the Borrower and its subsidiaries, and (ii) 75% of net cash proceeds from any issuances of equity or equity-like instruments by the Company.