Application of IAS-36 and IFRS-13 (PIR)[1] effects on the "investment of shares" of the non-controlling investment in Marzam

The following note provides detail related to the effect of IAS-36 and IFRS-13 (PIR) application on the Company's financials in order to reconcile Genomma Lab Internacional, S.A.B. de C.V. ("Genomma Lab or "Genomma")'s carrying cost with the "Fair Value" of its non-controlling stake in Grupo Industrial y Comercial Marzam, S.A. de C.V. ("Marzam"), in light of recently disclosed events by this affiliate. Genomma recognized a retrospective non-cash impairment in its investment in Marzam for the period 2018-20, as described herein. As presented in Exhibit A, the contribution of Marzam to the Genomma Lab's consolidated figures is not material.

Exhibit A: Contribution of Marzam to Genomma Lab's consolidated figures

	Marzam	Genomma Operations	Genomma Lab Financials
Net Revenues	0%	100%	100%
EBITDA	0%	100%	100%
Cash Flow	0%	100%	100%
Net Income	0 - 5%	95 - 100%	100%
Total Assets	7.6%	93.4%	100%
Total Assets (after applying IAS-36 and IFRS-13	**3.7%**	**96.3%**	**100%**

The adjusted amount representing Marzam in the investment of shares account at the end of first quarter of 2022 is $724 million pesos. As a result, the years of 2018 -2020 of Genomma's audited fiscal year end statements have been restated specifically to reflect the impacts of investments in Marzam.

Genomma Lab does not have voting or management control of Marzam and therefore is unable to elect the majority of directors Marzam's board, appoint senior management, or govern the policies and practices as applied to Marzam operations. Importantly, the previously indicated adjustment does not impact the state of the Genomma operations or results.

The Note within addresses the following:

- IFRS -13 - Fair Value Measurement
- IAS -36 - Impairment of Assets
- Application of IFRS-13 and IAS-36 to Marzam
- Difference in internal controls, financial and disclosure policies at Marzam

[1] IASB PIR = Post Implementation Review of IFRS-13 by the International Accounting Standards Board

IFRS – 13 Fair Value Measurement

IFRS 13 defines "Fair Value", establishes a framework for measuring fair Value, and requires disclosures about fair value measurements. **Fair Value** is defined as ***"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** (an exit price)**".***

IFRS-13 uses a hierarchical approach to determine "fair value":

- Level 1 : Quoted prices for the asset in an active market
- Level 2 : Other valuation techniques (multiples, discounted cash flows, etc.)
- Level 3 : Transaction price from an orderly transaction

Please note that in all cases, IFRS -13 makes reference to **'market participants'**, emphasizing that **"fair value"** is a **market-based concept**. An example would be a transaction in an M&A bidding process.

Transaction prices and 'day one' fair values

IFRS-13 indicates that a **transaction price** (e.g., the price paid to acquire an asset) often equals the initial or **'day one' fair value** (level 3 of the hierarchical approach). IFRS 13 does not require an entity to perform an exhaustive search for other potential uses of a non-financial asset if there is no evidence to suggest that the current use of an asset is not its **highest and best use.**

In September 2015, Genomma Lab announced the **sale of its controlling stake[2] in Marzam** (of 50% plus one share) to Moënch Coöperatief U.A. Genomma Lab maintained indirectly the remainder of shares. Under IFRS-13, the transaction price represented the **'day one' fair value**, and as such, the **appraisal of the minority stake** in Marzam contemplated the same price per share paid by Moënch.

2015 Non-cash accounting gain:

Due to the fact that the **'day one' fair value** of the shares exceeded the **carrying cost** prior to the sale, Genomma recorded a **non-cash accounting gain**, increasing **retained earnings within the Company's 2015 full year results.**

In 2016, Genomma Lab's **new management team** reinforced the Company's financial policies to enhance the relevance and reliability of information contained within the financial statements. The Company has since proposed that the value of the Marzam minority stake be adjusted considering the non-controlling nature of the minority investment[3]. Nevertheless, IFRS rules, such as IAS-36, require evidence of certain specific indicators to trigger an impairment review process of a non-financial asset.

[2] Moënch Coöperatief U.A. secured the rights to appoint the management team at Marzam, as well as the majority of Directors at the Board. Genomma remained as a passive investor in this affiliate.
[3] Generally speaking, the controlling shares of a Company trade at a premium vs. the non-controlling shares

IAS – 36 Impairment of Assets

IAS -36 represents the accounting standard that outlines the procedures an entity should apply to **ensure that an asset must not be carried in the financial statements at more than the highest amount to be recovered through use or sale of the assets.**

An impairment review of assets can be challenging to apply in practice. According to major accounting firms, "IAS 36's guidance is detailed, prescriptive and complex in some areas[4].

IAS 36 prescribes the timing requirements for performing impairment testing as well as potential 'indicators' of impairment that may trigger testing for certain assets. Specifically, IAS 36 requires that:

- Only goodwill and indefinite life intangibles are tested for impairment at least annually
- **All other assets** are tested for **when there is any indication that the asset may be impaired.** For example, when evidence is available that indicates the economic performance of an asset is, or will be, worse than expected

Recent events[5] at Marzam, particularly those related to its financial performance, triggered potential indicators of impairment (i.e., incurred net losses for the past two consecutive quarters).

Genomma ordered an investigation of Marzam's financials, calling for a thorough due diligence by independent accounting firms, which concluded that adjustments to Marzam's financial statements were required. In addition, Genomma recommended the dismissal of certain executives. The due diligence concluded that certain events that triggered the impairment, originated in prior years after Genomma sold its controlling stake to Moënch Coöperatief U.A.

In order to correctly appraise the value of "investment in shares", the following variables were analyzed:

- **Carrying amount** - The amount at which an asset is recognized. The Carrying amount of the non-controlling stake in Marzam is presented as "investment in shares" (see Q4 '21 report).

	2021
ASSETS	
CURRENT ASSETS	
Cash and equivalents and restricted fund	
Clients - Net	
Recoverable Taxes	
Other accounts receivable*	
Inventory - Net	
Prepaid expenses	
Non-current assets	
Trademarks	
Investment in shares	1,712,431
Building, properties and equipment – Net	
Deferred income tax, assets and others	
Assets by right of use	
TOTAL ASSETS	22,467,065

Carrying amount of non-controlling stake

[4] https://www.grantthornton.global/en/insights/articles/IFRS-ias-36/

[5] Senior members of the Marzam management team, all of whom were appointed by the controlling shareholder (Moënch Coöperatif U.A.), were interdicted from holding office by the antitrust authorities for improper conduct.

- **Recoverable amount** - The **higher** of an asset's "Fair Value Less Costs of Disposal" (FVLCOD) and its "Value in Use" (VIU), which represents the present value of the future cash flows expected from an asset. Genomma engaged two globally recognized accounting firms to assist the Company in estimating the FVLCOD and VIU of Marzam.

- **Impairment loss** - The amount by which the Carrying amount exceeds its Recoverable amount.

Application of IFRS – 13 and IAS-36 : Fair Value

According to IAS-36, the **Recoverable Value** of the Marzam minority stake shall be the **higher than** its **Fair Value**[6] and its **Value in Use.**

IFRS-13 clarifies how to measure Fair Value when a market becomes less active.

As new information became available and market conditions changed for Marzam, IFRS-13 recommends the use of different valuation techniques (vs "day one" transaction price[7]) if it results in a measurement that is more representative of fair value given the new circumstances. In this case, the following techniques are applicable: Market approach, Income Approach and Cost Approach (Value in Use).

Market approach: Comparable companies valuation multiples

The market approach uses prices and other relevant information generated by market transactions involving identical or similar assets. Valuation techniques based on market approach often use market multiples. For example, businesses are often valued based on their revenue or EBITDA multiples, P/E ratios, Price to Book Value, EV/Revenues, among others.

Genomma engaged independent accounting firms to determine the "market approach" valuation based on a sample of comparable companies and global M&A transactions[8]. Said accounting firms applied their own methodology to adjust by geography, size and liquidity.

Income approach: Net Present Value techniques

The income approach converts future amounts (e.g., cash flows[9]) to a single discounted amount accounting for inter alia, risk and uncertainty. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

[6] Fair Value represents "the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date"
[7] Please refer to IFRS-13, paragraph 65
[8] Sources of information included NYSE, Bovespa, Nasdaq, Warsaw, Zagrev, Swiss Zurich, Helsinki, Deutsche Börsa XETRA
[9] Marzam's team internal projections

Cost approach: accounting / book value / replacement costs

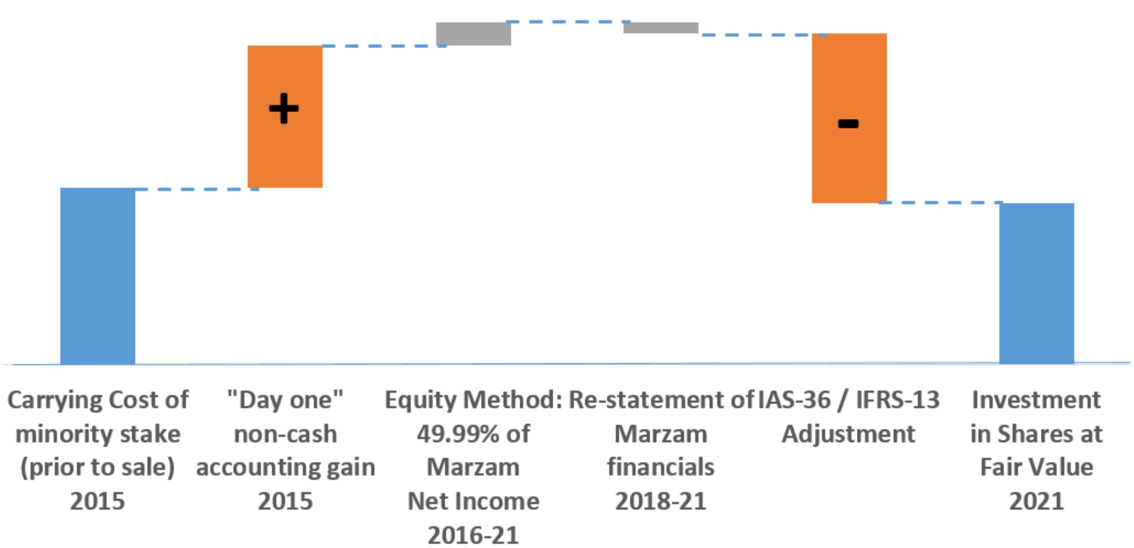
The cost approach, often referred to as a current replacement cost, aims to reflect the amount that would be currently required to replace the service capacity of an asset adjusted for obsolescence (e.g. physical deterioration, technological or economic obsolescence). This valuation technique assumes that a market participant would not pay more for an asset than the amount for which it could obtain the service capacity of that asset elsewhere. Accounting book value is also used as a reference.

Genomma engaged globally recognized accounting firms to provide the Company with a range of valuations using these techniques, among others. As a result of their analysis, a **non-cash impairment loss** was required to adjust the **“investment in shares”** account in the balance sheet to better reflect its Fair Value, thus reducing the balance of **accumulated retained earnings.**

Conceptually, **this adjustment reverses the non-cash gain recorded in 2015**, when the transaction price was used to appraise the minority stake (“day one” approach), instead of using more accurate valuation techniques.

As the investment in Marzam is recognized under the equity method, and it is not a fully-owned subsidiary, the above mentioned non-cash adjustment implies:

-No impact on Genomma’s Net Revenues
-No impact on Genomma’s EBITDA
-No impact on Genomma’s Cash Flow.



Variation in internal controls, financial and disclosure policies at Marzam

Marzam's financial policies, internal controls and accounting standards are defined by Marzam's management team which was directly appointed by its controlling shareholder, Moënch Coöperatief, U.A.

Genomma requested a thorough financial due diligence by independent accounting firms, which concluded that Marzam's allowance for doubtful accounts was insufficient. The existing policy allowed for discretionary adjustments to the allowance for doubtful accounts. Moënch Coöperatif agreed that a more conservative approach was needed.

Separately, the Federal Economic Competition Commission (COFECE) conducted an investigation on the distribution of pharmaceutical products, and imposed fines to 5 distributors and 21 individuals who allegedly participated in antitrust practices, one of which included Marzam and some of its (now former) executives[10]. Even when Marzam appealed in Court, a prudent financial practice[11] would be to record the respective provision retrospectively.

Marzam's re-stated financial statements (2018-20) have been subject to external audit.

Summary of effects to the value of the "investment in shares" in Marzam

By recording the non-cash adjustments described, the amount presented as "investment in shares" $ 724 million pesos will more accurately represents its fair value as has been reported in Q1'22. Genomma Lab reaffirms its commitment to implementing policies which reflect transparency and a **prudent accounting** approach and which enhance the relevance and reliability of information contained within the Company's financial statements.

The updated figures presented in the balance sheet of our Q1'2022 earnings release report, and a corresponding footnote including the timing of recognition, are presented in the Company's annual audited financials for 2021.

Genomma Lab will continue to explore options for the non-strategic investment in Marzam.

As initially presented, there is no impact on Net Revenues, EBITDA nor Cash Flow to Genomma Lab's financial statements arising from these adjustments. Only the "investment in shares" and "retained earnings" lines are adjusted.

[10] Moënch Coöperatief appointed its Chairman, Luis Doporto, as Marzam's new CEO.

[11] IASB considers that **prudence** (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies. Another way of looking at prudence is to only record a revenue transaction or an asset when it is certain, and record an expense transaction or liability when it is probable.