



Financial Statements and Independent auditor's report

Comestel Automotive Technologies Mexicana, S. de R.L. de
C.V.

March 31, 2019 and 2020

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Independent auditor's Report

To the Stockholders of Comestel Automotive Technologies Mexicana, S. de R.L. de C.V.:

Opinion

We have audited the accompanying financial statements of **Comestel Automotive Technologies Mexicana, S. de R.L. de C.V.**, (the "Company") which comprise the statement of financial position as of March, 31 2020 , and the statement of profit or loss, statement of changes in stockholders' equity and statement of cash flows, for the year beginning in April 1st, 2019 and ending on March, 31 2020, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Comestel Automotive Technologies Mexicana, S. de R.L. de C.V.**, as of March 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Mexican Financial Reporting Standards (NIF *for its acronym in Spanish*).

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report, and the following "Exhibit". We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Mexico in accordance with the Instituto Mexicano de Contadores Públicos A.C.'s Code of Professional Ethics (IMCP Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA and IMCP Codes. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with NIF, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern and using the going concern basis of accounting, or otherwise, making the appropriate disclosures.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of **Comestel Automotive Technologies Mexicana, S. de R.L. de C.V.**, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but, is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements

Other matter

The financial statements as of March 31, 2019, which are included for comparative purposes only, were audited by another independent auditor who issue an unqualified opinion on April 15, 2019.

SALLES, SAINZ – GRANT THORNTON, S.C.



C.P. Juan Lurrabaquio Campos

Querétaro, México.
October 20, 2020

Exhibit of the independent auditor's report

Additional description of our responsibilities on the audit of the financial statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with management 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.

COMESTEL AUTOMOTIVE TECHNOLOGIES MEXICANA, S.DE R.L. DE C.V.

Statements of financial position

As of march 31 2010 and 2019

(Stated in Pesos)

| | Notes | <u>2020</u> | <u>2019</u> |
|---|-------|-----------------------------|-----------------------------|
| ASSETS | | | |
| Current | | | |
| Cash and cash equivalents | | \$ 6,633,829 | \$ 1,179,221 |
| Related parties | 8 | 11,948,871 | 11,360,028 |
| Tax to be recovered | | 29,248,014 | 7,953,667 |
| Other accounts receivable | | 1,136,991 | 1,456,153 |
| Advance payments | | 233,291 | 955,348 |
| Total current assets | | <u>49,200,996</u> | <u>22,904,417</u> |
| Non-current | | | |
| Leasehold improvements machinery and equipment, net | 5 | 6,290,381 | 5,657,011 |
| Guarantee deposits | | 273,761 | 245,150 |
| Right of use of asset, net | 6 | 2,029,059 | 3,087,267 |
| | | <u>8,593,201</u> | <u>8,989,428</u> |
| Total assets | | <u>\$ 57,794,197</u> | <u>\$ 31,893,845</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Trade payables | | \$ 1,102,631 | \$ 134,515 |
| Lease liability short term | 6 | 364,174 | 671,106 |
| Other accounts payable | | 834,052 | 1,203,939 |
| Tax payable | | 2,414,854 | 248,273 |
| Total current liabilities | | <u>4,715,710</u> | <u>2,257,833</u> |
| Long-term liabilities | | | |
| Long-term borrowings with related party payable | 8 | \$ 19,071,992 | \$ - |
| Lease liability long term | 6 | 2,284,929 | 2,343,859 |
| Total long-term liabilities | | <u>21,356,921</u> | <u>2,343,859</u> |
| Total liabilities | | <u>26,072,631</u> | <u>4,601,692</u> |
| STOCKHOLDERS' EQUITY | | | |
| Capital stock | 9 | 32,496,785 | 32,496,785 |
| Retained earnings | | (775,219) | (5,204,632) |
| Total stockholders' equity | | <u>31,721,566</u> | <u>27,292,153</u> |
| Total liabilities and stockholders' equity | | <u>\$ 57,794,197</u> | <u>\$ 31,893,845</u> |

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

COMESTEL AUTOMOTIVE TECHNOLOGIES MEXICANA, S.DE R.L. DE C.V.

Statements of profit or loss

For the years ended March 31, 2020 and March 31, 2019

(Stated in Pesos)

| | Note | 2020 | 2019 |
|--|------|----------------------------|--------------------------|
| Maquila services | | <u>\$ 33,261,732</u> | <u>\$ 15,520,806</u> |
| Other Income | | <u>40,222</u> | <u>729,707</u> |
| | | <u>33,301,954</u> | <u>16,250,513</u> |
| | | | |
| Maquila service cost and expenses | | <u>25,728,011</u> | <u>13,842,850</u> |
| Gross profit | | <u>7,573,943</u> | <u>2,407,663</u> |
| | | | |
| Interest expense | | <u>674,331</u> | <u>111,989</u> |
| Foreign exchange loss | | <u>849,638</u> | <u>1,967,998</u> |
| Comprehensive result of financing | | <u>1,523,969</u> | <u>2,079,987</u> |
| | | | |
| Profit Before Income Taxes | | <u>6,049,974</u> | <u>327,676</u> |
| | | | |
| Income taxes | | <u>1,620,561</u> | <u>-</u> |
| Net profit for the year | | <u>\$ 4,429,413</u> | <u>\$ 327,676</u> |

The accompanying notes are an integral part of these statements.

COMESTEL AUTOMOTIVE TECHNOLOGIES MEXICANA, S.DE R.L. DE C.V.

Statements of changes in stockholders' equity

For the years ended March 31, 2020 and March 31, 2019

(Stated in Pesos)

| | <u>Capital stock</u> | <u>Retained earnings</u> | <u>Total stockholders' equity</u> |
|---------------------------------------|----------------------|--------------------------|-----------------------------------|
| Balance as of 31st March, 2018 | \$ 20,000 | \$ (4,965,832) | (4,945,832) |
| Prior period adjustment | | (566,476) | (566,476) |
| Increase of capital stock | 32,476,785 | - | 32,476,785 |
| Net profit for the year | | 327,676 | 327,676 |
| Balance as of 31st March, 2019 | <u>\$ 32,496,785</u> | <u>\$ (5,204,632)</u> | <u>\$ 27,292,153</u> |
| Net profit for the year | | 4,429,413 | 4,429,413 |
| Balance as of 31st March, 2020 | <u>\$ 32,496,785</u> | <u>\$ (775,219)</u> | <u>\$ 31,721,566</u> |

The accompanying notes are an integral part of these statements.

COMESTEL AUTOMOTIVE TECHNOLOGIES MEXICANA, S.DE R.L. DE C.V.
Statements of cash flows
For the years ended March 31, 2020 and March 31, 2019
(Stated in Pesos)

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| OPERATION: | | |
| Profit before income taxes | \$ 4,429,413 | \$ 327,676 |
| Items in results that did not affect cash: | | |
| Depreciation and amortization of fixed asset | 639,351 | 761,232 |
| Amortization of right-of-use assets | 862,013 | 264,623 |
| Items from financing activities: | | |
| Interest expense | <u>(674,329)</u> | <u>(111,989)</u> |
| | <u>5,256,448</u> | <u>1,241,542</u> |
| Trade receivables and others | 1,041,264 | (5,205,388) |
| Related parties, net | (588,843) | (11,360,028) |
| Taxes to be recovered | (21,294,392) | (4,575,887) |
| Lease liability long term | 2,869,898 | 2,343,859 |
| Other account and tax payable | (369,884) | 1,939,642 |
| Guarantee deposit | (28,612) | |
| Suppliers | 968,116 | |
| Tax payable | (10,974) | |
| Net cash flows from operating activities | <u>(12,156,979)</u> | <u>(15,616,260)</u> |
| INVESTMENT: | | |
| Acquisition of leasehold , machinery and equipment, net of disposals | (1,272,721) | (352,526) |
| Other assets | - | (15,351) |
| Net cash flows from investment activities | <u>(1,272,721)</u> | <u>(367,877)</u> |
| FINANCING: | | |
| Related parties | 19,071,992 | (15,592,825) |
| Payments of current portion of capital interest of lease payments | (187,684) | (152,634) |
| Prior period adjustment | - | (566,476) |
| Increase of capital stock | - | 32,476,785 |
| Net cash flows from financing activities | <u>18,884,308</u> | <u>16,164,850</u> |
| Increase in cash and cash equivalents | 5,454,608 | 180,713 |
| Cash and cash equivalents, at the beginning of year | <u>1,179,221</u> | <u>998,508</u> |
| Cash and cash equivalents, at the end of year | <u>6,633,829</u> | <u>\$ 1,179,221</u> |

The accompanying notes are an integral part of these statements.

Comestel Automotive Technologies Mexicana, S. de R.L. de C.V.

Notes to the financial statements

March 31, 2020 and 2019

(Stated in pesos)

1 NATURE OF OPERATIONS

Comestel Automotive Technologies Mexicana, S.de R.L. de C.V. (“the company”) was constituted on January 17, 2017, in conformity with Mexican Legislation. Its primary activity includes professional, technical and scientific services and manufacture of automotive spare.

The Company’s registered address and main business location is headquartered in highway Av. Irapuato 204 cd.Industrial 36541 Irapuato, Guanajuato

The Company provides “Maquila” services under a formal program (Programa de la industria manufacturera, maquiladora y de servicios de exportación, “IMMEX” *for its acronym in spanish*), all the inventories are property of Comestel Automotive Technologies Mexicana LTD (Hong Kong), those inventories are returned once the maquila services is performed.

2 APPROVAL AND BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with Mexican Financial Reporting Standards (NIF for its Acronym in Spanish) issued by the Mexican Board of Financial Reporting Standards (CINIF for its Acronym in Spanish). Likewise, they have been prepared under the assumption that the Company operates on a going concern basis.

The accompanying financial statements and their notes were authorized to be issued on October 20, 2020, by Tanay Gupta, legal representative; consequently, they do not reflect events beyond that date.

The General Corporate Law and the by-laws of the Company grant stockholders the possibility to amend the financial statements after their release. The accompanying financial statements will be submitted for approval at the General Stockholders’ Annual Meeting.

3 CHANGES IN ACCOUNTING POLICIES

a) New standards adopted on January 1, 2019

The Company has adopted the accounting changes resulting from new standards and improvements to NIFs that became effective in the current year, as follows:

NIF D-5 ‘Leases’ (NIF D-5)

NIF D-5 replaces Bulletin D-5 ‘Leases’ and the suppleatory application of the IFRIC 4 ‘Determining whether an Arrangement contains a Lease’ of the International Financial Reporting Standards). The adoption of this new Standard has resulted in the Company recognizing a right-of-use asset and related lease liability in connection with all former operating leases.

The Company adopted this new Standard using the modified retrospective approach, as well as the alternative option of valuing the right-of-use asset in an amount equal to the lease liability as of the date of adoption. Pursuant to the foregoing, no effect was required to be recognized for adopting this standard in the opening balance of retained earnings. Finally prior periods were not required to be restated.

NIF’s Improvements 2020

In January 2020, the CINIF issued the ‘NIF’s Improvements 2020’, which will become effective for periods beginning as of January 1, 2020. Its early application is permitted as of January 1, 2019. These improvements, among other things, include the following aspects:

- *NIF D-4 ‘Tax on Income’* - uncertain tax treatment - these improvements incorporate the evaluation that Management must make as to whether or not the determination of taxes on earnings current and deferred, is accepted by the tax authorities, who may require, if applicable, the calculation of the estimate of the corresponding effect on current and deferred taxes, as well as the disclosures deemed appropriate in terms of the provisions set forth in those standards.

At the date of authorization of these financial statements, Management is performing the initial assessment of the possible effects on its financial position and results upon the initial application of these pronouncements.

4 SIGNIFICANT ACCOUNTING POLICES

The significant accounting policies used to prepare these financial statements are summarized below.

a Foreign currency translation

Functional and presentation currency

The Company by legal requirements maintains the Mexican peso as its recording currency. The financial statements are presented in the Mexican pesos currency.

Since the Company reports its financial information on a stand-alone basis, and given that its recording and presentation currency are the same and, in turn, are different from the functional currency, it has applied the established exception in NIF B-15 “Foreign currency translation”, which allows the presentation currency to be the recording currency without having to carry out any currency translation (conversion).

Foreign currency transactions and balances

Foreign currency transactions are translated into the recording currency using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognized in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction dates).

b Impact of inflation

The accompanying financial statements to 31 December 2018 and 2017 are prepared under historical cost basis.

Pursuant to NIF B-10, beginning 2008, the recognition of the effects of inflation was suspended in view that operation takes place in a non-inflationary economic environment. Accumulated inflation for the three years prior to the date of the financial statements is less than 26%.

Annual inflation in 2018, 2017, and 2016 was 4.8300%, 6.7730% and 3.3603%, respectively; therefore, accumulated inflation for the prior three years period was 15.6900%.

c Statements of profit or loss

The statements of profit or loss show costs and expenses based on their function, which allows identifying the gross profit since the Company is an industrial entity. For the years included, the Company did not generate items of other comprehensive income, so the profit or loss and the comprehensive income of the period is the same

d Statements of cash flows

Statements of cash flows have been prepared using the indirect method, which consists of first presenting pre-tax loss and further presenting changes in working capital, investing activities, and finally financing activities.

e Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank deposits in checking accounts

f Other materials

The other materials mainly include complementary products in the maquila operation, which are recognized at their acquisition cost.

g Prepayments

Prepayments represent benefits for which, the receiving goods or services, including their inherent risks, have not yet been delivered and/or transferred to the Company. Payments made in foreign currency are recognized at the exchange rate of the transaction and are not modified by subsequent exchange fluctuations between the functional currency and the foreign currency.

h Leasehold improvements machinery and equipment, net

Leasehold improvements, machinery and equipment are recorded at acquisition cost.

Depreciation is calculated based on the carrying value of fixed assets, using the straight-line method based on the useful life thereof at the following rates:

| | |
|--------------------------|-----|
| Leasehold improvements | 5% |
| Machinery and equipment | 10% |
| Furniture and fixture | 10% |
| Transportation equipment | 25% |
| Computer equipment | 30% |

i Leases

As described in Note , effective January 1, 2019, the Company has applied NIF D-5 using the modified retrospective approach, as well as the alternative option of valuing the right-of-use asset in an amount equal to the lease liability as of the date of adoption, and therefore comparative information has not been restated. This means comparative information is still reported under Bulletin D-5.

Accounting policy applicable from January 1 2019

The Company as a lessee

For any new contracts entered into on or after January 1, 2019, the Company considers whether a contract is or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available, the Company's incremental borrowing rate or the risk free rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

On the statement of financial position, right-of-use assets have been included in a separate line item just after property, plant and equipment and lease liabilities have been included in a separate line item shown as short- and long-term.

, there are no significant difference with the Mexican Financial Reporting Standards.

j Long-lived assets impairment assessment

Value of long-lived assets, tangible or intangible, are reviewed at least once a year, or when certain events or changes in the circumstances indicate that such value may not be recovered. In order to compute the impairment loss, the recoverable value must be determined, which is defined as the greater of the net selling price of a cash generating unit, and its value in use, that is determined by the sum of discounted cash flows such unit can generate in the future, at an adequate rate of discount.

As of March 31, 2020,, the Company has not identified impairment conditions on its long-lived assets.

k Financial instruments

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets and liabilities represent contractual rights and obligations, respectively, in relation to monetary economic resources.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

The classification is determined both by the business model of the entity on the management of the financial asset, as well as the contractual characteristics of the cash flow of the financial asset. Financial assets are classified in the following categories:

- Cash and cash equivalents
- Related parties receivables
- Financial instruments to collect its principal and interest
- Financial instruments to collect or sell
- Financial instruments to trade

Except for those cash and cash equivalents, related parties receivables that do not contain a significant financing component and are measured at the transaction price in accordance with NIF D-1 “Revenue from Contracts with Customers”, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Subsequent measurement of financial assets

Trade receivables and financial instruments to collect its principal and interest (IFCPI for its Acronym in Spanish)

Financial assets (IFCPI) are measured at amortized cost if the assets meet the following conditions and were not designated as fair value through profit or loss (FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
 - the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Measurement at amortized cost is carried out by using the effective interest method, discounting is omitted where the effect of discounting is immaterial. The Company’s cash and cash equivalents, trade and other receivables, that do not contain a significant financing component, fall into this category of financial instruments and are measured at amortized cost.

Impairment of financial assets

According with the ‘expected credit loss (ECL) model’, impairment evaluation for financial assets use more forward-looking information to recognize expected credit losses. This replaces the previous ‘incurred loss model’. Instruments within the scope of the new requirements included trade receivables, including contract assets measured under NIF D-1, loans and other debt-type financial assets measured at amortized cost and/or FVTOCI, as well as loan commitments and some financial guarantee contracts (for the issuer) that are not measured at FVTPL.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses,

including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

Trade and other receivables and contract assets

The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

Classification and measurement of financial liabilities

The Company's financial liabilities include borrowings, trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

l Provisions, contingent assets and liabilities

Provisions represent present obligations resulting from past events and are recognized when there is a probability of cash outflows, and amounts can be reliably estimated. Timing and cash outflows can still remain uncertain. A present obligation arises from legal or contractual commitments resulting from past events such as warranties, legal disputes, or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the probability of cash outflows will be measured considering the class of obligations. Provisions are discounted to their present values, where the time value of money is material.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases in which a possible outflow of economic resources as a result of present obligations is considered unlikely or remote, no liability is recognized, unless it is assumed in the course of a business acquisition.

m Income tax prepaid or deferred

Provisions for income tax (*ISR for its Spanish acronym*) are recorded in profit or loss for the year they become payable. Also, a deferred tax related to these two items is included, arising from temporary differences resulting from comparing book and tax values of assets and liabilities, including the benefit of tax loss carryforwards and tax credits. A deferred tax asset is recorded only when there is a high likelihood that it can be recovered. Deferred taxes are determined using enacted tax rates that are estimated will be effective on the dates temporary items shall be reversed or realized.

n Equity

Share capital represents the nominal value of shares that have been issued (see Note 13). Retained earnings include all current and prior period retained profits.

o Revenue recognition

Revenues from services of the Company do not include integration processes with other products or services, so the performance obligation identified corresponds to the services provided by the Company; based on the characteristics of the services, the client receives and consumes the benefits as the Company performs. Revenue from services transactions normally do not contemplate variable payments, financing or any other relevant agreement that affects the transaction price.

p Operating expenses

Operating expenses are recognized in profit or loss upon utilization of the service or as incurred.

Significant management judgement in applying accounting policies and estimation uncertainty

Significant management judgements

The following are the judgements made by management in applying the accounting policies of the Company that have the most significant effect on the financial statements.

q Estimation uncertainty

Information about estimates and assumptions that may have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

r Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets.

5 LEASEHOLD IMPROVEMENTS MACHINERY AND EQUIPMENT

| | 2020 | 2019 |
|--------------------------------|---------------------|--------------|
| Leasehold Improvements | \$ 4,257,770 | \$ 3,977,657 |
| Computer equipment | 279,457 | 161,331 |
| Transport equipment | 488,966 | 488,966 |
| Machinery and equipment | 2,427,841 | 1,561,132 |
| Furniture and equipment | 422,506 | 290,279 |
| | 7,876,540 | 6,479,365 |
| Less- Accumulated depreciation | (1,586,159) | (822,354) |
| | \$ 6,290,381 | \$ 5,657,011 |

6 LEASES

a) The company has a warehouse lease in Irapuato, Guanajuato, Mexico; which have a dimension of 2,289 m2 in which the offices are installed and where their operations are carried out. The term of the lease is 5 years, due on February 28, 2022 and may be renewed for another 5 years if agreed by both parties.

The Company's obligations as set forth in the lease are guaranteed by the landlord's title of ownership over the leased assets. the Company may transfer or sublease the property, only with the written consent of the lessor.

(b) The net carrying value of the recognized right of use asset and movement during the period is as follows:

The future minimum finance lease payments are as follows:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Buildings | \$ 2,891,072 | \$ 3,938,832 |
| Accumulated depreciation | (862,013) | (841,565) |
| Right of use of asset, net | \$ 2,029,059 | \$ 3,097,267 |
| Future income payments are as follows: | | |
| Total | \$ 2,955,355 | \$ 3,695,519 |
| Less interests | (306,252) | (680,554) |
| Present value of minimum payments | 2,649,103 | 3,014,965 |
| Less current portion | (364,174) | (671,106) |
| Long-term obligations | \$ 2,284,929 | \$ 2,343,859 |

7 INCOME TAX

For the years ended March 31, 2020, and 2019, the Company determined taxable profit in the amount of \$5,401,871 and \$2,871,420, respectively, which were determined according to the Income Tax Law applicable to companies that performed maquila operations.

Income tax is determined in accordance with Article 182 of the Income tax law, which is named "Safe Harbor", applicable to those taxpayers that provide maquila services to foreign related parties.

Taxable income results from the greater amount of: a) 6.9% of total assets, including inventory of raw materials and machinery, owned by the foreign related party, which have been imported on a temporary basis and used in the maquila operations, or b) 6.5% of the total amount of costs and operating expenses, including any expense paid by the foreign related party on behalf the Company.

As of March 31, 2020, and 2019, the greater taxable income determined was 6.9% of total assets used in the maquila operations

For the year ended March 31, 2020 income tax determined amounted \$1,153,132.

8 RELATED PARTIES' BALANCES AND TRANSACTIONS

During the years ended December 31, 2019 and 2018, the Company carried out transactions and had balances with related parties as shown below:

Receivable:

| | <u>2020</u> | <u>2019</u> |
|---|---------------|---------------|
| Comestel Automotive Technologies Mexicana Limited | \$ 11,948,871 | \$ 11,360,028 |

The balance receivable to related parties are made up of current account balances, without interest, in cash without deadline expired, and for which there is no guarantees

LONG TERM LOAN TO COMESTEL AUTOMOTIVE TECHNOLOGIES MEXICANA LIMITED

As of March 31, 2020, the debt in dollars is represented by various documents payable to for a total of \$ 900,0000, maturing on March 31, 2022. Note will trigger ordinary interest equal to a fixed rate of 1 (one) year LIBOR Rate + 1%

| | <u>2020</u> |
|--|--------------------------|
| Notes payable to Comestel Automotive Technologies Mexicana Limited | \$19,312,715 |
| Less-Short term interest | 240,723 |
| Total long-term documents payable | <u>19,071,992</u> |

Likewise, during the years ended March 31, 2020 and 2019, the Company carried out operations with related parties as follows:

Revenues:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Comestel Automotive Technologies Mexicana Limited | \$33,261,732 | \$15,520,806 |

9 STOCKHOLDERS' EQUITY

Capital stock

As of March 31, 2020 and 2019, the Company's capital stock is represented as follows:

| Partners | Social parts | Fixed Capital | Variable Capital | Total |
|---|-----------------|---------------|------------------|------------|
| Comestel Automotive Technologies Mexicana Limited | 1 | 19,800 | 32,476,785 | 32,496,585 |
| Comstar Automotive USA LLC. | 1 | 200 | - | 200 |
| | 2 | 20,000 | 32,476,785 | 32,496,785 |

10 FINANCIAL INSTRUMENTS RISK

The Company is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarized below:

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| Financial Assets | | |
| <u>Amortized cost</u> | | |
| Cash and cash equivalents | \$ 6,633,829 | \$ 1,179,221 |
| Related parties | <u>11,948,871</u> | <u>11,360,028</u> |
| | <u>\$ 18,582,700</u> | <u>\$ 12,539,249</u> |
| | | |
| Financial liabilities | | |
| <u>Amortized cost</u> | | |
| Current liabilities | | |
| Trade payables | \$ 1,102,631 | \$ 134,515 |
| Lease liability short term | 364,174 | 671,106 |
| Long-term liabilities | | |
| Long-term borrowings with related party payable | 19,071,992 | - |
| Lease liability long term | 2,284,929 | 2,343,859 |
| | <u>\$22,823,726</u> | <u>\$ 3,149,480</u> |

The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management is coordinated at its headquarters, in close cooperation with the board of directors, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to volatile financial markets. Long-term financial investments are managed to generate lasting returns.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

Market risk analysis

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities.

Foreign currency sensitivity

Most of the Company's transactions are carried out in US dollars (USD). Exposures to currency exchange rates arise from the Company's sales and purchases abroad, which are primarily denominated in US dollars (USD).

To mitigate the Company's exposure to foreign currency risk, non-parent's currency cash flows are monitored and forward exchange contracts are entered into in accordance with the Company's risk management policies. Generally, the Company's risk management procedures distinguish short-term foreign currency cash flows (due within six months) from longer-term cash flows (due after six months). Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward exchange contracts are mainly entered into for significant long-term foreign currency exposures that are not expected to be offset by other same-currency transactions.

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The financial statements at March 31, 2020 and 2019 include the following US Dollars as part of the financial assets and liabilities:

| <u>Amounts in US Dollars</u> | <u>2020</u> | <u>2019</u> |
|------------------------------|-----------------|----------------|
| Financial assets | 760,970 | 644,182 |
| Financial liabilities | (817,222) | (1,742) |
| Net exposure | <u>(56,252)</u> | <u>642,440</u> |

As of March 31, 2020, and 2019, and October 20, 2020, date of the financial statements approval, foreign exchange rates MXP per USD were \$23.5122, 19.3793 and \$21.1342 respectively.

Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. The Company is exposed to credit risk from financial assets including cash and cash equivalents held at banks, trade and other receivables.

Credit risk management

The credit risk is managed on a group basis based on the Company's credit risk management policies and procedures.

The credit risk in respect of cash balances held with banks and deposits with banks are managed via diversification of bank deposits, and are only with major reputable financial institutions.

Liquidity risk analysis

Liquidity risk is that the Company might be unable to meet its obligations. The Company manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. The data used for analyzing these cash flows is consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows that available borrowing facilities are expected to be sufficient over the lookout period.

The Company's objective is to maintain cash and marketable securities to meet its liquidity requirements for 30-day periods at a minimum.

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables.

11 SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization ('WHO') declared a pandemic of COVID-19, the Governments worldwide, including Mexico, have implemented a series of policies and actions to combat it. At the date of authorization of the financial statements, the scope of the impact of COVID-19 for the worldwide economies, Mexico and Society is uncertain and cannot yet be determined.

The Management will continue to monitor the development of the pandemic and its impact on Society, including its operations, income and costs, loan agreements and its obligations, impairment conditions on its long-lived assets, amount of assets measured at value reasonable, as well as other estimates included in its financial statements and its corresponding notes. Management expects no significant changes in the financial information derived from this pandemic effects.