CABLEADOS DEL NORTE II, S. DE R.L. DE C.V.

Financial statements

31 December 2020 and 2019
with independent auditor´s report

CABLEADOS DEL NORTE II, S. DE R.L. DE C.V.

Financial statements

31 December 2020 and 2019

Contents:

Construyendo un mejor entorno de negocios

Torre Equus
335 Ricardo Margain
Valle del Campestre
San Pedro Garza García, Nuevo León
C.P. 66265

Tel: (81) 8152 1800
Fax: (81) 8152 1839
ey.com.mx

INDEPENDENT AUDITOR'S REPORT

To the Board of Director and Shareholders of
Cableados Del Norte II, S. de R.L. de C.V.

Qualified opinion

We have audited the accompanying financial statements of Cableados del Norte II, S. de R.L. de C.V. de C.V. ("the Company"), which comprise the statement of financial position as at December 31, 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the issue described in the section "Basis for qualified opinion", the accompanying financial statements present fairly, in all material respects, the financial position of Cableados del Norte II, S. de R.L. de C.V. de C.V. as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Mexican Financial Reporting Standards ("MFRS").

Basis for qualified opinion

As discussed in Note 1j) to the accompanying financial statements, as at December 31, 2020 and 2019, the Company did not record a provision for employee benefits in accordance with Mexican FRS D-3 "Employee benefits", instead, registered the liability, according to another financial reporting standard (IAS 19 "Employee benefits"). It was not practical to calculate the amount of employee benefits in accordance with MFRS D-3, at December 31, 2020 and 2019. The lack of recognition of such liability in accordance with MFRS D-3 is considered a material deviation for the accompanying financial statements.

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mexico according with the "Código de Ética Profesional del Instituto Mexicano de Contadores Públicos" ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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.

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

- Identify and assess the risks of material misstatement of the [consolidated] [unconsolidated] 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The partner in charge of the audit resulting in this independent auditor's report, is who signs it.

Mancera, S.C.
A member practice of
Ernst & Young Global Limited

Norberto Treviño Martínez

San Pedro Garza García, N.L., México.
May 17, 2021.

CABLEADOS DEL NORTE II, S. DE R.L. DE C.V.

Statements of financial position

(Amounts in Mexican pesos)

	As at December 31, 2020	2019
Assets		
Current assets:		
Cash	$ 2,767,677	$ 7,901,201
Related parties (Note 2)	133,042,042	99,184,972
Tax recoverable and other current assets (Note 3)	8,563,592	10,380,222
Total current assets	144,373,311	117,466,395
Non-current assets:		
Deferred income tax (Note 7)	13,915,481	12,139,922
Other assets	361,471	253,926
Total non-current assets	14,276,952	12,393,848
Total assets	$ 158,650,263	$ 129,860,243
Liabilities and equity		
Current liabilities:		
Suppliers	$ 7,566,287	$ 3,708,954
Taxes and accrued liabilities (Note 4)	42,576,303	42,128,807
Total current liabilities	50,142,590	45,837,761
Employee benefits	22,436,535	12,734,264
Total liabilities	72,579,125	58,572,025
Equity (Note 5):		
Share capital	3,000	3,000
Legal reserve	300	300
Retained earnings	91,470,075	71,660,826
Other comprehensive income (Note 8)	(5,402,237)	(375,908)
Total equity	86,071,138	71,288,218
Total liabilities and equity	$ 158,650,263	$ 129,860,243

The accompanying notes are part of these financial statements.

CABLEADOS DEL NORTE II, S. DE R.L. DE C.V.

Statements of comprehensive income

(Amounts in Mexican pesos)

	For the year ended as at December 31, 2020	2019
Maquila revenues (Note 2)	$ 417,551,414	$ 509,708,399
Operating expenses:		
Maquila expenses (Note 6)	391,512,941	478,186,781
Operating profit	26,038,473	31,521,618
Net financing cost:		
Interest income (Note 2)	1,805,657	-
	1,805,657	-
Profit before income tax	27,844,130	31,521,618
Income tax (Note 7)	8,034,881	18,442,024
Net profit of the year	19,809,249	13,079,594
Other comprehensive income:		
Remeasurements of net defined Benefit liability (Note 8)	(5,026,329)	(1,118,417)
Comprehensive Income	$ 14,782,920	$ 11,961,177

The accompanying notes are part of these financial statements.

CABLEADOS DEL NORTE II, S. DE R.L. DE C.V.

Statements of changes in equity

For the years ended December 31, 2020 and 2019

(Amounts in Mexican pesos)

	Share capital	Legal reserve	Retained earnings	Other comprehensive income	Total
Balance as at December 31, 2018	$ 3,000	$ 300	$ 58,581,232	$ 742,509	$ 59,327,041
Comprehensive income			13,079,594	(1,118,417)	11,961,177
Balance as at December 31, 2019	3,000	300	71,660,826	(375,908)	71,288,218
Comprehensive income			19,809,249	(5,026,329)	14,782,920
Balance as at December 31, 2020	$ 3,000	$ 300	$ 91,470,075	$ (5,402,237)	$ 86,071,138

The accompanying notes are part of these financial statements.

CABLEADOS DEL NORTE II, S. DE R.L. DE C.V.

Statements of cash flows

(Amounts in Mexican pesos)

	For the year ended as at December 31, 2020	2019
Operating activities		
Profit before income tax	$ 27,844,130	$ 31,521,618
Employee benefits	4,598,586	3,558,587
Interest gain	(1,805,657)	-
	30,637,059	35,080,205
Changes in operating assets and liabilities:		
Accounts receivable and other current assets	1,709,085	(8,421,101)
Related parties	(33,857,070)	9,591,600
Suppliers	3,857,333	(681,891)
Income tax paid	(7,656,299)	(17,964,495)
Employee benefits	(2,076,785)	(2,385,066)
Provisions and accrued liabilities	447,496	(8,666,457)
Net cash flows generated by (used in) operating activities	(6,939,181)	6,552,795
Financing activities		
Interest gain	1,805,657	-
Net cash flows generated by financing activities	1,805,657	-
(Decrease) increase in cash	(5,133,524)	6,552,795
Cash at beginning of year	7,901,201	1,348,406
Cash at end of year	$ 2,767,677	$ 7,901,201

The accompanying notes are part of these financial statements.

CABLEADOS DEL NORTE II, S. DE R.L. DE C.V.

Notes to the financial statements

At December 2020 and 2019

(Amounts in Mexican pesos, unless otherwise indicated)

1. Nature of operations and summary of significant accounting policies

Cableados Del Norte II, S. de R.L. de C.V. (The "Company") was founded in March 15, 1995, in in accordance with Mexican law under the protection of the maquila program established by the Mexican Government. The company is a subsidiary of Project del Holding, S.A.R.L. and its main activity is to provide a maquila services to AEES Inc. (a related party).

On October 27, 2015 the Ministry of Economy authorized AEES Manufacturera, S. de R.L. de C.V. (related party) to change the modality of its IMMEX Program from Industrial to a Holding Maquiladora Program.; this program includes the companies which provide personal services to AEES Manufacturera, S. de R.L. de C.V. With this authorization, AEES Manufacturera, S. de R.L. de C.V. acquired the quality of a controlling company with a singles IMMEX program in accordance with the Decree of the promotion of the manufacturing industry. The company celebrates a contract with AEES Inc (related party) to provide maquila services.

The Company's operating period and fiscal year is from January 1st, through December 31.

On May 17, 2021, the financial statements and these notes were authorized by the Shared-Service Manager, Fernando Parada, for their issue and subsequent approval by the Company's Board of Directors and Shareholders, who have the authority to modify the financial statements. Information on subsequent events covers the period from 1 January 2019 through the above-mentioned issue date of the financial statements.

Summary of significant accounting policies

a) Compliance with Mexican Financial Reporting Standards ("MFRS")

Except as mentioned in paragraph j), the financial statements as of 31 December 2020 and 2019 have been prepared in accordance with Mexican Financial Reporting Standards ("MFRS" or "Mexican FRS").

b) Basis of preparation

The financial statements as of 31 December 2020 and 2019 have been prepared on a historical cost basis, except for the non-monetary items that were acquired or recognized in the financial statements before 31 December 2007, as such items reflect the cumulative effects of inflation from their initial recognition date through 31 December 2007.

From 1 January 2008 Mexico is considered to have a non-inflationary economic environment, as defined under Mexican FRS B-10 “Effects of inflation”. As at 31 December 2020 and 2019, Mexico’s cumulative inflation rate for the three prior years was 26% (annual average of 8%), which represents the necessary condition for considering Mexico as having a non-inflationary economic environment. Accordingly, the Company ceased restating its financial statements for inflation as of 1 January 2008.

As determined based on the National Consumer Price Index (NCPI) published by the National Statistical and Geographical Information Agency (INEGI), Mexico’s annual inflation rate for 2020 and 2019 is as follows:

	Cumulative inflation for 2019	Cumulative inflation for 2020	Inflation for the year
	(sum of inflation rates for 2017, 2018 and 2019)	(sum of inflation rates for 2018, 2019 and 2020)	(inflation for 2020)
Inflation rates	13.17%	11.19%	3.15%

In accordance with FRS, it corresponds to a non-inflationary economic environment, and require that the financial statements continue been preparing under a historical cost basis.

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- expected to be realized within twelve months after the reporting period;
- held primarily for the purpose of trading, or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle:
- it is held primarily for the purpose of trading:
- it is due to be settled within twelve months after the reporting period, or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Company classifies all other liabilities as non-current.

c) Revenue from contracts with customers

The Company is primarily engaged to render maquila services based on a contract with its related party AEES, Inc.

Maquila revenues are recognized at the moment in which the maquila service is rendered in accordance with the contract with their related party AEES, Inc. For the determination of revenues, the company uses a factor of 4.75% profit on the costs and expenses incurred in the maquila process. This factor may be modified at the end of the fiscal year to comply with the transfer pricing requirements in accordance with Articles 179, 180, 181 and 182 of the current Mexican Income Tax Law (MITL).

d) Use of estimates

The preparation of the Company's financial statements in accordance with Mexican FRS requires management to make judgements, estimates and significant assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. The Company based its estimates on the available information at the time the financial statements were prepared. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

Retirement benefits

The net cost of defined benefits and the present value of these labor obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, and mortality, disability, employee turnover rates, as well as certain financial and demographic assumptions. Due to the complexities involved in the valuation, the underlying assumptions, and the long-term nature of the valuation, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of marketable securities in currencies consistent with the currencies of the post-employment benefit obligation by reference to market yields on high-quality corporate bonds or when no such information is available, by reference to market yields on government bonds. When a corporate bond rate is used, the underlying bonds are further assessed for quality, and those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based due to their low quality.

The mortality rate is based on Mexico's publicly available mortality tables.

Future salary increases are based on expected future inflation rates for Mexico considering a growth rate in the expected benefits.

e) Cash

Cash principally consist of bank deposits.

f) Trade receivables and other accounts receivable

Accounts receivable represent the consideration to which an entity is entitled in exchange for satisfaction of a performance obligation through the transfer of a promised good or service to a customer.

Trade receivables are considered to be financial assets (IFC as are known in Spanish), as they arise from a contract that establishes the contractual obligations of the parties.

Accounts receivable are recognized upon accrual of the transaction giving rise to them, which occurs when control over the promised good or service is transferred to the customer in execution of the terms of the related contract. Accounts receivable are only recognized when they meet the conditions for recognition of the corresponding revenue in accordance with Mexican FRS D-1 Revenue from contracts with customers.

The amount of a receivable can vary because of rebates, discounts or refunds, and the corresponding changes to the consideration amount are recognized at the time the customer becomes entitled to such rebate, discount or refund.

Accounts receivable are initially recognized at the transaction price determined in accordance with Mexican FRS D-1 and subsequently adjusted to the amount of the transaction price that has not been collected from the customer.

Receivables denominated in foreign currency or in another medium of exchange are translated to the Company's functional currency using the rate of exchange prevailing at the reporting date. Changes in the amount of trade receivables arising from exchange rate fluctuations are recognized as part of net financing cost.

Accounts receivable are classified as either short-term or long-term depending on the length of their terms. Accounts receivable that are due within one year of the reporting date (or within the entity's normal business cycle if it exceeds one year) are classified as short-term. All other accounts receivable are classified as long-term.

The Company records an allowance for expected credit losses in profit or loss upon initial recognition of its trade receivables, based on an assessment of their recoverability, and then recognizes the changes to the allowance that arise in each subsequent period.

Related party receivables arising from the sale of goods or services are presented and disclosed separately, since these receivables have special characteristics with respect to their collectability.

Other accounts receivable are initially recognized as they accrue and represent amounts owed to an entity arising from transactions that are unrelated to its normal operations (loans to shareholders, officers and employees, insurance claims, recoverable taxes when the Company is entitled in accordance with the corresponding tax law), and which the entity expects to receive within one year of the reporting date (or within the entity's normal business cycle if it exceeds one year). Other accounts receivable are presented as part of current assets.

Other accounts receivable are measured at the amount of the consideration to which the Company is entitled, which is generally the nominal amount of the receivable at initial recognition, and the uncollected nominal amount upon subsequent recognition.

g) Allowance for expected credit losses

The Company recognizes an allowance for expected credit losses and exercises its judgement to determine the expected credit losses of its trade receivables, taking into consideration its historical credit loss experience, current circumstances, and reasonable and sustainable forecasts of different future quantifiable events that could reduce the future cash flows earned from the Company's receivables.

The Company recognizes the allowance for expected credit losses related to accounts receivable in accordance with Mexican FRS C-16 Impairment of financial assets.

h) Prepaid expenses

Prepaid expenses are initially recognized as assets as of the date the payment is made, provided that it is probable that the future economic benefits associated with the asset will flow to the Company. At the time the goods or services are received, prepaid expenses are either capitalized or recognized in profit or loss as an expense, depending on whether there is certainty that the acquired goods or services will generate future economic benefits.

The Company periodically evaluates the ability of prepaid expenses lose their ability to generate future economic benefits and the recoverability thereof, the amount deemed as unrecoverable is recognized as an impairment loss in income for the period.

i) Provisions, contingent and commitments

Provisions are recognized when (i) the Company has a present obligation (legal or constructive) as a result of a past event, (ii) it is probable (more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and (iii) a reliable estimate can be made of the amount of the obligation.

When the effect of the value of money over time is significant, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate applied in these cases is pretax and reflects market conditions at the date of statement of financial position and, where appropriate, the risks specific to the liability. In these cases, the increase in the provision is recognized as an interest expense.

Contingent liabilities are recognized only when it is probable they will give rise to a future cash disbursement for their settlement.

Contingent assets are recognized when the realization of income is virtually certain.

j) Net employee defined benefit liabilities

Seniority premiums are paid to workers as required by Mexican labor law. Under Mexican labor law, the Company is also obligated to make certain payments to workers who leave the Company or are dismissed in certain circumstances.

The premium costs seniority and termination benefits are recognized annually based on calculations by independent actuaries using the projected unit credit method using financial assumptions in nominal terms.

As at December 31, 2020 and 2019, the Company did not record a provision for its obligation related to termination benefits, which should be calculated using the projected unit credit method in accordance with Mexican FRS D-3 “Employee benefits”. The Company recognize only the seniority premium provision based on the actuarial calculation in accordance with IAS 19 as of December 31, 2019.

k) Compensated absences

The Company creates a provision for the costs of compensated absences, such as paid annual leave, which is recognized using the accrual method.

l) Employee Profit Sharing (EPS)

Current employee profit sharing is presented as part of costs or expenses in the statement of comprehensive income.

m) Comprehensive income

Comprehensive income represents the increase or decrease in earned capital from net income or loss for the year, components of Other Comprehensive Income (OCI). Other Comprehensive Income (OCI) consists of income, cost and expense items recognized in equity that are expected to be realized in the medium (long) term and whose amounts may change due to changes in the fair value of the assets and liabilities that gave rise to them, making their realization uncertain. OCI includes net defined benefit liability (asset) remeasurement gains and losses related to the labor obligations.

n) Income tax

Current income tax

Current income tax is recognized as a current liability, net of prepayments made during the year. Current income tax is recognized as an expense in profit or loss, except to the extent that it arises from transactions or other events recognized outside profit or loss, either in comprehensive income or directly in equity.

Deferred income tax

Deferred income tax is calculated using the asset and liability method. Under this method, deferred taxes are recognized on all temporary differences between financial reporting and tax values of assets and liabilities, applying the income tax rate as of the date of the statement of financial position, or the enacted rate at the date of the statement of financial position that will be in effect when the temporary differences giving rise to deferred tax assets and liabilities are expected to be recovered or settled.

The Company periodically evaluates the possibility of recovering deferred tax assets and if necessary, creates a valuation allowance for those assets that do not have a high probability of being realized.

o) Statement of comprehensive income presentation

Costs and expenses shown in the statement of comprehensive income are analyzed by their function, since such classification allows for a more accurate evaluation of the Company's operating and gross profit margins. Although not required to do so under Mexican FRS, the Company includes operating income in the income statement, since this item is an important indicator for evaluating the Company's operating results.

p) Concentration of risk

As at December 31, 2020 and 2019, the Company provides its maquila services exclusively to its related party AEES, Inc. under a maquila program. Accordingly, in the event that the related party no longer requires these services, the Company's operating results could be adversely affected.

q) New accounting pronouncements

1) Standards and Improvements to Mexican FRS issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issue of the Company's financial statements are disclosed below.

The Company intends to adopt these standards, if applicable, when they become effective.

Mexican Financial Reporting Standard (Mexican FRS) C-15 Impairment of long-lived assets (effective for annual periods beginning on or after 1 January 2022)

Mexican FRS C-15 Impairment of Long-lived Assets was issued by the CINIF in December 2020 and sets out the framework for the accounting recognition of impairment losses on the value of long-lived assets, and their reversal.

Mexican FRS C-15 will supersede Bulletin C-15 Accounting for the Impairment or disposal of long-lived assets. The most important changes contained in the new standard are as follows: Mexican FRS C-15 provides new examples to assess whether there is any indication that an asset may be impaired, for the purpose of impairment testing, the term net selling price is now replaced by the term fair value less costs to sell, entities now have the option to use an estimate of future cash flows and a real discount rate, to determine the recoverable amount, new guidelines for the accounting treatment of foreign currency future cash flows, new guidelines for the allocation of goodwill at a cash-generating unit (CGU) level and recognition of an impairment loss, impairment tests will no longer be determined using the perpetuity value for intangible assets with indefinite useful lives and, as a result, such impairment tests have been modified, new guidelines that address the impairment of corporate assets, and as a result of the aforementioned changes, the disclosure guidelines have been modified.

Mexican FRS C-15 is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

The adoption of these improvements are being analyzed by the Company.

Interpretation to Mexican FRS 24 Recognition of the effect of the application of new benchmark interest rates (effective for annual periods beginning on or after 1 January 2021)

Interpretation to Mexican FRS 24 Recognition of the effect of the application of new benchmark interest rates was issued by the CINIF in October 2020 to establish guidelines regarding the effects of adopting the new benchmark interest rates applicable to financial assets and liabilities or hedging relationships. The referred benchmark interest rates replace the 'IBOR' rates (e.g. TIIE, LIBOR, EURIBOR, Prime Offering Rate, etc.) applied under the previous guidance. The Interpretation also addresses whether the adjustments arising from the replacement or change in interest rates shall cause the financial instrument to be derecognized or the hedging relationship to be discontinued.

The new Interpretation also establishes new disclosures related to the adoption of the new benchmark interest rates.

Interpretation to Mexican FRS 24 is effective for annual periods beginning on or after 1 January 2021, with early application permitted. The effects of the change to benchmark interest rates must be recognized prospectively.

The adoption of these improvements are being analyzed by the Company.

Improvements to Mexican FRS for 2021

The improvements that give rise to accounting changes related to valuation, disclosures or presentation in the financial statements are as follows:

(i) Mexican FRS B-1 Accounting changes and error corrections

Entities are now required to recognize prospectively the initial effect of an accounting change or error correction when it is impracticable to determine such initial effect using the retrospective approach.

This improvement is effective for annual periods beginning on or after 1 January 2021, with early adoption permitted for annual periods beginning on or after 1 January 2020. Any accounting changes arising from the adoption of this improvement are to be recognized prospectively.

The adoption of this improvement had no effect on the Company's financial statements.

2) New Standards, Interpretations and Improvements to Mexican FRS effective as at 1 January 2020

Mexican FRS B-11 Disposal of long-lived assets and discontinued operations

In November 2018, the CINIF issued Mexican FRS B-11 Disposal of long-lived assets and discontinued operations, the purpose of which is to separate the requirements for presentation and disclosure of disposals of long-lived assets (or disposal groups) classified as held for sale, as well as discontinued operations, from the requirements for measurement of long-lived assets were established as of 31 December 2019, in Bulletin C-15 Accounting for the Impairment or Disposal of Long-lived Assets.

Mexican FRS B-11 establishes that long-lived assets and certain assets that an entity would normally regard as non-current that are acquired exclusively with the view to resale shall not be classified as current unless they meet the criteria to be classified as held for sale in accordance with Mexican FRS B-11. In addition, for assets classified according to a liquidity presentation of the statement of financial position, under Mexican FRS B-11, non-current assets are those assets expected to be recovered more than twelve months after the reporting date (or within the entity’s normal business cycle if it exceeds twelve months).

Mexican FRS B-11 is effective for annual periods beginning on or after 1 January 2020. Early application is not permitted. Under Mexican FRS B-11, initial adoption can be applied on a prospective basis.

The adoption of Mexican FRS B-11 had no effect on the Company’s financial statements.

Improvements to Mexican FRS for 2020

(i) Mexican FRS D-4 Income taxes and Mexican FRS D-3 Employee benefits

Entities are now required to account for the effects of uncertain tax treatments on their income tax and employee profit sharing. The improvements address matters such as: whether an entity should consider uncertain tax treatments separate or combined basis, the assumptions an entity must make when determining whether the tax treatment will be reviewed by the tax authorities, how an entity should determine its taxable profit, tax base, unused tax losses, unused tax credits and tax rates, methods for estimating the uncertainty, and how an entity should evaluate changes in facts and circumstances.

Since employee profit sharing is determined based on the same tax laws and using practically the same tax base as income tax, the above mentioned considerations related to the effects of uncertainty are also applicable to current and deferred employee profit sharing.

These improvements are effective for annual periods beginning on or after 1 January 2020, with early adoption permitted for annual periods beginning on or after 1 January 2019.

The adoption of these improvements had no effect on the Company’s financial statements.

(ii) Mexican FRS D-4 Income taxes

Entities are now required to recognize the tax effects of distributions of dividends in equity, so when an entity recognizes a liability for distribution of dividends, it must also recognize the corresponding income tax liability, if applicable.

This improvement is effective for annual periods beginning on or after 1 January 2020, with early adoption recommended for annual periods beginning on or after 1 January 2019.

The adoption of this improvement had no effect on the Company's financial statements.

Improvements to Mexican FRS for 2019

(i) Mexican FRS B-9 Interim financial reporting

Mexican FRS B-9 Interim financial reporting introduces new disclosure requirements for condensed financial statements for an interim period related to the fair value of the Company's financial instruments and revenue from contracts with customers, such as changes in economic and business circumstances that affect the fair value of financial assets and liabilities, transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments, changes in the classification of financial assets as a result of a change in the purpose or use of those assets or changes in contingent liabilities or contingent assets, regardless of the date of the most recent annual financial report.

These improvements are effective for annual periods beginning on or after 1 January 2019. Any accounting changes arising from the adoption of these improvements are to be recognized prospectively.

The adoption of these improvements had no effect on the Company's financial statements.

2. Related parties

An analysis of balances due from and to related parties as at 31 December 2020 and 2019 is as follows:

	2020	2019
AEES, Inc. [a]	$ 133,042,042	$ 99,184,972

[a] Two contracts have been entered with its relatd party AEES, Inc.:

- Maquila contract, which states that the revenue will be calculated based on the costs and expenses incurred in the maquila process plus a percentage of profit. For the years ended December 31, 2020 and 2019, the amount of the receivables account originated by the maquila process, interest-free and cash payable is $76,646,179 and $99,184,972, respectively.

- Contract of June 1, 2020 for a non-revolving loan for $51,590,206 at an interest rate of 6% within 2 years, effective July 1, 2022. The amount of the receivable loan as of December 31, 2020 is $51,590,206 plus an interest generated for $1,805,657.

During the years ended 31 December 2020 and 2019, the Company had the following transactions with its related parties:

	2020	2019
Revenue for maquila service:		
AEES, Inc.	$ 417,551,414	$ 509,708,399
Interest:		
AEES, Inc.	1,805,657	-
Other expenses:		
SMR Automotive Vision Systems México, S.A. de C.V.	142,289	-

3. Tax recoverable and other current assets

At December 31, 2020 and 2019, the accounts receivable and other current assets are as follows:

	2020	2019
Prepaid insurance	$ 904,353	$ 257,222
Recoverable value added tax	7,533,197	8,410,500
Other accounts receivable	126,042	166,734
Recoverable income tax	-	1,545,766
	$ 8,563,592	$ 10,380,222

4. Taxes and accrued liabilities

At December 31, 2020 and 2019, the provisions and accrued liabilities are as follows:

	2020	2019
Liability provisions	$ 25,404,766	$ 26,943,696
Taxes and contributions payable	12,017,787	10,217,446
Employee Profit Sharing (EPS)	3,333,300	4,023,431
Income tax payable	1,820,450	944,234
	$ 42,576,303	$ 42,128,807

5. Equity

a) At December 31, 2020 and 2019, the share capital authorized is $ 3,000 which is fully subscribed and paid, share capital is unlimited. Both the fixed and the variable portion of capital are represented by shares of Series "B" with nominal value of one peso each and are fully subscribed by foreign investors.

b) In accordance with the Mexican Corporations Act, the Company is required to appropriate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of the value of the Company's share capital. As at 31 December 2020 and 2019, the legal reserve is $300.

c) Earnings distributed in excess of the Net Reinvested Taxed Profits Account (CUFINRE by its acronym in Spanish) and Net Taxed Profits Account (CUFIN by its acronym in Spanish) balances will be subject to the payment of corporate income tax at the statutory rate at that time. The payment of this tax may be credited against the Company's current income tax.

Dividends paid to individuals and foreign corporations from earnings generated as of 1 January 2014 shall be subject to an additional 10% withholding tax.

6. Maquila expenses

At December 31, 2020 and 2019, the maquila expenses are as follows:

	2020	2019
Wages and salaries	$ 291,694,098	$ 347,929,426
Social security and payroll tax	55,815,978	66,426,169
Transportation expenses	24,842,886	32,986,565
Other expenses	15,969,935	26,683,311
Travel expenses	2,627,914	3,734,038
Professional fees and services	562,130	427,272
	$ 391,512,941	$ 478,186,781

7. Income tax

Income Tax (IT)

The Mexican Income Tax Law (MITL) establishes a corporate income tax rate of 30% for fiscal years 2020 and 2019.

For fiscal year 2019, it is important to mention that the company opted to apply the APA methodology (Fast Track) which is in process to obtain the final resolution from the Tax Authority.

The MITL establishes requirements and limits regarding certain deductions, including restrictions on the deductibility of payroll-related expenses that are considered tax-exempt for employees, contributions to create or increase pension fund reserves, and Mexican Social Security Institute dues that are paid by the Company but that should be paid by the employees. The MITL also establishes that certain payments made to related parties shall not be deductible if they do not meet certain requirements

On August 29, 2019 the Company received a resolution by the Mexican Tax Authorities (hereinafter "SCHP" as are known in Spanish) for the operation of maquila services carried out its related party abroad AEES, Inc. for the year ended 2015 and 2018 through notification 900-06-01-00-00-2019-000618 with regard to the inquiries made by the Company in the terms of Article 34-A of the Código Fiscal de la Federación within the Transfer Price Agreement Promotion (APA) submitted to the SCHP, in order to comply with the articles 179 and 180 of the Law on Income tax, pursuant to the third paragraph of article 182 of the statutory provision in comment, the SHCP considers that the Company develop the methodology proposed in that file so that they determine that the transactional margin method of operating income set out in the first paragraph of Article 180, fraction VI of the Law on Income tax is applied for the purpose of determining the price or amount of the operation subject to the APA. Based on the above, the Company has carried out the corresponding calculations for that year in accordance with the time limits granted in such resolution and recorded the corresponding provision in the amount of $596,359. In addition, based on the above, considering the new factor (mark up) for the determination of revenue, the Company submitted additional statements for the years 2016, 2017 and 2018 and recorded the corresponding income tax paid for previous years of $8,226,648

For the years ended at December 31, 2020 and 2019, the Company reported a taxable income of $25,520,997 and $30,471,623, respectively, on which correspond income tax of $7,656,299 and $9,141,487, respectively.

a) An analysis of income tax recognized in profit and loss for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Current income tax	$ 7,656,299	$ 9,141,487
Prior year income tax	-	8,823,007
Deferred income tax	378,582	477,530
	$ 8,034,881	$ 18,442,024

b) Other Comprehensive Income (OCI):

	2020	2019
Deferred taxes related to items recognized in other comprehensive income during the year:		
Remeasurements of net defined benefit liability	$ 2,154,141	$ 479,322
Deferred tax recognized in OCI	$ 2,154,141	$ 479,322

c) An analysis of deferred taxes shown in the statement of financial position is as follows:

	2020	2019
Deferred tax assets:		
Provisions and accrued liabilities	$ 7,348,805	$ 8,249,292
Accounts payable	130,287	161,260
Employee benefits	6,730,961	3,820,277
Total deferred tax assets	14,210,053	12,230,829
Deferred tax liabilities:		
Other assets	(294,572)	(90,907)
Total deferred tax liabilities	(294,572)	(90,907)
Deferred tax asset, net	$ 13,915,481	$ 12,139,922

A reconciliation of the statutory income tax rate to the effective income tax rate recognized by the Company for financial reporting purposes is as follows:

	2020	2019
Income before income tax	$ 27,844,130	$ 31,521,618
Plus (less):		
Annual inflation adjustment	(1,232,783)	(1,591,008)
Non-deductible expenses	766,097	1,758,375
APA adjustment	(678,149)	(760,932)
APA and Safe Harbor adjustment from previous years	-	29,410,022
Others	83,641	1,135,337
Income before income tax	26,782,936	61,473,412
Statutory income tax rate	30%	30%
Total income tax	$ 8,034,881	$ 18,442,024
Effective income tax rate	29%	59%

8. Other Comprehensive Income (OCI)

The effects of the income tax derived from the movements of the OCI of the period are shown below:

	Beginning balance OCI	OCI before taxes	Income taxes at 30%	OCI, net
Remeasurements of net defined benefit liability *	$ (375,908)	$ (7,180,470)	$ 2,154,141	$ (5,402,237)
Other comprehensive income	$ (375,908)	$ (7,180,470)	$ 2,154,141	$ (5,402,237)

(*) Deferred income tax is calculated on a 100% basis deduction.

9. Contingencies and commitments

I. Commitments

The company had celebrated a contract with his related party to provide maquila services. This contract is for an indefinite period. Total revenue from this concept was $417,551,414 in 2020 and $509,708,399 in 2019.

II. Contingencies

At December 31, 2020, the company has the following contingencies:

a) There is a contingent liability derived to labor obligations mentioned in Note 1j).

b) In accordance with current tax legislation, the authorities are entitled to examine the five fiscal years prior to the last statement filed income tax.

c) According to the Law on Income tax, companies that conduct transactions with related parties are subject to certain limitations and requirements, as to the determination of the agreed prices, as these must be comparable to those that would be used with arm's-length transactions. In the event that the tax authorities will review prices and reject the certain amounts may require, in addition to the collection of the tax, accessories corresponding (updating and surcharges), and penalties on unpaid taxes, which could become even 100% of the amount of contributions updated. The Company's policy is to conduct a transfer pricing study to evaluate the operations carried out with related parties.

10. Subsequent events

On December 31, 2019, China alerted the World Health Organization (WHO) of a new virus (Covid-19 or Coronavirus). On January 30, 2020, the WHO International Health Regulations Emergency Committee declared the outbreak a "Public Health Emergency of International Concern". On 11 March 2020, WHO declared the Covid-19 outbreak a pandemic. The Covid-19 has had a significant impact on the global economy but has not significantly affected the operations and results of the Company.

The administration of the company at the date of issuance of the financial statements will continue to evaluate the economic and operational impact with its business partners.