Unichem Pharmaceuticals (USA), Inc.
Financial Statements
March 31, 2019 and 2018

Unichem Pharmaceuticals (USA), Inc.
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Independent Auditors' Report

To the Board of Directors of

Unichem Pharmaceuticals (USA), Inc.

We have audited the accompanying financial statements of Unichem Pharmaceuticals (USA), Inc. (the "Company") which comprise the balance sheet as of March 31, 2019 and the related statement of operations and retained earnings (deficit) and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2019, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Company as of March 31, 2018, were audited by other auditors whose report dated May 16, 2018, expressed an unmodified opinion on those statements

Wilkin & Guttenplan

East Brunswick, New Jersey

May 13, 2019

Unichem Pharmaceuticals (USA), Inc.
Balance Sheets
March 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash	$ 397,732	$ 558,573
Accounts receivable, net	43,658,501	26,458,199
Inventories, net	11,352,415	5,108,624
Accounts receivable, due from parent	42,634	411,149
Other prepaid expenses	509,846	738,012
Total Current Assets	55,961,128	33,274,557
Property and equipment, net	415,634	387,709
Deferred tax asset	427,000	541,000
Total Assets	$ 56,803,762	$ 34,203,266
Liabilities and Shareholders' Equity		
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	$ 3,600,038	$ 1,354,934
Income taxes payable	310,000	11,145
Line of credit	24,105,485	17,067,805
Due to parent	20,707,688	9,874,692
Total Current Liabilities	48,723,211	28,308,576
Shareholders' Equity		
Common stock, $1 par value, 6,500,000 shares authorized; 6,476,955 issued and outstanding	6,476,955	6,476,955
Retained earnings (deficit)	1,603,596	(582,265)
Total Shareholders' Equity	8,080,551	5,894,690
Total Liabilities and Shareholder's Equity	$ 56,803,762	$ 34,203,266

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

Unichem Pharmaceuticals (USA), Inc.
Statements of Operations and Retained Earnings (Deficit)
For the Years Ended March 31, 2019 and 2018

	2019	2018
Net Sales	$ 91,280,203	$ 57,490,072
Cost of Goods Sold	66,553,241	44,427,799
Gross Profit	24,726,962	13,062,273
Operating Expenses		
Distributor fees	10,005,069	4,363,969
Logistics fees	5,115,203	3,778,211
Officer's and office salaries	2,897,308	1,874,626
Payroll taxes and benefits	527,248	374,337
Administrative	483,329	429,620
Professional fees	427,397	523,775
Travel and entertainment	287,825	189,837
Insurance	265,315	256,419
Marketing and trade shows	240,847	159,098
Rent	207,210	136,801
Depreciation	134,554	114,997
Market research	74,684	79,870
Bad debt expense	(4,057)	23,778
Total Operating Expenses	20,661,932	12,305,338
Income from Operations	4,065,030	756,935
Non-Operating Expense		
Interest expense	(742,169)	(493,497)
Income Before Provision for Income Taxes	3,322,861	263,438
Provision for Income Taxes	1,137,000	426,000
Net Income (Loss)	2,185,861	(162,562)
Retained Earnings (Deficit) Beginning	(582,265)	(419,703)
Retained Earnings (Deficit) Ending	$ 1,603,596	$ (582,265)

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

Unichem Pharmaceuticals (USA), Inc.
Statements of Cash Flows
For the Years Ended March 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Net income (loss)	$ 2,185,861	$ (162,562)
Adjustment to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	134,554	114,997
Obsolete inventory	-	(14,133)
Deferred tax expense	114,000	359,000
Changes in operating assets and liabilities		
Accounts receivable	(17,200,302)	(2,838,355)
Accounts receivable, due from parent	368,515	(308,484)
Due from parent for product recall	-	12,371
Inventories	(6,243,791)	1,851,581
Prepaid expenses	228,166	(408,070)
Accounts payable and accrued expenses	2,245,104	146,563
Income taxes payable	298,855	11,145
Net Cash Used in Operating Activities	(17,869,038)	(1,235,947)
Cash Flows from Investing Activities		
Acquisition of property and equipment	(162,479)	(103,100)
Cash Flows from Financing Activities		
Proceeds from line of credit, net of repayments	7,037,680	7,407,805
Proceeds from (repayments of) due to parent	10,832,996	(5,871,480)
Net Cash Provided by Financing Activities	17,870,676	1,536,325
Net Increase/(Decrease) in Cash	(160,841)	197,278
Cash - Beginning of Period	558,573	361,295
Cash - End of Period	$ 397,732	$ 558,573
Cash Paid During the Period for		
Interest	$ 743,850	$ 469,438
Income taxes	$ 859,733	$ 33,154

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

Note 1 Nature of Operations

Unichem Pharmaceuticals (USA), Inc. (the "Company"), was incorporated on March 9, 2004 under the laws of the State of New Jersey and is headquartered in East Brunswick, New Jersey. The Company operates as the U.S. distributor of certain generic prescription pharmaceuticals developed by Unichem Laboratories, Ltd. (the "Parent"). As of March 31, 2019, the Company distributes twenty four (24) FDA approved generic prescription drugs.

The sole stockholder of the Company, an India-based developer and manufacturer of generic prescription drugs, is the sole provider of generic prescription drugs to the Company.

Note 2 Summary of Significant Accounting Policies

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. Significant estimates affecting amounts reported or disclosed in the financial statements include allowances and provisions for customer chargebacks, rebates, and cash discounts. These estimates are based on historical experience and on various assumptions that are believed to be reasonable under the current circumstances. Actual results could differ from those estimates.

Cash

Cash is held in bank accounts which are insured by the Federal Deposit Insurance Corporation subject to certain limitations. At times, the Company's bank balances exceed federally insured limits.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect. On a periodic basis, management evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. Management has determined that no allowance is necessary at March 31, 2019 and 2018.

Inventories

Inventories consist of finished goods and are valued at the lower of cost or net realizable value. Cost is primarily determined by using the moving average method. The customers are permitted to return purchased products for a credit when they are within three months of the expiration date, additionally, once the product has expired, the Company will take returned goods for an additional six months. Returned product is generally not resold by the Company. The Company regularly reviews the inventory quantities on hand, and when appropriate, records a provision for obsolete, excess, and expired/short dated inventory.

Note 2 Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Product Sales

The Company's primary customers consist of major pharmacies, wholesalers and distributors. The wholesalers and distributors in-turn sell the products directly to pharmacies, clinics, hospitals, and private medical practices. Revenue from product sales is recognized when substantially all the risks and rewards of ownership have transferred to customers, when estimates of their selling price and discounts, rebates, and promotional adjustments, price adjustments, returns, chargebacks, and other potential adjustments are reasonably determinable, collection is reasonably assured, and persuasive evidence of an arrangement exists.

The Company establishes allowances for chargebacks, discounts, returns, rebates, and other adjustments at the time of the sale. In determining the amount of pricing allowances to be established, the Company considers its own business experience and knowledge of industry and competitive practices, as well as its assessment of the impact on price adjustments due to external market forces, if any. The factors considered include, but are not limited to, actual pricing allowance experience by product by customer, the Company's contractual arrangements with its customers, inventory reports, estimates of products in the distribution channel, customers' right of return, applicable marketing and pricing regulations and current and projected economic conditions.

The data used by the Company in establishing pricing allowances is based on information developed internally and obtained from external sources. Pricing allowances are presented as a reduction of revenue in the statements of operations and retained earnings. The principal allowances are as follows:

Chargebacks

The provision for chargebacks is a significant estimate used in the recognition of revenue. As part of the its contracts with the wholesale customers, the Company agrees to reimburse wholesalers for the difference between the gross sales price at which the Company sells its products to the wholesalers and the actual prices of the products at the time of resale to the end user. The Company estimates chargeback at the time of the sale to wholesalers based on wholesaler inventory, historical chargeback rates and current pricing.

Wholesaler Rebates

Current accounting standards related to consideration given by a vendor to a customer, including a reseller of a vendor's products, specify that cash consideration given by a vendor to a customer is presumed to be a reduction of the selling price of the vendor's products or services and therefore should be characterized as a reduction of product sales. Consideration should be characterized as a cost incurred, if the Company received, or will receive, an indefinable benefit (goods or services) in exchange for the consideration and the Company can reasonably estimate the fair value of the benefit received.

Note 2 Summary of Significant Accounting Policies (Continued)
Revenue Recognition (Continued)

Wholesaler Rebates (Continued)
Certain fees paid to wholesalers do not meet the meet the foregoing conditions to be characterized as a cost, as such, the Company characterized these fees as a reduction of product sales and have included them in supplier rebates in the table in Note 7.

Pending Rebates
The Company has provided an estimate for pending customer rebates. Certain wholesaler customers submit for reimbursement throughout the course of business. The estimated allowance is based on various customer agreements in place with the Company for which the customer has not yet submitted for reimbursement.

Prompt Payment Discounts
Discounts for prompt payment is established based on the eligible customers' payment history, the contractual discount percentage, and the ending accounts receivable balance.

Medicaid Rebates
Federal law requires all pharmaceutical manufacturers, as a condition of having their products receive federal reimbursement under Medicaid and Medicare Part B, to pay rebates to state Medicaid programs on units of their pharmaceuticals that re-dispensed to Medical beneficiates. For the years ended March 31, 2019 and 2018, the Company had accrued a liability related to the rebates totaling $764,973 and $129,323, respectively.

Advertising
The Company's policy is to expense advertising costs as the costs are incurred. Advertising costs incurred during the years ended March 31, 2019 and 2018 total approximately $180,000 and $65,000, respectively, and are included in marketing and trade shows expense on the accompanying statements of income operations.

Shipping and Handling Costs
Shipping and handling costs of approximately $2,028,000 and $1,433,000 for the years ended March 31, 2019 and 2018, respectively, are included in operating expenses on the accompanying statements of operations as logistics fees.

Property and Equipment
Property and equipment are stated at cost. Depreciation and amortization is provided using straight-line method over the estimated useful lives of the assets: five years for equipment, seven years for furniture and fixtures, and five years for software. Expenditures for maintenance and repairs are charged to expense as incurred.

Note 2 Summary of Significant Accounting Policies (Continued)

Income Taxes

The Company is a C Corporation and provisions, if applicable, are made for federal and state income taxes.

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax asset and liabilities is recognized in the income in the periods that includes the enactment date.

The Company recognizes deferred tax assets to the extent that management believes these assets are more likely than not to be realized. In making such a determination, management considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income and results of recent operations.

The statute of limitations for the examination of the Company’s income tax returns by the Internal Revenue Service and States is generally three years from the final filing date of the tax returns.

Reclassifications

Certain amounts in the March 31, 2018 financial statements have been reclassified to conform to the March 31, 2019 financial statement presentation. These reclassifications had no effect on the previously reported results of operations or equity balances.

Subsequent Events

The Company has evaluated subsequent events and transactions for potential recognition or disclosure through the date of the auditors’ report, which is the date the financial statements were available to be issued.

Note 3 Accounts Receivable, Net

Accounts receivable with customers are reflected net of allowances for pending chargebacks, rebates, fees, and cash discount. The receivables are generally due within 30 to 90 days, depending on the customer, from the invoice date. Accounts receivable consist of:

	March 31, 2019	March 31, 2018
Accounts Receivable	$ 72,707,292	$ 40,668,257
Allowance for chargeback provision	(20,274,879)	(12,528,093)
Allowance for pending rebates	(6,118,752)	(562,391)
Allowance for cash discount	(2,011,872)	(1,227,188)
Allowance for other reductions	(643,288)	107,614
Accounts Receivable, Net	$ 43,658,501	$ 26,458,199

Note 4 Inventories

Inventories consist of the following:

	March 31, 2019	March 31, 2018
Inventory	$ 11,656,667	$ 5,189,519
Less: Inventory reserve	(304,252)	(80,895)
Total	$ 11,352,415	$ 5,108,624

Note 5 Property and Equipment

Property and equipment consists of the following at March 31:

	2019	2018
Equipment	$ 33,800	$ 32,633
Furniture and fixtures	228,008	120,028
Computers	92,328	38,995
Computer software	544,000	544,000
Total	898,136	735,656
Less: Accumulated depreciation and amortization	482,502	347,947
Total	$ 415,634	$ 387,709

Note 6 Line of Credit

On June 15, 2018, the Company entered into an amended and restated revolving promissory note allowing for borrowings up to $30,000,000. Advances bear interest at LIBOR plus 1.00%. At March 31, 2019 and 2018, LIBOR was 2.82% and 2.60%, respectively. The line of credit is scheduled to mature on June 28, 2019. The line is collateralized by a $30,000,000 standby letter of credit from the Company's Parent. Management intends to renew the revolving promissory note with similar terms upon maturity.

Note 7 Gross-to-Net Product Sales

The schedule below presents the Gross-to-Net product sales reconciliation for the years ended:

	March 31, 2019	March 31, 2018
Gross Sales	$303,521,121	$ 212,989,948
Chargebacks	(178,962,712)	(143,428,245)
Wholesaler rebates	(24,889,811)	(5,961,129)
Cash discount	(6,592,251)	(4,573,919)
Other reductions	(1,386,152)	(792,516)
Off invoice discounts	(409,992)	(744,067)
Net Sales	$ 91,280,203	$ 57,490,072

Note 8 Income Taxes

The Company periodically evaluates whether there are any uncertain tax positions requiring accounting recognition in the financial statements. Based on this evaluation, the Company has determined that there are no material uncertain tax positions requiring recognition or disclosure.

For the years ended March 31, 2019 and 2018, federal and state income taxes have been provided as follows:

Current Tax

	March 31, 2019	March 31, 2018
Current:		
Federal income tax expense	$ 872,000	$ 4,000
State income tax expense	151,000	6,000
Deferred tax and other:		
Federal income tax expense	45,000	88,000
State income tax expense	69,000	67,000
Federal tax rate change	-	261,000
Total	$ 1,137,000	$ 426,000

Note 8 Income Taxes (Continued)

On December 22, 2017 (the "Enactment Date"), H.R. 1, originally known as the Tax Cuts and Jobs Act, was enacted. The new law (Public Law No.115-97 hereinafter referred to as the "Tax Act") includes significant changes to the U.S. corporate income tax system including, but not limited to, lowering the statutory corporate tax rate from 35% to 21%, limiting or eliminating certain deductions and the repeal of Corporate AMT tax regime. The majority of the provisions are applicable to the Company for fiscal 2018.

For the year ended March 31, 2018, the Company's effective tax rate differed from the federal statutory rate principally due to the components of the deferred tax asset shown in the table below coupled with changes in the federal rates for corporations from approximately 34% to 21% due to enacted changes in the United States tax code.

Net income for fiscal 2018 included income tax expense of $426,000, of which $261,000 relates to the federal income tax rate change on the re-measurement of net deferred tax assets pursuant to the Tax Act.

The tax effect of temporary differences that gave rise to significant components of deferred tax assets and liabilities consisted of the following at March 31, 2019 and 2018:

	March 31,	
	2019	2018
Deferred tax assets:		
Start-up cost	$ 232,000	$ 379,000
Inventory capitalization	35,000	-
Deferred rent liability	22,000	-
Accrued Medicaid	182,000	-
Net operating loss carryforward	-	225,000
Net Deferred Tax Assets	471,000	604,000
Less Deferred tax liability:		
Property plant and equipment	(44,000)	(63,000)
Total	$ 427,000	$ 541,000

Management determined that no valuation allowance is needed for the deferred tax asset at March 31, 2019 and 2018. As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets.

Note 9 Related Party Transactions

The Company purchases substantially all of its inventory from the Parent. The Company also purchases testing supplies, for which it is reimbursed by the Parent. Purchases and reimbursements for the years ended March 31, 2019 and 2018 were $72,144,171 and $42,516,188, respectively.

At March 31, 2019 and 2018, the Company owed the Parent approximately $20,665,000, net of receivables of approximately $43,000, and $9,464,000, net of receivables of approximately $411,000, respectively, for purchases of inventory, which is included on the accompanying balance sheets.

Note 10 Logistics Agreement

The Company utilizes a third-party logistics provider for warehousing, shipping and various other services related to supply chain management. For the years ended March 31, 2019 and 2018, expenses were approximately $4,562,000 and $3,545,000, respectively, and are included in logistics fees on the accompanying statements of income and accumulated deficit.

Note 11 Major Customers

For the year ended March 31, 2019, three customers accounted for approximately 31%, 25% and 22% of net sales, respectively. In addition, three customers accounted for approximately 34%, 25% and 21%, respectively, of accounts receivable at March 31, 2019.

For the year ended March 31, 2018, three customers accounted for approximately 23%, 16% and 13% of net sales, respectively. In addition, three customers accounted for approximately 34%, 29% and 16%, respectively, of accounts receivable at March 31, 2018.

Note 12 Defined Contribution Plan

The Company participates in a qualified retirement plan under Section 401(k) of the Internal Revenue Code (the "Code") that permits nonunion employees over the age of 21 to voluntarily contribute up to the maximum allowed under the Code. The Company matches 100% of employee contributions up to the first 3% of compensation and 50% of employee contributions between 3% and 5% of compensation. Employer contributions for the years ended March 31, 2019 and 2018 were approximately $58,000 and $48,000, respectively.

Note 13 Commitments and Contingencies

Leases

The Company leases office space in East Brunswick, NJ and Hasbrouck Heights, NJ, which expire March 2025 and May 2024, respectively. The Company also leases a copier. All leases are considered noncancelable operating leases and require approximate future minimum rental payments as follows:

Year Ending March 31,	
2020	$ 325,000
2021	348,000
2022	352,000
2023	352,000
2024	356,000
2025	243,000
Total	$1,976,000

Rent expense, including equipment rental, for the years ended March 31, 2019 and 2018 was approximately $211,000 and $142,000, respectively.

During March 2019, the Company moved out of the office space in Hasbrouck Heights and is currently seeking a tenant to sublease the space for the duration of the lease agreement.

Letters of Credit

At March 31, 2019 and 2018, the Company was contingently liable under an outstanding letter of credit totaling $50,000 which was issued as a security deposit for the Hasbrouck Heights space.

Surety Bonds

At March 31, 2018, the Company was contingently liable under three separate surety bonds totaling $250,000 in order to conduct business in Maryland, California and Mississippi.

Note 14 Recent Accounting Pronouncements

The FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. This guidance also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The guidance will be effective for the Company for *annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019.* The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

Effective for its annual financial statements for 2020 and interim financial statements thereafter, the Company expects to adopt new accounting standards issued by FASB that will require significant changes in accounting for operating leases under which the Company is lessee. Upon adoption, among other effects, the Company will be required to record assets and liabilities for all operating lease obligations with terms of twelve (12) months or greater. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.