UNICHEM PHARMACEUTICALS (USA), INC.

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

YEARS ENDED MARCH 31, 2017 AND 2016

AND

INDEPENDENT AUDITORS' REPORT

FRIEDMAN LLP®

ACCOUNTANTS AND ADVISORS

UNICHEM PHARMACEUTICALS (USA), INC.

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INDEPENDENT AUDITORS' REPORT

To the Stockholder
Unichem Pharmaceuticals (USA), Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Unichem Pharmaceuticals (USA), Inc., which comprise the balance sheets as of March 31, 2017 and 2016, and the related statements of income, changes in stockholder's equity and cash flows for the years 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 audits. We conducted our audits 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 auditor's 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 auditor considers 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.

(Continued)

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Conclusion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Unichem Pharmaceuticals (USA), Inc. as of March 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, management has elected to change its policy for valuing inventory, effective April 1, 2016. Our conclusion is not modified with respect to that matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on page 16 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Friedman LLP

May 5, 2017

UNICHEM PHARMACEUTICALS (USA), INC.

BALANCE SHEETS

	March 31, 2017	March 31, 2016
ASSETS		
Current assets		
Cash	$ 361,295	$ 424,547
Accounts receivable, net	23,081,241	13,077,264
Accounts receivable, due from stockholder	60,626	30,835
Advanced chargebacks to customers	570,348	357,723
Inventories, net	6,946,072	5,029,281
Deferred tax asset	428,000	560,000
Due from stockholder for product recall	54,410	1,374,978
Other prepaid expenses	344,830	276,876
Total current assets	31,846,822	21,131,504
Property and equipment - at cost, less accumulated depreciation and amortization	399,606	507,009
Deferred tax asset	472,000	977,000
Restricted cash	-	76,465
	$ 32,718,428	$ 22,691,978
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 1,255,002	$ 1,441,913
Line of credit	9,660,000	760,000
Due to stockholder for inventory purchases	15,746,172	15,433,666
Total current liabilities	26,661,174	17,635,579
Commitments		
Stockholder's equity		
Common stock, $1 par value; 6,500,000 shares authorized, 6,476,955 shares issued and outstanding	6,476,955	6,476,955
Accumulated deficit	(419,701)	(1,420,556)
	6,057,254	5,056,399
	$ 32,718,428	$ 22,691,978

See notes to financial statements.

UNICHEM PHARMACEUTICALS (USA), INC.

STATEMENTS OF INCOME

	Year Ended March 31,	
	2017	2016
Net sales	$ 41,401,944	$ 32,963,290
Cost of goods sold	30,179,449	23,115,071
Gross profit	11,222,495	9,848,219
Operating expenses		
Officer’s and office salaries	1,564,817	1,278,651
Payroll taxes and benefits	321,512	276,874
Professional fees	369,839	274,220
Distributor fees	2,711,516	2,146,181
Administrative	249,192	262,708
Rent	152,061	70,746
Travel and entertainment	122,126	97,045
Market research	75,900	40,314
Marketing and trade shows	141,971	429,627
Insurance	196,595	270,272
Logistics fees	3,319,381	2,562,600
Franchise taxes	64,421	3,759
Depreciation and amortization	110,815	53,527
	9,400,146	7,766,524
Operating income	1,822,349	2,081,695
Other income (expense)		
Income tax expense	(690,000)	(862,000)
Other income	205	-
Interest income	76	191
Interest expense	(131,775)	(12,564)
	(821,494)	(874,373)
Net income	$ 1,000,855	$ 1,207,322

See notes to financial statements.

UNICHEM PHARMACEUTICALS (USA), INC.

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

	Total	Common Stock	Accumulated Deficit
Balance, March 31, 2015	$ 3,849,077	$ 6,476,955	$ (2,627,878)
Net income	1,207,322	-	1,207,322
Balance, March 31, 2016	5,056,399	6,476,955	(1,420,556)
Net income	1,000,855	-	1,000,855
Balance, March 31, 2017	$ 6,057,254	$ 6,476,955	$ (419,701)

See notes to financial statements.

UNICHEM PHARMACEUTICALS (USA), INC.

STATEMENTS OF CASH FLOWS

	Year Ended March 31, 2017	Year Ended March 31, 2016
Cash flows from operating activities		
Net income	$ 1,000,855	$ 1,207,322
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	110,815	53,527
Obsolete inventory reserve	-	244,805
Deferred tax (benefit) expense	637,000	891,000
Changes in assets and liabilities		
Restricted cash	76,465	(192)
Accounts receivable	(10,216,602)	(6,171,068)
Accounts receivable due from stockholder	(83,946)	(21,874)
Inventories	(1,916,791)	(2,078,961)
Other prepaid expenses	(67,954)	(102,135)
Accounts payable and accrued expenses	(186,911)	287,433
Accounts receivable due from stockholder for product recall	1,374,723	(1,374,723)
Net cash used in operating activities	(9,272,346)	(7,064,866)
Cash flows from investing activities		
Acquisition of property and equipment	(3,412)	(529,237)
Cash flows from financing activities		
Proceeds from line of credit	9,250,000	500,000
Repayment of line of credit	(350,000)	-
Net proceeds from due to stockholder	312,506	6,940,979
Net cash provided by financing activities	9,212,506	7,440,979
Net decrease in cash	(63,252)	(153,124)
Cash, beginning of year	424,547	577,671
Cash, end of year	$ 361,295	$ 424,547
Supplemental cash flow disclosures		
Income taxes paid	$ 58,860	$ 24,100
Interest paid	116,980	12,335

See notes to financial statements.

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

1 - NATURE OF BUSINESS

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 Hasbrouck Heights, New Jersey. The Company was organized to distribute certain generic prescription drugs throughout the United States upon obtaining approvals from the U.S. Food and Drug Administration (the "FDA"). In April 2009, the Company started to receive shipments of generic prescription drugs from India, approved by the FDA, to be distributed throughout the United States. Also in 2009, the Company received approval to distribute these generic prescription drugs in Puerto Rico. As of March 31, 2017, the Company distributes seventeen FDA approved generic prescription drugs, each with a different strength.

The sole stockholder of the Company is Unichem Laboratories, Ltd. (the "Parent"), an India-based developer and manufacturer of generic prescription drugs and sole provider of generic prescription drugs to the Company.

2 - CHANGE IN ACCOUNTING PRINCIPLE

On April 1, 2016, the Company adopted the moving average method to value its inventory. Previously, the Company used the first-in, first-out ("FIFO") method to value its inventory. Management believes the moving average method of inventory valuation minimizes the effect of price level changes on inventory valuations and generally matches current costs with current revenues. The Company has determined that the cumulative effect of applying this change retrospectively from FIFO to moving average is not material. Accordingly, the Company did not recognize a cumulative effect adjustment in retained earnings related to this change. Sufficient information exists to apply the moving average method, beginning April 1, 2016. As such, the new method has been applied prospectively to the Company's inventory balances beginning April 1, 2016.

3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

Cash

Cash balances in banks are insured by the Federal Deposit Insurance Corporation subject to certain limitations.

3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories consist principally of finished goods and are valued at the lower of cost at moving average or market. Prior to April 1, 2016, cost was determined using primarily FIFO. However, as described in Note 2, effective April 1, 2016, the Company adopted the average cost method to determine the cost of substantially all its inventory. The Company establishes a valuation allowance for inventory expected to become nonsaleable due to age and specifically identifies and provides for slow-moving or obsolete products.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect. An allowance for doubtful accounts is recorded based on a combination of historical experience, aging analysis and information on specific accounts. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts are considered past due or delinquent based on contractual terms and how recently payments have been received. Management has determined that no allowance is necessary at March 31, 2017 and 2016.

Revenue Recognition

Revenue from sales of generic prescription drugs is recognized at the time the product is received by the customer. Provisions for Medicaid rebates, chargebacks and cash discounts are established in the same period the related sales are recorded.

Advertising

Advertising costs are expensed as incurred. Advertising and trade show expenses were approximately $93,000 and $79,000 for the years ended March 31, 2017 and 2016, respectively, and are included in marketing and trade shows expenses.

Shipping and Handling

Shipping and handling costs of approximately $1,520,000 and $1,042,000 for the years ended March 31, 2017 and 2016, respectively, are included in logistics fees in the statement of income.

Depreciation and Amortization

Depreciation and amortization are computed using the straight-line method over estimated useful asset lives, which range from five to ten years.

3 - 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 bases 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 assets and liabilities is recognized in income in the period 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. If management determines that the Company would be able to realize its deferred tax assets in the future in excess of their net recorded amount, management would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

Reclassifications
Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Recently Issued Accounting Pronouncements Not Yet Effective
In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards update 2016-02, *Leases* ("ASU 2016-02"), which requires a lessee to recognize a lease asset, representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to the lessor on its balance sheet for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company has not yet adopted ASU 2016-02, nor assessed its potential impact on the financial statements.

In July 2015, the FASB issued ASU No. 2015-011, *Inventory* (*Topic 330): Simplifying the Measurement of Inventory* ("ASU 2015-11"), which requires inventory measured using any method other than last-in, first-out or the retail inventory method to be subsequently measured at the lower of cost or net realizable value, rather than at the lower of cost or market. ASU 2015-11 is effective for annual reporting periods after December 15, 2016 and for interim periods within such annual period. Early application is permitted. The Company is currently evaluating the potential effects of adopting the provisions of ASU No. 2015-11.

3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements Not Yet Effective (Continued)
In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU No. 2014-09"), which supersedes the revenue recognition requirements in *Topic 605*, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification as well as some cost guidance included in *Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts*. Under ASU No. 2014-09, an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2018 and for interim periods within such annual period, with early application permitted for annual reporting periods beginning after December 15, 2016. ASU No. 2014-09 allows for either full retrospective or modified retrospective adoption. The Company is evaluating the transition method that will be elected and the potential effects of adopting the provisions of ASU No. 2014-09.

Subsequent Events
These financial statements were approved by management and available for issuance on May 5, 2017. Management has evaluated subsequent events through this date.

4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	March 31,	
	2017	2016
Equipment	$ 32,633	$ 36,655
Furniture and fixtures	120,028	118,236
Computers	35,895	40,425
Computer software	444,000	480,380
	632,556	675,696
Less - Accumulated depreciation and amortization	232,950	168,687
	$ 399,606	$507,009

5 - LINE OF CREDIT

The Company maintains a line of credit from Citibank. The line matured on March 25, 2016 and required monthly interest only payments at LIBOR plus 1.75% (2.27% at March 31, 2017). The line has been amended three times. The most recent amendment on July 25, 2016 increased the line balance to $10,000,000 and extended the maturity date to November 26, 2017. The principal balance at March 31, 2017 is $9,660,000, which is due at maturity.

The line is collateralized by a $10,000,000 standby letter of credit from the Company's Parent.

In addition, the Company has obtained a standby letter of credit for two states for the purpose of selling pharmaceuticals in those states and another in exchange for the security deposit for their current lease.

6 - INCOME TAXES

The Company's tax provision has been calculated using the statutory rates in effect considering permanent and temporary differences. 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 second table below.

Components for the Company's income tax provision for the year ended March 31, 2017 and 2016 are as follows:

	2017	2016
Current		
Federal	$ 25,000	$ 30,000
State	52,000	8,000
	77,000	38,000
Deferred		
Federal	515,000	700,000
State	98,000	124,000
	613,000	824,000
	$ 690,000	$ 862,000

6 - INCOME TAXES (Continued)

The components of the deferred tax asset at March 31, 2017 and 2016 consist of the following:

	2017	2016
Current		
Net operating loss carryforwards	$ 428,000	$ 560,000
Noncurrent		
Capitalized development stage costs	547,000	655,000
Depreciation	(75,000)	(154,000)
Net operating loss carryforwards	-	476,000
	472,000	977,000
	$ 900,000	$ 1,537,000

At March 31, 2017 and 2016, the Company's deferred tax asset was primarily the result of capitalized development stage costs, differences in depreciation methods and net operating losses ("NOL"). Management determined that no valuation allowance is needed for the deferred tax asset at March 31, 2017 and 2016. 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. As of March 31, 2017 and 2016, the Company has NOL carryforwards of approximately $1,035,000 and $2,680,000, respectively, which, if unused, will expire in years 2027 through 2033.

7 - PRODUCT RECALL

On July 30, 2015, the Company initiated a voluntary recall of one lot of Hydrochlorothiazide 25 mg. tablet (the "Product Recall"). The Product Recall was a precautionary measure due to an isolated incident whereby a pharmacist noticed one single Clopidrogrel tablet in a bottle of Hydrochlorothiazide 25 mg. prior to dispensing the medication. In November 2015, the Company completed its examination of the Product Recall and determined it was an isolated incident. Nonetheless, 26 individuals have asserted claims, alleging that they ingested foreign tablets in their Hydrochlorothiazide 25 mg. prescriptions. The Company has denied each claim and has refused to make any offer of settlement. The Company believes the claims are unfounded as the Company did not find any foreign tablets in the recalled lot examined. None of the claimants have filed litigation against the Company and the Company intends to vigorously defend any litigation that may be filed.

7 - PRODUCT RECALL (Continued)

In connection with the Product Recall, the Parent has contractually agreed to reimburse the Company for all costs associated with the Product Recall. In 2016, the Company received a $1,348,052 payment from the Parent for returns of product from customers, inventory on-hand, recall fees paid to customers and other administrative costs. At September 30, 2016, the Parent owes the Company an additional $26,926. The Company's results of operations for the year ended March 31, 2016 did not reflect any costs associated with the Product Recall. The Company did not incur any further material charges and the matter is closed with the FDA as of March 31, 2017.

In September 2016, management received a letter from the FDA stating that their Lamotrigine Tablets USP, 150 mg., 500 ct. tablets obtained a level 3 recall. On March 9, 2017, the FDA had completed their audit and terminated the recall, as they had concluded that the recall was completed and that there had been proper disposition of the recalled articles.

8 - RELATED PARTY TRANSACTIONS

In the normal course of business, the Company purchases inventory from its Parent. The Company also purchases testing supplies, for which it is reimbursed by the Parent. Purchases and reimbursements for the years ended March 31, 2017 and 2016 were $31,811,114 and $24,847,459, respectively.

At March 31, 2017 and 2016, the Company owed the Parent $15,752,918 and $15,452,095, respectively, for purchases of inventory. At March 31, 2017 and 2016, the Company was owed $115,036 and $1,405,812, respectively, by the Parent for the Product Recall receivable discussed in Note 7 and purchases of testing supplies.

9 - MARKETING AGREEMENT

The Company had engaged a pharmaceutical marketing agent to serve as the Company's exclusive sales and marketing agent through April 1, 2016. In January 2015, the Company provided the pharmaceutical marketing agent a termination of service letter effective July 18, 2015. The Company paid a monthly fee to the agent pursuant to the terms and conditions of the contract through July 18, 2015. Fees paid or accrued to the agent were $316,692 for the year ended March 31, 2016 and are included in marketing and trade show expenses.

10 - LOGISTICS AGREEMENT

On April 17, 2008, the Company engaged a third-party logistics provider to provide warehousing, shipping and other services to be performed at its warehouse. The agreement term was initially three years, with an automatic yearly extension. The Company agreed to pay one-time management and implementation fees and, thereafter, monthly account management and service fees beginning May 1, 2008. In May 2013, the Company entered into an amended agreement with the same provider, with an initial term of three years and an automatic yearly extension. For the years ended March 31, 2017 and 2016, such expenses were $3,319,381 and $2,389,101, respectively, and are included in logistics fees.

11 - MAJOR CUSTOMERS

Sales to four customers were approximately 47% (16%, 11%, 10% and 10%) of net sales for the year ended March 31, 2017. Amounts due from three customers represent approximately 83% (41%, 23% and 19%) of total accounts receivable at March 31, 2017. Sales to two customers were approximately 25% (14% and 11%) of net sales for the year ended March 31, 2016. Amounts due from the one customer and two other customers represent approximately 75% (36%, 29% and 10%) of total accounts receivable at March 31, 2016.

12 - 401(k) 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. Effective January 2008, the Company began matching 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, 2017 and 2016 were approximately $35,000 and $31,000, respectively.

13 - LEASE COMMITMENTS

The Company leases office space and certain office equipment under noncancelable operating leases which require approximate future minimum rental payments as follows:

Year Ending March 31,		
2018	$	132,000
2019		135,000
2020		138,000
2021		140,000
2022		141,000
Thereafter		304,000
	$	990,000

Rent expense, including equipment rental, for the years ended March 31, 2017 and 2016 was approximately $154,000 and $74,000, respectively.

SUPPLEMENTARY INFORMATION

UNICHEM PHARMACEUTICALS (USA), INC.

SCHEDULES OF COST OF GOODS SOLD

	Year Ended March 31,	
	2017	2016
Inventories, beginning of period	$ 5,029,281	$ 3,195,125
Purchases	31,811,114	24,847,459
Other	285,126	101,768
	37,125,521	28,144,352
Less - Inventories, end of period	6,946,072	5,029,281
	$ 30,179,449	$ 23,115,071

See Independent Auditors' Report.