

UNICHEM PHARMACEUTICALS (USA), INC.

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

YEARS ENDED MARCH 31, 2018 AND 2017

AND

INDEPENDENT AUDITORS' REPORT

FRIEDMAN LLP[®]

ACCOUNTANTS AND ADVISORS

UNICHEM PHARMACEUTICALS (USA), INC.

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Balance Sheets	3
Statements of Operations and Accumulated Deficit	4
Statements of Cash Flows	5
Notes to Financial Statements	6
Supplementary Information	
Schedules of Cost of Goods Sold	15

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, 2018 and 2017, and the related statements of operations and accumulated deficit 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 audits 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)

Opinion

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, 2018 and 2017, 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.

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 15 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.

A handwritten signature in black ink that reads "Freedman LLP". The signature is written in a cursive, flowing style.

New York, New York
May 16, 2018

UNICHEM PHARMACEUTICALS (USA), INC.

BALANCE SHEETS

	March 31,	
	2018	2017
ASSETS		
Current assets		
Cash	\$ 558,573	\$ 361,295
Accounts receivable	26,489,944	23,081,241
Inventories	5,108,624	6,946,072
Accounts receivable, due from stockholder	369,110	60,626
Advanced chargebacks to customers	-	570,348
Due from stockholder for product recall	42,039	54,410
Other prepaid expenses	752,900	344,830
Total current assets	33,321,190	31,418,822
Property and equipment - at cost, less accumulated depreciation and amortization	387,709	399,606
Deferred tax asset, net	541,000	900,000
	\$ 34,249,899	\$ 32,718,428
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,412,710	\$ 1,255,002
Line of credit	17,067,805	9,660,000
Due to stockholder for inventory purchases	9,874,692	15,746,172
Total current liabilities	28,355,207	26,661,174
Commitments and contingencies		
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	(582,263)	(419,701)
	5,894,692	6,057,254
	\$ 34,249,899	\$ 32,718,428

See notes to financial statements.

UNICHEM PHARMACEUTICALS (USA), INC.

STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

	Year Ended March 31,	
	2018	2017
Net sales	\$ 57,490,072	\$ 41,401,944
Cost of goods sold	44,427,799	30,179,449
Gross profit	13,062,273	11,222,495
Operating expenses		
Distributor fees	4,363,969	2,711,516
Logistics fees	3,778,213	3,319,381
Officer's and office salaries	1,874,626	1,564,817
Professional fees	523,775	369,839
Administrative	429,619	313,613
Payroll taxes and benefits	374,337	321,512
Insurance	256,419	196,595
Travel and entertainment	189,837	122,126
Marketing and trade shows	159,098	141,971
Rent	136,801	152,061
Depreciation and amortization	114,996	110,815
Market research	79,870	75,900
Bad debt	23,778	-
	12,305,338	9,400,146
Operating income	756,935	1,822,349
Other income (expense)		
Other income	-	205
Interest expense, net	(493,497)	(131,699)
Total other expense	(493,497)	(131,494)
Income before provision for income taxes	263,438	1,690,855
Provision for income taxes	(426,000)	(690,000)
Net income (loss)	(162,562)	1,000,855
Accumulated deficit, beginning of year	(419,701)	(1,420,556)
Accumulated deficit, end of year	\$ (582,263)	\$ (419,701)

See notes to financial statements.

UNICHEM PHARMACEUTICALS (USA), INC.

STATEMENTS OF CASH FLOWS

	Year Ended March 31,	
	2018	2017
Cash flows from operating activities		
Net income (loss)	\$ (162,562)	\$ 1,000,855
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation and amortization	114,997	110,815
Obsolete inventory	(14,133)	-
Deferred tax expense	359,000	637,000
Changes in assets and liabilities		
Restricted cash	-	76,465
Accounts receivable and advanced chargebacks to customers	(2,838,355)	(10,216,602)
Accounts receivable due from stockholder	(308,484)	(83,946)
Due from stockholder for product recall	12,371	1,374,723
Inventories	1,851,581	(1,916,791)
Other prepaid expenses	(408,070)	(67,954)
Accounts payable and accrued expenses	157,708	(186,911)
Net cash used in operating activities	(1,235,947)	(9,272,346)
Cash flows from investing activities		
Acquisition of property and equipment	(103,100)	(3,412)
Cash flows from financing activities		
Net proceeds from line of credit	7,407,805	8,900,000
Net proceeds from (repayments of) due to stockholder	(5,871,480)	312,506
Net cash provided by financing activities	1,536,325	9,212,506
Net increase (decrease) in cash	197,278	(63,252)
Cash, beginning of year	361,295	424,547
Cash, end of year	\$ 558,573	\$ 361,295
Supplemental cash flow disclosures		
Income taxes paid	\$ 33,154	\$ 58,860
Interest paid	469,438	116,980

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, 2018, the Company distributes eighteen 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 was 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. At times, bank balances exceed insured amounts.

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable and Allowance for Doubtful Accounts

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, 2018 and 2017.

Inventories

Inventories consist of finished goods and are valued at the lower of cost at moving average or net realizable value. The Company provides for direct write-offs of specific inventory lots set to expire within the first six months subsequent to the balance sheet date and utilizes a third party to destroy the goods.

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 expenses were approximately \$65,000 and \$93,000 for the years ended March 31, 2018 and 2017, respectively, and are included in marketing and trade shows expense on the accompanying statements of income and accumulated deficit.

Shipping and Handling

Shipping and handling costs of approximately \$1,433,000 and \$1,520,000 for the years ended March 31, 2018 and 2017, respectively, are included in logistics fees on the accompanying statements of income and accumulated deficit.

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.

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

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. The Company has adopted Accounting Standards Update (“ASU”) 2015-17, “Income Taxes” (Topic 740), which requires deferred tax assets and deferred tax liabilities to be classified as non-current assets or liabilities for the year ended March 31, 2018. The adoption of this ASU had no impact on the Company’s results of operations or cash flows.

Subsequent Events

These financial statements were approved by management and available for issuance on May 16, 2018. Management has evaluated subsequent events through this date.

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	March 31,	
	2018	2017
Equipment	\$ 32,633	\$ 32,633
Furniture and fixtures	120,028	120,028
Computers	38,995	35,895
Computer software	544,000	444,000
	735,656	632,556
Less - Accumulated depreciation and amortization	347,947	232,950
	<u>\$ 387,709</u>	<u>\$ 399,606</u>

5 - LINE OF CREDIT

On July 21, 2017, 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 1.75% (3.64% and 2.27% at March 31, 2018 and 2017, respectively) and mature on June 13, 2018. 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 upon maturity with similar terms.

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 coupled with changes in the federal rates for corporations from approximately 34% to 21% due to enacted changes in the United States tax code.

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

6 - INCOME TAXES (Continued)

Components of the Company's income tax provision for the years ended March 31, 2018 and 2017 are as follows:

	2018	2017
Current		
Federal	\$ 4,000	\$ 25,000
State	63,000	52,000
	67,000	77,000
Deferred		
Federal	18,000	515,000
State	67,000	98,000
Prior year under accrual	13,000	-
Federal rate adjustment	261,000	-
	359,000	613,000
	\$ 426,000	\$ 690,000

The components of the deferred tax asset at March 31, 2018 and 2017 consist of the following:

	2018	2017
Current		
Net operating loss carryforwards	\$ 225,000	\$ 428,000
Noncurrent		
Capitalized development stage costs	379,000	547,000
Depreciation	(63,000)	(75,000)
	316,000	472,000
	\$ 541,000	\$ 900,000

At March 31, 2018 and 2017, 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, 2018 and 2017. 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, 2018 and 2017, the Company has NOL carryforwards of approximately \$834,000 and \$1,035,000, respectively, which, if unused, will expire in years 2027 through 2033.

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

7 - 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, 2018 and 2017 were \$42,516,188 and \$31,811,114, respectively.

At March 31, 2018 and 2017, the Company owed the Parent approximately \$9,464,000, net of receivables of approximately \$411,000, and \$15,631,000, net of receivables of approximately \$115,000, respectively, for purchases of inventory, which is included on the accompanying balance sheets.

At March 31, 2018 and 2017, the Parent has shipped in-transit inventory of approximately \$5,787,000 and \$2,854,000, respectively. The amounts are not included in the accounts of the Company until title passes which is upon receipt at the U.S warehouse.

8 - DEVELOPMENT AGREEMENT

On September 21, 2017, the Company entered into an agreement with a research and development company to provide services to the Company for two separate products. The agreement calls for certain milestone payments to be made in connection with the successful completion of each phase of the drugs' research and development. Further, once the drugs are approved by the FDA, the Company is subject to a 10% royalty, as defined. At March 31, 2018, the Company has advanced approximately \$275,000 in connection with this agreement, which is included in other prepaid expenses on the accompanying balance sheets. The amount is refundable through September 2018 or until successful completion of the process transfer and implementation stage.

9 - 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, 2018 and 2017, expenses were approximately \$3,545,000 and \$3,319,000, respectively, and are included in logistics fees on the accompanying statements of income and accumulated deficit.

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

10 - MAJOR CUSTOMERS

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.

For the year ended March 31, 2017, four customers accounted for approximately 16%, 11%, 10% and 10% of net sales, respectively. In addition, three customers accounted for approximately 41%, 23% and 19%, respectively, of accounts receivable at March 31, 2017.

11 - 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. 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, 2018 and 2017 were approximately \$48,000 and \$35,000, respectively.

12 - COMMITMENTS AND CONTINGENCIES

Leases

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,	
2019	\$ 135,000
2020	138,000
2021	140,000
2022	141,000
2023	141,000
Thereafter	164,000
	<u>\$ 859,000</u>

Rent expense, including equipment rental, for the years ended March 31, 2018 and 2017 was approximately \$139,000 and \$154,000, respectively.

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

12 - COMMITMENTS AND CONTINGENCIES (Continued)

Product Recalls

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 Clopidogrel 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. As of July 25, 2017, one of the claimants filed litigation against the Company, and the Company responded on October 17, 2017 denying all claims. As of March 31, 2018, the case was in discovery, which expires on July 17, 2018. The Company intends to vigorously defend itself against the asserted claims and as of the date of the financial statements has not accrued any losses that may arise from the litigation, as the outcome, if adverse, cannot be reasonably estimated.

In connection with the Product Recall, the Parent has contractually agreed to reimburse the Company for all costs associated with the Product Recall. For the year ended March 31, 2017, the Company received \$1,396,052 from the Parent for returns of product from customers, inventory on-hand, recall fees paid to customers and other administrative costs. At March 31, 2018 and 2017, the Parent owes the Company \$42,039 and \$54,410, respectively. The Company's results of operations for the year ended March 31, 2017 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, 2018.

In September 2016, management received a letter from the FDA stating that their Lamotrigine Tablets USP, 150 mg., 500 ct. tablets were subject to 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.

In October 2017, the Company recalled Bisoprolol Fumarate 5 mg. tablets due to failed impurities/degradation specifications. On November 2, 2017, the Company received a notice from the FDA acknowledging the recall as a level II recall. As of the issuance date of the financial statements, there has been no legal correspondence associated with this recall.

In October 2017, the Company recalled Divalproex Sodium DR 500 mg. tablets due to the remote possibility that the product may be contaminated. On February 1, 2018, the Company received a notice from the FDA acknowledging the recall as a level II recall. As of the issuance date of the financial statements, there has been no legal correspondence associated with this recall.

UNICHEM PHARMACEUTICALS (USA), INC.

NOTES TO FINANCIAL STATEMENTS

12 - COMMITMENTS AND CONTINGENCIES (Continued)

Letters of Credit

At March 31, 2018, the Company was contingently liable under an outstanding letter of credit totaling \$50,000 which was issued as a security deposit for the leased office 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.

SUPPLEMENTARY INFORMATION

UNICHEM PHARMACEUTICALS (USA), INC.

SCHEDULES OF COST OF GOODS SOLD

	Year Ended March 31,	
	2018	2017
Inventories, beginning of year	\$ 6,946,072	\$ 5,029,281
Purchases	42,516,188	31,811,114
Other	74,163	285,126
	49,536,423	37,125,521
Less - Inventories, end of year	5,108,624	6,946,072
	\$ 44,427,799	\$ 30,179,449

See Independent Auditors' Report.