REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS

SENTYNL THERAPEUTICS, INC.

March 31, 2019

MOSSADAMS

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Report of Independent Auditors

The Board of Directors
Sentynl Therapeutics, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Sentynl Therapeutics, Inc., which comprise the balance sheet as of March 31, 2019, and the related statements of income, stockholder's equity, 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.

Auditor's 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 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.

Opinion

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

Moss Adams LLP

San Diego, California
May 9, 2019

Sentynl Therapeutics, Inc.
Balance Sheet

	March 31, 2019
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 10,375,013
Accounts receivable, net	12,923,743
Note and interest receivable – affiliates	94,003,442
Inventories	3,806,076
Prepaid expenses and other current assets	3,308,022
Total current assets	124,416,296
PROPERTY AND EQUIPMENT, net	105,183
IDENTIFIABLE INTANGIBLE ASSETS, net	70,345,585
GOODWILL	73,895,824
Total assets	$ 268,762,888
LIABILITIES AND STOCKHOLDER'S EQUITY	
CURRENT LIABILITIES	
Accounts payable	$ 2,430,691
Current portion of note payable, net	39,836,957
Accrued expenses and other current liabilities	30,831,185
Income taxes payable	2,177,968
Total current liabilities	75,276,801
LONG-TERM LIABILITIES	
Note payable, net	79,706,454
Deferred tax liabilities, net	11,038,669
Other long-term liabilities, net	290,514
Total long-term liabilities	91,035,637
Total liabilities	166,312,438
COMMITMENTS AND CONTINGENCIES (Note 8)	
STOCKHOLDER'S EQUITY	
Common stock: par value, $0.0001 per share, 2,000 shares authorized, 100 shares outstanding	30,010,000
Retained earnings	72,440,450
Total stockholder's equity	102,450,450
Total liabilities and stockholder's equity	$ 268,762,888

Sentynl Therapeutics, Inc.
Statement of Income

	Year Ended March 31, 2019
NET REVENUE	$ 95,261,608
OPERATING COSTS AND EXPENSES	
Cost of sales	17,808,350
Selling and marketing	11,099,599
General and administrative	8,530,771
Manufacturing support, quality, and regulatory	2,967,515
Amortization – identified intangible assets	9,020,530
Depreciation	88,108
Total operating costs and expenses	49,514,873
OPERATING INCOME	45,746,735
OTHER EXPENSE (INCOME)	
Interest expense	5,098,068
Interest income	(2,115,060)
Total interest expense, net	2,983,008
INCOME BEFORE PROVISION FOR INCOME TAXES	42,763,727
PROVISION FOR INCOME TAXES	9,511,693
NET INCOME	$ 33,252,034

See notes to financial statements.

Sentynl Therapeutics, Inc.
Statement of Stockholder's Equity

	Common Stock		Retained	Total Stockholder's
	Units	Amount	Earnings	Equity
BALANCE, April 1, 2018	100	$ 30,010,000	$ 39,188,416	$ 69,198,416
Net income	-	-	33,252,034	33,252,034
BALANCE, March 31, 2019	100	$ 30,010,000	$ 72,440,450	$ 102,450,450

See notes to financial statements.

Sentynl Therapeutics, Inc.
Statement of Cash Flows

	Year Ended March 31, 2019
OPERATING ACTIVITIES	
Net income	$ 33,252,034
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	88,108
Amortization – identified intangible assets	9,020,530
Amortization – deferred financing costs	160,037
Deferred compensation expense	241,472
Decrease (increase) in operating assets:	
Accounts receivable	11,573,683
Inventories	239,772
Prepaid expenses and other current assets	183,305
Interest receivable – affiliates	(237,962)
Increase (decrease) in operating liabilities:	
Accounts payable	(80,989)
Accrued expenses and other current liabilities	(5,419,466)
Income taxes payable	(952,872)
Deferred tax liabilities	(2,498,661)
Net cash provided by operating activities	45,568,991
INVESTING ACTIVITIES	
Loan advances to affiliates	(111,500,000)
Loan repayments from affiliate	70,000,000
Cash paid for settlement of merger-related obligations	(2,463,894)
Purchase of property and equipment	(45,772)
Net cash used in investing activities	(44,009,666)
INCREASE IN CASH AND CASH EQUIVALENTS	1,559,325
CASH AND CASH EQUIVALENTS	
Beginning of period	8,815,688
End of period	$ 10,375,013
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash payments for	
Interest:	
Paid to a third party	$ 3,610,009
Paid to a related party	1,318,055
Total interest paid	$ 4,928,064
Income taxes paid	$ 12,961,727

See notes to financial statements.

Note 1 – Nature of Business and Basis of Presentation

Sentynl Therapeutics, Inc. (the "Company" or STI) was formed as a Delaware corporation in August 2011, and is headquartered in San Diego, California. STI is a specialty pharmaceutical company principally engaged in acquiring and commercializing prescription drug products. STI sells and distributes its products through wholesale, specialty retail, and conventional retail drug distributors. On April 30, 2015, the Company was acquired by Sentynl Holdings LLC (SHL).

In 2015, STI acquired the intellectual property and exclusive rights to manufacture and distribute Levorphanol Tartrate Tablets ("Levorphanol") in the United States and its territories. Levorphanol is a Food and Drug Administration (FDA)-approved opioid medication used to treat moderate to severe pain. On November 19, 2015, STI and Galena Biopharma, Inc. ("Galena") entered into an Asset Purchase Agreement (APA) pursuant to which STI agreed to purchase from Galena certain assets and liabilities of Galena related to and including its Abstral ® ("Abstral") Sublingual Tablets product. Abstral is approved by the FDA as a treatment option for inadequately controlled breakthrough cancer pain.

On January 19, 2017, SHL sold all of its shares to Zydus Holding Inc. ("Zydus"), a wholly-owned subsidiary of Cadila Healthcare Ltd. ("CHL"), for consideration totaling $136,500,000, and Zydus was merged into STI with STI being the surviving company and CHL being sole owner of STI.

The accompanying financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Note 2 – Summary of Significant Accounting Policies

Use of estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue recognition and related deductions and allowances – The Company has an active and on-going operating agreement with a third-party distributor (the "Distributor") whereby the Company directly sells its products to this Distributor. The Distributor subsequently sells to the Company's indirect wholesale, retail, and specialty drug distribution customers on a routine basis. The Company defers the recognition of sales for all shipments to the Distributor, and recognizes sales when the Distributor fulfills and ships the Company's products to its indirect customers. The Company records deferred revenue based on its contracted pricing with the Distributor at the time of the shipment to the Distributor.

The Company reports product revenue net of related deductions and allowances including, but not limited to, accrual estimates for customary trade discounts, chargebacks, third-party and government rebates, patient assistance program redemptions, wholesaler distribution and service fees, and product returns. Products held by customers (direct and indirect) can be returned to the Company within a period which begins six months prior to, and ends twelve months after, the product label expiration date.

Note 2 – Summary of Significant Accounting Policies (continued)

The deductions and allowances represent accrual estimates which are based on the terms and conditions of the contracts and other agreements with the direct and indirect customers and are supported by relevant historical experience. The Company periodically reviews and, if necessary, adjusts the estimated amounts accrued for these deductions and allowances. It is reasonably possible that the estimates could materially change in the near term.

The net revenue of the Company for the year ended March 31, 2019, is as follows:

Invoiced revenue	$ 142,965,855
Less deductions and allowances:	
Third-party and government rebates / chargebacks	30,118,353
Wholesaler distribution fees	7,299,681
Product returns	4,911,811
Trade discounts	2,960,730
Patient assistance program redemptions	1,070,935
Other	1,342,737
Total deductions and allowances	47,704,247
Net revenue	$ 95,261,608

Concentrations – Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents and trade accounts receivable. The Company maintains all of its cash balances in the form of money market and bank depository accounts that have immediate liquidity. The Company maintains all of its cash and cash equivalents with large United States-based and multinational financial institutions. Certain balances exceed federally-insured amounts.

During the year ended March 31, 2019, five indirect wholesale drug and specialty pharmacy distributors, each of whom individually accounted for more than 10 percent, accounted for 82 percent in aggregate of the Company's invoiced revenue. The Company extends unsecured credit to a Distributor, and that balance represents the amount classified as accounts receivable. The Distributor and all of the Company's indirect customers are located in the United States.

In December 2018, an AB-rated (therapeutically equivalent) generic product to the Company's Levorphanol 2mg strength product was approved and launched. As of the date of this report, the Company has seen modest erosion of its Levorphanol market share from the generic equivalent product.

In 2018, the FDA approved the Company's submission for a 3mg strength of Levorphanol which was commercially launched in the United States in mid-January 2019.

During the year ended March 31, 2019, Levorphanol made up 96 percent of invoiced revenue.

Cost of sales – Cost of sales consist primarily of third-party product manufacturing costs, product royalties, third-party distribution and destruction costs, product stability costs, and provision for estimated excess and obsolete inventory.

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – Cash and cash equivalents includes cash held in bank accounts and short-term investments with original maturities of three months or less when purchased that are highly liquid and readily convertible to cash.

Accounts receivables, net – During the year ended March 31, 2019, the Distributor was the only direct customer of the Company. As such, the amount recorded at March 31, 2019, reflects unpaid amounts invoiced to this customer under the terms and conditions of the contract. As of March 31, 2019, the allowance for trade discounts was $291,144.

Inventories – Inventories consist of pharmaceutical drug products that are manufactured by Food and Drug Administration (FDA)-approved third-party suppliers for sale to direct and indirect customers. Inventories are stated at net realizable value. Cost is determined using the first-in, first-out method. The Company's existing products have an initial shelf-life which ranges from 18-48 months. The Company records an estimated allowance for excess and obsolete inventory based on projected future sales, reported and estimated unit quantities of products held by its direct and indirect customers, remaining product shelf-life, historical trends, and other relevant factors. As of March 31, 2019, the Company has written-down estimated excess and obsolete inventory in the amount of $1,290,228.

Note receivable – affiliates – The Company has entered into loan agreements with its affiliates, Zydus Pharmaceuticals (USA) Inc. (ZPUI) and Zydus Worldwide DMCC (ZWWD). See Note 10 for further discussion.

Property and equipment – Property and equipment purchased by the Company is stated at cost. Assets acquired pursuant to a business combination are stated at their fair value on the date of the acquisition. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from 2 to 5 years.

Identifiable intangible assets – Product rights and other related intellectual property rights are amortized on a straight-line basis over the shorter of (a) the period during which the rights are expected to contribute to the future cash flows of the Company, or (b) their remaining legal or contractual life. Management periodically evaluates the estimated remaining useful life of these rights based on relevant factors that include market size and growth trends, barriers to competitive entry, stability of therapeutic class, and strength of competing products. Identifiable intangible assets are amortized over an original estimated useful life of 10 years.

Impairment of long-lived assets (other than goodwill) – The Company periodically evaluates whether changes in facts and circumstances indicate that the carrying amounts of long-lived assets might not be recoverable. A long-lived asset is considered to be impaired if its carrying amount exceeds the estimated future undiscounted cash flows associated with the asset over its estimated remaining economic life. If an asset is determined to be impaired, an impairment loss is recognized based on the excess of the asset's carrying amount over its estimated fair value.

Note 2 – Summary of Significant Accounting Policies (continued)

The estimated remaining economic life of product rights and other related intellectual property rights is subject to change in the near term based on, among other things, third-party generic competition, regulatory changes, the reliability of future product supply, competition from products prescribed for similar indications, physician loyalty, and promotional efforts. Based on management's evaluation, no impairment was recorded during the year ended March 31, 2019.

Goodwill – The Company does not amortize goodwill and, accordingly, periodically evaluates whether changes in facts and circumstances indicate that the carrying value of goodwill is deemed to be in excess of the fair value of the entity. If goodwill is determined to be impaired, an impairment loss is recognized based on the excess of the asset's carrying amount over its estimated fair value.

Based on management's evaluation, no impairment is deemed to exist and, as such, no impairment has been recorded as of March 31, 2019.

Income taxes – The Company accounts for income taxes payable based on the asset and liability method that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statements and income tax returns. A deferred tax asset valuation allowance is recorded if it is more likely than not that a deferred tax asset will not be realized. Interest and penalties on tax underpayments are recorded as other expense in the statement of income. As of March 31, 2019, no valuation allowance was recorded and no interest and penalties were incurred.

New accounting pronouncements – In May 2015, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenues from Contracts with Customers*. This guidance applies to any entity that either enters into contracts with customers to transfer goods or services, or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of 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. This guidance supersedes existing revenue recognition guidance, including most industry-specific guidance, as well as certain related guidance on accounting for contract costs.

In March 2016, FASB issued ASU No. 2016-08 as an update to the previously issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of 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. The amendments in this update do not change the core principle of the guidance included in ASU No. 2014-09, but rather clarify the implementation guidance on principal versus agent considerations. ASU 2016-08 will be effective for nonpublic entities for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of this ASU on its financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases*, which provides new guidelines that change the accounting for leasing arrangements. The new guidelines are contained in Accounting Standards Codification (ASC) Topic 842, *Leases*. Conforming changes were made throughout the Codification as applicable. The current guidance in ASC Topic 840 will be discontinued.

Note 2 – Summary of Significant Accounting Policies (continued)

Compared with legacy lease accounting, ASC Topic 842 primarily changes the accounting for lessees, requiring lessees to record assets and liabilities on the balance sheet for almost every lease. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current U.S. GAAP. The classification criteria for distinguishing between finance leases and operating leases will be substantially similar to the classification criteria for distinguishing between capital leases and operating leases under current U.S. GAAP. The new leasing standard becomes effective in fiscal years beginning after December 15, 2019. Early adoption is allowed. The Company is currently evaluating the impact of this ASU on its financial statements

Note 3 – Balance Sheet Details

Balance sheet details as of March 31, 2019, are as follows:

Accounts receivable, net	
Trade accounts receivable	$ 13,214,887
Trade discounts	(291,144)
Accounts receivable, net	$ 12,923,743
Inventories	
Finished goods	$ 3,442,795
Raw materials	363,281
Inventories	$ 3,806,076
Note and interest receivable – affiliate	
Note receivable (principal)	$ 93,500,000
Interest receivable, affiliate	503,442
Note and interest receivable – affiliate	$ 94,003,442
Prepaid expenses and other current assets	
Prepaid inventory supplies	$ 1,200,043
Prepaid retail pharmacy rebate and patient assistance deposits	1,205,000
Prepaid commercial insurance	423,599
Prepaid market data	178,279
Other	301,101
Prepaid expenses and other current assets	$ 3,308,022

Note 3 – Balance Sheet Details (continued)

Property and equipment	
Computer hardware and software	$ 346,713
Manufacturing equipment and tooling	143,781
Furniture and fixtures	147,360
	637,854
Accumulated depreciation	(532,671)
Property and equipment, net	$ 105,183

Accrued expenses and other current liabilities	
Accrued rebates and wholesaler fees	$ 11,379,304
Accrued product returns	8,424,130
Deferred revenue	6,398,360
Accrued incentive compensation	1,349,953
Accrued legal fees	1,137,000
Accrued patient co-pay assistance and voucher program redemptions	812,502
Accrued contract manufacturing costs	184,523
Accrued product royalties	147,958
Other	997,455
Accrued expenses and other current liabilities	$ 30,831,185

Other long-term liabilities, net	
Deferred compensation liability, net	$ 271,253
Other	19,261
Other long-term liabilities, net	$ 290,514

Note 4 – Identifiable Intangible Assets and Goodwill

In connection with the acquisition by CHL, STI has elected to apply push-down accounting and reflect in its financial statements the fair value of its assets and liabilities.

The identifiable intangible assets are related to Levorphanol and Abstral, and reflect an amount of $90,205,300 and $2,288,100, respectively. The Levorphanol intangible assets are being amortized over a weighted average useful life of approximately 10 years. Abstral intangible assets were fully amortized as of December 31, 2017.

Note 4 – Identifiable Intangible Assets and Goodwill (continued)

The carrying amounts of intangible assets were as follows:

License and product rights	$ 92,000,000
Trademarks	300,000
FDA permits	193,400
	92,493,400
Less accumulated amortization	(22,147,815)
Intangible assets, net	$ 70,345,585
Goodwill	$ 73,895,824

There were no changes to Goodwill during the year ended March 31, 2019.

Amortization expense related to the identifiable intangible assets was $9,020,530 for the year ended March 31, 2019. Future expected amortization expense for identifiable intangible assets held as of March 31, 2019, is as follows:

Years ended March 31,	
2020	$ 9,020,530
2021	9,020,530
2022	9,020,530
2023	9,020,530
2024	9,020,530
Thereafter	25,242,935
Total	$ 70,345,585

Note 5 – Debt

In connection with the acquisition and resulting merger on January 19, 2017, the Company assumed a loan and outstanding indebtedness with the Bank of Tokyo – Mitsubishi (BTMU) dated January 12, 2017 (“effective date”), totaling $120,000,000 with an initial term of five years.

Interest is due and payable monthly at a rate of margin plus LIBOR, as further defined in the loan agreement. During the period from April 1, 2018 to March 28, 2019, the interest rate ranged from 2.671 percent to 3.292 percent. Interest accrues on the total weighted average principal balance outstanding. The amount outstanding under the loan agreement is guaranteed in full by CHL. The agreement requires the Company and CHL to comply with certain financial covenants and representations and warranties over the term of the loan agreement. The Company and CHL were in full compliance with all loan covenants at March 31, 2019, and through the date of this report. The Company incurred deferred financing costs of $786,000 in connection with this agreement, which are being amortized on a straight-line basis over the initial term of the loan.

Note 5 – Debt (continued)

As of March 31, 2019, the balance of the loan and unamortized deferred financing costs were as follows:

Current portion of principal balance outstanding	$ 40,000,000
Less unamortized deferred financing costs	(163,043)
Total – current portion, net	$ 39,836,957

Principal balance outstanding, less current portion	$ 80,000,000
Less unamortized deferred financing costs	(293,546)
Total – long-term portion, net	$ 79,706,454

For the year ended March 31, 2019, the Company recognized interest expense associated with this loan of $3,780,014, which includes $163,044 of expense related to amortization of deferred financing costs.

Future minimum principal payments on the loan are due as follows:

2020	$ 40,000,000
2021	40,000,000
2022	40,000,000
Total payments	$ 120,000,000

Note 6 – Stockholder's Equity

As the result of the acquisition described in Note 1 and Note 3, CHL became the sole owner and holder of 100 shares of the Company's common stock.

Note 7 – Income Taxes

The Company accounts for income taxes in accordance with FASB ASC Topic 740, *Income Taxes*. Deferred tax assets and liabilities arise from temporary differences between the tax basis of assets and liabilities, and their reported amounts in the financial statements, that will result in taxable or deductible amounts in future years. Management evaluates all available evidence about future taxable income and other possible sources of realization of deferred tax assets. A valuation allowance is established to reduce deferred tax assets to an amount that represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized. To the extent the Company establishes a valuation allowance or increases the allowance in any given period, an expense is recognized within the provision for income taxes in the statement of income.

Note 7 – Income Taxes (continued)

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The Company recognizes interest and penalties related to income tax matters as other expense in the statement of income. Based on management's assessment, there are no uncertain tax positions requiring recognition as of the date of these financial statements.

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was signed into law, resulting in a reduction to the Company's federal income statutory rate from 35 percent to 21 percent, effective January 1, 2018.

For the year ended March 31, 2019, the provision for income taxes consists of the following:

Current:	
Federal	$ 10,156,201
State	1,853,930
Total current	12,010,131
Deferred:	
Federal	(1,444,276)
State	(1,054,162)
Total deferred	(2,498,438)
Total provision for income taxes	$ 9,511,693

STI's net deferred tax liabilities as of March 31, 2019 are as follows:

Deferred tax liabilities (assets):	
Tax vs. book carrying values of identifiable intangibles assets	$ 13,982,905
Allowance for returns and rebates	(1,909,140)
Deferred revenue, net of expenses	(702,629)
Depreciation and amortization	21,405
Accrued compensation	(61,471)
Allowance for excess inventory and obsolescence	(292,401)
Total deferred tax liabilities, net	$ 11,038,669

Note 7 – Income Taxes (continued)

As of March 31, 2019, the Company has no valuation allowance against the deferred tax assets based on management's current projection of future taxable income that is expected to be sufficient for the Company to realize the future benefit of such deferred tax assets.

The difference between the effective income tax rate and the statutory federal income tax rate applied to pretax income is as follows:

	Amount	Percentage of net income before provision for income taxes
Federal income tax at statutory rate	$ 8,992,685	21.00 %
State income tax, net of federal benefit	1,329,462	3.08 %
Permanent nondeductible items	105,926	0.25 %
Total provision before deferred tax benefit	10,428,073	24.33 %
Deferred tax benefit resulting from TCJA	(916,380)	(2.09)%
Total provision for income taxes	$ 9,511,693	22.24 %

The Company has not incurred any material interest or penalties during the reporting period with respect to income tax matters.

The Company is subject to taxation in the United States and various state jurisdictions. As of March 31, 2019, the Company's tax years for 2015, 2016, and 2017 are subject to examination by the taxing authorities. The Company is currently under audit with both the United States Internal Revenue Service (IRS) and the California Franchise Tax Board (FTB). The FTB is auditing tax years 2015-2017. The IRS is auditing tax year 2017.

Note 8 – Commitments and Contingencies

Leases – On February 8, 2016, the Company entered into a non-cancelable lease agreement for office space at its corporate headquarters in San Diego, California. The term of the lease commenced in June 2016, and will expire five years later, with a renewal option for an additional five years. Rent expense was $239,076 during the year ended March 31, 2019.

Future minimum payments due and payable under the Company's non-cancelable operating lease are as follows:

Years ended March 31,	
2020	$ 225,767
2021	232,542
2022	38,946
Total	$ 497,255

Note 8 – Commitments and Contingencies (continued)

Product manufacturing agreements – The Company uses FDA-validated third-party contractors to manufacture and package its products. Under the terms and conditions of agreements with these contractors, the Company enters into firm purchase commitments that specify quantities, expected delivery, and pricing for each specific order. The Company has a contract with a third-party contractor which included a provision for minimum annual purchase commitments. The provisions of this agreement stipulate that, in the event of a commercial launch of an AB-rated therapeutically equivalent product such as occurred in December 2018, the Company has no further obligation for minimum annual purchase commitments.

During the year ended March 31, 2019, the Company made purchases totaling $5,843,229 under this contract.

Legal matters – The Company may be involved in certain legal matters that arise from time to time in the ordinary course of business. Management does not believe that the resolution of any of these matters would have a material impact on the Company's financial position or results of operations.

A claim naming the Company (among other pharmaceutical companies) as a defendant was filed March 19, 2018, in the Circuit Court of Crittenden County in the State of Arkansas. The Company was dismissed as a defendant on March 22, 2019.

On August 2, 2018, the Company received a subpoena from the United States Attorney's Office for the District of New Jersey (the "Government") seeking information related to the promotion and distribution of one of the Company's products. At this time, the Company cannot predict or determine the outcome of this matter and is fully cooperating with the investigation.

A complaint naming the Company (among other pharmaceutical companies) as a defendant, was filed on or about March 15, 2019, in the Pennsylvania Court of Common Pleas of Philadelphia. The Company was served with the lawsuit on April 18, 2019. The Company is in the process of retaining legal counsel to assist the Company in responding to the lawsuit. At this time, the Company cannot predict or determine the outcome of this matter.

As of March 31, 2019, the Company has accrued unpaid legal and related costs totaling $1,137,000.

Royalty and milestone agreements – STI is obligated to pay quarterly royalties to the seller of Levorphanol, subject to certain limitations as further defined in the definitive agreement, based on a percentage of the gross profit (defined as net sales less direct product cost) from the future sales of Levorphanol. As a result of the commercial launch of a AB-rated therapeutically equivalent product to the Company's 2mg strength of Levorphanol product, the Company's obligation for payment of royalties to the seller of Levorphanol is limited to gross profit from the future sales of the 3mg strength of Levorphanol.

During the year ended March 31, 2019, royalty expense for Levorphanol totaled $9,194,843, and was classified as a component of cost of sales.

Note 8 – Commitments and Contingencies (continued)

The assets acquired and the liabilities assumed by STI pursuant to the Galena APA included, among other things, all of Galena's rights and interests in a previous Asset Purchase Agreement by and between Galena and Orexo AB ("Orexo") dated March 15, 2013, and a License Agreement by and between Galena and Orexo dated March 18, 2013 (collectively, the "Orexo Agreements"). Galena's future obligations under the Orexo Agreements were assumed by STI pursuant to such assignment. As a result of the acquisition, STI became the exclusive distributor of Abstral in the United States and its territories.

Under the assumed Orexo Agreements, STI is obligated to pay Orexo royalties based on future net sales of Abstral and a series of one-time milestone payments of up to $17,000,000 if certain net sales milestones are achieved on or before the earliest of (a) a government invalidation of their orange book listed patents, or (b) the expiration of the latest orange book filed patent, which is September 24, 2019.

Royalty expense for Abstral totaled $444,074 for the year ended March 31, 2019, and was classified as a component of cost of sales. The Company's obligation to pay royalties ends on the date when the Abstral patents expire in September 2019. The Company is also obligated to pay Galena up to $4,000,000 if certain future net sales milestones are met as defined in the Galena APA. Management has assessed the probability of STI achieving the milestones as negligible and, as such, no amounts were accrued at March 31, 2019.

Note 9 – Retirement Plan and Deferred Compensation Plan

The Company has established a qualified defined contribution 401(k) plan (the "Plan") for its eligible directors. Company contributions, if any, to the Plan are at the sole discretion of the Board of Directors. In 2019, the Board approved, and the Company paid, a matching contribution totaling $206,155 related to employee services during 2018. At March 31, 2019, the Company accrued a discretionary matching contribution for employee services related to 2019 totaling $148,284 which, subject to Board approval, will be funded in early 2020.

Note 9 – Retirement Plan and Deferred Compensation Plan (continued)

The Company has a deferred compensation plan in which certain key employees are eligible to participate effective January 19, 2017. This plan allows each participant to accrue deferred compensation equal to their share, as further defined in the plan agreement, of annual net revenue growth measured against the previous year's ("Base Year") annual net revenue. The computation of deferred compensation for the period from January 1, 2018 through March 31, 2019, is based on the growth in net revenue for the calendar years ended December 31, 2017 and December 31, 2018, compared with 2016 and 2017, respectively, the Base Year(s), and an estimate of the projected annual net revenue growth for calendar year ending December 31, 2019, compared with the 2018 Base Year. The deferred liability for each participant cliff vests equally over a five-year period on December 31 each year, and the vested amount is paid out at the end of the following year. The participant must be employed by the Company in order to be eligible for annual vesting and the subsequent end of year payment. If the participant(s) employment is terminated, any unvested amounts are forfeited. The Company accounts for the deferred compensation asset separately from the liability and, as such, systematically amortizes the compensation expense on a straight-line basis over the estimated future service period which approximates six years and which takes into consideration the initial Base Year. At March 31, 2019, the Company recorded an unamortized deferred compensation asset of $1,157,910 which reflects future amortization over the remaining employees' service period. In addition, the Company has recorded a liability of $1,429,163 which reflects the amount of future payments, resulting in a net liability of $271,253, which is classified as a component of other long-term liabilities.

Note 10 – Related-Party Transactions

On January 20, 2017, the Company entered into a loan agreement with an affiliate, Zydus Pharmaceuticals USA Inc. (ZPUI). Under this agreement and subsequent amendments, the Company has agreed to provide cumulative net advancements over the term of the loan agreement up to $150,000,000. As of March 31, 2019, the Company has provided cumulative loan advances totaling $93,500,000 and received repayments of $70,000,000 resulting in net advances of $23,500,000. The term of the loan agreement was extended to September 20, 2019. The amount outstanding under the loan agreement can be repaid earlier by ZPUI at any time without penalty by mutual consent. Interest is due monthly and is earned on the unpaid loan balance during the monthly interest period at a rate of margin plus LIBOR, as further defined in the loan agreement. The Company deems the interest rates to represent fair value. During the year ended March 31, 2019, the interest rate ranged from 2.727 percent to 3.292 percent. The Company recognized $1,646,182 interest income associated with this loan during the year ended March 31, 2019. The current outstanding principal and accrued interest receivable balance was $23,500,000 and $54,791, respectively, at March 31, 2019.

Note 10 – Related-Party Transactions (continued)

On January 10, 2019, the Company entered into a loan agreement with an affiliate, Zydus Worldwide DMMC (ZWWD). Under this agreement, the Company has agreed to provide cumulative net advancements over the term of the loan agreement up to $75,000,000. As of March 31, 2019, the Company has provided cumulative net loan advances of $70,000,000. The initial one-year term ends on January 10, 2020, and can either be repaid or extended for another year and can be repaid, by mutual consent, before the end of the term at any time without penalty. Interest is due quarterly, and is earned on the unpaid loan balance during the quarterly interest period at rate of margin plus LIBOR, as further defined in the loan agreement. The Company deems the interest rate to represent fair value. During the year ended March 31, 2019, the interest rate ranged from 3.068 percent to 3.097 percent. The Company recognized $448,651 in interest income associated with this loan. The current outstanding principal and accrued interest receivable balance was $70,000,000 and $448,651, respectively, at March 31, 2019.

As of March 31, 2019, the Company classified the two outstanding loan receivable balances as current assets as follows:

Note receivable – ZPUI	$ 70,448,651
Note receivable – ZWWD	23,554,791
Note receivable – affiliates	$ 94,003,442

In connection with the merger in 2017, the Company agreed to pay to CHL a loan guarantee fee as compensation for CHL's guarantee of the Company's debt obligation with BTMU. This fee of 1 percent per annum is assessed on $130,000,000 which represents the maximum guarantee by CHL. The Company settles its obligation with CHL on a quarterly basis. During the year ended March 31, 2019, the Company recognized interest expense of $1,318,055 in connection with this arrangement and no unpaid amounts were outstanding at March 31, 2019.

On June 8, 2017, the Company entered into a development agreement with an affiliate, Nesher Pharmaceuticals (USA) LLC ("Nesher"). Under the terms and conditions of the development agreement, the Company has made cumulative payments for development work, product supplies, and stability testing totaling $2,226,901. During the year ended March 31, 2019, the Company recognized development expense totaling $764,401 (classified as component of manufacturing support, quality, and regulatory expense) in connection with this agreement, and made payments totaling $1,950,901. As of March 31, 2019, no accrued and billed amounts were outstanding.

On September 1, 2018, the Company entered into a contract manufacturing agreement with Nesher, pursuant to which Nesher will provide contract manufacturing and quality services for manufacturing different strengths of Levorphanol. The Company made purchases totaling $601,085 under this contract for the year ended March 31, 2019 and had finished goods inventory acquired in connection with this agreement of $562,820 at March 31, 2019. At March 31, 2019, there were no outstanding firm purchase commitments in connection with this agreement.