Zydus Healthcare (USA) LLC.

FINANCIAL STATEMENTS

December 31, 2018 and 2017

RAM ASSOCIATES, CPAS

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ZYDUS HEALTHCARE (USA) LLC

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INDEPENDENT AUDITOR'S REPORT

To the members'
of Zydus Healthcare (USA) LLC.

We have audited the accompanying financial statements of Zydus Healthcare (USA) LLC., which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income, retained earnings, and cash flows for the years then ended, and the related notes to 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 misstatements.

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 the 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 Zydus Healthcare (USA) LLC. as of December 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.

Ram Associates

Ram Associates
Hamilton, NJ

April 12, 2019

ZYDUS HEALTHCARE (USA) LLC

Balance Sheets

December 31,

ASSETS

	2018	2017
Current assets :		
Cash	$ 553,393	$ 342,470
Accounts receivable	176,286	256,451
Other current assets	3,914	55,865
Total current assets	733,593	654,786
Property and equipment, net	143,634	152,500
Building	1,395,874	1,441,655
Land	665,000	665,000
TOTAL ASSETS	$ 2,938,101	$ 2,913,941

LIABILITIES AND MEMBER'S EQUITY

	2018	2017
Current liabilities :		
Accounts payable and accrued expenses	$ 24,177	$ 12,764
Other current liabilities	13,327	6,592
Total current liabilities	37,504	19,356
Long-term liabilities		
Loan from related party	2,500,000	2,500,000
Total current and long-term liabilities	2,537,504	2,519,356
Member's equity		
Members' capital	200,000	200,000
Retained earnings	200,597	194,585
Total member's equity	400,597	394,585
TOTAL LIABILITIES AND MEMBER'S EQUITY	$ 2,938,101	$ 2,913,941

ZYDUS HEALTHCARE (USA) LLC

Statements of Income

For the years ended December 31,

		2018		2017
Net sales	$	24,765	$	145,619
Service charges		51,308		69,538
Net revenue		76,073		215,157
Cost of sales		24,765		164,113
Gross profit		51,308		51,044
Operating expenses				
General and administrative expenses		4,717		18,104
Operating income before other income / (expenses)		46,591		32,940
Other income / (expenses)				
Other income		196,984		189,165
Interest expense		(150,000)		(150,000)
Depreciation		(84,053)		(63,383)
Operating income before income taxes		9,522		8,722
Income taxes		3,510		7,865
Net income	$	6,012	$	857

ZYDUS HEALTHCARE (USA) LLC

Statements of Changes in Member's Equity

For the years ended December 31, 2018 and 2017

	Member's equity	Retained earnings	Total member's equity
Balance at December 31, 2017	$ 200,000	194,585	$ 394,585
Net income		6,012	6,012
Balance at December 31, 2018	$ 200,000	200,597	$ 400,597

- See accompanying notes to financial statements -

ZYDUS HEALTHCARE (USA) LLC

Statements of Cash Flows

For the Years Ended December 31,

	2018	2017
Cash flows from operating activities		
Net income	6,012	857
Adjustment to reconcile net income to net cash		
provided by (used in) operating activities		
Depreciation	84,053	63,383
Changes in assets and liabilities :		
(Increase) / decrease in :		
Accounts receivable	80,165	59,974
Other current assets	51,951	1,230
Increase / (decrease) in :		
Accounts payable and accrued expenses	11,413	(3,971)
Other current liabilities	6,735	3,592
Total adjustments	234,317	124,208
Net cash provided by (used in) operating activities	240,329	125,065
Cash flows from investing activities		
Capital expenditures	(29,406)	(135,517)
Net cash provided by (used in) investing activities	(29,406)	(135,517)
Net (decrease) / increase in cash and cash equivalents	210,923	(10,452)
Cash at the beginning of the year	342,470	352,921
Cash at the end of the year	$ 553,393	$ 342,470
Supplementary disclosure of cash flows information		
Cash paid during the year for :		
Income tax	$ 4,000	$ 3,000
Interest	150,000	150,000

- See accompanying notes to financial statements -

1) Organization and Description of Business

Zydus Healthcare USA LLC (ZHUL) was incorporated in Delaware on September 24, 2002. Subsequently ZHUL also registered its business in New Jersey on November 6, 2002. It is a wholly owned subsidiary of Cadila Healthcare Limited, India, ("Zydus Cadila"). Cadila Healthcare Limited, India purchased all the outstanding shares of the Company on March 23, 2017 from its previous owner Zydus International Private Limited, Ireland (100% subsidiary of Cadila Healthcare Limited) and effective from this date Zydus Cadila became the sole owner of the Company. Zydus Cadila manufactures and distributes prescription, over-the-counter and bulk Active Pharmaceutical Ingredients. ZHUL procures products from third parties and sells goods and services to Zydus Cadila. The Company also provides services to a related parties based in Dubai, Zydus Worldwide DMCC and Zydus Discovery DMCC.

The Company moved its corporate office to a new facility located at Pennington, New Jersey in 2010. Major portion of the facility was leased to Zydus Pharmaceuticals (USA), Inc, a related party.

2) Summary of Significant Accounting Policies

Accounting Policies

These financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP"); consequently, revenue is recognized when services are rendered and expenses reflected when costs are incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates are often based on judgments, probabilities and assumptions that management believes are reasonable but that are inherently uncertain and unpredictable. As a result, actual result could differ from those estimates.

Management periodically evaluates estimates used in the preparation of the consolidated financial statements for continued reasonableness. Appropriate adjustment, if any, to the estimates used are made prospectively based on such periodic evaluations.

Revenue Recognition

The Company recognizes product sales revenue when the title and risk of loss have transferred to the customers, when estimated provisions for product returns, rebates and other sales allowances are reasonably determinable, and when collectibles are reasonably assured. Accruals for these provisions are presented as reductions to revenues.

Accounts Receivables

Accounts receivable from Zydus Cadila, its parent Company on December 31, 2018 and 2017 were $ 76,570 and $ 58,435 respectively.

Accounts Payables and Other Current Liabilities

Accounts payables to Zydus Cadila, its parent Company on December 31, 2018 and 2017 were $ Nil and $ Nil respectively.

Credit and Business Concentration

The Company's financial instruments that are exposed to a concentration of credit risks consist primarily of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents in bank accounts, which, at times, exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to significant credit risk on cash and cash equivalents. The concentration of credit risks with respect to accounts receivable are limited because of the credit worthiness of the Company's major customers. 100% and 100% of the sales for 2018 and 2017 (towards goods and service charges) were made to Zydus Cadila its parent Company or to a related party under the group.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives by the straight-line method. Depreciation of an asset commences when the asset is put into use. The estimated useful lives of the related assets range from 3 to 39.5 years.

Property and equipment consists of the followings as of December 31:

	2018	2017
Computer Equipment	$ 44,370	$ 42,889
Furniture and Fixture	87,626	81,644
Machinery and Equipment	179,438	156,546
Building	1,802,245	1,802,245
Land	665,000	665,000
Fixed Asset in Transit	-	950
	2,778,679	2,749,274
Less : Accumulated Depreciation	574,171	490,119
Net Assets	$ 2,204,508	$ 2,259,155

The Company charges repairs and maintenance costs that do not extend the lives of the assets, to expenses as incurred.

Depreciation expenses during the years ended December 31, 2018 and 2017 were $ 84,053 and $ 63,383 respectively.

3) Pension Plan

ZHUL has implemented an Employer sponsored 401K Pension plan effective October 1, 2003. The Company has merged its 401K plan with the 401K plan of Zydus Pharmaceuticals USA Inc effective from April 1, 2010. Under the plan, ZHUL will make Qualified-matching contribution to a maximum of 5% of the basic pay of the eligible employees. All qualified matching contributions are 100% vested and are subject to certain withdrawal restrictions. For the years ended December 31, 2018 and 2017, ZHUL made a matching contribution of $23,859 and $22,719 respectively.

4) Related Party Transactions

a. Sales to Zydus Cadila – parent Company, towards sale of goods is as follows:

	December 31,	
	2018	2017
Sale of goods	$ 24,765	$ 145,619
Total	$ 24,765	$ 145,619

b. During the years 2018 and 2017 Cadila – parent Company reimbursed agreed expenses incurred by ZHUL, along with a service charges as follows:

	December 31,	
	2018	2017
Expense	$ 575,012	$ 614,814
Service charges	11,496	43,390
Total,	$ 586,508	$ 658,204

c. During the years ended December 31, 2018 and 2017 Zydus Discovery DMCC a related party, reimbursed agreed expenses incurred by ZHUL, along with a service charges as follows:

	December 31,	
	2018	2017
Expense	$ 473,440	$ 281,101
Service charges	37,877	26,148
Total,	$ 517,317	$ 307,249

d. During the years ended December 31, 2018 and 2017 Zydus Worldwide DMCC a related party, reimbursed agreed expenses incurred by ZHUL, along with a service charges as follows:

	December 31,	
	2018	2017
Expense	$ 96,699	$ -
Service charges	1,935	-
Total,	$ 98,634	$ -

5) Income Taxes

The Company records income taxes using the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and the tax effect of net operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company files income tax returns in the U.S. federal jurisdiction, and various State jurisdictions. The Company is generally subject to U.S. Federal, State and local examinations by tax authorities for the last three years.

6) Commitments

The Company borrowed a sum of $2,500,000 at the rate of 6% per annum from Zydus Pharmaceuticals USA Inc, a related Company. The term of the loan is thirty (30) years. This loan is payable in three hundred fifty nine (359) monthly payments of interest only in the amount of Twelve Thousand Five Hundred Dollars ($12,500) payable on the fifteenth day of each month, and a final payment of all principal plus accrued interest due, fees and other changes payable on January 5, 2040 (the “Maturity Date”).

7) New Accounting Pronouncements

i) On November 17, 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. It is intended to reduce diversity in the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. The new standard requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for annual periods beginning after December 15, 2017 including interim periods within those fiscal years. Earlier adoption is permitted.

ii) In January 2017, the FASB issued Accounting Standards Update No. 2017-01, *Clarifying the Definition of a Business*, which clarifies and provides a more robust framework to use in determining when a set of assets and activities is a business. The amendments in this update should be applied prospectively on or after the effective date. This update is effective for annual periods beginning after December 15, 2017, and interim periods within those periods. Early adoption is permitted for acquisition or deconsolidation transactions occurring before the issuance date or effective date and only when the transactions have not been reported in issued or made available for issuance financial statements. The Company does not expect the adoption to have any significant impact on its Financial Statements.

iii) In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*. Under the new standard, goodwill impairment would be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. This ASU eliminates existing guidance that requires an entity to determine goodwill impairment by calculating the implied fair value of goodwill by hypothetically assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. This update is effective for annual periods beginning after December 15, 2019, and interim periods within those periods. Early adoption is permitted for interim or annual goodwill impairment test performed on testing dates after January 1, 2017.

8) SUBSEQUENT EVENTS

In accordance with FASB ASC 855, the Company has evaluated subsequent events through April 12, 2019, the date these financial statements were issued. No reportable subsequent events have occurred through April 12, 2019 which would have a significant effect on the financial statements as of December 31, 2018, except as otherwise disclosed.