Zydus Pharmaceuticals (USA) Inc.

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

RAM ASSOCIATES, CPAS

3240 East State Street Ext.
Hamilton, NJ 08619
Tel: 609 631 9552/ 609 631 9553
Fax: 888 319 8898
email: pkram@ramassociates.us

ZYDUS PHARMACEUTICALS (USA) INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of
Zydus Pharmaceuticals (USA) Inc.

We have audited the accompanying consolidated financial statements of Zydus Pharmaceuticals (USA) Inc. (a New Jersey Corporation) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Zydus Pharmaceuticals (USA) Inc and subsidiaries 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 PHARMACEUTICALS (USA) INC.
Consolidated Balance Sheets
December 31,

	2018	2017
ASSETS		
Current assets :		
Cash	$ 7,577,405	$ 6,605,870
Accounts receivable	342,900,678	315,915,273
Inventories	158,887,506	107,787,916
Prepaid expenses	3,096,389	2,282,752
Deferred tax assets	17,989,536	15,671,877
Other current assets	6,236,794	1,120,630
Total current assets	536,688,308	449,384,318
Fixed assets, net	48,332,755	48,434,656
Land	3,308,930	3,308,930
Intangible assets, net	85,248	122,643
Other assets	5,000,000	2,500,000
TOTAL ASSETS	$ 593,415,241	$ 503,750,547
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities :		
Line of credit	$ 195,000,000	$ 160,000,000
Accounts payable	207,776,602	162,128,941
Accrued expenses	91,485,879	90,623,741
Current portion of long-term debt	16,400,406	16,500,000
Total current liabilities	510,662,887	429,252,682
Long-term liabilities :		
Long-term debt, net of current portion	16,983,628	33,500,000
Total current and long-term liabilities	527,646,515	462,752,682
Stockholder's equity		
Common stock, $1 per share par value - 3,000,000 shares authorized, issued and outstanding	3,000,000	3,000,000
Retained earnings	90,768,726	65,997,866
Treasury stock, at cost 700,000 shares - 2018 and 700,000 shares - 2017	(28,000,000)	(28,000,000)
Total stockholder's equity	65,768,726	40,997,866
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 593,415,241	$ 503,750,547

-See accompanying notes to the financial statements-

ZYDUS PHARMACEUTICALS (USA) INC.

Consolidated Statements of Income

For the years ended December 31,

	2018	2017
Net revenue	$ 774,567,656	$ 697,955,582
Cost of sales	669,577,132	601,504,542
Manufacturing costs	16,383,794	9,773,596
Gross profit	88,606,730	86,677,444
Operating expenses:		
Research and development	5,947,467	8,196,746
General and administrative expenses	39,606,942	36,797,435
Total operating expenses	45,554,409	44,994,181
Operating income before other income and (expense)	43,052,321	41,683,263
Other income and (expense):		
Depreciation	(4,999,215)	(4,478,635)
Amortization	(37,395)	(577,504)
Loss on write off of fixed assets	(278,201)	-
Interest income	202,143	158,364
Interest expense	(5,844,729)	(4,055,245)
Total other income and (expense)	(10,957,398)	(8,953,020)
Operating income before income tax	32,094,923	32,730,243
Income taxes:		
Federal income tax	(7,851,541)	(15,116,179)
State income tax	(1,790,182)	(1,837,021)
Deferred income tax	2,317,660	(4,823,831)
Total income taxes	(7,324,063)	(21,777,031)
Net income	$ 24,770,860	$ 10,953,212

-See accompanying notes to the financial statements-

ZYDUS PHARMACEUTICALS (USA) INC.
Consolidated Statement of Changes in Stockholder's Equity
For the years ended December 31, 2018 and 2017

	Common Stock			Treasury stock		
	Number of shares	Amount	Retained earnings	Number of treasury stocks	Amount	Total stockholder's equity
Balance at December 31, 2016	3,000,000	$ 3,000,000	$ 55,044,654	(700,000)	$ (28,000,000)	$ 30,044,654
Net income			10,953,212			10,953,212
Balance at December 31, 2017	3,000,000	$ 3,000,000	$ 65,997,866	(700,000)	$ (28,000,000)	$ 40,997,866
Net income			24,770,860			24,770,860
Balance at December 31, 2018	3,000,000	$ 3,000,000	$ 90,768,726	(700,000)	$ (28,000,000)	$ 65,768,726

-See accompanying notes to the financial statements-

ZYDUS PHARMACEUTICALS (USA) INC.
Statements of Cash Flows
For the years ended December 31,

	2018	2017
Cash flows from operating activities		
Net income	$ 24,770,860	$ 10,953,212
Adjustment to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	5,036,611	5,056,139
Deferred income taxes	(2,317,659)	4,823,830
Loss on write off of fixed assets	278,201	-
Changes in assets and liabilities :		
(Increase) / decrease in :		
Accounts receivable	(26,985,405)	(56,430,167)
Inventory	(51,099,590)	(52,734,552)
Prepaid expenses	(813,637)	(125,742)
Other current assets	(5,116,164)	(45,692)
Other assets	(2,500,000)	-
Security deposit		
Increase / (decrease) in :		
Accounts payable	45,647,661	59,671,325
Accrued expenses	862,138	19,661,406
Total adjustments	(37,007,845)	(20,123,452)
Net cash provided by (used in) operating activities	(12,236,984)	(9,170,241)
Cash flows from investing activities		
Capital expenditures	(5,420,516)	(6,456,464)
Sale of assets	245,000	-
Net cash used in investing activities	(5,175,516)	(6,456,464)
Cash flows from financing activities		
(Decrease) / Increase in line of credit	35,000,000	10,000,000
(Decrease) / Increase in long-term debt from bank	(16,615,965)	-
Net cash provided by (used in) financing activities	18,384,035	10,000,000
Net increase (decrease) in cash and cash equivalents	971,535	(5,626,705)
Cash at the beginning of the year	6,605,870	12,232,575
Cash at the end of the year	$ 7,577,405	$ 6,605,870

Supplementary disclosure of cash flows information:

Cash paid during the years for:		
Income taxes	$ 14,272,920	$ 16,025,644
Interest	5,644,522	4,003,726

-See accompanying notes to the financial statements-

1) Organization and Description of Business

Zydus Pharmaceuticals (USA) Inc ("the Company") was incorporated in New Jersey on November 18, 2003 and is a 100% 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.

The Company markets and distributes Generic and Authorized Generic pharmaceutical products in the United States of America. The Company has acquired a manufacturing facility in St. Louis, Missouri in 2011. Most of the products are procured from Zydus Cadila except for products that are manufactured at the St. Louis facility of the Subsidiary. The Company also markets and distributes products manufactured by third parties.

The corporate office of the Company is located at Pennington, New Jersey. The building is owned by Zydus Healthcare (USA) LLC ("Zydus Healthcare"), a related party.

Nesher Pharmaceuticals (USA) LLC

Nesher Pharmaceuticals (USA) LLC ("The Subsidiary") which is a 100% subsidiary of the Company was formed in the state of Missouri on May 17, 2011 to acquire the Generics business, including certain manufacturing, packaging and laboratory facilities, certain intellectual property, existing and future product opportunities, as well as equipment specific to the generic business.

During the year, the Subsidiary manufactured seven products. The Subsidiary also manufactures on contract basis a product that is being distributed by Sentynl Therapeutics Inc., a related party. The Subsidiary has a fully functional research and development division at its St. Louis facility.

2) Summary of Significant Accounting Policies

Basis of consolidated financial statements

The consolidated financial statements include the financial statements of the Company and its Subsidiary. All significant related party accounts and transactions between the Company and the Subsidiary have been eliminated upon consolidation. Previous year's numbers are regrouped wherever necessary.

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 (US GAAP); consequently, revenue is recognized when services are rendered, and expenses are 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 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

General

Revenue from product sales is recognized when title and risk of loss to the product transfers to the customer, which is based on the transaction shipping terms. Recognition of revenue also requires persuasive evidence of an arrangement, reasonable assurance of collection of sales proceeds, and the seller's price to the buyer to be fixed or determinable. The Company warrants products against defects and for specific quality standards, permitting the return of products under certain circumstances. Product sales are recorded net of all sales-related deductions including, but not limited to: chargebacks, cash and trade discounts, sales returns and allowances, commercial and government rebates, customer loyalty programs and fee-for-service arrangements, which is referred to in the aggregate as sales returns and allowances ("SRAs").

Royalty and commission revenue are recognized as a component of net revenues in accordance with the terms of the applicable contractual agreements when collectability is reasonably assured and when revenue can be reasonably measured.

Milestones

The Company has an accounting policy of recognizing revenue for contingent consideration earned from the achievement of a substantive milestone in its entirety in the period in which the substantive milestone is achieved. Substantive milestone payments are recognized upon achievement of the milestone only if all he following conditions are met: the milestone payment relates solely to past performance, the milestone payments are non-refundable;

achievement of the milestone involves a degree of risk and was not reasonably assured at the inception of the arrangement; substantive effort is involved in achieving the milestone; the amount of the milestone is reasonable in relation to the effort expended or the risk associated with achievement of the milestone; and a reasonable amount of time passes between the up-front payment and the first milestone payment as well as between each subsequent milestone payment. If any of these conditions are not met, the milestone payments are deferred and recognized as revenue over the term of the arrangement as we complete our performance obligations.

Accruals for SRAs

As is customary in the pharmaceutical industry, gross product sales are subject to a variety of deductions in arriving at reported net product sales. When the Company recognizes gross revenue from the sale of products, an estimate of SRA is recorded, which reduces the product revenues. Accounts receivable and/or accrued liabilities are also reduced and/or increased by the SRA amount depending on whether the Company have the right of offset with the customer. These accruals are estimated based on historical payment experience, historical relationship of the deductions to gross product revenues, government regulations, estimated utilization or redemption rates, estimated customer inventory levels and current contract sales terms. The estimation process used to determine our SRA accrual has been applied on a consistent basis and no material revenue adjustments have been necessary to increase or decrease the reserves for SRA as a result of a significant change in underlying estimates. The Company uses a variety of methods to assess the adequacy of the SRA reserves to ensure that our financial statements are fairly stated.

Accounts receivable balances in the Company's consolidated financial statements are presented net of SRA estimates. SRA balances in accounts receivable were $256,799,418 and $ 167,274,668 at December 31, 2018 and 2017, respectively. SRA balances within accounts payable and accrued expenses were $79,294,099 and $80,665,119 at December 31, 2018 and 2017, respectively.

The previous year figure has been regrouped, as regards product return accruals, to be comparable with the current year. The movements in the SRA reserve balances during the year ended December 31, 2018 are as follows:

Balance as of December 31, 2017	$	247,939,787
Accrual to reduce gross sales to net sales		1,920,162,990
Payments and other		(1,832,009,260)
Balance as of December 31, 2018	**$**	**336,093,517**

The SRA accruals recorded to reduce gross product sales to net product sales were as follows

($ in millions) for the years ended December 31,

	2018	2017
Gross product sales	$ 2,694.0	$ 2,349.6
Accruals to reduce gross sales to net sales	(1,920.1)	(1,653.2)
Net product sales	**$ 773.9**	**$ 696.4**
Percentage of SRA accruals to gross sales	*71.27%*	*70.36%*

The increase in SRA accruals was primarily due to increased competition and price reduction of key products in 2018.

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 cash balances, which may exceed federally insured limits. The Company does not believe that this results in any significant credit risk.

Concentration of credit risks with respect to accounts receivable is limited because of the credit worthiness of the Company's major customers. The majority of the Company's accounts receivable arise from product sales in the United States and are primarily due from drug wholesalers and retailers, hospitals, distributors and pharmacy benefit managers. The Company monitors the financial performance and creditworthiness of its customers so that it can properly assess and respond to changes in their credit profile. Revenue from the Company's three major customers represented approximately 57% and 51% of the Company's net revenue for the years ended December 31, 2018 and 2017, respectively. Accounts receivable from the top three customers represented approximately 68% and 68% of total accounts receivable as of December 31, 2018 and 2017, respectively.

Cash and cash equivalents

The Company considers all highly-liquid investments (including money market funds) with an original maturity at acquisition of three months or less to be cash equivalents.

Accounts receivable

The Company extends credit to clients based upon management's assessment of their credit-worthiness on an unsecured basis. The Company provides an allowance for uncollectible accounts based on historical experience and management evaluation of trend analysis. The Company does not expect to have write-offs or adjustments to accounts receivable which would have a material adverse effect on its financial position, liquidity or results of operations.

The allowances for uncollectible accounts as of December 31, 2018 and 2017 were $ 62,711 and $ 62,711, respectively.

During the year 2013, the Company has entered into receivables purchase agreement with a bank to purchase the receivables of few customers. The purchase agreement was amended to increase the limit to $55 Million on November 26 , 2018. The discount rate for the outstanding purchase price will vary between LIBOR plus a pre-determined margin. As of December 31, 2018 and 2017 the outstanding amount of $Nil and $31,258,284 respectively has been adjusted against receivable of the respective customers. The Bank has a first priority security interest in and to any and all present and future Purchased Receivables and Collections, the Collection Account and the proceeds thereof to secure the repayment.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a moving weighted average basis. The Company establishes reserves for its inventory to reflect situations in which the cost of the inventory is not expected to be recovered. In evaluating whether inventory is stated at the lower of cost or net realizable value, management considers such factors as the amount of inventory on hand; estimated time required to sell such inventory, remaining shelf life and current and expected market conditions, including level of competition. As of December 31, 2018 and 2017, provisions for the inventory reserves were $40,025,976 and $16,903,406, respectively.

Property and Equipment

Property and equipment are stated at cost. The Company provides for depreciation of property and equipment using the straight-line method over the estimated useful lives of the related assets ranging from 3 to 39.5 years. The Company charges repairs and maintenance costs that do not extend the lives of the assets to expenses as incurred. Repairs and maintenance expenses during the years ended December 31, 2018 and 2017 were $336,669 and $301,410, respectively.

During the current and previous period, the Subsidiary has undertaken purchase and installation of machinery and equipment at its facilities located in St. Louis. The total cost of all additions, both by the Company and the Subsidiary, for the periods ending December 31, 2018 and 2017 was $5,420,516 and $6,456,466 respectively.

Intangible assets

The Company amortize intangible assets with finite lives on a straight-line basis over their estimated useful lives. Intangible assets are reviewed annually for impairment or when events or circumstances indicate their carrying amount may not be recoverable. Based on the evaluation of intangible assets completed during the year ended December 31, 2018 and 2017, the Company recorded a charge of $Nil and $521,994 for impaired product license which was part of the Generic business that was acquired in the year 2011 due to multiple competition, market price erosion and commercial viability. No impairment was recorded in 2018. The impairment adjustment is included in Intangible asset amortization.

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures* defines fair value and establishes a hierarchy for reporting the reliability of input measurements used to assess fair value for all assets and liabilities. FASB ASC 820 defines fair value as the selling price that would be received for an asset, or paid to transfer a liability, in the principal or most advantageous market on the measurement date. That framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Certain financial instruments are carried at cost on the balance sheet, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash, accounts receivable, accounts payable and accrued expenses and other liabilities.

Income taxes

Income taxes have been provided for using an assets and liability approach in which deferred tax assets and liabilities are recognized for the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided for the portion of deferred tax assets when, based on available evidence, it is not "more-likely-than-not" that a portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rate and laws.

The Company's effective tax rate is 23% for period ended December 31, 2018. Due to changes in the tax rates effective for periods beginning from 2018, deferred tax assets and liabilities were recalculated for the year ended December 31, 2017 using the flat tax rate of 21%. This has resulted in significant decrease in deferred tax assets, which was charged to the income statement. The future effective income tax rate depends on various factors, such as the Company's income (loss) before taxes, tax legislation and the geographic composition of pre-tax income.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

3) Property and Equipment

Consolidated property and equipment consisted of the following at December 31,

	2018	2017
Computer and Equipment	$ 1,346,428	$ 1,222,181
Furniture and Fixtures	2,022,746	1,931,170
Computer Software	3,928,229	2,257,674
Office Equipment	494,333	432,013
Leasehold Improvements	1,995,517	1,851,816
Vehicle	5,454	5,454
Machinery and Equipment	30,787,341	27,356,122
Lab Equipment	508,902	480,720
Buildings and Building Improvements	27,030,157	24,910,416
Land Improvements	249,632	249,632
Other Equipment and Fixtures	6,669,663	5,869,645
Land	3,308,930	3,308,930
Fixed Assets in progress	1,646,178	5,996,820
	79,993,510	75,872,593
Less : Accumulated Depreciation	28,351,825	24,129,007
Net Fixed Assets	$ 51,641,685	$ 51,743,586

Depreciation expenses during the years ended December 31, 2018 and 2017 were $ 4,999,215 and $ 4,478,635 respectively.

The property and equipment listed above were accounted in the books of the Company and Subsidiary as follows:

	The Company	The Subsidiary
Computer and Equipment	$ 335,403	$ 1,011,024
Furniture and Fixtures	381,660	1,641,086
Computer Software	2,447,548	1,480,680
Office Equipment	494,334	-

Leasehold Improvements	1,995,517	-
Vehicle	-	5,454
Machinery and Equipment	-	30,787,341
Lab Equipments	-	08,902
Buildings and Building Improvements	-	27,030,156
Land Improvements	-	249,632
Other Equipment and Fixtures	-	6,669,663
Land	-	3,308,930
Fixed Assets in progress	48,672	1,597,506
Rounding off difference adj in fur	5,703,134	74,290,376
Less : Accumulated Depreciation	2,865,552	25,486,272
Net Fixed Assets	$ 2,837,581	$ 48,804,104

4) Intangible assets

Intangible assets consisted of the following at December 31,

	2018	2017
Product license	$ 1,000,000	$ 1,000,000
Logo	82,650	82,650
	1,082,650	1,082,650
Accumulated amortization	(997,402)	(960,007)
Total	$ 85,248	$ 122,643

Amortization expense during the years ended December 31, 2018 and 2017 were $ 37,395 and $ 559,460. Estimated amortization expenses for intangible assets for each of the next five years are as follows:

Period ending December 31,	
2019	$ 23,757
2020	5,529
2021	5,529
2022	5,529
Thereafter,	44,904
Total	$ 85,248

5) Other assets

Other current assets represent the amount that was paid in advance towards federal and state taxes. The balance in other assets includes loan and advances to Zydus Healthcare, Zydus Noveltech and Viona Pharma, who are related party. The Company charges interest at arm's length rates on these loans given to related parties. Loan and advances outstanding were as follows for the years ended December 31,

	2018	2017
Zydus Healthcare	$ 2,500,000	$ 2,500,000
Zydus Noveltech	2,000,000	-
Viona Pharma	500,000	-
Total	$ 5,000,000	$ 2,500,000

6) Accounts payable

Accounts payable includes amounts due to Zydus Cadila, the parent Company. The balance due on December 31, 2018 and 2017 were $ 163,327,697 and $ 105,545,235 respectively.

7) Accrued expenses

Accrued expenses represent amounts accrued towards various expenses outstanding at the end of year. It also includes $ 79,294,099 and $ 80,665,119 respectively, for the year ended December 31, 2018 and 2017 towards Medicaid, Medicare, Tricare, Brand prescription fees, Product Returns, etc. accrued for different state and federal programs.

8) Short-Term Debt

i) Loan from Citibank

The Company has a sanctioned line of credit of $ 40,000,000 and foreign exchange line of $500,000 with Citibank. The interest rate on the advance is the Quoted Rate as agreed to by the bank and the Company. For the years ended December 31, 2018 and 2017 the outstanding loan amounts were $ 20,000,000 and $ 10,000,000, respectively. The Company pays fees to Zydus Cadila for the corporate guarantee provided by them for this loan.

ii) Loan from Bank of America

The Company has an uncommitted line of credit of $ 20,000,000 with Bank of America. The facility will bear interest at applicable LIBOR plus margin. For the years ended December 31, 2018 and 2017 the outstanding loan amounts were $ 20,000,000 and $ 20,000,000, respectively, which is payable on demand. The Company pays fees to Zydus Cadila for the corporate guarantee provided by them for this loan.

iii) Loan from Bank of the West

The Company increased uncommitted line of credit of $ 20,000,000 with Bank of the West to $40,000,000 vide the amendment agreement dated January 13, 2017. The facility will bear interest at the applicable LIBOR plus margin. For the years ended December 31, 2018 and 2017 the outstanding loan amounts were $ 40,000,000 and $ 40,000,000, respectively. The Company pays fees to Zydus Cadila for the corporate guarantee provided by them for this loan.

iv) Loan from Bank of Tokyo

The Company has an uncommitted line of credit of $ 70,000,000 with Bank of Tokyo-Mitsubishi UFJ, LTD (BTMU). The Company entered in to uncommitted credit facility agreement with BTMU for $25,000,000 vide agreement dated April 20, 2016. The credit limit was subsequently increased to $70,000,000 vide amendment agreement dated April 20, 2018. The facility will bear interest at the applicable LIBOR plus margin. For the years ended December 31, 2018 and 2017, the outstanding loan amounts were $ 30,000,000 and $ 50,000,000, respectively. The Company pays fees to Zydus Cadila for the corporate guarantee provided by them for this loan.

v) Loan from Sentynl Therapeutics Inc.

During 2017, the Company entered in to short-term loan agreement for $25,000,000 with related party Sentynl Therapeutics Inc. The loan amount was increased to $150,000,000 vide the agreement dated September 20, 2018. For the years ended December 31, 2018 and 2017 the outstanding loan amount was $85,000,000 and $40,000,000, respectively. The Company has paid interest at the applicable LIBOR plus applicable margin.

9) Long-Term Debt

Loan from Bank of Tokyo-Mitsubishi UFJ, LTD. (BTMU)

The Company has entered into a Term Loan agreement on August 30, 2016 to avail credit facility of $50,000,000. The loan was used to repay the term loan of Bank of the West and HSBC Bank. The Company refinanced the long-term loan with the Singapore branch of Bank of Tokyo vide the agreement dated December 17, 2018. The Company will pay interest to the bank on the outstanding amount at a rate equal to Libor plus applicable margin. The term loan balance shall be repaid in two installments on August 31, 2019 and February 28, 2020. The loan is subject to Zydus Cadila meeting the financial covenants set forth in Section 11 of the said agreement. The Company paid an upfront fees of $117,250 constituting 0.35% of the term loan on the date of execution of the agreement. Amortization of the upfront fees on the term loan is reported in the income statement as interest expense. The Company paid fees to Zydus Cadila for the corporate guarantee provided by them for this loan.

The repayment schedule for the loans, are as follows:

Year	Amount
2019	$ 16,500,000
2020	17,000,000
Total	33,500,000
Less: Upfront fees	(115,965)
Term loan - net	**$ 33,384,035**

10) Sales Returns and Allowances

At the time of sale, the Company simultaneously records estimates for various costs, which reduce product sales. These costs include estimates for chargeback, price adjustment, products returns, rebates, including Medicaid and Medicare rebates, prompt payment discounts and other sales allowances. In addition, the Company records allowances for shelf-stock adjustments when the conditions so warrant.

Estimates for sales allowances such as product returns and rebates are based on a variety of factors including actual returns experience of that product or similar products, rebate arrangements for each product, and estimated sales by our wholesale customers to other third parties who have contracts with the Company. Actual experience associated with any of these items may be different than the Company's estimates. The Company regularly reviews the factors that influence its estimates and, if necessary, makes adjustments when it believes that actual product returns, credits and other allowances may differ from established reserves.

11) Employee Benefit Plan

The Company participates in a savings plan under section 401(k) of the Internal Revenue Code (Code) covering all eligible employees. The plan provides that the Company can make matching contributions, which is equivalent to the employee's contributions subject to a maximum of 5% of the gross pay of the employee subject to Federal limits. All qualifying matching contributions are 100% vested at the completion of five years of service by an employee and are subject to certain withdrawal restrictions. For the years ended December 31, 2018 and 2017, the Company's contribution to the plan, were $940,140 and $1,104,555 respectively.

The Company has a deferred compensation plan in which certain key employees are eligible to participate. The 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 previous year annual net revenue. For example, the computation of deferred compensation for the year 2018 is based on the growth in annual net revenue for 2018 compared with 2017. The deferred liability for each participant vests equally over five-year period on December 31st each year and vested amount is paid out at the end of the following year. The participant must be employed at the Company in order to be eligible for vesting and subsequent payment. If the participants employment is terminated any unvested amounts are forfeited. The Company may have an exception to this rule at its sole discretion. The Company accounts for the deferred compensation asset separately from the liability and systematically amortizes the expense on straight-line basis over future service period of five years.

Deferred compensation payment for each of the next five years are expected to be as follows:

Period ending December 31,	
2019	$ 1,710,470
2020	1,391,270
2021	927,770
2022	789,770
2023	325,032
Total	$ 5,144,312

12) Contingent Liability

The Company has guaranteed a severance package covering three to six months of annual salary to some of its employees for the years 2018 and 2017, in the event the Company terminates employment for reason other than cause and in case of voluntary termination of employment due to significant and adverse change to; title, current salary, mandatory relocation or change in management reporting structure. The contingent liabilities for the years ended December 31, 2018 and 2017 were approximately $ 1,503,320 and $ 2,590,590, respectively.

13) Related Party Transactions

a) For the years ended December 31, 2018 and 2017, purchases of $ 538,475,901 and $ 448,132,324 respectively were made from Zydus Cadila, the parent Company. The Company has paid towards various expenses on behalf of Zydus Cadila during the years ended December 31, 2018 and 2017. The Company has been reimbursed a net amount of $20,618,680 and $19,022,949 by Zydus Cadila for the years ended December 31, 2018 and 2017, respectively.

b) The Subsidiary sold asset worth $170,000 to a related party Zydus Healthcare Limited during the year ended December 31, 2018. The net book value of the asset was $190,761.

c) For the years ended December 31, 2018 and 2017, the Company has paid fees of $2,192,568 and $2,018,889 respectively to Zydus Cadila, the parent Company towards the Corporate Guarantee given to Citibank NA, Bank of the West, Bank of America N.A and Bank of Tokyo-Mitsibishi UFJ, LTD.

d) For the years ended December 31, 2018 and 2017, a sum of $ 375,000 and $ 630,000 respectively were paid to Mahadev Management Inc. for management consultancy services rendered to the Company. Mr. Mahendra Patel, Director of the Company owns 50% interest in Mahadev Management Inc.

e) For the years ended December 31, 2018 and 2017, the Company has paid lease rental of $ 375,405 and $371,005 respectively to Zydus Healthcare and also received interest income of $150,000 and $150,000 for both the years from Zydus Healthcare on the loan provided to them.

f) For the year ended December 31, 2018 and December 31, 2017, the Company paid interest of $0.00 and $44,942 to Zydus International Pvt. Ltd. The Company borrowed $10,000,000 during the month of April 2017 and repaid the loan in June 2017.

g) For the years ended December 31, 2018 and 2017, the Company paid interest of $1,685,355 and $354,711 respectively to Sentynl Therapeutics Inc. a related party on the short-term loan.

h) During the year ended December 31, 2017, the Subsidiary entered into a product development agreement with Sentynl Therapeutics Inc. a related party. Under the terms and condition of the development agreement, the Subsidiary is expected to receive future milestone and stability payments. During the years ended December 31, 2018 and 2017, the Subsidiary recognized income totaling $503,445 and $1,435,000 towards product development activities. As of December 31, 2018, the Subsidiary has balance receivable of $17,500.

i) During the years ended December 31, 2108 and 2017, the Company purchased finished products of $986,117 and $1,244,732 from related party Hercon Pharmaceuticals LLC (Hercon). The Company also reimbursed freight expense of $2,344 to Hercon during 2017. During the years ended December 31, 2018 and 2017, Hercon paid $2,204 and $24,337 towards reimbursement of Product Liability Insurance premium.

j) For the years ended December 31, 2018 and 2017, purchases of $8,425,896 and $4,836,800 were made from Zydus World Wide Dubai ('Zydus Dubai'), a related party. During the years ended December 31, 2018 and 2017, Zydus Dubai paid $13,909 and $3,255 towards reimbursement of Product Liability Insurance premium.

14) Research and Developmental Expenses

The Subsidiary is conducting its own research and product development activities. The Subsidiary has plans to develop, manufacture and market various products. The Subsidiary has spent $5,947,467 and $8,196,746 on research and development for the years ended December 31, 2018 and 2017, respectively.

15) Product Liability

Accruals for product liability claims if any are recorded, on an undiscounted basis, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing information. The accruals are adjusted periodically as additional information becomes available. From time to time the Company is subject to claims and law suits arising in the ordinary course of business, including patent, product liability and other litigation. In determining whether liabilities should be recorded for pending claims, the Company assesses the allegations made and the likelihood that it will be able to defend against the claim successfully. The Company records provisions to the extent it concludes that a contingent liability is probable, and the amount thereof is estimable. Because litigation outcomes and contingencies are unpredictable, and because excessive verdicts can occur, these assessments involve complex judgments about future events and can rely heavily on estimates and assumptions. The Company is involved in product liability lawsuits related to alleged personal injuries arising out of use of product distributed by the Company. The Company believes that it has meritorious defenses to the lawsuit and is vigorously defending itself with respect to this matter. For the years ended December 31, 2018 and 2017, no accruals for product liability were made. Zydus Cadila, the parent Company reimburses product liability related expenses incurred by the Company in case of any claims on products sourced from them.

16) Legal Settlements and Proceedings

The Company is involved in, or has been involved in, legal proceedings that arise from the normal course of business. The Company cannot predict the timing or outcome of these claims and other proceedings. Currently, the Company is not involved in any arbitration and/or other legal proceedings that it expects to have a material effect on the business, financial condition, results of operations or liquidity of the Company. All legal cost is expensed as incurred.

Government Investigations and Litigation Relating to Generic Products Pricing

1) The Company was under an investigation by the State of Texas for discrepancy in drug price reporting under the Medicaid program. Such price reporting is alleged to have caused governments to pay inflated reimbursements for covered drugs. The Company and State of Texas agreed to settle all potential drug pricing claims and the Company has paid the full and final amount as on March 31, 2017.

2) A qui tam case was brought against the Company in the State of Texas for alleged 'false and misleading" price for its prescription drugs, thereby causing State and Federal government to pay inflated reimbursements to participating pharmacies in the Medicaid program. During the year, the court transferred the case to the District of New Jersey. The case is currently in the discovery stage. The Company believes that it has meritorious defense to the law suit.

3) Two putative class action cases were brought against the Company and other pharmaceutical companies ("Defendants") on behalf of a putative class of third party payers and individual consumers in December 2015 (a federal and state case). In the complaints, plaintiff allege that Defendants reported "false" prices for their prescription drugs in violation of Pennsylvania law. The state case was stayed pending resolution of the federal case. The federal case claims were dismissed in September 2017. We are currently waiting to see if the plaintiff moves the state case forward. The Company believes that it has meritorious defense to the law suit.

4) There was a series of actions brought against the Company and other pharmaceutical companies (collectively, "Defendants") on behalf of putative nationwide classes of direct and indirect purchasers, third party payors and insurers of pharmaceutical products that have been consolidated into a Multidistrict Litigation ('MDL'). The Company is implicated on three products Pravastatin Sodium, Divalproex Sodium extended-release, and Acetazolamide. In each of the complaints, plaintiffs allege that Defendants engaged in a conspiracy to fix prices for these products in violation of federal and state antitrust statutes. Cases have been consolidated and there have been pre-trial motions by all parties related to various issues in the case. The Company believes that it has meritorious defense to the law suit.

5) In November 2017, the State of Connecticut, along with 46 other states, filed an amended complaint against the Company and a series of other pharmaceutical companies alleging price fixing and market allocation in violation of federal and state antitrust statutes. The Company is implicated on one product – Acetazolamide. It is unclear if the State Attorney General complaint will be merged into the MDL mentioned in #4 above, or if it will proceed on a separate government track. The Company believes it has meritorious defense to the law suit.

17) Income Tax

The Company accounts for income taxes in accordance with FASB ASC Topic 740, *Income Taxes*. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. 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 increased the allowance in any given period, an expense is recognized within the provision for income taxes in the statement of income.

The Company recognizes the tax benefit from 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 evaluations, 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 tax rate from 35 percent to 21 percent, effective January 1, 2018. The Company's financial statements for the year ended December 31, 2017 included a tax expense of $8,559,360 resulting from the revaluation of the net deferred tax assets representing the increase in future estimated tax expense. This adjustment is included in the $4,823,831 deferred tax benefit. Without this change, the income tax expense would have been $13,217,671 for the year ended December 31, 2017 which represents an effective tax rate of 40 percent.

Income tax expense (benefit) was computed as follows for the years ended December 31,

	2018	2017
Federal income tax	$ 8,697,834	$ 15,880,501
State income tax	1,790,182	1,837,021
Total income taxes, current provision	10,488,016	17,717,522
Deferred income taxes (benefit)	2,317,660	4,823,831
Credit for research expenses	(846,293)	(764,322)
Total income taxes	$ 7,624,063	$ 21,777,031

The deferred tax assets (liabilities) consist of the following at December 31,

	2018	2017
Property and equipment	$ (4,023,025)	$ (3,007,824)
Sales accruals and other items	22,012,561	18,679,701
Total deferred income taxes	$ 17,989,536	$ 15,671,877

The Company's provision for income taxes differs from applying the statutory U.S. federal income tax rate to income before income taxes. The primary differences result from different State income tax effective rates that were used in the accrual for the income provision for financial statement purposes versus the actual rate realized on the income tax returns. The Company files its income tax returns on a calendar year basis.

The Company files income tax returns in the U.S. federal jurisdiction, and various State jurisdictions. The Company is generally no longer subject to U.S. Federal, State and local examinations by tax authorities for the years before 2016. There are no on-going open period income tax audits with any Federal, State and/or local tax authorities.

Recently enacted U.S. tax reform legislation known colloquially as the "Tax Cuts and Jobs Act," among other things, makes significant changes to the rules applicable to the taxation of corporations, such as changing the corporate tax rate to a flat 21% rate, modifying the rules regarding limitations on certain deductions for executive compensation, introducing a capital investment deduction in certain circumstances, placing certain limitations on the interest deduction, modifying the rules regarding the usability of certain net operating losses, implementing a minimum tax on the "global intangible low-taxed income" of a "United States shareholder" of a "controlled foreign corporation," modifying certain rules applicable to United States shareholders of controlled foreign corporations, imposing a deemed repatriation tax on certain earnings and adding certain anti-base erosion rules. The Company has analyzed the effects of this new legislation on the Company with help of one of the top Accounting Firm and arrived at the decision that outcome of the new legislation might not have a material and adverse impact on the operating results, cash flows and financial condition of the company.

18) Supply and Distribution Agreement

The Company has entered into a supply and distribution agreement with Zydus Cadila, its parent Company. Zydus Cadila has appointed the Company as its exclusive distributor in US territory to promote, sell, warehouse and distribute the products, either directly or through its sub-distributors. The agreement also records the entire understanding between the parties in respect of development, approvals (regulatory), manufacture, quality control, and liabilities of the parties in respect of claims from third parties and or as between the parties for pre-manufacturing and post-manufacturing defects and operations. The agreement also sets the parameter for determining the price, which shall be reviewed periodically, to enable the Company to earn return on an arm's length basis for the distribution functions that it performs, having regard to its assets utilized, and risks undertaken.

19) 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. The Company adopted the ASU as of December 31, 2017 and adoption had no impact on the financial statements.

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 adopted the ASU as of December 31, 2017 and adoption had no impact on the 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.

20) Commitments

The Company has entered into an operating lease for its office facility and equipment lease expiring through March 2020. The Subsidiary has entered into operating leases for its manufacturing and warehousing requirements, leases expiring through 2018.

The future minimum rental payments under the lease agreement for the years ended December 31,

Year	2018	2017
2018	$ -	$ 490,512
2019	358,530	358,530
2020	89,631	89,631
Total Commitments	$ 448,161	$ 938,667

For the years ended December 31, 2018 and 2017, rent expenses were $514,642 and $514,642 respectively.

Contingencies

The Company is involved in product liabilities, government investigation and other legal proceedings that arise from time to time in the ordinary course of business. The Company records accruals for these types of contingencies to the extent that the Company determines their occurrence is probable and that the related liabilities are estimable. When accruing these costs the Company will recognize an accrual of best estimable amount based on the data and knowledge available.

21) Subsequent events

The Company has evaluated subsequent events through April 12, 2018, the date, which the financial statements were available to be issued. No reportable subsequent events have occurred through April 12, 2018, which would have a significant effect on the financial statements as of December 31, 2018, except as otherwise disclosed.