REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS

SENTYNL THERAPEUTICS, INC.

For The Fiscal Years Ended March 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders of
Sentynl Therapeutics, Inc.

We have audited the accompanying financial statements of Sentynl Therapeutics, Inc. (a Delaware Corporation), which comprise the balance sheets as of March 31, 2021 and 2020, and the related statements of operations, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2021 and 2020, 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
May 26, 2021.

Sentynl Therapeutics, Inc.
Balance Sheets
As of March 31,
(in thousands)

	2021	2020
CURRENT ASSETS		
Cash and cash equivalents	**$ 6,435**	$ 7,399
Accounts receivable, net	**163**	2,026
Inventories	**1,296**	1,027
Prepaid expenses and other current assets	**9,093**	2,819
Note and interest receivable – affiliates	**30,084**	70,391
Other receivable – affiliates	**629**	938
Total current assets	**47,700**	84,600
DEFERRED TAX ASSETS, NET	**2,235**	-
PROPERTY AND EQUIPMENT, net	**11**	56
IDENTIFIABLE INTANGIBLE ASSETS, net	**7,340**	24,071
GOODWILL	**73,896**	73,896
Total assets	**$ 131,182**	$ 182,623
CURRENT LIABILITIES		
Accounts payable	**$ 548**	$ 258
Accrued expenses and other current liabilities	**21,425**	23,597
Income taxes payable	**-**	1,493
Note payable - affiliate	**12,013**	4,000
Current portion of note payable, net	**39,869**	39,837
Total current liabilities	**73,855**	69,184
LONG-TERM LIABILITIES		
Note payable, net	**-**	39,869
Deferred tax liabilities, net	**-**	1,515
Other long-term liabilities, net	**171**	218
Total long-term liabilities	**171**	41,602
Total liabilities	**74,026**	110,786
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDER'S EQUITY		
Common stock (par value, $0.0001 per share, 2,000 shares authorized, 100 shares outstanding)	**30,010**	30,010
Retained earnings	**27,146**	41,827
Total stockholder's equity	**57,156**	71,837
Total liabilities and stockholder's equity	**$ 131,182**	$ 182,623

See accompanying notes to financial statements.

Sentynl Therapeutics, Inc.
Statements of Operations
For the Fiscal Years Ended March 31,
(in thousands)

	2021	2020
NET REVENUE	**$ 12,152**	$ 35,144
OPERATING COSTS AND EXPENSES		
Cost of sales	**2,230**	6,209
Selling and marketing	**1,436**	9,764
General and administrative	**8,440**	8,576
Research and development, manufacturing support, quality and regulatory	**1,459**	1,775
Depreciation	**45**	57
Amortization	**6,878**	7,949
Intangible asset impairment loss	**9,854**	38,325
Total operating costs and expenses	**30,342**	72,655
OPERATING INCOME (LOSS)	**(18,190)**	(37,511)
INTEREST EXPENSE (INCOME)		
Interest expense	**1,537**	4,836
Interest income	**(690)**	(2,561)
Total interest expense, net	**847**	2,275
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	**(19,037)**	(39,787)
PROVISION (BENEFIT) FOR INCOME TAXES	**(4,356)**	(9,173)
NET INCOME (LOSS)	**$ (14,681)**	$ (30,614)

See accompanying notes to financial statements.

Sentynl Therapeutics, Inc.
Statements of Shareholder's Equity
For the Fiscal Years Ended March 31,
(in thousands)

	Common Stock		Retained	Total Stockholder's
	Units	Amount	Earnings	Equity
BALANCE, April 1, 2019	100	$ 30,010	$ 72,441	$ 102,451
Net loss	-	-	(30,614)	(30,614)
BALANCE, March 31, 2020	100	30,010	41,827	71,837
Net loss	-	-	(14,681)	(14,681)
BALANCE, March 31, 2021	**100**	**$ 30,010**	**$ 27,146**	**$ 57,156**

See accompanying notes to financial statements.

Sentynl Therapeutics, Inc.
Statements of Cash Flows
For the Fiscal Years Ended March 31,
(in thousands)

	2021	2020
OPERATING ACTIVITIES		
Net income (loss)	**$ (14,681)**	$ (30,614)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	**45**	57
Amortization	**6,878**	7,949
Amortization of deferred financing costs	**163**	153
Deferred compensation expense	**(47)**	236
Impairment Loss	**9,854**	38,325
Changes in operating assets and liabilities:		
Accounts receivable	**1,863**	10,898
Inventories	**(269)**	2,779
Prepaid expenses and other current assets	**(6,274)**	489
Income taxes payable	**(1,493)**	(684)
Accrued expenses and other current liabilities	**(2,171)**	(7,534)
Deferred tax liabilities	**(3,750)**	(9,524)
Accounts payable	**290**	(2,173)
Interest and other receivable – affiliate	**628**	(825)
Net cash provided by (used in) operating activities	**(8,964)**	9,532
INVESTING ACTIVITIES		
Loan advances to affiliates	**-**	(10,000)
Loan repayments from affiliate	**40,000**	33,500
Purchase of property and equipment	**-**	(8)
Net cash provided by investing activities	**40,000**	23,492
FINANCING ACTIVITIES		
Note payable repayments	**(40,000)**	(40,000)
Loan advances from affiliates	**8,000**	6,500
Loan repayments to affiliates	**-**	(2,500)
Net cash used in financing activities	**(32,000)**	(36,000)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(964)**	(2,976)
CASH AND CASH EQUIVALENTS		
Beginning of period	**7,399**	10,375
End of period	**$ 6,435**	$ 7,399
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest:		
Paid to a third party	**$ 880**	$ 3,355
Paid to a related party	**39**	1,322
Total interest paid	**$ 919**	$ 4,677
Income Taxes Paid (Refunded)	**$ (1,237)**	$ 3,608

See accompanying notes to financial statements.

Note 1 - Organization and Description of Business

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).

On May 1, 2015, STI acquired the intellectual property and exclusive rights to manufacture and distribute levorphanol tartrate tablets (Levorphanol) in the United States and its territories from Roxane Laboratories, Inc. (now Hikma Labs Inc.). Levorphanol is a Food and Drug Administration (FDA) approved opioid medication indicated for the management of pain severe enough to require an opioid analgesic and for which alternative treatments are inadequate. On November 19, 2015, STI and Galena Biopharma, Inc. (Galena) entered into an asset purchase agreement for the purchase of its Abstral ® (Abstral) Sublingual Tablets product. The Company discontinued Abstral in September 2019, ceased distribution of Abstral in November 2019, and voluntarily withdrew Abstral's New Drug Application (NDA) with an effective date of June 15, 2020.

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

On February 23, 2021, the Company entered into an Asset Purchase Agreement (APA) with Cyprium Therapeutics, Inc. (Cyprium) pursuant to which the Company committed development funding for and will acquire the rights to a copper histidinate injection (CUTX-101) for treatment of diseases involving copper deficiency or insufficiency, including Menkes Disease, which is currently in a Phase 3 clinical study. The FDA has granted Orphan Drug, Fast Track, and Rare Pediatric Disease Designations to CUTX-101 and, in December 2020, Breakthrough Therapy Designation for the treatment of Menkes. Breakthrough Therapy Designation is meant to expedite the development and review of drugs for serious or life-threatening conditions. Cyprium began a rolling submission of a New Drug Application (NDA) to the FDA. See Note 5 for further discussion.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted by the United States government to, amongst other provisions, provide emergency assistance and tax relief for individuals, families and businesses affected by the coronavirus pandemic.

The Company managed through the pandemic during the past year, continuing to operate its business, however, it is subject to risks and uncertainties as a result of this pandemic. The Company is not expecting the pandemic to have a material effect on its business, financial condition and operating results as of the date of this report.

Note 1 - Organization and Description of Business (continued)

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 – Revenue is accounted for in accordance with Accounting Standard Codification (ASC) Topic 606, *Revenue from Contracts with Customers*.

Revenue

The Company's products are distributed through an exclusive distribution model with third-party distributor (the Distributor) whereby the Company directly sells its products to this Distributor. The Distributor subsequently sells to a limited number of wholesalers and specialty pharmacies (Customers), who have agreements in place with STI.

The Company recognizes net revenue for product sales when control of the promised goods is transferred to its Customers in an amount that reflects the consideration it expects to be entitled to in exchange for those goods. Revenues are recorded, net of provisions, for variable consideration, including trade discounts and distribution fees, rebates, governmental rebate programs, product returns, group purchasing organization (GPO) chargebacks, other sales allowances. Accruals for these provisions are presented in the financial statements as reductions in determining net revenue and as a contra asset in accounts receivable, net (if settled via credit) and other current liabilities (if paid in cash). The following briefly describes the nature of the Company's provisions for variable consideration and how such provisions are estimated. These provisions represent accrual estimates, which are based on the terms and conditions of 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 estimates could change in the near term.

A Third-party and government rebates / chargebacks: Provision for rebates and chargebacks represent a significant estimate used in revenue recognition.

Third-party and government rebates include primarily amounts paid to retailers, payers, and providers in the United States, including those paid to state Medicaid programs, and are based on contractual arrangements or statutory requirements.

As of the end of 2020, the Company had terminated its agreements with most of its specialty and retail pharmacies reflecting the transition from a branded to generic competition environment. The Company had estimated thirty-party rebates at the time of sale based on wholesaler inventory stocking levels, estimates of in-channel inventory and rebate rates, and current contract pricing. Such rebates were recognized based on contractual obligations in place at the time of sales with consideration given to relevant factors that may affect the payment as well as historical experience for estimated market activity.

Note 2 – Summary of Significant Accounting Policies (continued)

The Company contracts with Medicaid and other government agencies (Government Payors). It estimates the rebates, chargebacks and discounts it will provide to Government Payors and deducts these estimated amounts from its gross product revenue at the time revenue is recognized and establishes a current liability.

The estimate of these rebates is based on the historical trends of rebates paid as well as estimated levels of inventory in the distribution channel.

Chargebacks relate to sales terms under which the Company agrees to reimburse wholesalers for differences between the gross sales prices at which the Company sells its products to wholesalers and the actual prices of such products that wholesalers resell under the Company's various contractual arrangements. Under these arrangements, the Company provides credit to the wholesaler for any difference between the contracted price with the indirect party and the wholesaler's invoice price. The provision for chargebacks is based on expected sell-through levels by the Company's wholesalers to indirect customers, as well as estimated wholesaler inventory stocking levels. This provision is recorded in the same period the revenue is recognized, resulting in a reduction of product revenue.

Trade discounts and Distribution fees: Trade discounts relate to prompt settlement discounts provided to the Distributor and Customers. Distribution fees include fees, based on sales amount, paid to Distributor for the distribution of the product. In addition, the Company compensates Customers for data and other activities. Estimates of these payments are recorded as a reduction of revenue based on contractual terms.

Product returns: Consistent with industry practice, the Company maintains a return policy that allows Customers to return a product within a period which begins six months prior to and ends twelve months subsequent to the expiration date. The Company's estimate of the provision for returns is generally based upon historical experience with actual returns and records this estimate as a reduction of revenue in the period the related product revenue is recognized. The Company also assesses other factors that could affect product returns including market conditions, product obsolescence, and the introduction of new competition. Although these factors do not normally give the Company's Customers the right to return products outside of the regular return policy, the Company realizes that such factors could ultimately lead to increased returns. The Company analyzes these situations and makes adjustments to the product return reserve as appropriate.

Patient assistance program redemptions: The Company offers voluntary patient support programs, such as the Company's co-pay assistance program, which are intended to provide financial assistance to qualified commercially-insured patients with prescription drug copayments required by payors. The calculation of the accrual for co-pay assistance is based on an estimate of claims and the cost per claim that the Company expects to receive. The adjustments are recorded in the same period the related revenue is recognized. Due to the multiple competing generic products, on December 31, 2020, the Company ceased its patient assistance program through which lower-income individuals who qualified for assistance had previously received Levorphanol free-of-charge.

Note 2 – Summary of Significant Accounting Policies (continued)

The net revenue of the Company for the fiscal years ended on March 31 are as follows:

(in thousands)	**2021**	2020
Invoiced revenue	**$ 20,058**	$ 65,112
Less deductions and allowances:		
Third-party and government rebates / chargebacks	**5,256**	20,008
Distribution fees	**1,335**	4,310
Product returns	**921**	3,612
Trade discounts	**506**	1,500
Patient assistance program redemptions	**(112)**	539
Total deductions and allowances	**7,906**	29,968
Net sales	**$ 12,152**	$ 35,144

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 bank depository accounts that have immediate liquidity with a large United States-based financial institution. Certain balances exceed federally-insured amounts.

During the fiscal year ended on March 31, 2021, three indirect wholesale drug and specialty pharmacy distributors, each of whom individually accounted for more than 10 percent, accounted for 85 percent in aggregate of the Company's invoiced revenue. During the fiscal year ended on March 31, 2020, three indirect wholesale drug and specialty pharmacy distributors, each of whom individually accounted for more than 10 percent, comprised 78 percent of invoiced revenues. 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.

Three AB-rated (therapeutically equivalent) generic products to the Company's Levorphanol 2mg strength product were approved and launched and, as of the date of this report, the generic equivalent products are having an impact on the Company's unit volumes, net revenue, operating profit and cash flows.

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. In early 2021, an AB-rated (therapeutically equivalent) generic product to the Company's Levorphanol 3mg strength product was approved.

During the fiscal years 2021 and 2020, Levorphanol made up 100% and 96% of gross sales, respectively.

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 fiscal years 2021 and 2020, the Distributor was the only direct customer of the Company. As such, the amount recorded at March 31, 2021 and 2020, reflects unpaid amounts invoiced to this customer under the terms and conditions of the contract. The allowance for trade discounts was $0.04 million and $0.1 million as of March 31, 2021 and 2020, respectively.

Inventories, net – Inventories consist of pharmaceutical drug products that are manufactured by FDA-approved third-party suppliers for sale to direct and indirect customers. Inventories are stated at the lower of cost or 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 18-24 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.

Note receivable – affiliates – The Company entered into loan agreements with its affiliates, Zydus Pharmaceuticals (USA) Inc. (ZPUI) and Zydus Worldwide DMCC (ZWWD). See Note 11 for further discussion.

Property and equipment – Property and equipment purchased by the Company is stated at cost, net of accumulated depreciation. 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 – Intangible assets are stated at cost, less accumulated amortization and impairment adjustments. Amortization is generally recorded on a straight-line basis over estimated useful lives having ranged from 4 to 10 years. The Company evaluates the estimated remaining useful lives of intangible assets based on relevant factors that include market size and growth trends, stability of therapeutic class, and further strength of competing products and periodically reviews the estimated useful lives of intangible assets and makes adjustments when events indicate that a shorter life is appropriate.

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. Impairment is determined to exist when the carrying amount exceeds the estimated future undiscounted cash flows associated with the asset over its estimated remaining economic life (fair value). Fair value is determined using the market, income or cost approaches as appropriate for the asset. 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 or lack thereof. If an asset is impaired, an impairment loss is recognized based on the excess of the asset's carrying amount over its estimated fair value. Any write-downs are treated as permanent reductions in the carrying amount of the asset and recognized as an operating loss.

Note 2 – Summary of Significant Accounting Policies (continued)

The Company performed impairment testing as of March 31, 2021 and March 31, 2020, due to an expected reduction in long-term revenue forecasts from the negative impact of competing products. The scope of this testing included determination of the recoverable value of the long-lived intangible assets and determination of the fair value of the Company. The Company recorded an impairment charge of $9.9 million and $38.3 million in the years ended March 31, 2021 and 2020, respectively, to reduce the unamortized carrying value of the Levorphanol product and license right and reduced the associated amortization period. See Note 4.

Management judgment is involved in estimating the recoverability of these assets and is dependent upon the accuracy of the assumptions used in making these estimates, as well as how the estimates compare to the eventual future operating performance of the intangible assets. Any future long-lived assets impairment charges could have an impact on the Company's financial condition and results of operations.

Goodwill – The Company does not amortize goodwill and, accordingly, periodically reviews goodwill for impairment if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable based on management's assessment of the fair value of the Company compared to its carrying value. If the Company determines that it is more likely than not that the fair value of the Company is less than its carrying amount, then the goodwill impairment test is performed. The goodwill impairment test requires the Company to estimate the fair value of the Company and to compare with its carrying amount. If the carrying amount is less than its fair value then there is no impairment recognized. If the carrying value recorded exceeds the fair value calculated, an impairment charge is recorded for the difference. The judgments made in determining the projected cash flows used to estimate the fair value can materially impact the Company's financial condition and results of operations.

Based on the conclusions of the impairment testing performed as of March 31, 2021 and 2020, no instances of impairment of goodwill were identified and, accordingly, no impairment of goodwill has been recorded in the years ended March 31, 2021 and 2020.

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 operations. As of March 31, 2021 and 2020, no valuation allowance was recorded and no interest and penalties were incurred.

Reclassifications and adjustments – Certain items in the prior year's financial statements have been reclassified to conform to the current presentation.

New accounting pronouncements – In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"), which modifies the existing disclosure requirements for fair value measurements in ASC 820. The new disclosure requirements include disclosure related to changes in unrealized gains or losses included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of each reporting period and the explicit requirement to disclose the range and weighted-average of significant unobservable inputs used for Level 3 fair value measurements. The other provisions of ASU 2018-13 include eliminated and modified disclosure requirements. For all entities, this guidance is required to be adopted for annual periods beginning after December 15, 2019, including

Note 2 – Summary of Significant Accounting Policies (continued)

interim periods within those fiscal years. Early adoption is permitted. The Company adopted ASU 2018-13 as of the required effective date of January 1, 2020. The adoption of ASU 2018-13 did not have a material impact on the Company's financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. In addition, a lessee is required to record (i) a right-of-use asset and a lease liability on its balance sheet for all leases with accounting lease terms of more than 12 months regardless of whether it is an operating or financing lease and (ii) lease expense in its statement of income for operating leases and amortization and interest expense in its statement of income for financing leases. Leases with a term of 12 months or less may be accounted for similar to prior guidance for operating leases today. In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842), which added an optional transition method that allows companies to adopt the standard as of the beginning of the year of adoption as opposed to the earliest comparative period presented. In November 2019, the FASB issued guidance delaying the effective date for all entities, except for public business entities. For nonpublic entities, this guidance is effective for annual periods beginning after December 15, 2020. In June 2020, the FASB issued additional guidance delaying the effective date for all entities, except for public business entities. For public entities, ASU 2016-02 was effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. For nonpublic entities, this guidance is effective for annual periods beginning after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. For public entities, ASU 2019-12 is effective for annual periods beginning after December 15, 2020, and interim periods within those reporting periods. For nonpublic companies, ASU 2019-12 is effective for annual periods beginning after December 15, 2021, and interim periods within those reporting periods. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU 2019-12 will have on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate ("LIBOR") or by another reference rate expected to be discontinued. This guidance is effective for all entities upon issuance on March 12, 2020 and may be applied through December 31, 2022. The expedients and exceptions in this guidance are optional, and the Company is evaluating the potential future financial statement impact of any such expedient or exception that it may elect to apply as the Company evaluates the effects of adopting this guidance on its financial statements.

Note 3 – Balance Sheet Details

Balance sheet details as of March 31, 2021 and 2020, are as follows:

(in thousands)	2021	2020
Accounts receivable, net		
Trade accounts receivable	**$ 203**	$ 2,139
Trade discounts	**(40)**	(113)
Accounts receivable, net	**$ 163**	$ 2,026
Inventories		
Raw materials	**$ 230**	$ 317
Finished goods	**1,066**	710
Work-in progress	**-**	-
Inventories	**$ 1,296**	$ 1,027
Note Receivable – Affiliate		
Note receivable (principal)	**$ 30,000**	$ 70,000
Interest receivable, affiliate	**84**	391
Note receivable and interest receivable – affiliate	**$ 30,084**	$ 70,391
Prepaid expenses and other current assets		
Capitalized R&D costs	**$ 7,845**	$ -
Prepaid income tax	**433**	1,269
Prepaid commercial insurance	**413**	309
Prepaid market data	**177**	389
Prepaid retail pharmacy rebate and patient assistance deposits	**25**	564
Other	**200**	286
Prepaid expenses and other current assets	**$ 9,093**	$ 2,819
Property and equipment, net		
Computer hardware and software	**$ 315**	$ 317
Furniture and fixtures	**153**	152
Manufacturing equipment and tooling	**-**	144
	468	613
Accumulated depreciation	**(457)**	(556)
Property and equipment, net	**$ 11**	$ 56

Note 3 – Balance Sheet Details (continued)

(in thousands)	2021	2020
Accrued expenses and other current liabilities		
Accrued product returns	**$ 8,672**	$ 10,395
Accrued rebates and wholesaler fees	**4,027**	8,174
Accrued credit reimbursement	**3,298**	-
Deferred revenue	**3,129**	1,790
Accrued incentive compensation	**544**	1,210
Accrued legal fees	**526**	224
Accrued regulatory and medical affairs costs	**182**	501
Accrued patient co-pay assistance and voucher program redemptions	**98**	393
Accrued contract manufacturing costs	**66**	160
Accrued product royalties	**48**	96
Other	**835**	653
Accrued expenses and other current liabilities	**$ 21,425**	$ 23,597
Other long-term liabilities, net		
Deferred compensation liability, net	**$ 171**	$ 218
Other long-term liabilities, net	**$ 171**	$ 218

Note 4 – Identifiable Intangible Assets and Goodwill

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

The identifiable intangible assets are related to Levorphanol and valued at $7.3 million and $24.0 million, net of an impairment adjustments, at March 31, 2021 and 2020, respectively. Assessing the impact of continued competition from generic manufacturers on actual and forecasted net revenue, impairment analyses were performed in which the Company reviewed the carrying value of the Levorphanol intangible asset relative to the estimated future cash flows in the years ended March 31, 2021 and 2020. These analyses resulted in impairment charges of $9.9 million and $38.3 million in the years ended March 31, 2021 and 2020, respectively. The Company recorded the impairment charges in operating expenses. STI periodically reviews the estimated useful lives of intangible assets and makes adjustments when events indicate that a shorter life is appropriate. In each of the years 2021 and 2022, the amortization period was adjusted to represent the periods of future benefit of the intangible assets.

The carrying amounts of intangible assets were as follows:

(in thousands)	2021	2020
Gross carrying amount, net of impairment		
License and product rights	**$ 7,340**	$ 27,510
	7,340	27,510
Less accumulated amortization	**-**	(3,439)
Intangible assets, net	**$ 7,340**	$ 24,071
Goodwill	**$ 73,896**	$ 73,896

Note 4 – Identifiable Intangible Assets and Goodwill (continued)

Goodwill represents the excess consideration in a business combination over the fair value of identifiable net assets acquired. The Company does not amortize goodwill and is subject to impairment testing when a triggering event occurs that could indicate a potential impairment. The Company determines whether goodwill may be impaired by comparing the carrying value to the fair value of the entity. Based on the Company's evaluation at March 31, 2021 and March 31, 2020, no impairment of goodwill was identified.

Amortization expense related to the identifiable intangible assets was $6.9 million and $7.9 million for the fiscal years 2021 and 2020, respectively. Future expected amortization expense for identifiable intangible assets held as of March 31, 2021, is as follows:

Year ended March 31 (in thousands),		
2022	$	6,877
2023		463
Total	$	7,340

Note 5 – Asset Acquisition & Acquired In-Process R&D

As described in Note 1, in February 2021, the Company entered into an APA with Cyprium pursuant to which the Company committed development funding for and will acquire the rights to a copper histidinate injection (CUTX-101) for treatment of diseases involving copper deficiency or insufficiency, including Menkes Disease.

Up-front payments, as well as other milestone payments to be made before regulatory approval (pre-approval), are considered as acquired IPR&D. As of March 31, 2021, the Company paid Cyprium an upfront payment of $8.0 million in connection with this agreement, and incurred $0.6 million in transaction costs. The Company recorded this payment and transaction costs totaling $8.6 million as deferred research and development and is classified in prepaid expenses. The Company is expensing this over the estimated period Cyprium will perform development services, currently estimated to be over twelve months. In the year ended March 31, 2021, it expensed $0.7 million and the expense is included within research and development expenses on the Company's statements of operations.

Pursuant to the terms of the APA, the Company has committed to make an additional pre-approval payment and, if FDA approval is received, future post-approval milestone payments, including sales-based milestone payments. In the event FDA approval is not received within a certain timeframe, the Company may not be obligated to make certain post-approval milestone payments.

Post-approval payments, if any, will be capitalized as intangible assets and amortized over the estimated remaining useful life of the product. These payments are contingent upon the occurrence of certain future events and achievement of revenue targets. As of March 31, 2021, if all pre-commercialization milestones are achieved, the Company would pay an additional $12.0 million. Achievement of certain revenue targets could commit the Company to additional sale-based milestone payments but given the uncertainty, it is unclear when, if ever, the Company may be required to pay such amounts. The Company has also committed to pay royalties at a wide range of rates as a percentage of net sales of the product as defined in the APA.

Note 5 – Asset Acquisition & Acquired In-Process R&D (continued)

In connection with the APA, the Company also agreed to undertake certain development efforts. It will expense such costs as incurred as research and development expense.

Note 6 – Debt

In connection with the January 19, 2017, acquisition and resulting merger, the Company assumed a loan and outstanding indebtedness with the Bank of Tokyo – Mitsubishi (BTMU) dated January 12, 2017 (effective date), totaling $120.0 million 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 fiscal year 2021, the interest rates ranged from 0.96 percent to 1.84 percent. During the fiscal year 2020, the interest rates ranged from 2.441 percent to 3.349 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 comply with certain financial covenants and representations and warranties over the term of the loan agreement. The Company was in full compliance with the loan covenants to which it was obligated at March 31, 2021, and through the date of this report. The Company incurred deferred financing costs of $0.8 million in connection with this agreement, which are being amortized on a straight-line basis over the initial term of the loan.

The balance of the loan and unamortized deferred financing costs were as follows:

(in thousands)	**2021**	2020
Principal balance outstanding	**$ 40,000**	$ 80,000
Less unamortized deferred financing costs	**(131)**	(294)
Total	**$ 39,869**	$ 79,706

For the fiscal year 2021 and 2020, the Company recognized interest expense associated with this loan of $1.0 million and $3.5 million, which includes $0.2 million in each year of expense related to amortization of deferred financing costs.

STI made the first and second installment payment of $40.0 million each. Future minimum principal payments on the loan are due as follows:

Year ended March 31 (in thousands),	
2022	$ 40,000
Total Payments	$ 40,000

Note 7 – Stockholder's Equity

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

Note 8 – 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. As of March 31, 2021, the Company has no valuation allowance against the deferred tax assets based on management's current projection of future taxable income expected to be sufficient for the Company to realize the future benefit of such deferred tax assets.

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 more likely than not 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.

The income tax provision (benefit) consists of the following:

(in thousands)	**2021**	2020
Current:		
Federal	**$ (607)**	$ 405
State	**1**	(54)
Total current	**(606)**	351
Deferred:		
Federal	**(3,742)**	(8,724)
State	**(8)**	(800)
Total deferred	**(3,750)**	(9,524)
Total income tax benefit	**$ (4,356)**	$ (9,173)

STI's net deferred tax liabilities are as follows:

(in thousands)	**2021**	2020
Deferred tax liabilities (assets):		
Tax vs. book carrying values of identifiable intangibles assets	**$ (1,031)**	$ (4,510)
Allowance for returns and rebates	**1,821**	2,194
Deferred revenue, net of expenses	**318**	183
Depreciation and amortization	**(2)**	(12)
Accrued compensation	**36**	46
Allowance for inventory obsolescence	**365**	584
Net operating loss	**639**	-
Other	**89**	-
Total net deferred tax assets / (liabilities)	**$ 2,235**	$ (1,515)

Note 8 – Income Taxes (continued)

The Company's deferred tax liability representing the differences in the tax and book carrying values of intangible assets was $1.0 million and $4.5 million at March 31, 2021 and 2020, respectively. During the fiscal years of 2021 and 2020, the Company recorded impairment adjustments which decreased the book carrying values of the intangible assets and resulted in decreases in the deferred tax liability associated with the intangible asset of $2.1 million and $8.3 million, respectively.

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

(in thousands)	**2021**	
	Amount	**Percentage**
Federal income tax at statutory rate	**$ (3,996)**	**21.00%**
State income tax, net of federal benefit	**1**	**-0.03%**
Permanent nondeductible items	**2,056**	**-10.81%**
Other	**1,333**	**-7.05%**
Total income tax expense	**(606)**	**3.17%**
Deferred tax benefit	**(3,750)**	**19.71%**
Total income tax benefit	**$ (4,356)**	**22.88%**

(in thousands)	2020	
	Amount	Percentage
Federal income tax at statutory rate	$ (8,345)	21.00%
State income tax, net of federal benefit	(166)	0.42%
Permanent nondeductible items	62	-0.16%
Total income tax expense	(8,450)	21.26%
Deferred tax benefit	(724)	1.82%
Total income tax benefit	$ (9,173)	23.08%

The CARES Act, among other things, permits net operating loss (NOL) carryovers to be carried back to offset taxable income from previous taxable years. Specifically, the CARES Act allows NOLs incurred in 2018, 2019 and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. During the year ended March 31, 2021, the Company recorded a tax benefit of $0.4 million in connection with the NOL it incurred in 2020 as a result of the change in the NOL carryback period.

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, 2021, the Company's tax years for 2018 through 2020 are subject to examination by the taxing authorities.

Note 9 – 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 initial lease agreement commenced in June 2016, and expires May 31, 2021. In January 2021, the Company amended the lease provisions, effective June 1, 2021, to reduce the rentable space and monthly rent and extend the lease term to July 31, 2023. In accordance with ASU No. 2016- 02, Leases (Topic 842), the Company will record the recognition of right-of-use, or ROU, in connection with this amendment, and related lease liabilities of approximately $0.3 million in the balance sheet as of June 1, 2021, the commencement date. ROU assets represent the Company's right to control an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term.

Rent expense was $0.2 million in each of fiscal years 2021 and 2020. Future minimum payments due and payable under the Company's non-cancelable operating lease, as amended, are as follows:

(in thousands)		
2022	**$**	**134**
2023		**146**
2024		**50**
Total	**$**	**330**

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 made purchases totaling $1.8 million and $2.7 million under this contract in fiscal year 2021 and 2020, respectively.

Legal matters – In August 2018, the Company received a subpoena from the United States Attorney's Office for the District of New Jersey seeking information related to the promotion and distribution of one of the Company's products (Government Investigation). The Company subsequently received a second subpoena from that office in September 2019. At this time, the Company cannot predict or determine the outcome of this matter and is fully cooperating with the Government 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 retained 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.

The Company filed suit on September 3, 2019 against the former carrier of a directors and officers (D&O) liability insurance policy in connection with the carrier's refusal to cover costs related to the Government Investigation. On March 22, 2021 the Court granted the former carrier's motion for summary judgment, effectively ending the case unless STI appeals the Court's decision. On April 15, 2021, STI filed a notice of appeal and the case is now pending before the 9th Circuit Court of Appeals. At this time, the Company

Note 9 – Commitments and Contingencies (continued)

cannot predict or determine the outcome of this matter.

The Company may be involved in other 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.

As of March 31, 2021, STI accrued unpaid legal and related costs totaling $0.5 million.

Royalty Agreements – STI is obligated to pay quarterly royalties to the seller of Levorphanol, subject to certain limitations as further defined in the definitive agreement and amendments thereto. Royalties are based on a percentage of the gross profit (defined as net sales less direct product cost) from the future sales of Levorphanol.

Royalty expense for Levorphanol totaled $0.20 million and $0.30 million for the fiscal years 2021 and 2020, respectively, and was classified as a component of cost of sales.

Note 10 – Retirement Plan and Deferred Compensation Plan

The Company has established a qualified defined contribution 401(k) plan for its eligible directors. Company contributions, if any, to the 401(k) plan are at the sole discretion of the Board of Directors. In 2021, the Board approved, and the Company paid, a matching contribution of $0.1 million related to employee services during 2020. In 2020, the Company paid a board-approved matching contribution of $0.3 million related to 2019 employee services. At March 31, 2021, the Company accrued a discretionary matching contribution for employee services related to 2021 totaling $0.1 million, which, subject to Board approval, will be funded in early 2022.

The Company has a deferred compensation plan in which certain key employees were eligible to participate effective January 19, 2017. This plan allowed 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 was 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 Years. The growth in calendar year 2019 and 2020 net revenues did not exceed corresponding Base Years and, as such, did not meet the qualification for deferred compensation accrual. 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 at 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. At March 31, 2021 and 2020, the Company recorded deferred compensation asset of $0.5 million and $0.8 million, respectively, which reflected future amortization over the remaining service period at each date. In addition, the Company accrued a liability of $0.7 million and $1.0 million at March 31, 2021 and 2020, which reflects the amount of future payments, representing a net liability of $0.2 million for each of the years and were classified as other long-term liability.

Note 11 – Related Party Transactions

As of March 31, 2021, the Company has provided cumulative net loan advances of $30.0 million pursuant to a loan agreement entered into between the Company and Zydus Worldwide DMMC (ZWWD). The initial term was amended to end on January 10, 2022, 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 interest rates deemed to represent fair value. The Company recognized $0.7 million and $1.9 million in interest income associated with this loan during the fiscal years 2021 and 2020, respectively. The current outstanding principal and interest receivable was $30.1 million at March 31, 2021 and $70.4 million at March 31, 2020.

As of March 31, 2021 and 2020, the Company classified the outstanding loan receivable balances as current assets as follows:

(in thousands)	**2021**	2020
Note receivable - ZWWD	**$ 30,084**	$ 70,391
Note receivable and interest receivable – affiliate	**$ 30,084**	$ 70,391

As of March 31, 2021, the Company had received cumulative net loan advances totaling $12.0 million from ZPUI pursuant to a loan agreement between the Company and ZPUI. Interest accrued on the unpaid loan balance is calculated at interest rates deemed to represent fair value. The Company recorded $0.05 million and $0.03 million in interest expense associated with this loan during the fiscal year ended on March 31, 2021 and 2020, respectively. The current outstanding principal and accrued interest payable balance was $12.0 million at March 31, 2021 and $4.0 million at March 31, 2020.

The Company pays Cadila Healthcare Limited (CHL) a loan guarantee fee as compensation for CHL's guarantee of the Company's debt obligation with BTMU. During the fiscal years 2021 and 2020, the Company recognized fee expense of $ 0.4 million and $1.3 million, respectively, in connection with this arrangement. A receivable, net of the guarantee fee payment, of $0.6 million and $0.9 million at March 31, 2021 and 2020, respectively, was classified in Other receivable – affiliate on the balance sheet.

The Company made purchases totaling $0.4 million under the manufacturing agreement from Nesher for each of the years, and had finished goods inventory acquired of $0.3 million and $0.8 million at March 31, 2021 and 2020, respectively. At March 31, 2021, there was $0.5 million in outstanding firm purchase commitments in connection with this agreement.

Note 12 – Subsequent Events

The Company has evaluated subsequent events through May 26, 2021, the date, which the financial statements were available to be issued. No reportable subsequent events have occurred through May 26, 2021, which would have a significant effect on the financial statements as of March 31, 2021, except as otherwise disclosed.