Natco Pharma (Canada) Inc.

Financial Statements

March 31, 2017

Natco Pharma (Canada) Inc.

Year Ending March 31, 2017

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Independent Auditors' Report

To the Shareholders
Natco Pharma (Canada) Inc.

We have audited the accompanying financial statements of Natco Pharma (Canada) Inc., which comprise the balance sheets as at March 31, 2017 and March 31, 2016 and the Statements of income and cash flows for the years ended March 31, 2017 and March 31, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and 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 auditors' 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Natco Pharma (Canada) Inc. as at March 31, 2017 and March 31, 2016 and the result of its operations and its cash flows for the years ended March 31, 2017 and March 31, 2016 in accordance with Canadian accounting standards for private enterprises.

KT Partners LLP

Vaughan, Ontario
April 24, 2017

KT Partners LLP
Chartered Professional Accountants
Licensed Public Accountants

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Natco Pharma (Canada) Inc.

Balance Sheet

As At March 31, 2017

	Note	2017	2016
Assets			
Current Assets			
Cash		**$ 1,140,941**	$ 2,599
Accounts receivable, net of allowances $ Nil (2016 - Nil)		**2,400,720**	432,894
Finished goods inventory	2.	**1,184,585**	349,540
Advances recoverable		**349,879**	-
Prepaid expense		**7,775**	13,085
Government remittances receivable		**73,682**	14,394
Total Current Assets		**5,157,582**	812,512
Property, plant and equipment, net of accumulated amortization	3.	**20,332**	21,788
Total Assets		**$ 5,177,914**	$ 834,300
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 1,095,277**	$ 184,036
Due to related party	4.	**2,141,147**	138
Other current liabilities		**-**	49,941
Total Current Liabilities		**3,236,424**	234,115
Equity			
Share capital	5.	**2,792,035**	2,563,835
Retained earnings (deficit)		**(850,545)**	(1,963,650)
Total Equity		**1,941,490**	600,185
Total Liabilities and Equity		**$ 5,177,914**	$ 834,300

Approved on Behalf of the Board:

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The accompanying notes are an integral part of these financial statements.

Natco Pharma (Canada) Inc.

Statement of Income

Year Ending March 31, 2017

	Note	2017	2016
Revenue			
Goods and services, net of returns		**$ 7,031,540**	$ 719,684
Other revenue		**2,100**	14,032
Total revenue		**7,033,640**	733,716
Purchases/materials	4.	**1,188,611**	140,192
Cost of goods sold		**1,188,611**	140,192
Gross profit		**5,845,029**	593,524
Operating expenses			
Computer-related expenses		**$ 27,257**	$ 15,722
Freight outward		**75,420**	9,315
Insurance		**7,757**	7,029
Marketing		**2,384,067**	181,278
Office expenses		**37,579**	39,546
Other operating expenses		**6,618**	7,583
Professional fees audit		**6,270**	7,000
Professional fees other		**20,054**	17,933
Regulatory expenses		**611,262**	343,333
Rental		**126,691**	84,374
Retainer fees sales team		**74,285**	123,915
Salaries and wages		**613,076**	368,863
Commission on sales		**174,493**	765
Travel expenses		**39,041**	39,761
Utilities		**4,135**	3,848
Wholesaler upcharge		**227,104**	27,159
Provision for bad debts		**18,100**	-
Provision for expired inventory		**151,117**	51,371
Total operating expenses		**4,604,326**	1,328,795
Earnings before interest, tax, depreciation and amortization		**1,240,703**	(735,271)
Amortization of tangible assets		**8,501**	8,754
Interest and bank charges		**6,744**	5,109
Prompt payment incentive		**112,353**	2,020
Net Income / (Loss)		**$ 1,113,105**	$ (751,154)

The accompanying notes are an integral part of these financial statements.

Natco Pharma (Canada) Inc.

Statement of Retained Earnings

Year Ending March 31, 2017

	2017	2016
Retained earnings (deficit)	**$ (1,963,650)**	$ (1,212,496)
Net income (loss)	**1,113,105**	(751,154)
Retained earnings (deficit)	**$ (850,545)**	$ (1,963,650)

The accompanying notes are an integral part of these financial statements.

Natco Pharma (Canada) Inc.

Statement of Cash Flows

Year Ending March 31, 2017

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss) for the period		**$ 1,113,105**	$ (751,154)
Depreciation and amortization		**8,501**	8,754
(Increase) decrease in receivables		**(1,967,826)**	(427,100)
(Increase) decrease in inventories		**(835,045)**	(276,856)
(Increase) decrease in government remittances receivable		**(59,288)**	(935)
(Increase) decrease in other current assets		**(344,569)**	(3,781)
Increase (decrease) in accounts payable and accrued expenses		**911,241**	85,818
Increase (decrease) in accounts payable to related parties		**2,141,009**	(358)
Increase (decrease) in other current liabilities		**(49,941)**	49,941
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		**917,187**	(1,315,671)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital additions		**(7,045)**	(7,180)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in other equity		**228,200**	1,323,000
OTHER ACTIVITIES:			
Cash and cash equivalents at beginning of period		**2,599**	2,450
Cash and cash equivalents at end of period		**$ 1,140,941**	$ 2,599

The accompanying notes are an integral part of these financial statements.

Natco Pharma (Canada) Inc.

Notes to the Financial Statements

Year Ending March 31, 2017

1. Significant Accounting Policies

a. Place of incorporation, principal business and basis of presentation

Natco Pharma (Canada) Inc. (the "company") is incorporated on November 7, 2012 under the Canada Business Corporation Act. The company is in the business of importing and selling Health Care Pharmaceutical products in Canada.

The accounting policies of the company are in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the preceding year. Outlined below are those policies considered particularly significant.

b. Revenue recognition

Sales revenue is recognized in accordance with industry practice which is when all the risks and benefits of ownership of products have been transferred to customers under executed sales agreements.

c. Inventories

Inventory is stated at the lower of cost and net realizable value. Cost is determined on a weighted average basis.

d. Cash and cash equivalents

Cash and cash equivalents includes short-term investments and highly liquid investments in money market instruments which are carried at the lower of cost and market value with a maturity date of three months or less from the acquisition date. These are valued at cost which approximates market value.

e. Property, plant and equipment

Property and equipment are initially recorded at cost. Amortization is provided for using the declining balance method over the estimated useful lives as follows for the major classes of assets:

	Rate
Equipment, furniture and fixtures	20.00
Computer equipment	55.00

1. Significant Accounting Policies continued

f. Impairment of long lived assets

In the event that facts and circumstances indicate that the company's long-lived assets may be impaired, an evaluation of recoverability would be performed. Such an evaluation entails comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write down to market value or discounted cash flow value is required. The company considers that no circumstances exist that would require such an evaluation.

g. Income taxes

The company follows the income taxes payable method of accounting for income taxes. Under this method, only current income tax assets and liabilities are recognized. Current income taxes, to the extent unpaid or recoverable, shall be recognized as a liability or asset. Current income tax liabilities and assets are measured using enacted tax rates.

h. Financial instruments

The company initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions. The company subsequently measures all its financial assets and financial liabilities at amortized costs, except for investments in equity instruments that are quoted in an active market, which are measured at fair market value. Changes in fair value are recognized in net Income.

Financial assets measured at amortized cost include cash, term deposits and accounts receivable.

Financial liabilities measured at amortized cost include the bank overdraft, the bank loan, accounts payable, amounts due to directors and officers and long-term debt.

The company has no financial assets measured at fair market value and has not elected to carry any financial asset or liability at fair value.

The company recognizes its transaction costs in net income in the period incurred except for financial instruments that will not be subsequently measured at fair value. The carrying amount of these instruments is adjusted by the transaction costs that are directly attributable to their issuance.

For secured lines of credit annual transaction costs are treated as prepaid expenses and amortized over one year period. Non-recurring costs to initiate a line of credit are expensed as incurred.

Natco Pharma (Canada) Inc.

Notes to the Financial Statements

Year Ending March 31, 2017

1. Significant Accounting Policies continued

i. Foreign currency translation

Foreign currency accounts are translated to Canadian dollars as follows:

- At the transaction date, each asset, liability, revenue or expense is translated into Canadian dollars by the use of the exchange rate in effect at that date.

- At year end date, monetary assets and liabilities are translated by using the exchange rate in effect and the resulting foreign exchange gains and losses are included in income in the current year value.

j. Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and may have impact on future periods.

2. Inventories

Inventory consists of the following:

	2017	2016
Finished goods inventory	**$ 1,184,585**	$ 349,540

3. Property, plant and equipment

Property, plant and equipment consist of the following:

	Cost	Accumulated Depreciation	2017 Net Book Value	2016 Net Book Value
Equipment, furniture and fixtures	**$ 26,197**	**$ (12,825)**	**$ 13,372**	$ 14,503
Computer equipment	**27,973**	**(21,013)**	**6,960**	7,285
Total	**$ 54,170**	**$ (33,838)**	**$ 20,332**	$ 21,788

Natco Pharma (Canada) Inc.

Notes to the Financial Statements

Year Ending March 31, 2017

4. Related party transactions

During the year the company purchased approximately $ 1,733,821 (2016 - $ 118,088) of finished goods from its shareholder. These purchases were made in normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. As at March 31, 2017 there was an amount payable in respect of such transaction of $ 1,521,147 (2016 - Nil) which are included under due to related party.

During the year the company borrowed from its parent company $ 620,000 (2016 – Nil). The amount is non-interest bearing with no definite terms of repayment and remains payable at March 31, 2017. This has been since repaid as of April 24th 2017.

5. Shareholders' equity

Authorized:

Unlimited number of Class A shares

Unlimited number of Class B shares

Issued and outstanding shares

	2017	2016
Class A shares - Issued 2,810,881 shares	**$ 2,792,035**	$ 2,563,835
Issued 2,783,813 Class A shares to Natco Pharma Ltd. for cash		
Issued 8,222 Class A shares issued to Madhusudhan Venkatachari for cash		
Issued 18,846 Class A shares issued to Madhusudhan Venkatachari as Sweat Equity		

6. Income taxes

The Company's reported income tax expense is calculated in accordance with applicable income tax rules. The income tax expense therefore differs from the application of statutory rates to reported income as a result of the following tax reconciliation items:

		2017		2016
Statutory tax rate		**26.5 %**		26.5 %
Computed "expected" taxes (recovery)	**$**	**294,973**	$	(199,056)
Increase (decrease) in tax resulting from:				
Non-deductible costs		**639**		612
Utilization of carried forward losses		**(295,612)**		-
Expected tax recovery in future periods	**$**	**-**	$	198,444
Income tax expense	**$**	**0**	$	0

The financial statements do not reflect potential tax reductions available through the application of losses carried forward against future years' earnings otherwise subject to income taxes. These losses expire as follows:

	Year Incurred		Amount	Year Expires
Non-capital loss	2015		98,240	2035
Non-capital loss	2016		751,154	2036
Total		**$**	**849,394**	

7. Commitments

The company's total obligations, under a operating leases for occupied premises, exclusive of realty taxes and other occupancy charges, are as follows:

2018		34,590
2019		35,434
2020		23,623
Total	**$**	**93,647**

The lease is considered operating lease for accounting purposes.

8. Economic dependence

The company primarily purchases its product from its shareholder in India. The company is exposed to risk associated with the nonperformance of the shareholder which can be directly impacted by a decline in economic conditions, which would impair the shareholder's ability to satisfy their obligations to the company.

9. Financial instruments risk exposure.

The Company is exposed to various risks through its financial instruments. The following analysis provides a measure of the Company's risk exposure and concentrations at the balance sheet date.

Credit risk

The company is exposed to credit risk in the event of non-performance by counterparties in connection with its accounts receivable. The company does not obtain collateral or other security to support the accounts receivable subject to credit risk but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant losses for non-performance.

9. Financial instruments risk exposure. (Cont')

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to this risk mainly in respect of its accounts payable. The company expects to meet these obligations as they come due by generating sufficient cash flow from operations and borrowings from its shareholder. There has been no change in the risk assessment from the prior period.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Company is mainly exposed to currency risk.

Currency risk

Currency risk is the risk that the fair value or future cash flows will fluctuate because of changes in foreign exchange rates. Approximately all of the Company's purchases are from a foreign company. These purchase are payable in home currency however profitability could be effected due to foreign currency fluctuations. At year-end, the company had no amounts payable in foreign currencies.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk as there are no borrowings.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to other price risk.