

Natco Pharma (Canada) Inc.

Financial Statements

March 31, 2018

Natco Pharma (Canada) Inc.
Year Ending March 31, 2018

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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 sheet as at March 31, 2018 and the Statement of income and cash flows for the year then ended 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 audit. We conducted our audit 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, 2018 and the result of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.



Vaughan, Ontario
April 26, 2018

KT Partners LLP
Chartered Professional Accountants
Licensed Public Accountants

Natco Pharma (Canada) Inc.

Balance Sheet

As At March 31, 2018

	Note	2018	2017
Assets			
Current Assets			
Cash		\$ 1,664,894	\$ 1,140,941
Accounts receivable -trade net of allowances (2018 - \$ Nil)		7,505,062	2,400,720
Finished goods inventory	2.	1,643,061	1,184,585
Advances recoverable		-	349,879
Prepaid expense		37,552	7,775
Government remittances receivable		64,034	73,682
Total Current Assets		10,914,603	5,157,582
Equipment, net of accumulated amortization	3.	23,804	20,332
Total Assets		\$ 10,938,407	\$ 5,177,914
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 4,016,749	\$ 1,095,277
Due to related party	4.	2,166,826	2,141,147
Provision for income tax		516,478	-
Total Current Liabilities		\$ 6,700,053	\$ 3,236,424
Equity			
Share capital	5.	2,810,881	2,792,035
Retained earnings (deficit)		1,427,473	(850,545)
Total Equity		4,238,354	1,941,490
Total Liabilities and Equity		\$ 10,938,407	\$ 5,177,914

Commitments (Note 7)

Approved on Behalf of the Board:

_____,
 _____,

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

Natco Pharma (Canada) Inc.

Statement of Income

Year Ending March 31, 2018

	Note	2018	2017
Revenue			
Goods and services, net of returns		\$ 14,673,610	\$ 7,031,540
Other revenue		9,338	2,100
Total revenue		14,682,948	7,033,640
Purchases/materials	4.	2,131,246	1,188,611
Cost of goods sold		2,131,246	1,188,611
Gross profit		12,551,702	5,845,029
Operating expenses			
Bad debts		-	18,100
Commission on sales		124,058	174,493
Computer-related expenses		29,239	27,257
Expired inventory		182,246	151,117
Freight outward		89,063	75,420
Insurance		19,059	7,757
Marketing		6,301,651	2,384,067
Office expenses		40,021	37,579
Other operating expenses		16,601	6,618
Price protection adjustment		483,049	-
Professional fees other		40,076	20,054
Professional fees audit		5,900	6,270
Regulatory expenses		450,808	611,262
Rental		163,097	126,691
Remuneration to sales team		42,050	74,285
Salaries and wages		956,182	613,076
Travel expenses		60,895	39,041
Utilities		3,940	4,135
Wholesaler upcharge		571,438	227,104
Total operating expenses		9,579,373	4,604,326
Earnings before interest, tax, depreciation and amortization		2,972,329	1,240,703
Amortization of tangible assets		8,279	8,501
Interest and bank charges		4,084	6,744
Prompt payment incentive		165,470	112,353
Income before Income tax		2,794,496	1,113,105
Income tax		516,478	-
Net Income		\$ 2,278,018	\$ 1,113,105

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

Natco Pharma (Canada) Inc.

Statement of Retained Earnings

Year Ending March 31, 2018

	2018	2017
Deficit at beginning of the year	\$ (850,545)	\$ (1,963,650)
Net income for the year	2,278,018	1,113,105
Retained earnings (deficit) at the end of year	\$ 1,427,473	\$ (850,545)

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

Natco Pharma (Canada) Inc.

Statement of Cash Flows

Year Ending March 31, 2018

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income for the period		\$ 2,278,018	\$ 1,113,105
Amortization for the current year		8,279	8,501
Net Changes in non-cash working capital balances			
Accounts Receivable		(5,104,342)	(1,967,826)
Inventories		(458,476)	(835,045)
Government remittances receivable		9,648	(59,288)
Current assets		320,102	(344,569)
Accounts payable and accrued expenses		2,921,472	911,241
Payable to related parties		25,679	2,141,009
Other current liabilities		-	(49,941)
Income taxes payable		516,478	-
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		516,858	917,187
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital additions		(11,751)	(7,045)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Share capital		18,846	228,200
Increase in Cash		\$ 523,953	\$ 1,138,342
Cash - beginning of period		1,140,941	2,599
Cash - end of period		\$ 1,664,894	\$ 1,140,941

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

Natco Pharma (Canada) Inc.

Notes to the Financial Statements

Year Ending March 31, 2018

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

f. Impairment of long lived assets

Equipment is tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value.

Natco Pharma (Canada) Inc.

Notes to the Financial Statements

Year Ending March 31, 2018

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 which are determined in accordance with the rules established by the taxation.

h. Financial instruments

The company initially measures its financial assets and liabilities at fair value, except for certain related party transactions that are measured at the carrying amount or exchange amount as appropriate. The company subsequently measures all its financial assets and financial liabilities at amortized costs.

Financial assets measured at amortized cost include cash, accounts receivable and amount due from related parties.

Financial liabilities measured at amortized cost include accounts payable, amounts due to related parties.

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.

Impairment

For financial assets measured at cost or amortized cost, the Company determines whether there are indications of possible impairment. When there is an indication of impairment, and the Company determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows, a write-down is recognized in income. A previously recognized impairment loss may be reversed. The carrying amount of the financial asset may not be greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in income.

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.

Natco Pharma (Canada) Inc.

Notes to the Financial Statements

Year Ending March 31, 2018

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. Significant items subject to such estimates and assumptions include the estimated useful lives of equipment, valuation of allowance for accounts receivable, valuation of inventories, impairment of financial assets and accruals. Actual results could differ from those estimates and may have impact on future periods.

k. Leases

Leases are classified as either capital or operating leases. At the time the company enters into a capital lease, an asset is recorded with its related long term obligation to reflect the acquisition and financing. Rental payments under operating leases are expensed as incurred.

2. Inventories

Inventory consists of the following:

	2018	2017
Finished goods inventory	\$ 1,643,061	\$ 1,184,585

3. Property, plant and equipment

Property, plant and equipment consist of the following:

	2018		2017	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Equipment, furniture and fixtures	\$ 35,957	\$ (16,815)	\$ 19,142	\$ 13,372
Computer equipment	29,963	(25,301)	4,662	6,960
Total	\$ 65,920	\$ (42,116)	\$ 23,804	\$ 20,332

Natco Pharma (Canada) Inc.

Notes to the Financial Statements

Year Ending March 31, 2018

4. Related party transactions

During the year the company purchased approximately \$ 2,378,570 (2017 - \$ 1,733,821) 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, 2018 there was an amount payable in respect of such transaction of \$ 2,165,820 (2017-\$1,521,147) which are included under due to related party.

During the year the company re-paid to its parent company \$ 620,000 that was borrowed in 2017.

5. Shareholders' equity

Authorized:

Unlimited number of Class A shares

Unlimited number of Class B shares

Issued and outstanding shares

	2018	2017
Class A shares - Issued 2,810,881	\$ 2,810,881	\$ 2,792,035

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:

	2018	2017
Statutory tax rate	26.5 %	26.5 %
Computed "expected" taxes	\$ 740,541	\$ 294,973
Increase (decrease) in tax resulting from:		
Non-deductible costs	1,026	639
Utilization of carried forward losses	(225,089)	(295,612)
Income tax expense	\$ 516,478	\$ 0

Natco Pharma (Canada) Inc.

Notes to the Financial Statements

Year Ending March 31, 2018

7. Commitments

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

2018-19	95,995
2019-20	86,427
2020-21	62,804
2021-22	65,047
2022-23	65,047
Total	\$ 375,320

The lease is considered operating lease for accounting purposes.

8. Bank Loan

The company has an operating line of credit in the amount of \$ 500,000 bearing interest at the bank prime rate plus 2.05%. It is secured by a general security agreement. There were no amounts outstanding at the end of the year.

9. 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.

10. 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 cash and receivables. In order to reduce its credit risk from receivables; the company reviews credit history before extending credit and conducts regular reviews of its existing receivables' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The Company manages the credit risk from its cash balances by maintaining its accounts with credit worthy and highly reputable financial institutions. 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. There has been no change in the risk assessment from the prior period.

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Notes to the Financial Statements

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10. 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 and to meet commitments. The company expects to meet these obligations as they come due by generating sufficient cash flow from operations and borrowings from its shareholder. In addition, the Company manages liquidity risk by maintaining sufficient cash on hand to settle obligations. 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.