

Natco Pharma USA LLC
(FKA: Dash
Pharmaceuticals LLC)

Financial Statements as of March 31, 2023 and 2022
(Three Months), and for the Years Then Ended, and
Independent Auditors' Report

NATCO PHARMA USA LLC (FKA: DASH PHARMACEUTICALS LLC)

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INDEPENDENT AUDITORS' REPORT

To the Members of
Natco Pharma USA LLC (FKA: Dash Pharmaceuticals LLC)
Upper Saddle River, New Jersey

Opinion

We have audited the accompanying financial statements of Natco Pharma USA LLC (FKA: Dash Pharmaceuticals LLC) (the "Company"), which comprise the balance sheets as of March 31, 2023 and 2022 (three months), and the related statements of income (operations), changes in members' equity, and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2023 and 2022 (three months), 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Related Party Transactions

The accompanying financial statements have been prepared from the separate records maintained by the Company and may not be indicative of the conditions that would have existed or the results of its operations if the Company had been operated as an unaffiliated company. As described in Note 7 to the accompanying financial statements, a significant portion of the Company's transactions is with related parties. Our opinion is not modified with respect to that matter.

PNJK Partners LLP

Park Ridge, Illinois
May 8, 2023

NATCO PHARMA USA LLC (FKA: DASH PHARMACEUTICALS LLC)

BALANCE SHEETS

AS OF MARCH 31, 2023 AND 2022

	March 2023	March 2022 (Three Months)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,949,865	\$ 4,422,270
Accounts receivable — net of allowance of \$3,382,733 \$3,692,340 in March 31, 2023 and March 31, 2022, respectively	2,524,941	1,901,482
Other receivable	403,552	274,699
Inventories (Note 3)	4,356,152	2,424,836
Prepaid and other current assets	<u>133,093</u>	<u>660,465</u>
Total current assets	<u>10,367,603</u>	<u>9,683,752</u>
PROPERTY, PLANT, AND EQUIPMENT — Net (Note 5)	<u>21,126</u>	<u>39,669</u>
RIGHT-OF-USE ASSETS (OPERATING LEASE) - Net (Note 9)	<u>11,606</u>	<u>79,577</u>
OTHER ASSETS:		
Intangible assets (Note 4)	6,341,944	-
Deposits	17,500	17,500
Other assets	<u>40,395</u>	<u>3,200</u>
Total other assets	<u>6,399,839</u>	<u>20,700</u>
TOTAL	<u>\$ 16,800,174</u>	<u>\$ 9,823,698</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,172,558	\$ 1,296,790
Loan payable - related party (Note 6)	-	-
Accrued expenses and other current liabilities	3,279,546	2,617,164
Current portion of lease obligations (Note 9)	11,606	67,971
Current portion of long-term debt (Note 6)	<u>-</u>	<u>-</u>
Total current liabilities	<u>4,463,710</u>	<u>3,981,925</u>
LONG-TERM LIABILITIES:		
Lease obligations - operating lease (Note 9)	-	11,606
Long-term debt (Note 6)	<u>-</u>	<u>4,000,000</u>
Total long-term liabilities	<u>-</u>	<u>4,011,606</u>
COMMITMENTS AND CONTINGENCIES (Note 10)		
MEMBERS' EQUITY:	<u>12,336,464</u>	<u>1,830,167</u>
Total members' equity	<u>12,336,464</u>	<u>1,830,167</u>
TOTAL	<u>\$ 16,800,174</u>	<u>\$ 9,823,698</u>

See notes to financial statements.

NATCO PHARMA USA LLC (DASH PHARMACEUTICALS LLC)

STATEMENTS OF INCOME (OPERATIONS)

FOR THE YEARS ENDED MARCH 31, 2023 AND 2022 (THREE MONTHS)

	March 2023	March 2022 (Three Months)
REVENUE		
Sales	\$ 33,900,034	\$ 8,200,767
Sales allowance	(15,016,967)	(3,758,002)
TOTAL REVENUES	18,883,067	4,442,765
COST OF SALES	14,364,989	3,880,159
GROSS PROFIT	4,518,078	562,606
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	4,612,155	1,010,037
INCOME FROM OPERATIONS	(94,077)	(447,431)
OTHER INCOME (EXPENSE):		
Interest income	992	172
Interest expense	(115,618)	(41,129)
Other income	-	-
Total other income (expense)	(114,626)	(40,957)
NET INCOME	\$ (208,703)	\$ (488,388)

See notes to financial statements.

NATCO PHARMA USA LLC (FKA: DASH PHARMACEUTICALS LLC)

STATEMENTS OF MEMBERS' EQUITY FOR THE YEARS ENDED MARCH 31, 2023 AND 2022 (THREE MONTHS)

	Members' Ownership Interests				(Accumulated Deficit) Retained Earnings	Total Members' Equity
	Unit A		Unit B			
	Units	Amount	Units	Amount		
BALANCE — December 31, 2021	2,000	\$ 8,500,000	-	\$ -	\$ (6,181,445)	\$ 2,318,555
Capital contributions	-	-	-	-	-	-
Net income (loss) (Three Months)	-	-	-	-	(488,388)	(488,388)
BALANCE — March 31, 2022	<u>2,000</u>	<u>\$ 8,500,000</u>	<u>-</u>	<u>\$ -</u>	<u>\$ (6,669,833)</u>	<u>\$ 1,830,167</u>
Capital contributions	-	10,715,000	-	-	-	10,715,000
Net income (loss)	-	-	-	-	(208,703)	(208,703)
BALANCE — March 31, 2023	<u>2,000</u>	<u>\$ 19,215,000</u>	<u>-</u>	<u>\$ -</u>	<u>\$ (6,878,536)</u>	<u>\$ 12,336,464</u>

See notes to financial statements.

NATCO PHARMA USA LLC (FKA: DASH PHARMACEUTICALS LLC)

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MARCH 31, 2023 AND 2022 (THREE MONTHS)

	March 2023	March 2022 (Three Months)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (208,703)	\$ (488,388)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	394,836	5,378
Changes in assets and liabilities:		
Accounts receivable — net	(623,459)	71,328
Other receivable	(128,853)	(122,339)
Prepaid expenses and other current assets	527,372	34,298
Inventory	(1,931,316)	285,363
Other assets	(37,195)	-
Accounts payable — trade	(124,232)	201,952
Accrued expenses and other current liabilities	<u>662,382</u>	<u>251,572</u>
Net cash provided by (used in) operating activities	<u>(1,469,168)</u>	<u>239,164</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	<u>(6,718,237)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(6,718,237)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contributions	10,715,000	-
Repayment of related party loan	(4,000,000)	(4,000,000)
Proceeds from related party loan	<u>-</u>	<u>4,000,000</u>
Net cash provided by (used in) financing activities	<u>6,715,000</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(1,472,405)	239,164
CASH AND CASH EQUIVALENTS — Beginning of year	<u>4,422,270</u>	<u>4,183,106</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 2,949,865</u>	<u>\$ 4,422,270</u>
SUPPLEMENTAL DISCLOSURES:		
Obtaining a right-of-use asset in exchange for a lease liability	<u>\$ -</u>	<u>\$ 137,281</u>
Cash paid for interest	<u>\$ 115,618</u>	<u>\$ 130,023</u>

See notes to financial statements.

NATCO PHARMA USA LLC (FKA: DASH PHARMACEUTICALS LLC)

NOTES TO FINANCIAL STATEMENTS AS OF MARCH 31, 2023 AND 2022 (THREE MONTHS), AND FOR THE YEARS THEN ENDED

1. NATURE OF BUSINESS

Fidelity Pharmaceuticals LLC was formed in the State of Delaware on June 3, 2014 and was originally owned by three founders (“Founders”). The name was changed to Dash Pharmaceuticals LLC (the “Company”) on September 23, 2014. On August 4, 2017, CBC Capital USA, Inc, a Delaware Corporation (“CBC Capital”), and the Company entered into a unit purchase agreement (the “CBC Agreement”) pursuant to which the Company issued additional 1,000 of Class A Units in the Company to CBC Capital.

On January 1, 2022, NATCO Pharma, Inc., a Delaware corporation, acquired all of the issued and outstanding membership interests of the Company from CBC Capital and the Founders pursuant to a membership unit purchase agreement (the “NATCO Agreement”) as a result of which the Company became a wholly owned subsidiary of NATCO Pharma, Inc., a Delaware Corporation (the “NPI”). The name was changed to NATCO Pharma USA LLC (the “Company”) on April 12, 2023.

The Company’s primary business is to develop partnerships, product licensing, sales, marketing, and distribution of generic pharmaceutical products, emphasizing its operations on the development and distribution of niche products across a variety of dosage forms and therapeutic categories.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Cash and Cash Equivalents — The Company considers all money market accounts and highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents. The Company, at times, may maintain deposits at financial institutions that exceed federally insured limits.

Accounts Receivable — The Company reports trade receivables at net realizable value. Management determines the allowance for doubtful accounts and returns based on historical losses and current economic conditions. On a periodic basis, management analyzes delinquent receivables and, once these receivables are determined to be uncollectible, they adjust the allowance based on current circumstances and charge off uncollectible receivables when all attempts to collect have failed.

Inventories — Inventories are valued at the lower of cost or market based on the first-in, first-out method. The Company records an inventory reserve for obsolete and excess inventories. A reserve for obsolescence is provided for any specific inventories that on a sliding scale reached to within twelve months to products expiration date. The balances at March 31, 2023 and 2022 represent finished goods purchased from contracted manufacturers net of inventory reserve of approximately \$592,000 and \$487,000, respectively. The Company maintains such finished goods at the warehouse of their third-party logistics provider.

Property, Plant, and Equipment — Property, plant, and equipment are stated at cost, less accumulated depreciation. Expenditures for repairs and maintenance are charged to expense as incurred, and additions and improvements that significantly extend the lives of assets are capitalized. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is reflected in operations. Depreciation is provided primarily using the straight-line method over the following estimated useful lives:

Item	Estimated Useful Life
Buildings	40 years
Leasehold improvements	5-15 years
Machinery and equipment	7-10 years
Furniture and fixtures	7 years
Office equipment	5 years
Computer software	3-5 years
Vehicles	5 years

Long-Lived Assets — The Company periodically evaluates whether events and circumstances have occurred that indicate that the remaining balance of long-lived assets to be held and used in the operations of the Company may be impaired and not be recoverable. In performing this evaluation, the Company uses an estimate of the related cash flows expected to result from the use of the asset and its eventual disposition. When this evaluation indicates the asset has been impaired, the Company will measure such impairment based on the asset’s fair value, and the amount of such impairment is charged to operations.

Fair Value of Financial Instruments – The Company values its assets and liabilities using the methods of fair-value as described in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820, Fair Value Measurements and Disclosures. In accordance with ASC 820, the Company determines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to active markets for identical assets and liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The Company classifies fair value balances based on the observability of those inputs. The three levels of the fair value hierarchy are as follows:

Level 1 – Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and amounts derived from valuation models where all significant inputs are observable in active markets.

Level 3 – Unobservable inputs that reflect management’s assumptions.

The carrying values of accounts receivable and accounts payable approximate fair value because of the short-term nature of these items.

Long-term financial instrument and long-term debt consist of certificate of deposits with maturity over a year and fixed rate loans, respectively. Management believes that if the long-term financial instrument and long-term debt with fixed rates were currently obtained, the interest rate would not be substantially different from the interest rate applied and, therefore, the carrying amount approximates the fair value.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, and accounts payable, which approximates fair value due to the nature and the short-term maturities of these assets and liabilities. The Company has no financial instruments measured at fair value on a recurring basis as of March 31, 2023 and 2022

Revenue Recognition — The Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09 on January 1, 2018, which required it to recognize revenue when a customer obtains control. Revenue transactions associated with the sale of the products comprise a single performance obligation. The Company satisfies the performance obligation and records revenues when transfer of control has passed to the customer, based on the terms of sale. A customer is considered to have control once they are able to direct the use and receive substantially all of the benefits of the product. Transfer of control passes to customers upon shipment or upon receipt depending on the agreement with the customer.

The estimates of allowances for discounts, rebates, returns, chargebacks, and other potential adjustments reduce sales in the accompanying statement of operations. These allowances are recorded in the period in which the related sales are recognized and include significant accounting estimates. The allowances are presented as a reduction of accounts receivable or current liabilities in the accompanying balance sheets as of March 31, 2023 and amounted to approximately \$3,383,000 and \$892,000, respectively. The respective allowances at March 31, 2022 amounted to approximately \$3,692,000 and \$766,000. Actual or estimated discounts, rebates, returns, chargebacks and other adjustments amounted to approximately \$15,017,000 and \$3,758,000 for the years ended March 31, 2023 and 2022 (three months), respectively.

Payment terms differ by customer but typically range between 60 and 70 days from the date of shipment. Collection period is normally one year or less, thus, there is no significant financing component.

The Company recognizes revenue based on a portfolio approach such that application is to a portfolio of contracts or performance obligation with similar characteristics.

The Company accounts for shipping and handling activities as fulfillment for the promise to transfer goods.

Collaborative Agreements – The Company enters into collaborative agreements with various parties for formulating, developing, manufacturing, licensing, marketing, and distributing generic pharmaceutical products. If under these agreements, the Company is actively involved and exposed to the risks and rewards of the activities and is determined to be the principal participant in the collaboration, the Company classifies third party costs incurred and revenues in the statement of operations on a gross basis. Otherwise, third party revenues and costs generated by collaborative arrangements are presented on a net basis and recorded under commission income. Payments between the Company and the other participants are recorded and classified based on the nature of the payments.

Research and Development Costs – The Company charges all research and development costs to operating expenses as incurred. The total research and development costs for the years ended March 31, 2023 and 2022 (three months) were approximately \$306,000 and \$181,000, respectively.

Income Taxes — In accordance with the provisions of the Internal Revenue Code, the Company is not subject to federal income taxes. A member includes the Company's profit or loss in its own federal income tax returns. The Company is generally not subject to state income taxes and has no state income tax liability.

Effective April 1, 2009, the Company adopted the provisions of the FASB ASC Topic 740, *Income Taxes*. Under FASB ASC 740-10-05, the evaluation of an uncertain tax position is a two-step process of recognition and measurement. The Company recognizes the benefit of an uncertain tax position if it determines that the position will be more likely than not to be sustained, based on the technical merits of the position. The Company measures the amount of the benefit at the largest amount that is more than 50% likely of being recognized upon settlement. No interest or penalty was recorded as a result of the evaluation of uncertain tax positions as of March 31, 2023 and March 31, 2022.

Shipping Income and Related Costs — The Company engages a third-party logistics provider in product warehousing, customer ordering and invoicing, picking, packing, shipping services, receivables cash application and chargeback and returns processing. The Company charges the related cost of goods sold as incurred. The total related costs for the years ended March 31, 2023 and 2022 (three months) were approximately \$469,000 and \$87,000, respectively.

Subsequent Events – FASB ASC 855-10 (formerly SFAS No. 165, Subsequent Events) requires management to evaluate subsequent events through the date the financial statements are either issued, or available to be issued. Companies are required to disclose the date through which subsequent events have been evaluated. The Company evaluated subsequent events through May 8, 2023, which is the date the financial statements were available to be issued. No material subsequent events came to the Company's attention in the year ended March 31, 2023.

Recently Adopted Accounting Standards – In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This update supersedes the lease requirements in Topic 840, Leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flow arising from a lease. For public business entities, the standard is effective for financial statements issued for annual periods beginning after December 15, 2019. For non-public companies, the standard is effective for financial statements issued for annual periods beginning after December 15, 2021. The Company adopted ASU 2016-02 effective January 1, 2022. Based on the modified retrospective transition approach, there was no significant retrospective impact from the adoption. The new standard provides a number of optional practical expedients in transition. The Company has elected the package of practical expedients, which permits the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The new standard also provides practical expedients for an entity's ongoing accounting. The Company has elected the short-term lease exception and we will not recognize ROU assets or lease liabilities for qualifying leases (leases with a term of less than 12 months from lease commencement). In 2023, the Company accounted for a new lease under the guidance (see Note 9).

Recently Issued Accounting Standards – In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments which significantly changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life, instead of when incurred. In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, which amends Subtopic 326-20 (created by ASU 2016-13) to explicitly state that operating lease receivables are not in the scope of Subtopic 326-20. Additionally, in April 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815,

Derivatives and Hedging, and Topic 825, Financial Instruments, in May 2019, the FASB issued ASU 2019-05, Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief, and in November 2019, the FASB issued ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates, and ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, to provide further clarifications on certain aspects of ASU 2016-13 and to extend the nonpublic entity effective date of ASU 2016-13. The changes (as amended) are effective for the Company for annual and interim periods in fiscal years beginning after December 15, 2022. The entity may early adopt ASU 2016-13, as amended, for annual and interim periods in fiscal years beginning after December 15, 2018. While the Company expects its allowance for credit losses to increase upon adoption of ASU 2016-13, the Company does not expect the adoption of ASU 2016-13 to have a material effect on its financial statements.

3. INVENTORIES

Inventories as of March 31, 2023 and 2022 are comprised as follows:

	March 31, 2023	March 31, 2022
Finished goods	\$ 4,948,161	\$ 2,912,122
Less inventory reserve	<u>(592,009)</u>	<u>(487,286)</u>
Total inventories	<u>\$ 4,356,152</u>	<u>\$ 2,424,836</u>

4. INTANGIBLE ASSETS

Intangible assets at March 31, 2023 and 2022 are as follows:

	March 31, 2023	March 31, 2022
Rights to abbreviated new drug applicatins (ANDA)	\$ 6,715,000	\$ -
	6,715,000	-
Accumulated amortization	<u>(373,056)</u>	<u>-</u>
Intangible assets — net	<u>\$ 6,341,944</u>	<u>\$ -</u>

Amortization expenses were \$373,056 for the year ended March 31, 2023.

5. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of March 31, 2023 and 2022 consist of the following major classifications:

	March 31, 2023	March 31, 2022
Leasehold improvements	\$ 37,122	\$ 37,122
Computer and equipment	37,295	34,060
Furniture and fixtures	48,528	48,527
Construction in progress	<u>-</u>	<u>-</u>
	122,945	119,709
Accumulated depreciation	<u>(101,819)</u>	<u>(80,040)</u>
Property, plant, and equipment — net	<u>\$ 21,126</u>	<u>\$ 39,669</u>

6. LINE OF CREDIT AND LONG-TERM DEBT

The Company has a revolving line of credit with CBC Capital in the amount of \$7,500,000 expiring on August 4, 2022, which is automatically extended for additional one-year periods. The expiration date of the line of credit cannot extend beyond August 4, 2023. This facility is secured by all of the Company's assets and, as of December 31, 2021, the outstanding balance was \$4,000,000 represent two separate withdrawals and bearing interest at nine-month LIBOR rate plus 3% (3.15% at December 31, 2021). The Company also recorded \$130,023 of interest expense in connection with the outstanding loan balance as of December 31, 2021 and for the year then ended. The outstanding loan and accrued interest were repaid in full in January 2022 and the line of credit was terminated on January 3, 2022.

The Company entered into a new loan agreement with NPI on January 1, 2022, in the amount of \$4,000,000, bearing interest at 4.17%. The interest is payable at the end of each calendar quarter and the maximum tenure of the loan is five years from the date of each drawdown. The Company recorded \$116,000 and \$41,000 of interest expenses for the periods ended December 31 and March 31, respectively, with this loan from NPI. The loan was repaid in full on December 9, 2022, and there was no outstanding balance as of December 31, 2022. The \$4,000,000 of the NPI loan proceeds was utilized to repay the outstanding balance from the CBC line of credit and that line of credit was terminated on January 3, 2022, as noted above.

7. RETIREMENT PLAN

The Company sponsors a Safe Harbor 401(k) retirement plan since March 1, 2018. Employees become eligible to participate on the first of the month following 3 consecutive months of service beginning on the employee's date of hire. Contributions made by plan participants may be tax deferred as allowed under section 401(k) of the Internal Revenue Code. Employees elect the portion of their compensation they wish to contribute to the plan up to the statutory maximum. The Company matches participant contributions at 100%, up to 4% of their compensation. The Company's total contributions amounted to approximately \$92,000 for the year ended March 31, 2023.

8. RELATED-PARTY TRANSACTIONS

Revolving Credit Agreement – See Note 6

Long-Term Debt – See Note 6

The Company has the following transactions in 2023 with related parties by common ownership:

	March 31, 2023
Sales of inventory to NATCO Pharma Limited	\$ -
Purchases of inventory from NATCO Pharma Limited	\$ 688,190
Due from related parties: NATCO Pharma Limited	\$ -
Due to related parties: NATCO Pharma Limited	\$ 584,554
Inventory purchased from NATCO Pharma Limited that is included in total inventory at March 31, 2023	\$ 529,577

9. LEASE

The Company adopted ASU 2016-02, “Leases,” on January 1, 2022 requiring, among other changes, operating and finance leases with terms exceeding twelve months to be recognized as a right-of-use asset (or “ROU”) and lease liabilities on the balance sheet. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. The lease term is determined to be the non-cancelable period including any lessee renewal options that are considered reasonably certain of exercise. The interest rate implicit in lease contracts is typically not readily determinable. As such, the Company used judgment to determine an appropriate incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term in a similar economic environment.

Future minimum payments under the Company’s operating leases related to the ROU asset and lease liability as of March 31, 2023 was as follows:

**Years Ending
March 31**

	Operating Leases Amount
2024	\$ 11,667
Total minimum payments	\$ 11,667
Less: imputed interest	61
Present value of lease liabilities	<u>\$ 11,606</u>

As of March 31, 2023, the weighted average remaining operating lease term was 0.25 years and the weighted average discount rate used to determine the operating lease liabilities was 4.17%. Cash paid related to the lease liability was \$67,971 for the year ended March 31, 2023. Operating lease costs during the year ended March 31, 2023 were approximately \$70,000. Short term and variable leases costs were immaterial during the year ended March 31, 2023.

10. COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk and Significant Customers — Financial instruments that potentially subject the Company to credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents in financial institutions, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts, and management believes that the Company is not exposed to any significant credit risk related to cash and cash equivalents because of the high quality of the financial institutions where cash is deposited.

The Company's business is dependent upon a few unrelated customers. Sales to three customers accounted for 83% and 79% of gross sales for the years ended March 31, 2023 and 2022 (three months), respectively. In addition, 86% and 80% of accounts receivable were due from these customers at March 31, 2023 and 2022, respectively. The Company performs ongoing credit evaluations of its customers and maintains an allowance for potential credit losses when necessary. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company's customers may be affected by changes in economic, regulatory, and other factors that may cause a material adverse effect on the Company's business, financial condition, and results of operations.

Guarantees - The Company maintains contracts with manufacturer Orion Corporation ("Orion") and packager Unit Dose Solutions ("Unit") under which the Company would be responsible for certain surplus or unused materials purchased to manufacture or package the Company's products if those contracts are terminated.

The total value of such materials on hand at Orion and at Unit Dose Solutions at March 31, 2023 was approximately \$91,000 and \$77,000, respectively. No related liabilities were recorded at March 31, 2023.

The total value of such materials on hand at Orion and at Unit Dose Solutions at March 31, 2022 was approximately \$14,000 and \$113,000, respectively. No related liabilities were recorded at March 31, 2022.

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SUPPLEMENTAL INFORMATION

**NATCO PHARMA USA LLC (FKA: DASH PHARMACEUTICALS LLC)
SCHEDULES OF COST OF GOODS SOLD**

FOR THE YEARS ENDED MARCH 31, 2023 AND 2022 (Three Months)

	March 2023	March 2022 (Three Months)
Purchases	\$ 8,733,576	\$ 2,117,545
Profit share out costs	3,547,868	1,192,336
Logistics expenses	469,117	86,656
Freight	919,756	253,891
Obs & Excess Inventory Expenses	383,281	194,958
Other costs	<u>311,391</u>	<u>34,773</u>
TOTAL COST OF GOODS SOLD	<u>\$ 14,364,989</u>	<u>\$ 3,880,159</u>

**NATCO PHARMA USA LLC (FKA: DASH PHARMACEUTICALS LLC)
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES**

FOR THE YEARS ENDED MARCH 31, 2023 AND 2022 (Three Months)

	March 2023	March 2022 (Three Months)
Bank fees	\$ 2,682	\$ 645
Benefit administration expense	4,627	1,101
Auto expenses	192	-
IT Support	16,857	4,020
Computer and Internet Expenses	18,996	1,682
Recruiting fees	44,379	10,000
Employee benefits	124,650	28,265
Training & education	748	(200)
Dues and subscriptions	122,278	29,689
Insurance expense	179,351	46,690
Licenses	21,002	33,638
Business Meals	10,633	2,769
Office expense	10,997	2,225
Salaries and wages	2,508,921	388,409
Postage and delivery	2,358	206
Payroll processing fees	5,238	1,131
Professional & legal fees	316,619	86,972
Regulatory & pharmacovigilance	210,754	85,145
Payroll taxes	115,386	34,801
Marketing and promotion	60,963	27,983
Rent expense	71,901	17,500
Other taxes	(1,610)	1,356
Phone services	11,109	2,256
Travel expense	49,434	16,128
Utilities	2,854	650
R&D expenses	306,000	181,498
Charitable contributions	-	100
Depreciation and amortization	<u>394,836</u>	<u>5,378</u>
	<u>\$ 4,612,155</u>	<u>\$ 1,010,037</u>