Grant Thornton

Ascend Laboratories SpA

Financial statements and independent auditors' report

As of March 31, 2017 and 2016

Ascend Laboratories SpA

Contents

Th$: Thousands of Chilean Pesos

Independent auditors' report

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Board of Directors and Shareholders of:
Ascend Laboratories SpA

Report on the financial statements

We have audited the accompanying financial statements of **Ascend Laboratories SpA**, which comprise the statement of financial position as of March 31, 2017 and 2016, and the related statements of comprehensive income, changes in equity, 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 the International Financial Reporting Standards (IFRS). 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 Chile generally accepted auditing standards. 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 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. 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 **Ascend Laboratories SpA** as of March 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Other matters

The accompanying financial statements have been translated into English for the convenience of the readers.

Santiago, Chile
April 30, 2017

Jaime Goñi Garrido
Audit Partner

Statement of financial position

As of March 31,

(In thousands of chilean pesos - Th$)

	Note	**2017**	2016
		Th$	Th$
Assets			
Current assets:			
Cash and cash equivalents	5	**1.337.996**	1.294.481
Trade debtors and other accounts receivables	6	**2.553.510**	2.538.925
Inventories	8	**1.455.519**	2.505.268
Current tax assets	9a	**230.636**	237.710
Total current assets		**5.577.661**	6.576.384
Noncurrent assets:			
Other non financial assets, non-current		**2.000**	2.000
Bank guarantees receivables, non-current	10	**1.134.232**	876.348
Other intangible assets - Net	11	**931**	1.947
Property, plant and equipment - Net	12	**14.040**	12.945
Deferred tax assets	13b	**2.521**	3.518
Total noncurrent assets		**1.153.724**	896.758
Total assets		**6.731.385**	7.473.142

The accompanyng notes N° 1 to 26 are an integral part of these financial statements.

Statement of financial position

As of March 31,

(In thousands of chilean pesos - Th$)

	Note	2017	2016
		Th$	Th$
Liabilities and equity			
Current liabilities:			
Other financial liabilities	14	**1.338.000**	-
Commercial accounts payable and other accounts payable	15	**292.986**	193.697
Accounts payable to related entities	7a	**2.945.918**	6.966.332
Provision for employee benefits	16	**9.766**	13.795
Income tax payable	9b	**138.080**	-
Total liabilities, current		**4.724.750**	7.173.824
Noncurrent liabilities:			
Deferred tax liabilities	13b	**-**	37
Equity:			
Capital stock	17	**1.400.000**	1.000
Additional paid-in capital		**(61.856)**	-
Retained earnings (losses)		**668.491**	298.244
Other reserves		**-**	37
Total equity - net		**2.006.635**	299.281
Total liabilities and equity - Net		**6.731.385**	7.473.142

Statement of comprehensive income by function

For the periods ended March 31,

(In thousands of chilean pesos - Th$)

	Note N°	**2017 Th$**	2016 Th$
Statement of Income			
Revenues	18	**6.090.789**	4.506.028
Cost of sales	19a	**(4.483.392)**	(3.128.954)
Gross margin		**1.607.397**	1.377.074
Administrative expenses	19b	**(1.255.519)**	(777.984)
Other expenses		**(33.363)**	(8.159)
Other gains (losses)	21	**17.645**	27.966
Finance expenses	20	**(149.559)**	(115.541)
Exchange rate		**299.728**	(144.907)
Income from adjustment units		**2.119**	2.848
Profit before tax		**488.448**	361.297
Loss (profit) for income tax	13	**118.201**	(1.870)
Profit for the year		**370.247**	363.167

Statement of changes in equity

As of March 31,

(In thousands of chilean pesos - Th$)

	Paid capital Th$	Additional paid-in capital Th$	Retained earnings Th$	Other reserves Th$	Total equity net Th$
Beginning balance 04.01.2016	**1.000**	**-**	**298.244**	**37**	**299.281**
Comprehensive income:					
Profit for the year	**-**	**-**	**370.247**	**-**	**370.247**
Comprehensive income	**-**	**-**	**370.247**	**-**	**370.247**
Capital increase	**1.399.000**	**(61.856)**	**-**	**(37)**	**1.337.107**
Ending Balance 03.31.2017	**1.400.000**	**(61.856)**	**668.491**	**-**	**2.006.635**

	Paid capital Th$	Additional paid-in capital Th$	Accumulated losses Th$	Other reserves Th$	Total equity net Th$
Beginning balance 04.01.2015	1.000	-	(57.229)	37	(56.192)
Comprehensive income					
Profit for the year	-	-	363.167	-	363.167
Comprehensive income	-	-	363.167	-	363.167
Increase due to transfers and other changes	-	-	(7.694)	-	(7.694)
Ending Balance 03.31.2016	1.000	-	298.244	37	299.281

The accompanyng notes N° 1 to 26 are an integral part of these financial statements.

Statement of cash flows, Indirect method

As of March 31,
(In thousands of chilean pesos - Th$)

	2017	2016
	Th$	Th$
Cash flows from operating activities		
Profit for the year	**370.247**	363.167
(Credit) debit for non-cash items:		
Depreciation and amortization	**3.170**	1.969
Differences exchange	**(299.728)**	144.907
Income from adjustment units	**(2.119)**	(2.848)
Profit (loss) for income tax	**(118.201)**	1.870
Decrease (increase) of assets:		
Trade debtors and other accounts receivables	**(14.585)**	(1.819.465)
Inventories	**1.049.749**	(1.292.294)
Current tax assets	**7.074**	(180.663)
Other non financial assets, non-current	**-**	3.561
Bank guarantees receivables, non-current	**(257.884)**	(517.694)
Deferred tax assets	**997**	(1.425)
Increase (decrease) of liabilities:		
Other financial liabilities	**1.338.000**	-
Commercial accounts payable and other accounts payable	**99.289**	118.300
Accounts payable to related entities	**(3.718.567)**	4.359.196
Provision for employee benefits	**(4.029)**	4.491
Income tax payable	**256.281**	(1.870)
Deferred tax liabilities	**(37)**	(446)
Other adjustments		(7.694)
Net cash flow from operating activities	**(1.290.343)**	1.173.062
Cash flows from financing activities		
Proceeds from issue of capital stock	**1.337.107**	-
Positive net flow originated by financing activities	**1.337.107**	-
Cash flows from investing activities		
Payments for property, plant and equipment	**(3.249)**	(1.607)
Net cash flow from investing activities	**(3.249)**	(1.607)
Net increase (decrease) of cash and cash equivalents	**43.515**	1.171.455
Beginning balance of cash and cash equivalents	**1.294.481**	123.026
Ending balance of cash and cash equivalents	**1.337.996**	1.294.481

The accompanyng notes N° 1 to 26 are an integral part of these financial statements.

Index to the notes to the financial statements

Notes to the financial statements
As of March 31, 2017 and 2016
(In thousands of chilean pesos - Th$)

1 General information

Ascend Laboratories SpA (hereinafter "the Company"), was incorporated as a joint stock company under public deed dated July 19, 2011. The purpose of the company is: provide services involving the application, processing, obtaining and maintaining health records, on their own behalf or on behalf of Alkem Laboratories Limited (Parent Company), with the Chilean Institute Public Health and before all kinds of public bodies, such as the Metropolitan Health Service and / or any dependent agencies of the Chilean Ministry of Health, and the transfer or assignment any title of such health records.

On September 11, 2013 amendment of bylaws was made to expand its corporate purpose by adding to it the activities for the development, manufacture, storage, importation, marketing, distribution and export of pharmaceuticals, cosmetics and veterinary, and / or representation in the aforementioned areas.

The structure of the Company as of March 31, 2016 is as follows:

Shareholder	Number of Shares	Participation %
Alkem Laboratories Ltd.	3.153	100,00
Total	**3.153**	**100,00**

The Company's address is located in Estoril 50, Las Condes, Santiago, Chile.

2 Significant accounting policies

Significant accounting policies adopted in preparing these financial statements are described below.

As required by the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs), these accounting policies have been designed according to International Financial Reporting Standards for SMEs (IFRS for SMEs) in force at December 31, 2016.

2.1 Basis of preparation

The accompanying financial statements for the year ended March 31, 2017 and 2016 have been prepared in accordance with International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board (IASB).

In preparing these financial statements management has used its best understanding of IFRS for SMEs, their interpretation and the facts and circumstances that are in effect on the date of its preparation, which represents the first explicit comprehensive adoption and unrestricted the aforementioned international standards.

The preparation of these financial statements in accordance with IFRS for SMEs requires the use of certain estimates and accounting criteria. It also requires management to exercise its judgment in the process of applying accounting policies. In Note on Responsibility for information and estimates and accounting criteria areas involving a higher degree of judgment or complexity, or areas where estimates are significant to the disclosed accounts are revealed.
The general criteria used for the accounting valuation of its assets and liabilities is cost, except for certain financial assets that are carried at fair value.

2.2 Basis of presentation

The accompanying financial statements are presented in thousands of Chilean pesos, as this is the presentation currency of the Company.

In the State of financial position, assets and liabilities are classified according to their maturities between current, those with maturity not exceeding twelve months and non-current, those whose maturity exceeds twelve months.

In turn, in the statement of comprehensive income and changes in equity expenditures classified by function are presented, identifying depreciation and personnel expenses based on their nature and the cash flow statement is presented using the indirect method .

The Statement of Financial Position as of March 31, 2017 are presented comparatively with the financial statements as of March 31, 2016.

The accompanying financial statements have been translated from Spanish into English for use outside of Chile.

2.2.1 Responsibility for the information and estimates made

The information contained in the accompanying financial statements is the responsibility of the Company's Management, which expressly states that they are aware of the information contained in the accompanying financial statements and accepts responsibility for the information included herein, as well as the application of the principles and criteria included in the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs).

In preparing the accompanying financial statements certain estimates by the Company's Management have been used in order to account for some of the assets, liabilities, revenue, expenses, and commitments recorded herein. Such estimates are based on Management's best knowledge and understanding of the reported amounts, events, or action.

2.3 Functional and presentation currency

The functional currency of the Company has been defined as the currency of the primary economic environment in which the entity operates. All transactions which are not in the functional currency are translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in other currencies have been translated at the closing rates of exchange. Foreign exchange gains or losses are included in the net profit and loss account for the year under the line item 'Exchange rate differences'.

The Company's functional currency is the Chilean Peso. Items within the statement of comprehensive income for entities that have a functional currency other than the Chilean Peso are translated at average rates of exchange. Items within the statement of financial position are translated at the closing rates of exchange.

2.4 Basis of translation

The assets and liabilities in Chilean pesos and Unidades de Fomento (UF) are translated using the exchange rate at the date of the financial statements according to the following table:

	03.31.2017 $	**Monthly average**	03.31.2016 $	Monthly average
U.S. Dollar	**662,66**	**665,06**	675,10	673,66
Unidad de fomento (UF) (1)	**26.471,94**	**26.022,67**	25.812,05	24.627,10

(1) Unidades de fomento are adjustment units, which are translated into Chilean pesos. Exchange rate changes are recorded in the statement of Comprehensive Income under the heading Adjustments.

2.5 Revenue recognition

Revenue from the sales of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Entity has transferred significant risks and rights of ownership of the goods on to the buyer.
- The Entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the Entity.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.6 Finance costs

All finance costs are recognized in profit or loss for the period in which they are incurred.

2.7 Income tax and deferred taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

The Company determines the tax base and calculates its income tax every year in accordance with the laws in force.

On September 29, 2014, Law N° 20.780, "Tax Reform to modify the Income Tax system and to introduce various adjustments to the tax system," was published in the Official Gazette.

Among the main changes introduced, this particular law adds a new, semi-integrated taxation system, which can be used alternatively in relation to the integrated regime of attributed income. Taxpayers are free to choose either in order to pay their taxes.

In the case of Ascend Laboratories SpA, as a general rule prescribed by law, the semi-integrated system is applied, even though a future Shareholders' Meeting could choose the attributed income system. The semi-integrated system establishes the progressive increase of the first-category tax rate for the business years 2014, 2015, 2016, 2017 and 2018 onwards, to 21%, 22,5%, 24%, 25,5% and 27%, respectively.

Deferred tax: is recognized in interim differences between the carrying amounts of assets and liabilities in the financial statements and the related tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable interim differences. Deferred tax assets are generally recognized for all deductible interim differences to the extent that it is probable that taxable profits will be available against which such deductible interim differences can be utilized. Such deferred tax assets and liabilities are not recognized if the interim difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the interim difference arises from the initial recognition of goodwill.

2.8 Property, Plant and Equipment

Items of property, plant and equipment are measured at cost, except for costs periodically maintained, less accumulated depreciation and any accumulated impairment losses. The cost of items of property, plant and equipment includes not only its original purchase price, but also any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by Management.

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

Depreciation is recognized so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method.

The main items of property, plant, and equipment and their respective useful lives are presented below:

Class	Financial Useful Life Years
Furniture and office equipment	10
Computer equipment	3 - 6
Vehicles	8

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

2.9 Intangible assets

Intangible assets with finite useful lives that are carried at cost minus the accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

2.10 Impairment of tangible and intangible assets

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher one between fair value minus the costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

2.11 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average cost basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.12 Trade creditors

Commercial creditors are regular credit obligations which have no interests. The amounts form commercial creditors denominated in foreign currency are converted into the Entity's functional currency by using the exchange rate valid on the reporting date. Profits or losses due to change in foreign currency are included in Differences of Exchange Rate."

2.13 Bank overdrafts and loans

Interest expenses are recognized on the basis of the effective interest method and are included in financial costs. The amount owed to banks and other financial institutions are presented under other liabilities as current or non-current due.

2.14 Provisions for employee benefits

The expense for employee vacations is recognized by the accrual method. This benefit applies to all staff and is a fixed amount depending on the particular contracts for each worker. This benefit is recorded at face value.

2.15 Dividend Distribution Policy

The distribution of dividends to shareholders is recognized as a liability in the period in which the dividends are approved by shareholders or when the corresponding obligation is set according to or laws in force distribution policies established by the Shareholders' Meeting.

The dividend policy of the Company is to distribute the mandatory minimum of 30% according to Law 18.046, in the case that would distributable profits.

2.16 Capital Stock

The capital is represented by registered shares, all in a single series and without nominal value.

2.17 Statement of Cash flows

The Company has the cash flow statement under the indirect method.

3 Financial risk management

Financial risks arising from Company's activities are credit risk, liquidity risk and market risk. These risks arise during the normal course of the Company's activities and management handles the exposure to such risks in accordance with the latest policies, mission and vision of the Company.

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The majority of the Company's Trade receivables are due for maturity within 60 -120 days from the date of billing to the customer. Further, the general credit terms for Trade payables are approximately 120 days. The difference between the above mentioned credit period provides sufficient headroom to meet the short-term working capital needs for day-to-day operations of the Company. Any short-term surplus cash generated, over and above the amount required for working capital management and other operational requirements, are retained as Cash and Investment in short term deposits with banks. The said investments are made in instruments with appropriate maturities and sufficient liquidity.

c) Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices - will affect the Company's income or the value of its holdings of financial instruments. Market risk is attributable to all market risk sensitive financial instruments including foreign currency receivables and payables and long term debt. We are exposed to market risk primarily related to foreign exchange rate risk. Thus, our exposure to market risk is a function of investing and borrowing activities and revenue generating and operating activities in foreign currency. The objective of market risk management is to avoid excessive exposure in our foreign currency revenues and costs.

- **Currency risk**

  The Company is exposed to currency risk on account of its loans and accounts payables in foreign currency. The functional currency of the Company is Chilean peso. The Company has exposure to USD. The Company has not hedged this foreign currency exposure.

The currency profile of financial liabilities as at March 31, 2017 and March 31, 2016 are as below:

	March, 31 2017 USD
Financial liabilities	
Accounts payable to related parties	2.945.918
	2.945.918

	March, 31 2017 USD
Financial liabilities	
Accounts payable to related parties	6.966.332
	6.966.332

Sensitivity analysis

A reasonably possible strengthening (weakening) of the Chilean pesos (Local currency) against various foreign currencies at March 31 would have affected the measurement of financial instruments denominated in foreign currencies and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

	Profit or loss		**Equity, net of tax**	
Effect in Chilean pesos	Strengthening	Weakening	Strengthening	Weakening
March 31, 2017				
10% movement				
USD	(294.592)	294.592	(223.890)	223.890
	(294.592)	294.592	(223.890)	223.890

	Profit or loss		**Equity, net of tax**	
Effect in Chilean pesos	Strengthening	Weakening	Strengthening	Weakening
March 31, 2016				
10% movement				
USD	(696.633)	696.633	(518.992)	518.992
	(696.633)	696.633	(518.992)	518.992

4 Disclosures of the judgments that management had pronounced when applying the entity's accounting policies

In applying the Company's accounting policies described in Note 2, Management makes estimates and judgments relating to the future of book value of assets and liabilities. The estimates and judgments associated are based on historical experience and other factors deemed relevant. The current results could differ from such estimates.

Management necessarily makes judgments and estimates which have a significant effect on the figures presented in the financial statements. Changes in assumptions and estimates could have a significant impact on the financial statements. Estimates and critical judgments used by Management are detailed as follows:

a) Useful life of property, plant, and equipment

The Company determines the estimated useful life and the related charges for depreciation of its fixed assets. Such estimate is based on the life cycles of its operations according to the historic experience and the industry's environment.

b) Useful life of intangible assets

Intangible assets are presented at acquisition cost less accumulated depreciation. Depreciation is calculated using the straight-line method considering the estimated these assets, about 2 to 6 years life.

5 Cash and cash equivalents

Cash and cash equivalents corresponds to the cash balances held in cash and bank current accounts, time deposits and other liquid investments maturing within less than 90 days.

The composition of cash and cash equivalents at the dates indicated is as follows:

	2017 Th$	2016 Th$
Cash	**405**	259
Balance at Banco Itaú CLP	**2.669**	115.318
Balance at Banco Chile CLP	**460.961**	1.177.925
Balance at Banco Chile USD	**873.961**	979
Total	**1.337.996**	1.294.481

6 Trade debtors and other accounts receivables

a) The composition of trade debtors and other accounts receivables at the dates indicated is as follows:

	2017 Th$	2016 Th$
Bills receivable	**2.346.884**	2.149.374
Notes receivable	**91.778**	309.261
Funds to pay	**74.621**	32.649
Current account customs agent	**(529)**	42.844
Advances to suppliers	**336**	3.421
Accounts receivable from employees	**22.225**	1.020
Income to recognize	**17.645**	-
Other accounts receivable	**550**	356
Total	**2.553.510**	2.538.925

b) At March 31, 2017 and 2016, the maximum exposure to credit risk for trade receivables by geographic region was as follows:

	2017 Th$	2016 Th$
Chile	**2.346.884**	2.149.374
Other regions	**-**	-
Total	**2.346.884**	2.149.374

At March 31, 2017 and 2016, the Company had exposure to only one type of counter party.

At March 31, 2017, the Company had a significant customer. Laboratorio Hospifarma Chile Limitada balance was 13% of the total receivables.

At March 31, 2016, the Company did not have any significant customer. No single customer's balance was more than 10% of the total receivables.

c) Impairment:

At March 31, 2017 and 2016, the ageing of trade receivables that were not impaired was as follows:

	2017 Th$	2016 Th$
Neither past due nor impaired	**5.533**	-
Past due 1–180 days	**1.695.850**	1.703.379
Past due more than 180 days	**645.501**	445.995
Total	**2.346.884**	2.149.374

Management believes that the unimpaired amounts that are past due by more than 180 days are still collectible in full, based on historical payment behavior and extensive analysis of customer credit risk, including underlying customers' credit ratings if they are available. Therefore, the Company has not recognized an allowance for doubtful debts.

7 Balances and transactions with related parties

a) Accounts payable to related entities

Company	**Concept**	**Currency**	**Relationship**	**2017 Th$**	2016 Th$
The Pharma Network, LLC	Loan	Pesos	Common controller	**-**	236.285
The Pharma Network, LLC	Interest payable	Pesos	Common controller	**3.827**	-
Alkem Laboratories Ltd.	Current account	Pesos	Shareholder	**1.427.913**	5.291.729
Alkem Laboratories Ltd.	Loan	Pesos	Shareholder	**1.316.175**	1.340.884
Alkem Laboratories Ltd.	Interest payable	Pesos	Shareholder	**198.003**	97.434
Total				**2.945.918**	6.966.332

b) Transactions with related parties

The transactions and their effect on results are as follows:

2017:

Company	**Relationship**	**Concept**	**Transaction amount 2017 Th$**	**Effect on results 2017 Th$**
Alkem Laboratories Ltd.	Shareholder	Purchases	**3.227.142**	**(3.227.142)**
Alkem Laboratories Ltd.	Shareholder	Reimbursement of SBLC charges	**28.157**	**28.157**
Alkem Laboratories Ltd.	Shareholder	Guarantee commission income	**8.196**	**(8.196)**
Alkem Laboratories Ltd.	Shareholder	Interest	**96.360**	**(96.360)**
The Pharma Network, LLC	Common controller	Interest	**3.827**	**(3.827)**

2016:

Company	Relationship	Concept	Transaction amount 2016 Th$	Effect on results 2016 Th$
Alkem Laboratories Ltd.	Shareholder	Purchases	**3.885.975**	**(3.885.975)**
Alkem Laboratories Ltd.	Shareholder	Reimbursement of SBLC charges	**8.889**	**8.889**
Alkem Laboratories Ltd.	Shareholder	Loans received	**1.674.603**	**(101.202)**
The Pharma Network, LLC	Common controller	Loans received	**236.285**	**-**

c) Board of Directors and Management

The Company is represented by the shareholder Alkem Laboratories Ltd. For this purpose Alkem Laboratories Ltd., may appoint one or more agents by deed, who may act according to the powers to be granted.

The management team is composed of a General Manager and two Area Managers.

d) Remuneration of Senior Management

	2017 Th$	2016 Th$
Salaries	**224.120**	193.006
Total	**224.120**	193.006

8 Inventories

The composition of inventories is as follows:

	2017 Th$	2016 Th$
Finished goods	**1.455.519**	2.505.268
Total	**1.455.519**	2.505.268

The cost of inventories recognized as an expense during the year in respect of continuing operations was as follows:

	2017 Th$	2016 Th$
Inventories recognized as an expense	**4.071.751**	2.848.386
Total	**4.071.751**	2.848.386

9 Current tax assets and liabilities

a) The detail of current tax assets is as follows:

	2017 Th$	2016 Th$
VAT Credit	**39.013**	138.306
Monthly provisional payment	**169.479**	77.260
Recoverable taxes	**22.144**	22.144
Total	**230.636**	237.710

b) The detail of current tax liabilities is as follows:

	2017 Th$	2016 Th$
Income tax payable	**138.080**	-
Total	**138.080**	-

10 Bank guarantees receivables, non-current

The account balance as of March 31, 2017 and 2016 is Th$ 1.134.232 and Th$ 876.348, respectively, which corresponds to the guarantees that are required for the Company to participate in the various bidding processes with institutions of Public Health of Chile to which provides it serves.

11 Other intangible assets

The composition of other intangible assets is as follows:

	2017 Th$	2016 Th$
Software, net	**931**	1.947
Total	**931**	1.947

12 Property, plant and equipment

The composition of the account is as follows:

a) As of march 31, 2017:

Class of Property, plant and equipment	**Cost Th$**	**Accumulated depreciation Th$**	**Net value Th$**
Furniture and office equipment	**1.234**	**(226)**	**1.008**
Computer equipment	**5.431**	**(1.784)**	**3.647**
Vehicles	**12.319**	**(2.934)**	**9.385**
Totals	**18.984**	**(4.944)**	**14.040**

b) As of march 31, 2016:

Class of Property, plant and equipment	Cost Th$	Accumulated depreciation Th$	Net value Th$
Furniture and office equipment	640	(99)	541
Computer equipment	2.776	(1.008)	1.768
Vehicles	12.319	(1.683)	10.636
Totals	15.735	(2.790)	12.945

c) The movement for the period in property, plant and equipment is as follows:

2017 Movement	Furniture and office equipment Th$	Computer equipment Th$	Vehicles Th$	Totals Th$
Balance as of April 1, 2016	**541**	**1.768**	**10.636**	**12.945**
Additions	**594**	**2.655**	**-**	**3.249**
Depreciation expense	**(127)**	**(776)**	**(1.251)**	**(2.154)**
Balance as of March 31, 2017	**1.008**	**3.647**	**9.385**	**14.040**

2016 Movement	Furniture and office equipment Th$	Computer equipment Th$	Vehicles Th$	Totals Th$
Balance as of April 1, 2015	632	1.924	12.698	15.254
Additions	-	699	-	699
Other movements	2	(298)	(1.844)	(2.140)
Depreciation expense	(93)	(557)	(218)	(868)
Balance as of March 31, 2016	541	1.768	10.636	12.945

13 Income tax and deferred taxes

a) Income tax recognized in comprehensive income

	2017 Th$	2016 Th$
Current tax	**117.241**	-
Deferred tax	**960**	(1.870)
Total	**118.201**	(1.870)

The reconciliation of the legal rate of income tax and the effective rate expressed as a percentage of profit before tax is:

	2017 %	2016 %
Tax rate	**25,5**	24,00
Effect of expenses that are not deductible in determining taxable profit	**0,14**	0,10
Effect of insufficiency in the provision of previous years	**-**	(26,63)
Others	**(1,44)**	2,01
Effective tax rate	**24,20**	(0,52)

b) Deferred tax assets and liabilities in each year are as follows:

Temporary differences	Assets		Liabilities	
	2017 Th$	2016 Th$	**2017 Th$**	2016 Th$
Provision for vacation	**2.490**	3.518	**-**	-
Property, plant and equipment	**31**	-	**-**	37
Total	**2.521**	3.518	**-**	37
Net deferred tax	**2.521**	3.481		

14 Other financial liabilities

	2017 Th$	2016 Th$
Bank loan (1)	**1.338.000**	-
Total	**1.338.000**	-

(1) On April 27, 2016, the Company received a loan of Th$ 1.338.000 from Banco de Chile over a two-year period. The loan is repayable in full at the end of that two-year period. Using a fixed monthly interest rate of 0,47%.

15 Commercial accounts payable and other accounts payable

The composition of commercial accounts payable and other accounts payable:

	2017 Th$	2016 Th$
Trade payables	**192.769**	120.386
Deposits to identify	**33.513**	55.588
Monthly provisional payment payable	**6.585**	7.147
Withholding taxes	**7.284**	5.864
Fees payable	**794**	294
Accounts payable to employees	**1.588**	1.018
Provision expenses	**49.822**	1.587
Other accounts payable	**631**	1.813
Total	**292.986**	193.697

Management performs an analysis of the expected cash flows and made in order to have the degree of liquidity necessary for the fulfillment of obligations. The average term of payment of trade payables is 120 days.

16 Provision for employee benefits

Provisions determined for each of the periods are as follows:

	2017 Th$	2016 Th$
Provision for vacation	**9.766**	13.795
Total	**9.766**	13.795

17 Stockholders' equity

a) The shareholding structure during the years 2017 and 2016 is as follows:

	2017		2016	
Stockholder	**Shares**	**Participation %**	**Shares**	**Participation %**
Alkem Laboratories Ltda.	**3.153**	**100,00**	1.000	100,00
Total	**3.153**	**100,00**	1.000	100,00

Pursuant to ruling by the Extraordinary Shareholders' Meeting of February 25, 2016 it was agreed to increase the share capital of Th$ 1.000 divided into 1.000 registered shares, all in a single series and without nominal value, to the sum of Th$ 1.037, divided into 1.000 registered shares, all in a single series and without nominal value. The capital increase of Th$ 37 corresponds to the capitalization of revaluation of equity.

In addition, it was agreed to increase the share capital of Th$ 1.037 to the sum of Th$ 1.400.000 divided into 1.400.000 registered shares, all in a single series and without nominal value. The capital increase of Th$ 1.398.963, learns by issuing 1,399,000 new shares for payment, with similar characteristics to existing, at an approximate value of $ 999,97 per share payment, representing the sum Th$ 1.398.963, which are fully subscribed by Alkem Laboratories Ltd., the sole shareholder of the Company, and will be paid in cash within five years from the date of the Extraordinary Shareholders' Meeting.

At an Extraordinary Shareholders' Meeting held on September 7, 2016, it was agreed to reduce the number of shares issued by the Company at the Shareholders' Meeting of February 25, 2016, which represent 100% of the equity capital increase, from 1,399,000 registered shares, all of the same series with no par value, to 2,513 shares with the same characteristics.

In order to reduce the 1,399,000 shares issued through the capital increase above to the 2,153 to be issued, Company shareholder, as per the approved modifications, will receive 2,153 new shares in exchange for the current 1,399,000 shares.

As a consequence of the agreements reached, the company capital amounts to Th$1.400.000, split into 3.153 registered shares, all of the same series with no par value, which is to be subscribed, completed and paid as follows:

i. Through the Company's seed capital of Th$1.000, split into 1,000 registered shares, all of the same series with no par value, which have been fully subscribed and paid for.

ii. Through Th$37, which correspond to the capitalization of the revaluation of paid-in capital related to the 2015-period.

iii. Through Th$ 1.398.963 for 2,153 registered shares, all of the same series with no par value, which represent the capital increase agreed at the Extraordinary Shareholders' Meeting of February 25, 2016, which is to be paid in cash within a period of five years as of the date of the Shareholders' meeting mentioned above.

b) The Company has made no dividend payments.

18 Revenues

a) Revenues at March 31, 2017 and 2016 are as follows:

	2017 Th$	2016 Th$
Revenues from sales	**6.090.789**	4.506.028
Totals	**6.090.789**	4.506.028

b) The Company is in the pharmaceutical business. As the Company has a single reportable segment, the segment wise disclosure requirements of Ind AS 108 on Operating Segment is not applicable. In compliance to the said standard, Entity-Wise disclosures are as under:

- Revenues from external customers attributed to the country of domicile and attributed to all foreign countries from which the company derives revenues:

Particulars	2017 Th$	2016 Th$
Revenue from the Country of Domicile - Chile	**6.090.789**	4.506.028
Revenue from foreign countries	**-**	-
Totals	**6.090.789**	4.506.028

- The Company did not have any external revenue from a particular customer or particular product which exceeded 10% of total revenue.

19 Cost of sales and Administration expenses

a) Cost of sales, at March 31, 2017 and 2016, consist of the following:

	2017 Th$	2016 Th$
Sales cost	**4.071.751**	2.848.386
Pharmacy records	**101.082**	108.628
Freights	**115.892**	105.888
Shrinkage	**26.127**	56.879
Trademark records	**1.351**	7.475
Import costs	**167.189**	1.698
Totals	**4.483.392**	3.128.954

b) Administration expenses, at March 31, 2017 and 2016, consist of the following:

	2017 Th$	2016 M$
Remunerations	**384.452**	239.794
Vacations	**(3.471)**	4.491
Personal expenses	**20.373**	9.884
Logistics operator costs	**265.375**	241.270
Expenses for external services	**306.798**	197.611
Promotional activities	**129.127**	-
Leases	**29.424**	20.954
Technical advisories	**37.060**	19.122
Travel expenses	**22.463**	10.530
Office expenses	**14.888**	9.606
Subscriptions and publications	**1.993**	8.975
Commercial expenses	**9.448**	7.588
Representation expenses	**2.935**	2.897
Messaging	**1.541**	1.473
General expenses	**3.228**	1.190
Amortization	**1.016**	1.101
Depreciation	**2.154**	868
Legal expenses	**227**	521
Maintenances	**80**	109
Insurance expenses	**3.569**	-
Fees and services of others	**2.000**	-
Non-deductible expenses	**20.839**	-
Totals	**1.255.519**	777.984

20 Finance expenses

The composition of financial expenses for the years ended March 31, 2017 and 2016 is as follows:

	2017 Th$	2016 Th$
Other bank interests	**49.372**	14.339
Interest paid related parties	**100.187**	101.202
Totals	**149.559**	115.541

21 Other gains (losses)

The detail of other gains (losses) for the years ended March 31, 2017 and 2016 is as follows:

	2017 Th$	2016 Th$
Other income by collaboration agreement	**17.645**	27.966
Totals	**17.645**	27.966

(1) Corresponds to "Collaboration Agreement" signed between Alkem Laboratories Limited and Productos Farmacéuticos Medipharm Ltda. Alkem will sell the products to Medipharm at “floor price”, which generates subsequent liquidation of the profits (profit margin), which will be transferred to Ascend Laboratories SpA or Alkem Laboratories Limited.

22 Contingencies, legal proceedings and restrictions

The Company has a litigation against TIF & Logistics Services Ltd., which up to the date of the accompanying financial statements is still in process.

As of March 31, 2017 there are no other contingencies to report.

23 Pledges from third parties

As of March 31, 2017 there are no pledges obtained from third parties to report.

24 Environment

The Company has not made disbursements for environmental activities.

25 Subsequent events

In the period between April 1st, 2017 and the date of the issue of these financial statements, no other significant events affecting these financial statements have occurred.

26 Authorization to issue the financial statements

The financial statements were authorized for issue on April 30, 2017 by the Administration of the Company; consequently they do not reflect events after this date.