S&B PHARMA, INC.

FINANCIAL STATEMENTS

31 MARCH 2017 AND 2016

CONTENTS

INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2017

S&B Pharma, Inc.	

From: **Paul C. Wahlquist, CPA**

Date: **12 May 2017**

Subject: **Component Audit of S&B Pharma, Inc. for the year ended 31 March 2017**

To: **To the Board of Directors of S&B Pharma, Inc.**

Independent Auditors' Report on S&B Pharma, Inc. (the "entity")
Report on the standalone financial statements

1. We have audited the accompanying standalone financial statements of S&B Pharma, Inc. ("the Entity") which comprise of the standalone Balance Sheet as at 31 March 2017, the standalone statement of profit and loss and the standalone cash flow statement (collectively referred to as "standalone financial statements") for the year then ended, annexed thereto, and a summary of significant accounting policies and other explanatory information, prepared in accordance with group accounting policies followed by Alkem Laboratories Limited ("Alkem") (the holding company of the group). These standalone financial statements have been prepared to enable Alkem Laboratories Limited to prepare its consolidated financial statements.

Management's Responsibility for the Standalone Financial Statements

2. The Company's Board of Directors is responsible for the preparation of the standalone financial statements that give a true and fair view of the financial position, financial performance of the entity, and a summary of significant account policies and other explanatory information, prepared in accordance with group accounting policies followed by Alkem laboratories Limited ("Alkem") (the holding company of the group). This responsibility also includes maintenance of adequate accounting records for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgements and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that are operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

3. The standalone financial statements have been prepared by the Management on the basis of instructions received in this regard from Alkem Laboratories Limited ("Alkem") for the use by Alkem in preparation of its Consolidated Financial Statements in accordance with the group accounting policies followed by Alkem.

Auditors' Responsibility

4. Our responsibility is to express an opinion on these financial statements and other information based on our audit. We set the scope of and performed our procedures at the materiality of $100,000. We conducted our audit in accordance with Group Referral Instructions issued by you and in accordance with the International Standards on Auditing. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.

   We have communicated all matters of significance to you in the communications you requested in your Group referral instructions.

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

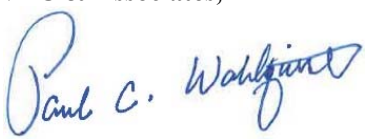
Opinion

6. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements of the entity have been prepared, in all material respects, as established by you, in accordance with group accounting policies followed by Alkem and are suitable for inclusion in the Consolidated Financial Statements of Alkem.

Other Matter

7. The financial statements of the Company for the year ended 31 March 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 4 May 2016.

WDC & Associates, LLP



Paul C. Wahlquist, CPA
Partner
12 May 2017

S&B PHARMA, INC.
BALANCE SHEETS
AS AT 31 MARCH 2017 AND 2016

Particulars	Note No.	As At 31 March 2017	As At 31 March 2016
EQUITY AND LIABILITIES			
Shareholders' Funds			
Share capital	2.1	$ 685	$ 501
Reserves and surplus	2.2	21,060,484	2,327,347
		21,061,169	2,327,848
Non-Current Liabilities			
Loans payable	2.3	23,875,455	23,093,545
Current Liabilities			
Short term payable	2.4	6,000,000	3,077,498
Accrued interest on loan payable - related party	2.5	1,095,999	1,039,793
Other accrued interest	2.6	97,932	88,452
Trade payable	2.7	1,213,924	1,346,705
Other current liabilities	2.8	2,011,149	1,617,352
		10,419,004	7,169,800
Total		$ 55,355,628	$ 32,591,193
ASSETS			
Non-Current Assets			
Property, plant and equipment	2.9	$ 16,489,008	$ 12,185,929
Intangible assets	2.10	3,942,668	3,942,668
Construction in process and equipment not in service		9,466,937	98,606
Deferred tax asset	2.23	281,000	281,000
Deposits on equipment	2.11	3,270,504	3,004,415
Finance costs, net of amortization		5,293	11,474
Security Deposits		9,005	11,005
		33,464,415	19,535,097
Current Assets			
Inventories	2.12	3,745,560	3,183,280
Trade receivables	2.13	2,446,660	2,260,224
Due from related party	2.13	4,973,199	1,473,801
Cash and cash equivalents	2.14	10,379,866	5,899,558
Prepaid expenses		345,928	239,233
		21,891,213	13,056,096
Total		$ 55,355,628	$ 32,591,193
Significant Accounting Policies	1		
Notes to The Financial Statements	2		

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

S&B PHARMA, INC.
BALANCE SHEETS
AS AT 31 MARCH 2017 AND 2016

As per our report of even date attached,

For WDC & Associates, LLP
Certified Public Accountants

Paul C. Wahlquist, CPA
Partner
California, USA
Dated: 12 May 2017

For and on behalf of the Board of Directors of
S&B Pharma, Inc.

Daniel Levin
President 23rd May 2017

Lester Ordway
Director of Finance

California, USA
Dated: 12 May 2017

S&B PHARMA, INC.
STATEMENTS OF PROFIT AND LOSS
FOR THE YEARS ENDED 31 MARCH 2017 AND 2016

Particulars	Note No.	For the year ended 31 March 2017	For the year ended 31 March 2016
Revenue	2.15	$ 21,640,781	$ 13,891,075
Cost of Sales	2.16	(16,107,120)	(9,940,568)
Gross Profit		5,533,661	3,950,507
Selling, general and administrative expenses	2.17	(8,458,665)	(5,306,888)
Research and development expenses	2.24	(1,325,408)	(320,480)
Loss from Operations		(4,250,412)	(1,676,861)
Gain (loss) on sale of assets		12,817	(20,536)
Other income		2,696	1,200
Finance costs	2.19	(249,590)	(635,248)
Loss before Tax		(4,484,489)	(2,331,445)
Tax Benefit	2.23	-	-
Loss after Tax Benefit for the Year		$ (4,484,489)	$ (2,331,445)
Loss per equity share:			
(1) Basis		$ (65.51)	$ (46.54)
(2) Diluted		$ (65.51)	$ (46.54)
Significant Accounting Policies	1		
Notes to The Financial Statements	2		

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

As per our report of even date attached,

For WDC & Associates, LLP
Certified Public Accountants

Paul C. Wahlquist, CPA
Partner
California, USA
Dated: 12 May 2017

For and on behalf of the Board of Directors of
S&B Pharma, Inc.

Daniel Levin
President
23rd May 2017

Lester Ordway
Director of Finance

California, USA
Dated: 12 May 2017

S&B PHARMA, INC.
CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2017 AND 2016

	Particulars	For the year ended 31 March 2017	For the year ended 31 March 2016
A	**Cash Flow from Operating Activities:**		
	Loss before tax	$ (4,484,489)	$ (2,331,445)
	Adjustment for:		
	Depreciation and amortization	1,451,395	845,318
	Amortization of finance costs	6,181	17,026
	(Gain) loss on sale of fixed assets (net)	(43,073)	20,536
	Provision for doubtful debts	54,427	-
	Accrued interest on loans	65,686	487,013
	Subtotal of Adjustments	1,534,616	1,369,893
	Operating loss before working capital changes	(2,949,873)	(961,552)
	Changes in working capital:		
	Trade receivables	(240,863)	(63,590)
	Related party receivable	(3,499,398)	(1,052,328)
	Other current assets	(106,695)	(3,110,560)
	Inventory	(562,280)	(769,980)
	Other assets	2,000	(11,005)
	Trade payables	(132,781)	611,417
	Other current liabilities	393,797	974,598
	Subtotal of Adjustments	(4,146,220)	(3,421,448)
	Net cash used in operating activities	(7,096,093)	(4,383,000)
B	**Cash Flow from Investing Activities:**		
	Purchases of fixed assets	(15,453,321)	(2,362,894)
	Sale of fixed assets	107,500	25,000
	Finance costs	-	(28,500)
	Net cash used in investing activities	(15,345,821)	(2,366,394)
C	**Cash Flow from Financing Activities:**		
	Issuance of share capital	15,999,720	-
	Proceeds from long-term borrowings	8,000,000	15,963,094
	Proceeds from related party loan, short term	6,000,000	-
	Repayments towards short-term borrowings	(3,077,498)	(4,047,581)
	Payments on related party loan, short term	-	(1,294,561)
	Net cash generated from financing activities	26,922,222	10,620,952
D	**Net Increase in Cash and Cash Equivalents (A+B+C)**	4,480,308	3,871,558
E	**Cash and Cash Equivalents as at Beginning of the Year**	5,899,558	2,028,000
F	**Cash and Cash Equivalents as at End of the Year (D+E)**	$ 10,379,866	$ 5,899,558
	Notes:		
	1 Cash and cash equivalents include:		
	Cash on hand	$ 800	$ 800
	Balance with banks	10,379,066	5,898,758
	Total cash and cash equivalents	$ 10,379,866	$ 5,899,558

Notes: The above Cash Flow Statements have been prepared under the "Indirect Method" as set out in the Accounting Standard (AS-3) on Cash Flow Statement.

S&B PHARMA, INC.
CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2017 AND 2016

Particulars	For the year ended 31 March 2017	For the year ended 31 March 2016
Non-Cash Investing and Financing Activities:		
Non-Cash Investing Activities:		
Assets acquired and liabilities assumed:		
Current assets	$ -	$ 413,229
Current liabilities	-	(297,869)
Tangible assets	-	5,536,992
Goodwill	-	1,347,648
Amount provided by financing		(7,000,000)
	$ -	$ -
Non-Cash Financing Activities:		
Issued 5,706 shares of company:		
Stock issued in exchange for debt	$ 7,218,090	$ -
Cancellation of shareholder debt	(7,218,090)	-
	$ -	$ -

As per our report of even date attached,

For WDC & Associates, LLP
Certified Public Accountants

Paul C. Wahlquist, CPA
Partner
California, USA
Dated: 12 May 2017

For and on behalf of the Board of Directors of
S&B Pharma, Inc.

Daniel Levin
President
23rd May 2017

Lester Ordway
Director of Finance

California, USA
Dated: 12 May 2017

NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared solely for the purposes of consolidation by the holding company, Alkem Laboratories Ltd.

1.1 Principal Business Activities

S&B Pharma, Inc. ("the Company") is a component member of Alkem Laboratories Limited ("Alkem - India"), an India based multinational pharmaceutical company with primary emphasis on the production and research and development of generic prescription pharmaceutical products. Alkem - India's principal products are generic pharmaceuticals which are distributed world-wide through affiliated related party entities.

The Company is a Delaware corporation with two operating divisions consisting of Norac Pharma, located in Azusa, California, and Alkem Laboratories ("Alkem - St. Louis"), located in Fenton, Missouri.

The Company was formed on 1 January 2013 through the acquisition of substantially all of the assets of an existing pharmaceutical active ingredient manufacturer. The Company's Norac Pharma division is a California based pharmaceutical company primarily engaged in the manufacture of active pharmaceutical ingredients and intermediates. Norac Pharma also is engaged in contract research and development and product testing of drug products for other companies.

Alkem – St. Louis was formed in 2015 through the acquisition of substantially all of the assets of an existing pharmaceutical formulation company. Alkem – St. Louis' principal business focus is to purchase active pharmaceutical ingredients (API) and formulate these APIs into patient deliverable drug products (pills, capsules, liquids, creams, ointments, sprays or other similar forms).

Alkem - India's principal business objective in the formation of S&B Pharma is to manufacture, formulate and package generic prescription pharmaceutical products for distribution in the United States (U.S.). Norac Pharma's role in the Company's operation is to manufacture some of the API sourced by Alkem – St Louis for formulation into drug products. Alkem – St. Louis's role is to formulate API into a patient deliverable drug product. Norac Pharma and Alkem – St. Louis also provide production testing services to third parties and to the parent company on a contract basis.

The products produced by the Company are expected to be distributed through a related party entity on a wholesale and retail basis. The primary purpose of the Company is to create a pharmaceutical manufacturing and formulation company with full - spectrum capability that will allow Alkem - India to expand their pharmaceutical distribution capability and capacity in the U.S. market.

Since formation, Norac Pharma generates revenue from two principal activities consisting of manufacturing of API for third party customers and Alkem - India, the Company's parent company, and rendering scientific investigative services to third party customers on a contract basis. The service revenues are generated from third party customers, primarily related to independent testing of products, research and development and contract manufacture of API.

For the fiscal year ended 31 March 2017, Alkem – St. Louis' primary source of revenue was related to formulating and fulfilling a customer contract assumed as part of the 2015 asset acquisition. As of 31 March 2017, Alkem – St. Louis has satisfied and completed the terms of the customer contract.

1.1 Principal Business Activities (Continued)

Further, as at 31 March 2017, Alkem – St. Louis has not commenced its planned principal operations of formulating pharmaceuticals. The Company is currently constructing improvements, acquiring and installing the necessary equipment to operationalize the pharmaceutical formulation process.

During the year, Alkem – St. Louis incurred approximately $14,600,000 in construction and fixed asset acquisition costs, including payments for equipment not yet placed in service. Further, the Company expects to incur an additional $10,000,000 in related construction and fixed asset acquisition costs before 31 March 2018. To facilitate completion of the manufacturing facility, Alkem Laboratories, Ltd., the parent company, has committed to providing the required capital, loans and guarantees. Management expects to thereafter invest an additional $5,000,000 annually from fiscal year 2019 through fiscal year 2021.

The Company's activities are subject to significant risks and uncertainties including the Company's view of the market for the distribution of its products which could affect the Company's anticipated profitability.

1.2 Basis of Presentation

The accompanying financial statements have been prepared under the historical cost convention in accordance with generally accepted accounting principles, and the applicable accounting standards.

1.3 Accounting Method

The Company prepares its financial statements on the accrual basis of accounting. Under this method of accounting, revenue is recognized when earned, and expenses are recognized when goods or services are received, whether paid or not.

1.4 Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. The most significant estimates relate to percentage-of-completion method of accounting for service contracts, and the fair value of long lived assets, intangible assets and goodwill. Actual results could differ from those estimates.

1.5 Cash and Cash Equivalents

The Company considers all highly liquid securities purchased with original maturities of three months or less to be cash equivalents. From time to time the Company's cash account balances may be uninsured or in deposit accounts that exceed the Federal Deposit Insurance Corporation guarantee limit. The Company reduces its exposure to credit risk by maintaining its cash deposits with major financial institutions and monitoring their credit ratings.

1.6 Accounts Receivable

Accounts receivable consist primarily of amounts due from customers, and are recorded at face value and reflect management's best estimate of the amounts that will actually be collected. The

1.6 Accounts Receivable (Continued)

allowance for doubtful accounts is based upon a single customer taking into consideration the age of past due account and an assessment of the customer's ability to pay.

Management believes that the full amount of this account is at risk and has recorded the allowance for doubtful accounts of $54,427 for the year ended 31 March 2017 and no allowance for doubtful accounts was recorded for the year ended 31 March 2016.

1.7 Inventories

Raw materials are stated at the lower of cost or market and determined by the first-in, first-out method (FIFO). The work-in-progress and finished goods portion of inventory, which include allocation of labor and overhead based on estimates, are stated at the lower of cost or market and determined using the average cost method.

1.8 Property, Plant and Equipment

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets, ranging from 5 to 40 years. The cost comprises purchase price, borrowing costs and other directly related costs to bring the asset to its working condition for the intended use. Maintenance, repairs, and renewals that neither materially add to the value of the property, nor appreciably prolong its life, are charged to expense as incurred.

1.9 Goodwill

The Company accounts for goodwill in accordance with the accounting guidance which requires that goodwill be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value. The Accounting Standards requires that goodwill be tested for impairment at the reporting unit level. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. Significant judgment is required to estimate the fair value of reporting units which includes estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment.

When testing goodwill for impairment, the Company may assess qualitative factors for some or all of its reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, the Company may bypass this qualitative assessment for some or all of the reporting units and perform a detailed quantitative test of impairment (step 1). If the Company performs the detailed quantitative impairment test and the carrying amount of the reporting unit exceeds its fair value, the Company would perform an analysis (step 2) to measure such impairment. The Company performed a qualitative assessment to identify and evaluate events and circumstances to conclude whether it was more likely than not that the fair value of the Company's reporting unit was less than its carrying amount. Based on the Company's qualitative assessments, the Company concluded that a positive assertion can be made from the qualitative assessment that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount. In accordance with the Codification, the Company reviews the carrying value of its intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability

1.9 Goodwill (Continued)

of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the asset or asset group, if any, exceeds its fair market value. No impairment was deemed to exist as at 31 March 2017 and 2016.

1.10 Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for cash and cash equivalents, accounts receivable and accounts payable and accrued expenses approximate fair value based on the short-term maturity of these instruments.

Fair value is defined as the price that would be received upon selling an asset or the price paid to transfer a liability on the measurement date. It focuses on the exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of inputs used to measure fair values are as follows:

Level 1: Observable prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

1.11 Revenue Recognition

The Company recognizes revenues and related cost of revenues based upon shipping terms when the earnings process is complete. Due to the timing of the release of inventory shipments as specified by customers, revenue can vary from period to period.

Revenues from service contracts are recognized on the percentage-of-completion method, measured by the proportion of payroll costs incurred to date to estimated total payroll costs for each service contract. This method is used because management considers costs incurred to be the best available measure of progress on contracts in process. Differences between the timing of billings and the recognition of revenue on uncompleted contracts are recognized as either unbilled accounts receivable or billings in excess of costs and earnings. Revenues for reimbursable out-of-pocket expenses are recognized as incurred.

The costs of service contracts include all direct material and labor costs, as well as manufacturing overhead, related to contract performance. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts, if any, are made in the period in which the revisions are determined.

1.11 Revenue Recognition (Continued)

Proceeds received in advance for production projects are recorded as billings in excess of cost and earnings.

1.12 Research and Development Costs

Research and experimental costs related to both future and present products are expensed as incurred. For the years ended 31 March 2017 and 2016, research and development cost were $1,325,408 and $320,480, respectively.

1.13 Advertising Costs

Advertising is expected as incurred. For the years ended 31 March 2017 and 2016 advertising costs were $742 and $3,320, respectively.

1.14 Freight and Shipping Costs

It is the Company's policy to classify freight and shipping costs as part of the cost of sales. Total shipping expense included in the cost of sales for the year ended 31 March 2017 and 2016 was $60,222 and $37,199, respectively.

1.15 Risks and Uncertainties

The Company manufactures pharmaceutical ingredients. Some of these products require special care in their manufacture and storage, and can be hazardous to structures and personnel if not handled correctly. Management believes these hazards have been mitigated through plant design and continuous safety programs of its environment, health and safety department. In addition, Management believes that the Company is adequately insured for losses.

During the years ended 31 March 2017 and 2016, approximately 18% and 33%, respectively, of the client’s revenue was generated from the sale of a single product to one customer.

1.16 Income Taxes

The Company accounts for income taxes pursuant to the asset and liability method which requires deferred tax assets and liabilities to be computed annually for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The income tax provision or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

The Financial Accounting Standards Board (“FASB”), ASC Topic 740, prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The guidance also provides direction on derecognition, classification, interest and penalties, accounting in the interim periods, disclosure and transition.

Guidance is given regarding the presentation of an unrecognized tax benefit when a net operating loss carryforward or similar tax loss, or a tax credit carryforward exists. Consistent with such guidance, the Company is recognizing deferred tax assets and liabilities to the extent of estimated

1.16 Income Taxes (Continued)

future anticipated tax benefits (assets) or costs (liabilities). The recognition of the deferred tax asset and liability is adjusted for an estimated allowance based on projected realizability. As such, given management's uncertainty about when future income will be generated to utilize the carryforward tax benefits, no tax benefit provision for net deferred tax assets were recorded for the years ended 31 March 2017 and 2016. As at 31 March 2017 and 2016, no liability for unrecognized tax benefits was required to be reported. The Company's policy is to classify assessments, if any, for tax related interest as interest expense and penalties as selling, general and administrative expenses. The estimated benefit portion stemming from net operating losses and unused tax credits is shown as a deferred tax asset. The future anticipated costs are shown as deferred tax liabilities.

The beneficial tax positions taken or expected to be taken in the Company's income tax returns is recognized in the financial statements if such positions are more likely than not of being sustained.

1.17 Cost of Sales

Costs associated with the products sold are included in the cost of sales, including direct labor, purchases, manufacturing overhead and project related costs.

1.18 Financing Cost

Financing cost includes interest. To the extent, the financing cost is attributable to the acquisition, construction or production of an asset that takes a substantial period of time to ready the asset for its intended use, the financing cost is capitalized as part of the cost of the asset. All other financing costs are expensed in the period incurred.

Particulars

NOTE 2.1: SHARE CAPITAL

On 15 April 2016, the Board of Directors adopted a resolution converting $7,218,090 of the parent shareholder's loan into 5,706 shares of the Company's common stock, par value $.01 per share, with a share premium of $7,218,033. In addition to the loan conversion, the parent shareholder made an equity investment in the amount of $15,999,720 in exchange for 12,648 shares of the Company's common stock, par value $.01 per share, issued with a premium of $15,999,593. The share premium from both transactions totaling $23,217,626 was included in Additional Paid in Capital.

(A) Authorized, issued, subscribed and paid-up share capital and par value per share

	As at 31 March 2017	As at 31 March 2016
Authorized Share Capital:		
500,000 equity shares of USD$.01/each	$ 5,000	$ 5,000
Issued, Subscribed & Paid-up:		
68,454 equity shares of USD$.01/each	$ 685	$ 501

(B) Reconciliation of number of equity shares outstanding at the end of the year

	As at 31 March 2017	As at 31 March 2016
Numbers of shares outstanding as at the beginning of the year	50,100	50,100
Shares issued during the year	18,354	-
Shares bought back during the year	-	-
Numbers of shares outstanding as at the closing of the year	68,454	50,100

(C) Shares in company held by each shareholder holding more than 5% shares

	As at 31 March 2017	As at 31 March 2016
Alkem Laboratories Limited	68,454	50,100

NOTE 2.2: RESERVES AND SURPLUS

	As at 31 March 2017	As at 31 March 2016
Additional Paid in Capital		
As per last balance sheet	$ 5,499,599	$ 5,499,599
Premium for issuing 5,706 shares of stock	7,218,033	-
Premium for issuing 12,648 shares of stock	15,999,593	-
At the end of the year	28,717,225	5,499,599
Deficit in Statement of Profit and Loss		
As per last balance sheet	(3,172,252)	(840,807)
Loss for current year	(4,484,489)	(2,331,445)
Loss to be absorbed	(7,656,741)	(3,172,252)
Balance carried to profit and loss account	$ 21,060,484	$ 2,327,347

Particulars

NOTE 2.3: LONG TERM BORROWING

	As at 31 March 2017	As at 31 March 2016
Loan payable - Alkem (1)	$ 455	$ 7,218,545
Loan - Citibank (2)	5,950,000	5,950,000
Loan - Citibank (3)	9,925,000	9,925,000
Loan - Citibank (4)	8,000,000	-
	$ 23,875,455	$ 23,093,545

1. The Company has two credit facilities with its Parent company that allow the Company to obtain periodic borrowings on an as needed basis. Interest is calculated and accrued at 5% and 9% per annum. The balance represents the unpaid balance at 31 March 2017. As at 31 March 2017, the unpaid accrued interest on the credit facilities is $1,056,128 and is included in current liability (Note 2.5). No principal payments are required. On 15 April 2016, the loan balance of $7,218,090 was converted to 5,706 shares of the Company's common stock.
2. $5,950,000 is due and payable on 30 April 2018. Quarterly interest only payments are required at a variable rate equal to 1.6 percentage points over the LIBOR rate. (See Note 2.6)
3. $9,925,000 is due and payable on 20 September 2018. Quarterly interest only payments are required at a variable rate equal to 1.6 percentage points over the LIBOR rate. (See Note 2.6)
4. $8,000,000 is due and payable on 15 August 2022 under a $15,000,000 loan agreement. Under the terms of the loan, the Company can borrow up to $15,000,000 prior to August 2017. The outstanding principal balance of the loan at August 2017 shall be repaid in 6 semi-annual installments beginning 2/15/2020. Quarterly interest only payments are required at a variable rate equal to 1.6 percentage points over the LIBOR rate. (See Note 2.6)

The Citibank loans (2), (3) and (4) are secured by a letter of credit acquired by Alkem Laboratories, Ltd. (parent company) for the principal amount of each loan.

NOTE 2.4: SHORT TERM BORROWING

	As at 31 March 2017	As at 31 March 2016
Loan - Citibank (1)	$ -	$ 3,000,000
Loans and Advances from Ascend Pharma (2)	6,000,000	-
Insurance Loan	-	77,498
	$ 6,000,000	$ 3,077,498

1. The Company has a line of credit with Citibank expiring on 30 April 2018, which provides for secured borrowings of up to $3,975,000. Interest payments are required at a variable rate equal to 1.6 percentage points over the LIBOR rate. There was no balance outstanding as at 31 March 2017.
2. This is a short-term loan payable to Ascend Pharma (related party). There was no balance outstanding at 31 March 2016. The accrued interest as at March 31 2017 is $39,871 (See Note 2.5).

NOTE 2.5: ACCRUED INTEREST – RELATED PARTY

Interest accrued and not paid at the end of year is as follows:	As at 31 March 2017	As at 31 March 2016
Alkem Laboratories, Ltd.	$ 1,056,128	$ 1,039,793
Ascend Pharma	39,871	-
	$ 1,095,999	$ 1,039,793

Particulars

NOTE 2.6: OTHER ACCRUED INTEREST

	As at 31 March 2017	As at 31 March 2016
Interest accrued and not paid at the end of year is as follows:		
Citibank Loans	$ 97,932	$ 88,452

NOTE 2.7: TRADE PAYABLES

	As at 31 March 2017	As at 31 March 2016
Trade Payable	$ 1,213,924	$ 1,346,705

NOTE 2.8: OTHER CURRENT LIABILITIES

	As at 31 March 2017	As at 31 March 2016
Refund and credit due to customer	$ 533,459	$ 533,459
Accrued expenses	1,124,364	799,321
Billings in excess of earnings on customer contracts	272,491	204,598
Profit sharing plan contribution	80,835	79,974
	$ 2,011,149	$ 1,617,352

NOTE 2.9: FIXED ASSETS

	Land	Building	Machinery	Furniture	Computer	Total
Balance as at 1 April 2016	$ 1,855,155	$ 5,642,738	$ 5,675,844	$ 257,172	$ 467,141	$ 13,898,050
-Additions	-	798,840	4,462,775	7,952	551,208	5,820,775
-Disposals	-	-	(79,125)	-	(500)	(79,625)
Balance as at 31 March 2017	$ 1,855,155	$ 6,441,578	$ 10,059,494	$ 265,124	$ 1,017,849	$ 19,639,200

Depreciation	Land	Building	Machinery	Furniture	Computer	Total
Balance as at 1 April 2016	$ -	$ 329,055	$ 1,188,770	$ 89,894	$ 104,402	$ 1,712,121
-Additions	-	206,448	1,089,690	33,784	121,473	1,451,395
-Disposals	-	-	(13,216)	-	(108)	(13,324)
Balance as at 31 March 2017	$ -	$ 535,503	$ 2,265,244	$ 123,678	$ 225,767	$ 3,150,192
Net Fixed Assets	$ 1,855,155	$ 5,906,075	$ 7,794,250	$ 141,446	$ 792,082	$ 16,489,008

NOTE 2.10: INTANGIBLE ASSETS (Note 2.22)

	Goodwill Norac	Goodwill Alkem	Total
Balance as at 1 April 2016	$ 2,595,020	$ 1,347,648	$ 3,942,668
-Additions	-	-	-
-Amortization	-	-	-
-Impairments	-	-	-
Balance as at 31 March 2017	$ 2,595,020	$ 1,347,648	$ 3,942,668

NOTE 2.11: DEPOSITS ON EQUIPMENT

	As at 31 March 2017	As at 31 March 2016
Deposits on equipment (See Note 2.24)	$ 3,270,504	$ 3,004,415

The deposits on equipment represents the purchase cost of certain equipment that has not been placed in service and the items will be placed in service once other equipment related to the equipment on deposits has been installed.

Particulars

NOTE 2.12: CHANGES IN INVENTORIES OF RAW MATERIALS, WORK IN PROCESS AND FINISHED GOODS

	As at 31 March 2017	As at 31 March 2016
Opening Stock:		
Raw materials	$ 1,076,945	$ 814,823
Work in process	1,779,445	1,316,000
Finished goods	326,890	142,705
	$ 3,183,280	$ 2,273,528
Less Closing Stock:		
Raw materials	$ 1,076,891	$ 1,076,945
Work in process	2,459,404	1,779,445
Finished goods	209,265	326,890
	$ 3,745,560	$ 3,183,280
Increase in inventories of finished goods, work in process and raw materials inventory	$ 562,280	$ 909,752

NOTE 2.13: RECEIVABLES

The following schedule is a list of balances in the receivable accounts at 31 March 2017 and 2016:

	As at 31 March 2017	As at 31 March 2016
Outstanding for a period of less than six months from due date - other	$ 2,448,144	$ 1,679,315
Outstanding for a period of greater than six months from due date	52,943	50,735
Less allowance for doubtful accounts	(54,427)	-
Earnings in excess of billings on customer contracts	-	530,174
Total trade receivables	2,446,660	2,260,224
Outstanding related party receivable - Alkem/Ascend	4,973,199	1,473,801
Total receivables	$ 7,419,859	$ 3,734,025

NOTE 2.14: CASH AND CASH EQUIVALENTS

Balance with Bank:	As at 31 March 2017	As at 31 March 2016
Current account	$ 10,379,866	$ 5,899,558

NOTE 2.15: REVENUE

	For the year ended 31 March 2017	For the year ended 31 March 2016
Commercial products	$ 7,031,930	$ 5,193,328
Commercial products - Alkem	323,748	345,278
Contract services	4,751,412	5,362,038
Contract services - Alkem	9,533,691	3,018,936
Sales discount	-	(28,505)
Total Revenue	$ 21,640,781	$ 13,891,075

Particulars

NOTE 2.16: COST OF SALES

	For the year ended 31 March 2017	For the year ended 31 March 2016
Beginning inventory	$ 3,183,280	$ 2,273,528
Purchases and project costs	3,137,637	1,603,553
Direct labor	7,472,030	5,086,564
Payroll taxes	573,962	394,697
Health insurance	782,198	540,786
Workers compensation	90,287	53,043
Retirement contribution	240,167	219,421
Temporary services	128,158	215,054
Depreciation	1,296,138	744,221
Truck expense	1,857	2,282
Freight in/out	60,222	37,199
Property and liability insurance	147,446	186,405
Property taxes	65,124	46,412
Repairs and maintenance	740,873	533,214
Utilities	695,432	626,870
External analytical testing	168,068	62,246
Factory supplies and consumables	706,064	315,433
Lab coats and safety supplies	157,204	39,952
Waste disposal charges	197,493	127,839
Environmental compliance	9,040	15,129
	19,852,680	13,123,848
Ending Inventory	(3,745,560)	(3,183,280)
	$ 16,107,120	$ 9,940,568

Particulars

NOTE 2.17: SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 March 2017	For the year ended 31 March 2016
Salaries	$ 4,177,940	$ 2,553,947
Payroll taxes	294,253	169,167
Health insurance	320,706	207,739
Workers compensation	40,716	24,641
Sales commissions	186,383	50,928
Retirement contribution	128,406	92,801
Insurance	76,033	26,021
Property taxes	189,194	98,426
Licenses and permits	412,379	489,105
Travel and entertainment	176,572	94,945
Telephone	47,450	47,002
Computer expenses	127,579	112,672
Professional fees	317,180	374,976
Temporary services	253,271	134,473
Depreciation	155,257	101,098
Utilities	12,696	27,279
Office expenses	230,621	127,106
Recruiting expenses	364,420	275,219
Repairs and maintenance	68,687	57,906
Relocation expenses	125,065	35,468
Dues and subscription	66,862	63,653
Equipment rental	165,914	35,608
Conventions and seminar expense	6,300	13,149
Charitable donations	923	10
Advertising	742	3,320
Bank charges	232,122	57,466
Bad debt expense	243,762	-
Employee training	28,353	32,763
Fringe benefits	8,879	-
	$ 8,458,665	$ 5,306,888

NOTE 2.18: EMPLOYEE BENEFIT EXPENSES

	For the year ended 31 March 2017	For the year ended 31 March 2016
Salaries, Wages and Bonus	$ 11,649,970	$ 7,640,511
Welfare Expense	1,102,905	748,525
Retirement Expense	368,573	312,222
	$ 13,121,448	$ 8,701,258

Particulars

NOTE 2.19: FINANCE COST

	For the year ended 31 March 2017	For the year ended 31 March 2016
Interest Expense - Alkem Laboratories, Ltd.	$ 16,334	$ 398,561
Interest Expense - Ascend Pharma	39,871	-
Interest - Other	373,385	236,687
	429,590	635,248
Interest capitalized to construction in process	(180,000)	-
	$ 249,590	$ 635,248

NOTE 2.20: RETIREMENT PLAN

The Company sponsors a 401 (k) profit sharing plan that covers eligible employees at its Norac Pharma location. The profit sharing portion of the plan provides for discretionary contributions to eligible employees based on 6% of total compensation. For the years ended 31 March 2017 and 2016, the Company's contributions to the plan were $299,361 and $292,623, respectively. Of these amounts, $80,835 and $79,974 were accrued and not paid as at 31 March 2017 and 2016.

The 401 (k) portion of the plan provides for voluntary salary deferrals for eligible employees. Matching Company contributions are at the discretion of management. No matching contributions were made for the years ended 31 March 2017 and 2016.

The Company sponsors a 401(k) plan that covers eligible employees at its Alkem location which provides for voluntary salary deferrals for eligible employees. The Company matches half (50%) of the employee's elective deferral up to 5% of eligible earnings, or a 2.5% maximum matching contribution. For the years ended 31 March 2017 and 2016, the Company's matching contributions accrued and paid were $69,212 and $19,600, respectively.

NOTE 2.21: RELATED PARTY TRANSACTIONS

For the year ended 31 March 2017 and 2016, the Company provided analytical development services of $9,533,691 and $3,018,936 and sales of commercial products of $323,748 and $345,278, respectively to Alkem Laboratories, Ltd.

As at 31 March 2017 and 2016, the Company has a short-term receivable balance due from Alkem Laboratories, Ltd of $5,050,059 and $1,437,801, respectively.

As at 31 March 2017, the Company has short term loan payable to Ascend Pharma of $6,000,000. $39,871 of interest was accrued on the outstanding loan for the year ended 31 March 2017. The Company also has a short term payable balance due to Ascend Pharma of $76,860.

As at 31 March 2017, the Company had a loan balance due to Alkem Laboratories, Ltd of $455. An additional $16,334 of interest was accrued on the outstanding loan for the year ended 31 March 2017. A total of $1,056,128 of accrued interest was outstanding and not paid as at 31 March 2017.

NOTE 2.22: FAIR VALUE MEASUREMENT

Assets measured at fair value on a nonrecurring basis are as follows:

Non-Recurring:	Levels as at 31 March 2017	Levels as at 31 March 2016
Goodwill (Note 1.9)	$ 3,942,668	$ 3,942,668

Particulars

NOTE 2.23: INCOME TAXES

The Company files tax returns in the U.S. federal and the states of California and Missouri jurisdictions and is subject to audit by tax authorities beginning with the year ended 31 March 2014.

The income tax provision (benefit) for the year consists of:

	As at 31 March 2017	As at 31 March 2016
Federal		
Current	$ -	$ -
Deferred	(3,105,000)	(810,000)
State and local		
Current	-	-
Deferred	(622,000)	(7,000)
Change in Valuation Allowance	3,727,000	817,000
Income tax provision (benefit)	$ -	$ -

As at 31 March 2017, the Company's deferred tax assets and liabilities consisted of the effects of temporary differences attributable to the following:

Deferred tax assets:	As at 31 March 2017	As at 31 March 2016
Net operating losses:	$ 6,380,000	$ 1,750,000
Other deductions	732,000	522,000
Valuation Allowance	(4,544,000)	(817,000)
Deferred tax assets, net of valuation allowance	$ 2,568,000	$ 1,455,000
Deferred tax liabilities:		
Excess of book over tax basis of:		
Property and equipment	$ (1,900,000)	$ (934,000)
Goodwill	(387,000)	(240,000)
Deferred tax liabilities	(2,287,000)	(1,174,000)
Deferred tax assets - net	$ 281,000	$ 281,000

As at 31 March 2017, the Company had approximately $15,700,000 of federal and state net operating loss carryovers ("NOL"), which begin to expire in 2032.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and taxing strategies in making this assessment. The deferred tax liability related to goodwill cannot be used in when determining the realization of the deferred tax assets since goodwill is considered to be an asset with an indefinite life for financial reporting purposes. For the year ended 31 March 2017, the Company recorded a valuation allowance to offset the deferred tax asset since the expected net tax benefit from the Company's use of the NOL's in future years is not predictable, foreseeable or certain.

Particulars

NOTE 2.24: COMMITMENTS

Customer Agreements

The Company entered into a five-year supply commitment agreement with a customer, expiring December 31 2021, to exclusively manufacture and supply a pharmaceutical product at a predetermined selling price subject to providing minimum annual quantities of the product. The agreement contains several production covenants. In the event that the Company is not in compliance with the covenants, the Company is required to reimburse the customer for all out-of-pocket expenses associated with the noncompliance up to a predetermined amount. As at 31 March 2017, the Company was in compliance with the covenants.

The Company is contingently liable to provide a credit against possible future orders from a customer of up to $1,800,000. This credit would be in the form of a revenue offset against future revenue generated from the sale of a specific product to the customer. The obligation is contingent on the receiving orders and the Company's separate decision to produce and distribute the product to the customer.

Sales Collaboration

The Company has various sales collaboration agreements with Snow Chemicals LLC, whereby Snow receives commissions on specified relevant sales and service contracts. Commissions are accrued and expensed when due and payable. One contract provides for additional commissions to be paid if the customer receives ANDA approval for its product being developed. Upon approval, the additional commission due would be $122,023. This amount has been accrued as at 31 March 2017.

Purchase Commitments

As at 31st March 2017, the Company ordered $3,527,865 of equipment for which it has paid $471,152, with a commitment due of $3,056,713.

Lease Commitments

The Company leases certain equipment and storage under non-cancelable operating leases expiring through December 2021. For the year ended 31 March 2017, total equipment rent expense of $165,914 are included in general and administrative expenses.

The following is a schedule of future minimum rental payments due under the above leases as at 31 March 2017:

For the years ended 31 March,	Equipment	Storage	Total
2018	$ 130,540	$ 50,753	$ 181,293
2019	35,255	8,459	43,714
2020	25,713	-	25,713
2021	20,557	-	20,557
2022	8,120	-	8,120
	$ 220,185	$ 59,212	$ 279,397

NOTE 2.24: COMMITMENTS (Continued)

Research and Development

The Company is currently engaged in research and development contracts to develop a formulation of a generic pharmaceutical product. The Company anticipates incurring additional expenses during the next twelve months from these outside research and development contractual agreements of $86,500. The agreements are cancelable with 30 days' notice. For the years ended 31 March 2017 and 2016, the Company incurred research and development costs of $1,325,408 and $320,480, respectively.

NOTE 2.25: CONCENTRATIONS OF CREDIT RISK

The Company grants credit to customers engaged in the distribution and development of pharmaceuticals that are located in the United States and overseas. Management routinely assesses the financial strength of significant customers.

Alkem Laboratories Ltd. accounted for 46% of revenues, or $9,857,000 and two other customers accounted for 18% and 12% of revenues, or $3,966,000 and $2,670,000, respectively.

The Company's three largest customers accounted for 24%, 20% and 11% of the accounts receivable as at 31 March 2017, or $584,000, $488,000 and $274,000, respectively.

The Company maintains its cash accounts at a commercial bank. Cash accounts at the bank are insured by the Federal Deposit Insurance Corporation for up to $250,000. As at 31 March 2017, the amount in excess of insured limits was $10,933,365.

NOTE 2.26: MARKET RISK RELATED TO INTEREST RATE FLUCTUATION – SENSITIVITY ANALYSIS

The nature of the Company's business exposes it to market risk arising from changes in interest rates. Changes in the interest rates, both increases and decreases, charged on the Company's bank loans will directly impact its borrowing cost and net income. The Company had $23,875,000 and $18,875,000 in floating-rate debt outstanding as at 31 March 2017 and 2016, respectively. If the interest rates on the floating-rate debt were to increase by 1%, the Company would expect to incur additional interest expense. If the interest rates on the floating-rate debt were to decrease by 1%, the Company would expect the interest expense to decline.

The Company has prepared a sensitivity analysis to evaluate the market risks that could result from changing interest rates on loans that have floating interest rates. In evaluating the market risk, the Company determined how Profit or Loss and Equity (net of tax) would be affected assuming a possible change of 100 basis points in interest rates. The approximate results of the sensitivity analysis are shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

Particulars

NOTE 2.26: MARKET RISK RELATED TO INTEREST RATE FLUCTUATION – SENSITIVITY ANALYSIS (Continued)

					Profit or Loss		Equity, net of tax (1)	
US Dollars	Instruments	Principal Amount	Variable Index	Additional to Index	100 Basis Points Increase	100 Basis Points Decrease	100 Basis Points Increase	100 Basis Points Decrease
31 March 2017								
Variable-rate instruments	Citibank Loans	$23,875,000	LIBOR	1.6%	$ 169,000	$ (169,000)	$ 101,000	$ (101,000)
Cash flow sensitivity (net)					$ 169,000	$ (169,000)	$ 101,000	$ (101,000)
31 March 2016								
Variable-rate instruments	Citibank Loans	$18,875,000	LIBOR	1.6%	$ 94,000	$ (94,000)	$ 56,000	$ (56,000)
Cash flow sensitivity (net)					$ 94,000	$ (94,000)	$ 56,000	$ (56,000)

1. Assuming a combined US tax rate for federal and state of 40%.

NOTE 2.27: SEGMENT REPORTING

The following are the operating activities for the years ended 31 March, 2017 and 2016 by segment:

	For the year ended 31 March 2017		
	Norac	Alkem	Total
Revenue			
Products and services	$ 8,786,893	$ 2,996,449	$ 11,783,342
Products and services - Alkem	5,459,131	4,398,308	9,857,439
Total revenue	14,246,024	7,394,757	21,640,781
Cost of Sales	(8,995,361)	(7,111,759)	(16,107,120)
Gross Profit	5,250,663	282,998	5,533,661
Selling, general and administrative expenses	(3,160,866)	(5,297,799)	(8,458,665)
Research and development expenses	(1,289,082)	(36,326)	(1,325,408)
Profit (Loss) from Operations	$ 800,715	$ (5,051,127)	$ (4,250,412)

	For the year ended 31 March 2016		
	Norac	Alkem	Total
Revenue			
Products and services	$ 9,205,909	$ 1,320,953	$ 10,526,861
Products and services - Alkem	3,330,464	33,750	3,364,214
Total revenue	12,536,372	1,354,703	13,891,075
Cost of Sales	(7,141,045)	(2,799,523)	(9,940,568)
Gross Profit	5,395,327	(1,444,820)	3,950,507
Selling, general and administrative expenses	(2,956,756)	(2,350,132)	(5,306,888)
Research and development expenses	(312,301)	(8,179)	(320,480)
Profit (Loss) from Operations	$ 2,126,270	$ (3,803,131)	$ (1,676,861)

Particulars

NOTE 2.28: SUBSEQUENT EVENTS

The Company has evaluated subsequent events through 12 May 2017 which is the date the financial statements were available to be issued.

On 26 April 2017, the Company advanced an additional $2,000,000 under the terms of Citibank loan agreement. The Citibank loan has an outstanding balance of $10,000,000 as at 12 May 2017.

On 4 April 2017, the Company repaid the loan of $6,000,000 from Ascend Pharma.