INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2018

S&B Pharma, Inc.	

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

Date: **9 May 2018**

Subject: **Component Audit of S&B Pharma, Inc. for the year ended 31 March 2018**

To: **Sadashiv Shetty, B S R&Co. LLP, Mumbai**

To: **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. As requested in your instructions dated 31 March 2018, we have audited, for purposes of your audit of the consolidated financial statements of Alkem Laboratories Limited ('Alkem'), the accompanying financial statements of S&B Pharma, Inc. ("the Entity") which comprise of the standalone Balance Sheet as at 31 March 2018, the standalone Statement of Profit and Loss (including Other Comprehensive Income), the standalone Statement of Cash Flows and the standalone Statement of Changes in Equity (collectively referred to as 'standalone financial statements') for the year then ended, and a summary of significant account policies and other explanatory information, prepared in accordance with group accounting policies followed by Alkem. These standalone financial statements have been prepared solely to enable Alkem 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 solely 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 this Standalone Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. As requested, our audit procedures also included the additional procedures identified in your instructions. International Standards on Auditing require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Standalone Financial Statements are free from material misstatement. As requested by you, we planned and performed our audit using the materiality level specified in your instructions, which is different from the materiality level that we would have used had we been designing the audit to express an opinion on the Standalone Financial Statements of the component alone.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Standalone Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Standalone Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Standalone Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Standalone Financial Statements.

6. We have communicated all matters of significance to you in the communications you requested in your Group Referral Instructions.

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

Opinion

8. 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, in accordance with the policies and instructions contained in Alkem's Accounting Policies and Instruction.

Limitation on Use

9. These Standalone Financial Statements have been prepared for purposes of providing information to Alkem Laboratories Limited to enable it to prepare the consolidated financial statements of the group. As a result, the said financial information is not a complete set of financial statements of S&B Pharma, Inc. and is not intended to give a true and fair view of the financial position of S&B Pharma, Inc. as of 31 March 2018, and of its financial performance, and its cash flows for the year then ended. The Standalone Financial Statements may, therefore, not be suitable for another purpose.

10. This report is intended solely for B S R & Co. LLP, Mumbai and should not be used (or distributed to) other parties

WDC & Associates, LLP

Paul C. Wahlquist

Paul C. Wahlquist, CPA
Partner
9 May 2018

S&B PHARMA, INC.
BALANCE SHEETS
AS AT 31 MARCH 2018 AND 2017

Particulars	Note No.	As At 31 March 2018	As At 31 March 2017
EQUITY AND LIABILITIES			
Shareholders' Funds			
Share capital	2.1	$ 685	$ 685
Reserves and surplus	2.2	16,584,903	21,060,484
		16,585,588	21,061,169
Non-Current Liabilities			
Loans payable	2.3	25,000,000	23,875,455
Current Liabilities			
Short term payable	2.4	15,875,000	6,000,000
Accrued interest on loan payable - related party	2.5	68,444	1,095,999
Other accrued interest	2.6	172,188	97,932
Trade payable	2.7	2,066,502	1,213,924
Other current liabilities	2.8	2,294,810	2,011,149
		20,476,944	10,419,004
Total		$ 62,062,532	$ 55,355,628
ASSETS			
Non-Current Assets			
Property, plant and equipment	2.9	$ 32,142,942	$ 16,489,008
Intangible assets	2.10	4,085,168	3,942,668
Construction in process and equipment not in service		5,820,897	9,466,937
Deferred tax asset	2.24	281,000	281,000
Deposits on equipment	2.11	1,708,261	3,270,504
Finance costs, net of amortization		407	5,293
Security Deposits		9,005	9,005
		44,047,680	33,464,415
Current Assets			
Inventories	2.12	5,275,063	3,745,560
Trade receivables	2.13	2,014,600	2,446,660
Due from related party	2.13	2,980,438	4,973,199
Investment	2.14	450,000	-
Cash and cash equivalents	2.15	6,781,991	10,379,866
Prepaid expenses		512,760	345,928
		18,014,852	21,891,213
Total		$ 62,062,532	$ 55,355,628

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 2018 AND 2017

As per our report of even date attached,

For WDC & Associates, LLP
Certified Public Accountants

Paul C. Wahlquist

Paul C. Wahlquist, CPA
Partner
California, USA
Dated: 9 May 2018

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

Daniel Levin

Daniel Levin
President

Lester Ordway
Director of Finance

California, USA
Dated: 9 May 2018

S&B PHARMA, INC.
STATEMENTS OF PROFIT AND LOSS
FOR THE YEARS ENDED 31 MARCH 2018 AND 2017

Particulars	Note No.	For the year ended 31 March 2018	For the year ended 31 March 2017
Revenue	2.16	$ 27,654,138	$ 21,640,781
Cost of Sales	2.17	(21,972,179)	(16,107,120)
Gross Profit		5,681,959	5,533,661
Selling, general and administrative expenses	2.18	(9,328,155)	(8,458,665)
Research and development expenses	2.25	(165,453)	(1,325,408)
Loss from Operations		(3,811,649)	(4,250,412)
Gain (loss) on sale of assets		(8,784)	12,817
Other income		8,152	2,696
Finance costs	2.20	(663,300)	(249,590)
Loss before Tax		(4,475,581)	(4,484,489)
Tax Benefit	2.24	-	-
Loss after Tax Benefit for the Year		$ (4,475,581)	$ (4,484,489)
Loss per equity share:			
(1) Basis		$ (65.38)	$ (65.51)
(2) Diluted		$ (65.38)	$ (65.51)
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

Paul C. Wahlquist, CPA
Partner
California, USA
Dated: 9 May 2018

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

Daniel Levin

Daniel Levin
President

L.A. Ordway

Lester Ordway
Director of Finance

California, USA
Dated: 9 May 2018

S&B PHARMA, INC.
CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2018 AND 2017

	Particulars	For the year ended 31 March 2018	For the year ended 31 March 2017
A	**Cash Flow from Operating Activities:**		
	Loss before tax	$ (4,475,583)	$ (4,484,489)
	Adjustment for:		
	Depreciation and amortization	2,521,536	1,451,395
	Amortization of finance costs	4,886	6,181
	(Gain) loss on sale of fixed assets (net)	8,784	(43,073)
	Provision for doubtful debts	158,961	54,427
	Accrued interest on loans	(953,299)	65,686
	Subtotal of Adjustments	1,740,868	1,534,616
	Operating loss before working capital changes	(2,734,715)	(2,949,873)
	Changes in working capital:		
	Trade receivables	273,099	(240,863)
	Related party receivable	1,992,761	(3,499,398)
	Other current assets	(166,832)	(106,695)
	Inventory	(1,529,503)	(562,280)
	Other assets	-	2,000
	Trade payables	852,578	(132,781)
	Other current liabilities	283,664	393,797
	Subtotal of Adjustments	1,705,767	(4,146,220)
	Net cash used in operating activities	(1,028,948)	(7,096,093)
B	**Cash Flow from Investing Activities:**		
	Proceeds from sale of fixed assets	47,303	107,500
	Acquisition of fixed assets	(13,023,275)	(15,453,321)
	Acquisition of licensing agreement - net	(142,500)	-
	Investment	(450,000)	-
	Net cash used in investing activities	(13,568,472)	(15,345,821)
C	**Cash Flow from Financing Activities:**		
	Issuance of share capital	-	15,999,720
	Proceeds from borrowings		
	Alkem	9,999,545	-
	Citibank	15,875,000	8,000,000
	Related party loan - Ascend	-	6,000,000
	Repayments toward borrowings		
	Related party loan - Ascend	(6,000,000)	-
	Citibank	(8,875,000)	-
	Short-term borrowings	-	(3,077,498)
	Net cash generated from financing activities	10,999,545	26,922,222
D	**Net Increase in Cash and Cash Equivalents (A+B+C)**	(3,597,875)	4,480,308
E	**Cash and Cash Equivalents as at Beginning of the Year**	10,379,866	5,899,558
F	**Cash and Cash Equivalents as at End of the Year (D+E)**	$ 6,781,991	$ 10,379,866
	Notes:		
	1 Cash and cash equivalents include:		
	Cash on hand	800	800
	Balance with banks	6,781,191	10,379,066
	Total cash and cash equivalents	$ 6,781,991	$ 10,379,866

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 2018 AND 2017

Particulars	**For the year ended 31 March 2018**	**For the year ended 31 March 2017**
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

Paul C. Wahlquist, CPA
Partner
California, USA
Dated: 9 May 2018

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

Daniel Levin

Daniel Levin
President

Ordway

Lester Ordway
Director of Finance

California, USA
Dated: 9 May 2018

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 Alkem – India and 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 and to third parties and to the parent company (Research and development services) on a contract basis.

The products produced by the Company are expected to be distributed through a related party entity on a wholesale 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 development and manufacturing of API for third party customers, its formulation division in Missouri, and Alkem - India, the Company's parent company. 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 2018, Alkem – St. Louis' primary source of revenue was related to formulating and fulfilling product orders and research and development for the parent company.

1.1 Principal Business Activities (Continued)

Further, as at 31 March 2018, Alkem – St. Louis 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 $18,500,000 in construction and fixed asset acquisition costs, including payments for equipment not yet placed in service.

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 Transfer Pricing

During the year, Alkem-India prepared a transfer pricing analysis that identified an appropriate transfer pricing policy for related party revenue and cost transactions. The goal of the transfer pricing analysis is to establish an arm’s length pricing structure under which transactions between certain parties are recorded. During the year ended March 31, 2018, according to management, related party revenue and royalty expense were determined in accordance with the advance pricing agreement.

1.6 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.

1.7 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 allowance for doubtful accounts is based upon the age of past due accounts and an assessment of the customer's ability to pay.

Management has recorded the allowance for doubtful accounts of $213,388 and $54,427 for the years ended 31 March 2018 and 2017, respectively, and believes the allowance is reasonable estimate of the uncollectible portion of accounts receivable.

1.8 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.

1.9 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.

1.10 Intangible Assets

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

1.10 Intangible Assets (Continued)

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 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 2018 and 2017.

Licensing Agreement - Net

Included in intangible assets is the cost of a licensing agreement that allows the Company to use certain intellectual property owned by an unrelated third party. The licensing agreement is used in conjunction with the development of certain products the Company manufactures. Management adopts an amortization period based on the estimated useful life of the licensing agreement. In current year, management believes a 5-year period is an appropriate period to amortize the licensing agreement. The amortization expense related to the licensing agreement is $7,500 for the year ended 31 March 2018.

1.11 Fair Value of Financial Instruments

Investments – The carrying amount reported in the balance sheet for investments is the fair market value at the balance sheet date. The fair market value of investments is based on quoted prices in an active market based on level 1 inputs which is noted in Footnote 2.14.

Other assets – The carrying amounts reported in the balance sheet for cash and cash equivalents, accounts receivable and accounts payable and accrued expenses is the amortized cost of the asset 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.

1.12 Revenue Recognition

Revenue from the sale of products, versus revenue from the sale of services, is currently recognized when the goods are shipped to the customers' premises or otherwise when title is transferred, which is the point in time at which the customer accepts the transfer of goods and assumes control, including the related risks and rewards of ownership. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Due to the timing of the release of inventory shipments as specified by customers, revenue can vary from period to period.

Revenues from fixed price 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.

For some customer defined service contracts, the customer controls the work in progress as the services are being performed. When this is the case, revenue will be recognized as the services are performed. This will result in revenue, and associated costs, for these contracts being recognized before the completion of the related service contract.

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.

1.13 Research and Development Costs

Research and development costs related to both future and present products are expensed as incurred. For the years ended 31 March 2018 and 2017, research and development costs were $165,453 and $1,325,408, respectively.

1.14 Advertising Costs

Advertising is expensed as incurred. For the years ended 31 March 2018 and 2017 advertising costs were $1,939 and $742, respectively.

1.15 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 2018 and 2017 was $29,945 and $60,222, respectively.

1.16 Royalty Expenses

Alkem, St. Louis incurs a royalty expense for products manufactured and sold where such products utilize intellectual property developed and registered by Alkem, India. For the year ended 31 March 2018 royalty expense was $539,769. For the year ended March 31, 2017, no royalty expense was incurred.

1.17 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 2018 and 2017, approximately 23% and 18%, respectively, of the client's revenue was generated from the sale of a single product to one customer. Further, approximately $16,000,000, or 58%, of revenue was generated from the sale of products and services to related party entities.

1.18 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.

Related thereto, the income tax expense or benefit is also based on the viability of the transfer pricing agreement among the related parties. Although management believes the transfer pricing agreements are based on objective arm's length analysis, such transfer pricing agreements are subject to challenge by relevant tax authorities. Management believes the potential effects of any such challenge would not have a material effect of the financial statements.

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 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 2018 and 2017. As at 31 March 2018 and 2017, 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.

1.19 Cost of Sales

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

1.20 Financing Cost - Expense and Capitalization

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. During the year ended March 31, 2018 and 2017, the Company capitalized interest costs of $275,000 and $180,000, respectively.

Particulars

NOTE 2 - NOTES TO THE FINANCIAL STATEMENTS

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 2018	As at 31 March 2017
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$0.1/each	$ 685	$ 685

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

	As at 31 March 2018	As at 31 March 2017
Numbers of shares outstanding as at the beginning of the year	68,454	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	68,454

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

	As at 31 March 2018	As at 31 March 2017
Alkem Laboratories Limited	68,454	68,454

Particulars

NOTE 2.2: RESERVES AND SURPLUS

	As at 31 March 2018	As at 31 March 2017
Additional Paid in Capital		
As per last balance sheet	$ 28,717,225	$ 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	28,717,225
Deficit in Statement of Profit and Loss		
As per last balance sheet	(7,656,741)	(3,172,252)
Loss for current year	(4,475,581)	(4,484,489)
Loss to be absorbed	(12,132,323)	(7,656,741)
Balance carried to profit and loss account	$ 16,584,903	$ 21,060,484

NOTE 2.3: LONG TERM BORROWING

	As at 31 March 2018	As at 31 March 2017
Loan payable – Alkem (1)	$ 10,000,000	$ 455
Loan – Citibank (2)	15,000,000	8,000,000
Loan – Citibank (3)	-	5,950,000
Loan – Citibank (4)	-	9,925,000
	$ 25,000,000	$ 23,875,455

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 7% and 5% per annum. The balance represents the unpaid balance at 31 March 2018 and 2017, respectively. As at 31 March 2018, the unpaid accrued interest on the credit facilities is $68,444 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. $15,000,000 is due and payable on 15 August 2022. The outstanding principal balance of the loan shall be repaid in 6 equal semi-annual installments beginning 2/15/2020. Quarterly interest only payments are required on the note until maturity at a variable rate equal to 1.25 and 1.6 percentage points over the 1-month LIBOR rate as at 31 March 2018 and 2017, respectively. The applicable monthly LIBOR rate at March 31, 2018 and 2017 was 1.8175% and 0.9817%, respectively.
3. $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 point over the LIBOR rate at 3/31/2017.
The applicable monthly LIBOR rate at March 31, 2017 was 0.9817%.
4. $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 point over the LIBOR rate at 3/31/2017.
The applicable monthly LIBOR rate at March 31, 2017 was 0.9817%.

The Citibank loan (2) is secured by a letter of credit acquired by Alkem Laboratories, Ltd. (parent company) for the principal amount of the loan.

Particulars

NOTE 2.3: LONG TERM BORROWING (Continued)

Annual principal payments on Loan – Citibank are as follows:

	3/31/2018 Total	3/31/2017 Total
For the following period,		
4/1/2017 – 3/31/2018	$ -	$ -
4/1/2018 – 3/31/2019	-	15,875,000
4/1/2019 – 3/31/2020	2,500,000	1,333,333
4/1/2020 – 3/31/2021	10,000,000	5,333,334
4/1/2021 – 3/31/2022	2,500,000	1,333,333
Thereafter	10,000,000	-
	$ 25,000,000	$ 23,875,000

NOTE 2.4: SHORT TERM BORROWING

	As at 31 March 2018	As at 31 March 2017
Bank Line of Credit (1)	-	-
Loan - Citibank (2)	5,950,000	-
Loan - Citibank (3)	9,925,000	-
Loans and Advances from Ascend Pharma (4)	-	6,000,000
	$ 15,875,000	$ 6,000,000

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. The loan was renewed subsequent to the year and expires April 2019. Interest payments are required at a variable rate equal to 1.25 and 1.6 percentage points over the monthly LIBOR rate at 3/31/2018 and 3/31/2017. The monthly LIBOR rate at March 31, 2018 and 2017 was 1.8175% and 0.9817%, respectively. There was no balance outstanding as at 31 March 2018.
2. $5,950,000 is due and payable on 30 April 2018. The loan was not renewed and paid with capital contribution subsequent to March 31, 2018. Quarterly interest only payments are required at a variable rate equal to 1.25 percentage point over the 1-month LIBOR rate. The applicable monthly LIBOR rate at March 31, 2018 was 1.8715%.
3. $9,925,000 is due and payable on 20 September 2018. Quarterly interest only payments are required at a variable rate equal to 1.25 percentage point over the 1-month LIBOR rate at 3/31/2018. The applicable monthly LIBOR rate at March 31, 2018 was 1.8715%.
4. This is a short-term loan payable to Ascend Pharma (related party). The outstanding principal balance of the loan was paid in full on 4 April, 2017. There was no accrued interest as at March 31 2018.

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

Particulars

NOTE 2.5: ACCRUED INTEREST – RELATED PARTY

	As at 31 March 2018	As at 31 March 2017
Interest accrued and not paid at the end of year is as follows:		
Alkem Laboratories, Ltd.	$ 68,444	$ 1,056,128
Ascend Pharma	-	39,871
	$ 68,444	$ 1,095,999

NOTE 2.6: OTHER ACCRUED INTEREST

	As at 31 March 2018	As at 31 March 2017
Interest accrued and not paid at the end of year is as follows:		
Citibank Loans	$ 172,188	$ 97,932

NOTE 2.7: TRADE PAYABLES

	As at 31 March 2018	As at 31 March 2017
Trade Payable	$ 2,066,502	$ 1,213,924

NOTE 2.8: OTHER CURRENT LIABILITIES

	As at 31 March 2018	As at 31 March 2017
Unearned revenue	$ 533,459	$ 533,459
Accrued expenses	1,404,286	1,124,364
Billings in excess of earnings on customer contracts	267,677	272,491
Profit sharing plan contribution	89,388	80,835
	$ 2,294,810	$ 2,011,149

Particulars

NOTE 2.9: FIXED ASSETS

Cost	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
Balance as at 1 April 2017	$ 1,855,155	$ 6,441,578	$ 10,059,494	$ 265,124	$ 1,017,849	$ 19,639,200
-Additions	-	9,471,122	7,446,324	30,621	1,283,491	18,231,558
-Disposals	-	-	(70,244)	(303)	(700)	(71,247)
Balance as at 31 March 2018	$ 1,855,155	$ 15,912,700	$ 17,435,574	$ 295,442	$ 2,300,640	$ 37,799,511

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
Balance as at 1 April 2017	$ -	$ 535,503	$ 2,265,244	$ 123,678	$ 225,767	$ 3,150,192
-Additions	-	360,349	1,888,398	36,384	236,406	2,521,537
-Disposals	-	-	(14,780)	-	(380)	(15,160)
Balance as at 31 March 2018	$ -	$ 895,852	$ 4,138,862	$ 160,062	$ 461,793	$ 5,656,569
Net Fixed Assets	$ 1,855,155	$ 15,016,848	$ 13,296,712	$ 135,380	$ 1,838,847	$ 32,142,942

NOTE 2.10: INTANGIBLE ASSETS (Note 2.23)

	Norac		Alkem	
	Licensing Agreement	Goodwill	Goodwill	Total
Balance as at 1 April 2017	$ -	$ 2,595,020	$ 1,347,648	$ 3,942,668
-Additions	150,000	-	-	150,000
-Amortization	(7,500)	-	-	(7,500)
-Impairments	-	-	-	-
Balance as at 31 March 2018	$ 142,500	$ 2,595,020	$ 1,347,648	$ 4,085,168

NOTE 2.11: DEPOSITS ON EQUIPMENT

	As at 31 March 2018	As at 31 March 2017
Deposits on equipment (See Note 2.25)	$ 1,708,261	$ 3,270,504

The deposits on equipment represents down payments on the purchase cost of certain equipment that has not yet been placed in service. This equipment will be placed in service once installation has been completed and the equipment is ready to be used for its intended purpose.

Particulars

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

	As at 31 March 2018	As at 31 March 2017
Opening 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
Less Closing Stock:		
Raw materials	$ 3,041,073	$ 1,076,891
Work in process	973,388	2,459,404
Finished goods	1,260,602	209,265
	$ 5,275,063	$ 3,745,560
Increase in inventories of finished goods, work in process and raw materials inventory	$ 1,529,503	$ 562,280

NOTE 2.13: RECEIVABLES

The following schedule is a list of balances in the receivable accounts at 31 March 2018 and 2017:

	As at 31 March 2018	As at 31 March 2017
Outstanding for a period of less than six months from due date – other	$ 1,629,362	$ 1,886,075
Outstanding for a period of greater than six months from due date	161,059	52,943
Earnings in excess of billings on customer contracts	437,567	562,069
Less allowance for doubtful accounts	(213,388)	(54,427)
Total trade receivables	2,014,600	2,446,660
Outstanding related party receivable – Alkem/Ascend	2,980,438	4,973,199
Total receivables	$ 4,995,038	$ 7,419,859

NOTE 2.14: INVESTMENT

	As at 31 March 2018	As at 31 March 2017
Investment (500,000 shares)	$ 450,000	$ -

Investment assets consist of 500,000 shares of publicly traded stock of a pharmaceutical company. Under the terms of a subscription agreement between the Company and the issuer of the shares, the shares are subject to a six month trading restriction period which expires in June 2018. The investment asset is reported at fair market value based on quoted market price in an active market. The securities are valued using Level 1 measurement inputs.

Particulars

NOTE 2.15: CASH AND CASH EQUIVALENTS

	As at 31 March 2018	As at 31 March 2017
Balance with Bank:		
Current account	$ 6,781,991	$ 10,379,866

NOTE 2.16: REVENUE

	As at 31 March 2018	As at 31 March 2017
Commercial products	$ 6,784,929	$ 7,031,930
Commercial products – Ascend	6,613,570	-
Commercial products – Alkem-India	-	323,748
Contract services	4,800,167	4,751,412
Contract services – Alkem-India	9,455,472	9,533,691
Total Revenue	$ 27,654,138	$ 21,640,781

NOTE 2.17: COST OF SALES

	For the year ended 31 March 2018	For the year ended 31 March 2017
Beginning inventory	$ 3,745,560	$ 3,183,280
Purchases and project costs	5,944,255	3,137,637
Direct labor	9,126,566	7,472,030
Payroll taxes	689,555	573,962
Health insurance	1,148,970	782,198
Workers compensation	67,503	90,287
Retirement contribution	287,596	240,167
Temporary services	159,374	128,158
Depreciation	2,248,588	1,296,138
Truck expense	5,423	1,857
Freight in/out	29,945	60,222
Property and liability insurance	146,334	147,446
Property taxes	55,216	65,124
Repairs and maintenance	941,587	740,873
Utilities	909,299	695,432
External analytical testing	303,593	168,068
Factory supplies and consumables	1,013,785	706,064
Lab Coats and safety supplies	140,474	157,204
Waste disposal charges	272,492	197,493
Environmental compliance	11,127	9,040
	27,247,242	19,852,680
Ending inventory	(5,275,063)	(3,745,560)
	$ 21,972,179	$ 16,107,120

Particulars

NOTE 2.18: SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 March 2018	For the year ended 31 March 2017
Salaries	$ 4,268,361	$ 4,177,940
Payroll taxes	379,015	294,253
Health insurance	428,622	320,706
Workers compensation	18,325	40,716
Sales commissions	262,369	186,383
Retirement contribution	124,533	128,406
Insurance	115,428	76,033
Property taxes	398,932	189,194
Licenses and permits	345,386	412,379
Travel and entertainment	94,237	176,572
Telephone	71,379	47,450
Computer expenses	192,430	127,579
Professional fees	244,333	317,180
Temporary services	64,661	253,271
Depreciation	272,789	155,257
Utilities	36,554	12,696
Office expenses	222,846	230,621
Recruiting expenses	142,284	364,420
Repairs and maintenance	80,152	68,687
Relocation expenses	20,057	125,065
Dues and subscription	79,015	66,862
Equipment rental	269,464	165,914
Conventions and seminar expense	2,845	6,300
Charitable donations	241	923
Advertising	1,939	742
Bank charges	343,459	232,122
Bad debt expense	190,627	243,762
Employee training	35,159	28,353
Fringe benefits	-	8,879
Royalty expense	539,769	-
Rent expense	75,444	-
Amortization	7,500	-
	$ 9,328,155	$ 8,458,665

Particulars

NOTE 2.19: EMPLOYEE BENEFIT EXPENSES

	For the year ended 31 March 2018	For the year ended 31 March 2017
Salaries, Wages and Bonus	$ 13,394,927	$ 11,649,970
Welfare Expense	1,577,592	1,102,905
Retirement Expense	412,129	368,573
	$ 15,384,648	$ 13,121,448

NOTE 2.20: FINANCE COST

	For the year ended 31 March 2018	For the year ended 31 March 2017
Interest Expense – Alkem Laboratories, Ltd.	$ 68,444	$ 16,334
Interest Expense – Ascend Pharma	365	39,871
Interest – Other	869,491	373,385
	938,300	429,590
Interest capitalized to construction in process	(275,000)	(180,000)
	$ 663,300	$ 249,590

NOTE 2.21: 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 a percentage of total compensation, which is reviewed and determined annually. For the years ended 31 March 2018 and 2017, the Company's contributions to the plan were $318,662 and $299,361, respectively. Of these amounts, $89,388 and $80,835 were accrued and not paid as at 31 March 2018 and 2017.

The Company sponsors a 401(k) plan that covers eligible employees at its Alkem-St. Louis 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 2018 and 2017, the Company's matching contributions accrued and paid were $93,467 and $69,212, respectively.

NOTE 2.22: RELATED PARTY TRANSACTIONS

For the year ended 31 March 2018 and 2017, the Company provided analytical development services of $9,455,472 and $9,857,439 to Alkem Laboratories, Ltd., the parent company.

For the year ended 31 March 2018, the Company sold finished dosage pharmaceutical products of $6,613,570 to Ascend Pharma, a related entity.

As at 31 March 2018, the Company has a short-term receivable balance due from Alkem Laboratories, LTD of $1,586,669. As at 31 March 2017, the Company has a short-term receivable balance due from Alkem Laboratories, Ltd of $5,050,059, respectively.

Particulars

NOTE 2.22: RELATED PARTY TRANSACTIONS (Continued)

The Company also has a short term receivable balance due from Ascend Pharma of $1,393,769 at 31 March 2018. No interest has been accrued on this balance since April 1, 2017.

Royalty charged by Alkem-India on products sold is $539,769 for the year ended 31 March 2018.

NOTE 2.23: FAIR VALUE MEASUREMENT

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

	Levels as at 31 March 2018	Levels as at 31 March 2017
Non-Recurring:		
Intangible assets (Note 1.11)	$ 4,085,168	$ 3,942,668

NOTE 2.24: INCOME TAXES

The Company files annual tax returns with the Internal Revenue Service of the U.S. Federal government and with the state taxation agencies of California and Missouri. Tax return filings are subject to audit by these taxing authorities beginning with the year ended 31 March 2014.

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

	As at 31 March 2018	As at 31 March 2017
Federal		
Current	$ -	$ -
Deferred (A)	1,826,000	(3,105,000)
State and local		
Current		
Deferred	(142,000)	(622,000)
Change in Valuation allowance	(1,684,000)	3,727,000
Income tax provision (benefit)	$ -	$ -

(A) The deferred income tax provision is shown as an expense for the year ended March 31, 2018 versus an income tax benefit. The expense primarily results from the change (lower) in the corporate income tax rate, effective for years ending after 12/31/2017, and the reversal of the tax benefits on the accumulative timing differences related thereto.

As at 31 March 2018, the Company's deferred tax assets and liabilities consisted of the effects of temporary differences attributable to the following:

Particulars

NOTE 2.24: INCOME TAXES (Continued)

Deferred tax assets:	As at 31 March 2018	As at 31 March 2017
Net operating losses:	$ 5,888,000	$ 6,380,000
Other deductions	275,000	732,000
Valuation Allowance	(2,860,000)	(4,544,000)
Deferred tax assets, net of valuation allowance	$ 3,303,000	$ 2,568,000
Deferred tax liabilities:		
Excess of book over tax basis of:		
Property and equipment	$ (2,662,000)	$ (1,900,000)
Goodwill	(360,000)	(387,000)
Deferred tax liabilities	(3,022,000)	(2,287,000)
Deferred tax assets - net	$ 281,000	$ 281,000

As at 31 March 2018, the Company had approximately $21,000,000 of federal and state net operating loss carryovers ("NOL"), which begin to expire in 2032. Below is a table of the deferred tax assets not recognized in the financial statements because the probability and taxable realizability of future profit to utilize the benefits therefrom is not predictable and foreseeably certain.

Unrecognized deferred tax assets

Particulars	**31-Mar-18** Gross Amount	Unrecognized tax effect	**31-Mar-17** Gross Amount	Unrecognized Tax effect
Temporary Difference Deductible Tax Losses	$21,400,000	$6,000,000	$11,400,000	$5,000,000
Total	$21,400,000	$6,000,000	$11,400,000	$5,000,000

Below is a listing of the net operating loss incurred by the Company as of March 31, 2018. The listing shows the year the losses were incurred and the year the utilization of the net operating loss will expire.

Particulars

NOTE 2.24: INCOME TAXES (Continued)

Particulars	Expiration Date	Amount As at 31 March 2018	Expiration Date	Amount As at 31 March 2017
Brought forward losses (allowed to carry forward For specified period)	3/31/2033	$700,000	3/31/2033	$700,000
Brought forward losses (allowed to carry forward For specified period)	3/31/2036	$3,700,000	3/31/2036	$3,700,000
Brought forward losses (allowed to carry forward For specified period)	3/31/2037	$7,000,000	3/31/2037	$7,000,000
Brought forward losses (allowed to carry forward For specified period)	No expiration date	$10,000,000		N/A
Total		$21,400,000		$11,400,000

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 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 2018, 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.

NOTE 2.25: 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 of 31 March 2018, the Company was in compliance with the covenants.

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. A recent sale of API related to a collaboration agreement with Snow Chemical resulted in a commission due of $262,150. This amount has been accrued at 31 March 2018 and payment was subsequently made in April 2018.

Particulars
NOTE 2.25: COMMITMENTS (Continued)

Purchase Commitments

As at 31st March 2018, the Company ordered $4,082,779 of equipment for which it has paid $1,708,261, with a commitment due of $2,374,518.

Lease Commitments

The Company leases certain equipment and storage under non-cancelable operating leases expiring through December 2021. For the year ended 31 March 2018, total equipment rent expense of $269,464 and storage rent expense of $75,444 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 2018:

For the following period,	Equipment	Real Property	Total
4/1/2018 – 3/31/2019	$ 27,473	$ 199,672	$ 227,145
4/1/2019 – 3/31/2020	35,214	201,878	237,092
4/1/2020 – 3/31/2021	27,428	206,925	234,353
4/1/2021 – 3/31/2022	14,277	212,098	226,375
4/1/2022 – 3/31/2023	5,608	217,400	223,008
Thereafter	-	15,379	15,379
	$ 110,000	$ 1,053,352	$ 1,163,352

Research and Development

The Company is currently engaged in research and development contracts to develop a formulation of a generic pharmaceutical product. The Company does not anticipate incurring additional expenses during the next 12 months for these outside research and development contractual agreements. The agreements are cancelable with 30 days' notice. For the years ended 31 March 2018 and 2017, the Company incurred research and development costs of $165,453 and $1,325,408, respectively.

NOTE 2.26: RISK MANAGEMENT

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.

Related parties Alkem Laboratories Ltd and Ascend Pharma LLC accounted for 34% of revenues, or $9,455,472 and 24% of revenues, or $6,613,570, respectively. Additionally, one other customer accounted for 23% of revenues or $6,384,789.

Particulars

NOTE 2.26: RISK MANAGEMENT (Continued)

The Company's two largest customers accounted for 40% and 28% of the accounts receivable as at 31 March 2018, or $1,503,629 and $1,077,330, 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 2018, the amount in excess of insured limits was $6,531,991.

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.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross, undiscounted, and exclude estimated interest payments and exclude the impact of netting agreements.

The contractual cash flow includes cash outflow for the loan of USD 6,000,000 as mentioned in notes of subsequent events.

The gross inflows/(outflows) disclosed in the above table represent the contractual undiscounted cash flows relating to financial liabilities and for risk management purposes are not usually closed out before contractual maturity.

March 31, 2018		Contractual cash flows					
	Carrying amount	Total	2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities USD							
Local currency term loans from banks	$ 30,875,000	$ 32,445,000	$ 5,964,875	$ 10,523,875	$ 13,259,375	$ 2,696,875	$ -
Loans from related party	10,000,000	13,500,000	-	-	-	-	13,500,000
Trade and other payables	2,066,502	2,066,502	2,066,502	-	-	-	-
Other financial liability	1,009,874	1,009,874	1,009,874	-	-	-	-
Total	$ 43,951,376	$ 49,021,376	$ 9,041,251	$ 10,523,875	$ 13,259,375	$ 2,696,875	$ 13,500,000

March 31, 2017		Contractual cash flows					
	Carrying amount	Total	2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities USD							
Local currency term loans from banks	$ 23,875,000	$ 27,889,982	$ -	$ 631,908	$ 16,261,451	$ 9,314,594	$ 1,682,029
Loans from related party	6,000,000	6,000,000	6,000,000	-	-	-	-
Trade and other payables	1,184,363	1,184,363	1,147,608	36,755	-	-	-
Other financial liability	805,950	805,950	-	805,950	-	-	-
Total	$ 31,865,313	$ 35,880,295	$ 7,147,608	$ 1,474,613	$ 16,261,451	$ 9,314,594	$ 1,682,029

Particulars

NOTE 2.26: RISK MANAGEMENT (Continued)

Capital Management Risk

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Company monitors capital using a ratio of 'adjusted net debt' to 'adjusted equity'. For this purpose, adjusted net debt is defined as total liabilities, comprising interest-bearing loans and borrowings and obligations under finance leases, less cash and cash equivalents. Adjusted equity comprises all components of equity.

The Company's adjusted net debt to equity ratio at March 31, 2018 and 2017 was as follows.

	As at 31 March 2018	As at 31 March 2017
Total borrowings	$40,875,000	$29,875,455
Less: Cash and cash equivalent	(6,781,991)	(10,379,866)
Adjusted net debt	$34,093,009	$19,495,589
Total equity	$16,626,087	$21,061,170
Adjusted net debt to adjusted equity ratio	2.05	0.93

NOTE 2.27: 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 $15,000,000 and $23,875,000 in floating-rate debt outstanding as at 31 March 2018 and 2017, 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 2.27: MARKET RISK RELATED TO INTEREST RATE FLUCTUATION – SENSITIVITY ANALYSIS (Continued)

					Profit or (Loss) net of tax (1)		Equity net of tax (1)	
US Dollars	Instruments	Principal Amount	Variable Index	Addition To Libor Index	100 Basis Points Increase	100 Basis Points Decrease	100 Basis Points Increase	100 Basis Points Decrease
31 March 2018								
Variable-rate Instruments	Citibank Loans	$15,000,000	LIBOR	1.25%	$(100,000)	$100,000	$(100,000)	$100,000
Cash flow sensitivity (net)					$(100,000)	$100,000	$(100,000)	$100,000
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

1. Assuming a combined US tax rate for federal and state of 30%.

NOTE 2.28: SUBSEQUENT EVENTS

- The Company has evaluated subsequent events through 9 May 2018 which is the date the financial statements were available to be issued.

- In April 2018, the Company issued additional shares of stock to Alkem – India in exchange for a capital contribution of $6,000,000.