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Independent Auditor's Report on Financial Information
Prepared for Consolidation Purposes

From:	**Paul C. Wahlquist, WDC & Associates, LLP**
Date:	**29 May 2020**
Subject:	**Component Audit of S&B Pharma, Inc for the year ended 31 March 2020**
To:	**Sadashiv Shetty, B S R & Co. LLP, Mumbai, India**
To:	**Board of Directors of S&B Pharma, Inc.**

As requested in your instructions dated 31 March 2020, we have audited, for the purpose of your audit of the Ind AS consolidated financial statements for the year ended 31 March 2020 of Alkem (the "Group"), the accompanying financial information of S&B Pharma, Inc ("the Company") for the year ended 31 March 2020. This financial information is prepared by the Management of the Company in accordance with the instructions issued by Group's management to components to enable the Group to prepare its Ind AS consolidated financial statements for the year ended 31 March 2020.

Opinion

In our opinion and to the best of our information and according to the explanation given to us, the accompanying financial information give information required in accordance with policies and instructions contained in the Group's Instructions dated 31 March 2020 and give a true and fair view in conformity with the Group's accounting policies, of the state of affairs of the Company as at 31 March 2020, its profit/loss and changes in equity for the year ended on that date.

Management's Responsibility for the Special Purpose Financial Statement

The Company's Management is responsible with respect to preparation and presentation of this financial information that give a true and fair view of the state of affairs, profit/loss and changes in equity in accordance with policies and instructions contained in the Group's accounting instructions dated 31 March 2020 for consolidated financial statements as of and for the year ended 31 March 2020 and in accordance with the instructions issued by Group's management to components.

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 judgement and estimates that are reasonable and prudent, and design implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial information including adjustments to be made to comply with the requirements of Ind AS (group accounting policies for component purposes) that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial information based on our audit.

We conducted our audit in accordance with Indian Standards of Auditing. Those standards, require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation and presentation of the financial information that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial information.

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

Report on other legal and regulatory requirements

a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the financial information;

b) In our opinion, proper books of account as required by law relating to the preparation of the financial information have been kept so far as it appears from our examination of those books;

c) The financial information dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the financial information;

d) In our opinion, the aforesaid financial information complies with the Group's Accounting Policies.

e) In our opinion and to the best of our information and according to the explanations given to us

    i. The Company has disclosed the impact of pending litigations on its financial position in its financial information

    ii. The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.

Basis of Accounting and Restriction on Use and Distribution

The financial information has been prepared for the purpose of inclusion in the consolidated financial statements of the Group. The financial information may, therefore, not be suitable for another purpose.

This report is provided to you and B S R & Co. LLP, Mumbai to assist you in your audit of the consolidated financial statements of the Group as of and for the year ended 31 March 2020.

WDC & Associates, LLP

Paul C. Wahlquist, CPA
Partner
29 May, 2020

S&B PHARMA, INC.
BALANCE SHEET
AS AT 31 MARCH 2020 AND 2019

	Particulars	Note No.	As At 31 March 2020	As At 31 March 2019
1	**Non-Current Assets**			
	(a) Property, plant and equipment	2.1	$ 38,875,075	$ 40,560,419
	(b) Right-of-use assets	2.11	1,059,395	-
	(c) Intangible assets	2.2	3,942,668	3,942,668
	(d) Construction in process and equipment not in service		4,832,268	3,427,750
	(e) Deferred tax asset	2.26	281,000	281,000
	(f) Deposits on equipment	2.3	-	605,479
	Total Non-current Assets		48,990,406	48,817,316
2	**Current Assets**			
	(a) Inventories	2.4	3,462,067	5,227,321
	(b) Trade receivables	2.5	667,489	1,763,571
	(c) Due from related party	2.5	3,217,686	2,304,732
	(d) Investment	2.6	977,406	1,007,408
	(e) Cash and cash equivalents	2.7	4,526,704	4,008,588
	(f) Prepaid expenses		552,348	504,748
	Total Current Assets		13,403,700	14,816,368
	TOTAL ASSETS		$ 62,394,106	$ 63,633,684
II.	**EQUITY AND LIABILITIES**			
1	**Shareholders' Funds**			
	(a) Equity share capital	2.8	$ 1,202	$ 836
	(b) Reserves and Surplus	2.9	39,362,459	27,415,507
	Total Equity		39,363,661	27,416,343
2	**Liabilities**			
2a	**Non-Current Liabilities**			
	(a) Loans payable	2.10	10,500,000	28,500,000
	(b) Right-of-use liabilities	2.11	733,430	-
	Total Non-current Liabilities		11,233,430	28,500,000
2b	**Current Liabilities**			
	(a) Short term payable	2.10	5,000,000	5,500,000
	(b) Current portion of right-of-use liabilities	2.11	329,502	-
	(c) Accrued interest	2.12	163,385	119,034
	(d) Trade payable	2.13	1,654,120	639,975
	(e) Due to related party	2.13	3,245,405	-
	(f) Other current liabilities	2.14	1,404,603	1,458,332
	Total Current Liabilities		11,797,015	7,717,341
	TOTAL EQUITY AND LIABILITIES		$ 62,394,106	$ 63,633,684
	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 SHEET
AS AT 31 MARCH 2020 AND 2019

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: 29 May 2020

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: 29 May 2020

S&B PHARMA, INC.
STATEMENT OF PROFIT AND LOSS
FOR THE YEARS ENDED 31 MARCH 2020 AND 2019

Particulars	Note No.	For the year ended 31 March 2020	For the year ended 31 March 2019
1 Income			
(a) Revenue from operations	2.15	$ 23,908,885	$ 25,335,477
(b) Other income	2.16	120,035	548,917
Total Income		24,028,920	25,884,394
2 Expenses			
(a) Cost of materials consumed	2.17	4,296,958	4,919,216
(b) Changes in inventories of finished goods, stock-in-trade and work-in-progress	2.18	(1,221,011)	669,739
(c) Provision of obsolete/slow moving inventory	2.18	2,774,612	406,908
(d) Employee benefits expense	2.19	16,229,541	17,213,128
(e) Finance cost	2.20	1,309,368	1,395,023
(f) Depreciation and amortization expense	2.21	4,959,512	4,005,242
(g) Other expenses	2.22	7,284,867	7,444,355
Total Expenses		35,633,847	36,053,611
3 (Loss) before Tax (1) - (2)		(11,604,927)	(10,169,217)
4 Income Taxes	2.26	2,447,381	-
5 Profit (Loss) for the period (3) - (4)		$ (14,052,308)	$ (10,169,217)
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: 29 May 2020

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

Daniel Levin

Dr. Daniel Levin
President

Lester Ordway

Lester Ordway
Director of Finance

California, USA
Dated: 29 May 2020

S&B PHARMA, INC.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 MARCH 2020 AND 2019

Particulars

Equity Share Capital

	As at 31 March 2020			As at 31 March 2019		
	No. of Shares		Amount	No. of Shares		Amount
Balance at the beginning of the reporting period	83,557	$	836	68,454	$	685
Changes in equity share capital during the year	36,645		366	15,103		151
Balance at the end of the reporting period	120,202	$	1,202	83,557	$	836

Reserves and Surplus

	Additional Paid in Capital	Deficit in Statement of Profit and Loss	Total Other Equity
Balance at 1 April 2018	$ 28,717,225	$ (12,132,323)	$ 16,584,902
Premium for issuing stocks	20,999,822		20,999,822
Loss for the year	-	(10,169,217)	(10,169,217)
Balance at 31 March 2019	49,717,047	(22,301,540)	27,415,507
Premium for issuing stocks	25,999,260	-	25,999,260
Loss for the year	-	(14,052,308)	(14,052,308)
Balance at 31 March 2020	$ 75,716,307	$ (36,353,848)	$ 39,362,459

The description of the nature and purpose of each category within reserves and surplus:

Additional Paid in Capital: Premiums received over the par value of the Company's stocks that are issued.

Deficit in Statement of Profit and Loss: The accumulated loss that the Company has incurred till date.

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: 29 May 2020

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

Daniel Levin

Daniel Levin
President

Lester Ordway

Lester Ordway
Director of Finance

California, USA
Dated: 29 May 2020

S&B PHARMA, INC.
STATEMENT OF CASH FLOW
FOR THE YEARS ENDED 31 MARCH 2020 AND 2019

	Particulars	For the year ended 31 March 2020	For the year ended 31 March 2019
A	**Cash Flow from Operating Activities:**		
	Loss before tax	$ (14,052,308)	$ (10,169,217)
	Adjustment for:		
	Depreciation and amortization	4,959,512	4,005,243
	Amortization of finance costs	-	407
	Amortization and Impairment of licensing agreement	-	142,500
	(Gain) loss on sale of fixed assets (net)	324,504	638,197
	Excess and obsolete inventory	2,774,612	406,908
	Provision for doubtful debts	(28,200)	(135,188)
	Accrued interest on loans	44,351	(121,598)
	Subtotal of Adjustments	8,074,779	4,936,469
	Operating loss before working capital changes	(5,977,529)	(5,232,748)
	Changes in working capital:		
	Trade receivables	924,284	386,215
	Related party receivable/payable	2,332,451	675,706
	Other current assets	(34,727)	17,017
	Inventory	(1,009,358)	(359,166)
	Trade payables	1,014,145	(1,426,527)
	Other current liabilities	(53,726)	(836,478)
	Subtotal of Adjustments	3,173,069	(1,543,233)
	Net cash used in operating activities	(2,804,460)	(6,775,981)
B	**Cash Flow from Investing Activities:**		
	Proceeds from sale of fixed assets	1,112,050	-
	Acquisition of fixed assets	(5,169,505)	(9,564,987)
	Unrealized (gain) loss on fair valuation of investments - net	230,000	(557,408)
	Net cash used in investing activities	(3,827,455)	(10,122,395)
C	**Cash Flow from Financing Activities:**		
	Issuance of share capital	25,999,626	20,999,973
	Proceeds from borrowings		
	Related party loan	3,000,000	-
	Citibank	9,000,000	19,000,000
	Repayments toward borrowings		
	Related party loan	-	(10,000,000)
	Citibank	(30,500,000)	(15,875,000)
	Cash paid on finance type leases	(349,595)	-
	Net cash generated from financing activities	7,150,031	14,124,973
D	**Net Increase in Cash and Cash Equivalents (A+B+C)**	518,116	(2,773,403)
E	**Cash and Cash Equivalents as at Beginning of the Year**	4,008,588	6,781,991
F	**Cash and Cash Equivalents as at End of the Year (D+E)**	$ 4,526,704	$ 4,008,588
	Notes:		
	1 Cash and cash equivalents include:		
	Cash on hand	894	809
	Balance with banks	4,525,810	4,007,779
	Total cash and cash equivalents	$ 4,526,704	$ 4,008,588

Notes: The above Cash Flow Statement has been prepared under the "Indirect Method" as set out in the Indian Accounting Standard (Ind AS-7) - "Statement of Cash Flows".

S&B PHARMA, INC.
STATEMENT OF CASH FLOW
FOR THE YEARS ENDED 31 MARCH 2020 AND 2019

Particulars	For the year ended 31 March 2020	For the year ended 31 March 2019
Non-Cash Financing Activities:		
Issued 15,103 shares of company:		
Stock issued in exchange for debt	$ -	$ (9,999,973)
Cancellation of shareholder debt		9,999,973
	$ -	$ -

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: 29 May 2020

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

Daniel Levin

Daniel Levin
President

L Ordway

Lester Ordway
Director of Finance

California, USA
Dated: 29 May 2020

Particulars

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared solely for the purposes of preparation of the consolidated financial statements of the holding company, Alkem Laboratories Limited ("Alkem – India").

1.1 Principal Business Activities

S&B Pharma, Inc. ("the Company") is a component member of Alkem - India, an India based multinational pharmaceutical company. Alkem – India's primary emphasis is on the production, 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 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, development and analytical testing of drug targets 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 used 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 (research and development services) on a contract basis.

The products produced by the Company are usually 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 research, development and manufacturing of API for third party customers, its formulation division in Missouri, and for Alkem - India, the Company's parent company. 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 2020 and 2019, Alkem – St. Louis' primary source of revenue was related to formulating and fulfilling product orders and research and development for the parent company.

Particulars

1.1 Principal Business Activities (Continued)

Further, as at 31 March 2020, Alkem – St. Louis has not commenced its planned principal operations of formulating pharmaceuticals while continuing to construct improvements including acquiring and installing the necessary equipment to complete the pharmaceutical formulation facility.

The Company's activities are subject to significant risks and uncertainties including regulatory licensing and 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 in accordance with the group accounting policies prescribed by Alkem - India.

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 or incurred, whether paid or not.

1.4 Use of Estimates

The preparation of the financial statements in conformity with the group accounting policies prescribed by Alkem – India requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Management's future cash flow estimates used to account for its property, plant, and equipment and goodwill balances are the Company's most significant estimates. Actual results could differ from those estimates.

1.5 Transfer Pricing

The Company uses transfer pricing studies to develop its policies that govern related party transactions. The goal of the transfer pricing analysis is to establish an arm's length pricing structure under which certain transactions between the parties are recorded. During the year ended 31 March 2020, certain related party transactions 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.

Particulars

1.7 Accounts Receivable

Accounts receivable consist primarily of amounts due from customers, 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 $0 and $78,200 for the years ended 31 March 2020 and 2019, 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 net-realizable value. The work-in-progress and finished goods portion of inventory, which include allocations of labor and overhead based on estimates, are stated at the lower of cost or net-realizable value and determined using standard costs.

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. An asset's cost includes the purchase price, borrowing costs and other direct costs incurred 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.

The Company reviews the valuation of its property, plant, and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the discounted future cash flows to which the assets relate to the carrying amount of those fixed assets. If the operation is determined to be unable to recover the carrying amount of its assets, then assets are written down to fair market value. Fair market value is determined based on discounted cash flows or appraised values, depending on the nature of the assets.

1.10 Intangible Assets

Goodwill

The Company accounts for goodwill in accordance with Alkem – India's accounting policies. These policies require goodwill to be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of a cash-generating unit has decreased below its carrying value. Alkem – India's accounting policies require that goodwill be tested for impairment at the cash-generating unit level. The goodwill impairment test requires judgment, including the identification of cash-generating units, assigning assets and liabilities to cash-generating units, assigning goodwill to cash-generating 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 cash-generating 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 cash-generating units is less than its carrying amount, including goodwill. Alternatively, the Company may bypass this qualitative assessment for

Particulars

1.10 Intangible Assets (Continued)

some or all of the reporting units and perform a detailed quantitative test of impairment. If the Company performs the detailed quantitative impairment test and the carrying amount of the cash-generating units exceeds its fair value, the Company would perform an analysis to measure such impairment. The Company performed a quantitative goodwill impairment test for the year ended 31 March 2020. The fair value of the S&B Pharma, Inc. cash-generating unit was determined by calculating the present value of the future cash flow projected for the business. The Company determined that the fair value of the cash-generating unit exceeded its carrying value. Thus, no impairment was recorded for the year ended 31 March 2020.

In accordance with Alkem – India's accounting policies, 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 discounted cash flows that the asset or asset group is expected to generate. If the discounted 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.

Licensing Agreement - Net

During the year ended 31 March 2019, management terminated certain development projects that related to the licensing agreement. As a result, the rights under the licensing agreements were abandoned. The unamortized costs were written-off as an expense in the year ended 31 March 2019 (note 2.2). No intangible and other long-lived asset impairment was recorded for the year ended 31 March 2020.

1.11 Fair Value of Financial Instruments

Investments recorded on the balance sheet approximate their fair market value. The fair market value of Level 1 investments is based on quoted prices in an active market. See Footnote 2.6. The Company's investments in private companies are accounted for using the cost-method. Under the cost method, investments are recorded at cost and are assessed for impairment on an annual basis.

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.

Particulars

1.11 Fair Value of Financial Instruments (Continued)

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

The Company records revenue pursuant to Ind AS 115, Revenue from Contracts with Customers. This standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under the standard, an entity recognizes revenue when or as it satisfies a performance obligation. The performance obligation is usually satisfied by transferring control of a good or service to the customer, either at a point in time or over time. The new standard also requires expanded disclosures, including how and when the Company satisfies performance obligations.

The Company recognizes revenue by analyzing the nature of the products or services being provided as well as the terms and conditions of contracts or arrangements entered into with its customers.

Revenues from Sale of Goods

Revenues from the sale of goods is recognized when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company assesses promises in the contract that are separate performance obligations to which a portion of transaction price is allocated.

Revenue is measured at fair value of the consideration received or receivable, after deduction of any trade discounts, allowances and any taxes or duties collected on behalf of the government such as goods and services tax, etc. Accumulated experience is used to estimate the provision for discounts, probable saleable and non-saleable return of goods from the customers. Revenue is only recognized to the extent that it is highly probable a significant reversal will not occur.

Revenues from Research and Development and Other Services

Research and Development (R&D) revenues are derived from R&D services provided by the Company to Alkem – India and other third-party customers. R&D revenue is recorded over time based on completion of contract milestones.

1.13 Risks and Uncertainties

The Company manufactures pharmaceutical ingredients and products. These products require special care when manufactured, and storage can be hazardous to structures and personnel if not handled properly. Management believes these hazards have been mitigated through plant design and continuous safety programs in its environmental health and safety department. In addition, management believes these hazards have been mitigated through the construction of a new warehouse with a fire suppression system. Also, management believes that the Company is adequately insured for losses.

Particulars

1.13 Risks and Uncertainties (Continued)

Production of pharmaceuticals requires approvals from both the United States Food and Drug Administration ("FDA") and Drug Enforcement Agency ("DEA"). Failure to obtain necessary approvals from the FDA and DEA could affect the Company's operations materially.

During the years ended 31 March 2020 and 2019, 22% and 26%, respectively, of the client's revenue was generated from the sale of a single product to one customer. Further, $19,166,520, or 80%, of revenue was generated from the sale of products and services to related party entities.

1.14 Expenses

<u>Cost of Materials Consumed</u>

Costs of materials consumed include direct materials, manufacturing overhead, and other project related costs. Direct materials include reagents, solvents, consumables and other related costs. Provisions for estimated losses on uncompleted contracts, if any, are made in the period in which the revisions are determined.

Costs, other than employee benefits expenses, associated with service contracts are included in cost of materials consumed.

<u>Employee Benefits Expense</u>

Employee benefits expense includes both labor costs incurred to support revenue generating activities and general and administrative functions. Labor costs includes payroll and benefits expenses.

<u>Other Expenses</u>

Included in other expenses are selling, general and administrative costs charged to expense as incurred.

1.15 Freight and Shipping Costs

The Company classifies freight and shipping costs in cost of materials consumed in the Statement of Profit and Loss. Total freight and shipping costs for the year ended 31 March 2020 and 2019 were $6,828 and $17,435, respectively.

1.16 Financing Cost - Expense and Capitalization

Financing cost includes interest expense on indebtedness and fees paid to Alkem – India for guaranteeing the Company's indebtedness. If financing costs are 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, 2020 and 2019, the Company capitalized interest costs of $275,000 and $180,000, respectively.

Particulars

1.17 Marketing and Promotions

Marketing and promotion (advertising) costs are expensed as incurred and recorded in Other Expenses in the Statement of Profit and Loss. For the years ended 31 March 2020 and 2019 marketing and promotion costs were $2,097 and $0, respectively.

1.18 Clinical and Analytical Charges

Clinical and analytical charges (research and development) related to both future and present products are expensed as incurred. For the years ended 31 March 2020 and 2019, research and development costs were $49,232 and $19,825, respectively.

1.19 Royalty Expenses

Alkem - St. Louis incurs royalty expenses for selling products that utilize intellectual property developed and registered by Alkem - India.

1.20 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.

Alkem – India's accounting policies prescribe 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 recognition, classification, interest and penalties, and disclosure.

Related thereto, 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.

The Company recognizes 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 additional tax benefit provision for net deferred tax assets were recorded for the years ended 31 March 2020 and 2019. At 31 March 2020 and 2019, 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 other expenses. The estimated benefit portion stemming from net operating losses and unused tax credits is shown as a deferred tax asset, net of any valuation allowances recorded. Future taxable amounts are shown as deferred tax liabilities.

Particulars

1.20 Income Taxes (Continued)

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.

For the year ended 31 March 2020, the Company paid $2,447,381 income tax to India taxing authorities in connection with the income earned from R&D services provided to Alkem – India. The payment represents a future tax credit the Company can utilize when the Company generates taxable income in the United States (U.S.). Thus, the amount is initially recorded as a deferred tax asset. However, given the uncertainty about when the Company is able to generate future U.S. taxable income in order to utilize the foreign tax credit, the Company increased the deferred tax valuation allowance by $2,447,381. The increase in the valuation allowance resulted in the income tax expense within the Statement of Profit and Loss for the year ended 31 March 2020.

Particulars

NOTE 2 - NOTES TO THE FINANCIAL STATEMENTS

NOTE 2.1: PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Building	Machinery	Furniture	Computer	Total
Balance as at 1 April 2018	$ 1,855,155	$ 15,912,700	$ 17,435,574	$ 295,442	$ 2,300,640	$ 37,799,511
-Additions	-	5,134,355	7,468,381	8,618	449,562	13,060,916
-Disposals	-	(40,394)	(750,014)	(34,787)	(130,378)	(955,573)
Balance as at 31 March 2019	$ 1,855,155	$ 21,006,661	$ 24,153,941	$ 269,273	$ 2,619,824	$ 49,904,854
Balance as at 1 April 2019	$ 1,855,155	$ 21,006,661	$ 24,153,941	$ 269,273	$ 2,619,824	$ 49,904,854
-Additions	-	549,582	2,766,545	53,689	78,272	3,448,088
-Reclassifiction	-	(2,652,439)	2,652,439	-	-	-
-Disposals	-	(78,696)	(809,579)	(1,478)	(4,662)	(894,415)
Balance as at 31 March 2020	$ 1,855,155	$ 18,825,108	$ 28,763,346	$ 321,484	$ 2,693,434	$ 52,458,527

Depreciation	Land	Building	Machinery	Furniture	Computer	Total
Balance as at 1 April 2018	-	$ 895,852	$ 4,138,862	$ 160,062	$ 461,793	$ 5,656,569
-Additions	-	504,877	2,894,934	32,710	572,720	4,005,241
-Disposals	-	(2,206)	(214,750)	(15,852)	(84,567)	(317,375)
Balance as at 31 March 2019	-	$ 1,398,523	$ 6,819,046	$ 176,920	$ 949,946	$ 9,344,435
Balance as at 1 April 2019	$ -	$ 1,398,523	$ 6,819,046	$ 176,920	$ 949,946	$ 9,344,435
-Additions	-	516,447	3,321,196	35,538	733,199	4,606,380
-Reclassifiction	-	114,828	(114,828)	-	-	-
-Disposals	-	(4,631)	(359,095)	(287)	(3,350)	(367,363)
Balance as at 31 March 2020	$ -	$ 2,025,167	$ 9,666,319	$ 212,171	$ 1,679,795	$ 13,583,452
Net Fixed Assets	$ 1,855,155	$ 16,799,941	$ 19,097,027	$ 109,313	$ 1,013,639	$ 38,875,075

Particulars

NOTE 2.2: INTANGIBLE ASSETS (Note 2.25)

	Norac		Alkem	
	Licensing Agreement	Goodwill	Goodwill	Total
Balance as at 1 April 2018	$ 142,500	$ 2,595,020	$ 1,347,648	$ 4,085,168
-Additions	-	-	-	-
-Amortization	(7,500)	-	-	(7,500)
-Impairments (note 1.10)	(135,000)	-	-	(135,000)
Balance as at 31 March 2019	-	2,595,020	1,347,648	3,942,668
Balance as at 1 April 2019	-	2,595,020	1,347,648	3,942,668
-Additions	-	-	-	-
-Amortization	-	-	-	-
-Impairments (note 1.10)	-	-	-	-
Balance as at 31 March 2020	$ -	$ 2,595,020	$ 1,347,648	$ 3,942,668

NOTE 2.3: DEPOSITS ON EQUIPMENT

	As at 31 March 2020	As at 31 March 2019
Deposits on equipment (note 2.27)	$ -	$ 605,479

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. At 31 March 2020, there were no prepaid deposits on equipment.

NOTE 2.4: INVENTORIES OF RAW MATERIALS, WORK IN PROCESS AND FINISHED GOODS

	As at 31 March 2020	As at 31 March 2019
Closing Stock:		
Raw materials	$ 3,858,325	$ 4,069,978
Work in process	1,516,251	1,405,777
Finished goods	1,269,011	158,474
Provision for slow/non-moving inventory (A)	(3,181,520)	(406,908)
	$ 3,462,067	$ 5,227,321

(A) The inventory value includes an excess and obsolete inventory valuation reserve of $3,181,520 to reduce the inventory to the net realizable value in the year ended 31 March 2020.

Particulars

NOTE 2.5: RECEIVABLES

The following schedule details receivable accounts at 31 March 2020 and 2019:

	As at 31 March 2020	As at 31 March 2019
Outstanding for a period of less than six months from due date – other (A)	$ 662,536	$ 1,628,333
Outstanding for a period of greater than six months from due date	4,953	54,720
Earnings in excess of billings on customer contracts	-	158,718
Less allowance for doubtful accounts (B)	-	(78,200)
Total trade receivables	667,489	1,763,571
Outstanding related party receivable – Alkem/Ascend	3,217,686	2,304,732
Total receivables	$ 3,885,175	$ 4,068,303

(A) The Company received 114,678 shares from a customer as a payment for accounts receivable of $199,998.

(B) The Company collected the accounts receivable previously considered to be doubtful account during the year.

At 31 March 2020, all the accounts receivable are expected to be collected.

NOTE 2.6: INVESTMENTS

	As at 31 March 2020	As at 31 March 2019
Investment - level 1 investment (500,000 shares) (1)	$ 220,000	$ 450,000
Investment - cost method investment (401,376 shares) (2)	699,999	500,001
Investment - cost method investment (173,303 shares) (2)	57,407	57,407
Total Investment	$ 977,406	$ 1,007,408

1. This investment consists of 500,000 shares of publicly traded stock of a pharmaceutical company. As of 31 March 2020, these securities are reported at their fair market value based on quoted market prices in an active market. The securities are valued using Level 1 measurement inputs. Unrealized gains or losses are included in Other expenses within the Statement of Profit and Loss.

2. These investments resulted from the conversion of the unpaid portion of two distinct customer accounts receivable into the equity shares of the respective debtors. Both debtors are nonpublic companies and there is no active trading market for the securities owned by the Company. The Company has elected to account for these investments under the cost method. Under this method, investments are recorded on the balance sheet at historical cost. If events arise which indicate that the fair value of the Company's cost method investments are other than-temporary, an impairment charge will be recorded to reduce the investments to fair value. As of 31 March 2020, the Company did not identify any events which would require an impairment assessment of these investments.

Particulars

NOTE 2.7: CASH AND CASH EQUIVALENTS

	As at 31 March 2020	As at 31 March 2019
Balance with bank:		
Current account	$ 4,526,704	$ 4,008,588

NOTE 2.8: SHARE CAPITAL

On 13 December 2019, the Company issued 36,645 shares of common stock, par value $.01 per share, to Alkem – India in exchange for $25,999,626. Amounts paid in excess of par value were recorded in Additional Paid in Capital. These funds were used to repay indebtedness, fund operating deficits, and fund capital expenditures.

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

	As at 31 March 2020	As at 31 March 2019
Authorized Share Capital:		
500,000 equity shares of USD$.01/each	$ 5,000	$ 5,000
Issued, Subscribed & Paid-up:		
120,202 equity shares of USD$.01/each	$ 1,202	$ 836

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

	As at 31 March 2020	As at 31 March 2019
Numbers of shares outstanding as at the beginning of the year	83,557	68,454
Shares issued during the year	36,645	15,103
Shares bought back during the year	-	-
Numbers of shares outstanding as at the closing of the year	120,202	83,557

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

	As at 31 March 2020	As at 31 March 2019
Alkem Laboratories Limited	120,202	83,557

Particulars

NOTE 2.9: RESERVES AND SURPLUS

	As at 31 March 2020	As at 31 March 2019
Additional Paid in Capital		
As per last balance sheet	$ 49,717,047	$ 28,717,225
Premium for issuing 36,645 shares of stock	25,999,260	-
Premium for issuing 7,911 shares of stock	-	10,999,921
Premium for issuing 7,192 shares of stock	-	9,999,901
At the end of the year	75,716,307	49,717,047
Deficit in Statement of Profit and Loss		
As per last balance sheet	(22,301,540)	(12,132,323)
Loss for current year	(14,052,308)	(10,169,217)
Loss to be absorbed	(36,353,848)	(22,301,540)
Balance carried to profit and loss account	$ 39,362,459	$ 27,415,507

NOTE 2.10: LOANS PAYABLE

	As at 31 March 2020	As at 31 March 2019
Loan payable - Ascend (1)	$ 1,000,000	$ -
Loan - Citibank (2)	7,500,000	12,500,000
Loan - Citibank (3)	-	16,000,000
Loan payable - Alkem-India (5)	2,000,000	-
Total long-term debt	10,500,000	28,500,000
Loan - Citibank (2)	5,000,000	2,500,000
Bank line of credit (4)	-	3,000,000
Loan - Citibank (6)	-	-
Total short-term debt	5,000,000	5,500,000
Total debt	$ 15,500,000	$ 34,000,000

1. On 26 March 2020, the Company entered into an agreement with Ascend Laboratories LLC ("Ascend") that established a revolving credit facility between the Company and Ascend. The terms of the agreement provide the Company a $1,000,000 borrowing capacity. The interest rate applicable to outstanding amounts borrowed under the facility is 2% per annum. The outstanding balance is $1,000,000 as of 31 March 2020. The loan is due and payable in March 2025. This loan is secured by a subordinated interest in the Company's assets.
2. In 2017, the Company entered into a term loan with a bank for $15,000,000. The Company made a scheduled payment of $2,500,000 on 15 February 2020. Five semi-annual installments of $2,500,000 are payable to the bank beginning 15 August 2020. The interest rate applicable to this loan is LIBOR plus 125 basis points. Interest payments are payable quarterly. This loan is secured by a standby letter of credit issued by Alkem – India.

Particulars

NOTE 2.10: LOANS PAYABLE (Continued)

3. In 2018, the Company entered into a term loan with a bank for $16,000,000. Six equal semi-annual installments are payable to the bank beginning 7 June 2021. The interest rate applicable to this loan is LIBOR plus 125 basis points. Interest payments are payable monthly. This loan is secured by a standby letter of credit issued by Alkem – India. During the year, all balances previously outstanding were repaid in full.
4. The Company possessed a line of credit with a bank that matured on 31 March 2020. During the year, all balances previously outstanding were repaid in full. As stated in note 2.30 - subsequent events, the loan is expected to be renewed in June 2020.
5. On 20 December 2012, the Company entered into an agreement with Alkem-India that established a revolving credit facility between the Company and the parent company. The terms of the agreement provide the Company a $10,000,000 borrowing capacity. The interest rate applicable to outstanding amounts borrowed under the facility is 7% per annum. The amount borrowed is due and payable on the anniversary date of this Agreement and the due date can be automatically extended by one year each time unless this Agreement is effectively terminated. On 1 June 2017, the borrowing capacity was increased to $25,000,000. The outstanding balance is $2,000,000 as of 31 March 2020.
6. In June 2019, the Company entered into an agreement with Citibank that allows the Company to borrow up to $10,000,000 during an advance period expiring on 7 December 2019. Six equal semi-annual installments are payable to the bank beginning 7 December 2021. The interest rate applicable to this loan is LIBOR plus 100 basis points. Interest payments are payable quarterly. This loan is secured by a standby letter of credit issued by Alkem – India. During the advance period, the Company borrowed $9,000,000. During the year, all balances previously outstanding were repaid in full.

Each of Citibank loans is secured by a letter of credit acquired by Alkem Laboratories, Ltd. (parent company) for the principal amount of the loan. The stand-by letter of credit fees paid by the parent company and reimbursed by the Company is $192,443, and the loan guaranteed fees charged by the parent company is $205,905. Both amounts are included in the bank charges (note 2.20).

Annual principal payments on indebtedness are as follows:

For the following period,	As at 31 March 2020	As at 31 March 2019
4/1/2019 – 3/31/2020	$ -	$ 5,500,000
4/1/2020 – 3/31/2021	5,000,000	5,000,000
4/1/2021 – 3/31/2022	5,000,000	10,333,333
4/1/2022 – 3/31/2023	2,500,000	7,833,333
4/1/2023 – 3/31/2024	-	5,333,334
4/1/2024 – 3/31/2025	3,000,000	-
	$ 15,500,000	$ 34,000,000

Particulars

NOTE 2.11: RIGHT-OF-USE LEASE ASSETS AND LIABILITIES

The Company enters into various lease agreements which pertain to the day-to-day operations of the business including but not limited to facility, equipment, and general office equipment leases.

On April 1, 2019, the Company adopted Ind AS 116 which superseded the existing AS 17. Pursuant to the new standard, lessees are required to adopt a single model approach which brings leases on the balance sheet in the form of a right-of-use asset and a lease liability. The lease liability is measured at the present value of the lease payments to be made over the lease term. The right-of-use lease asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received, the lessee's initial direct costs (e.g., commissions) and an estimate of restoration, removal and dismantling costs. Lessees accrete the lease liability to reflect interest and reduce the liability to reflect lease payments made. The related right-of-use lease asset is depreciated in accordance with the depreciation requirements of Ind AS 16 Property, Plant and Equipment. For lessees that depreciate the right-of-use asset on a straight-line basis, the aggregate of interest expense on the lease liability and depreciation of the right-of-use asset generally results in higher total periodic expense in the earlier periods of a lease. Lessees re-measure the lease liability upon the occurrence of certain events (e.g., change in the lease term, change in variable rents based on an index or rate), which is generally recognized as an adjustment to the right-of-use asset.

The Company has elected to adopt the new standard under the modified retrospective approach. Consequently, the cumulative effect of adopting the standard was recognized as an adjustment to the opening balance of retained earnings at 1 April 2019, with no restatement of comparative information. The Company has also elected to apply a practical expedient which grandfathers the definition of a lease on transition. Consequently, all contracts which did not possess a lease under Ind AS 17 were not required to be reassessed under the new requirements of Ind AS 116. Pursuant to Ind AS 116, the Company has excluded from the calculation of the right-of-use asset and liability on certain short-term leases and leases of low value. These leases are expensed in the Statement of Profit and Loss ratably over the lease term.

Upon adoption, the impact to retained earnings was not material to the financial statements as a whole. To determine the present value of right-of-use lease liability on the adoption date, the Company discounted all future lease payments using the Company's incremental borrowing rate at the date of transition. The incremental borrowing rate used to discount the future lease payments was 4.5%. As of 31 March 2020, the right-of-use lease asset and right-of-use lease liability amounted to $1,059,395 and $1,062,932 (current portion $329,502 and non-current portion $733,430) respectively. Interest expense recorded within the Statement of Profit and Loss for the year ended 31 March 2020 related to the Company's right-of-use liabilities amounted to $63,563.

NOTE 2.12: ACCRUED INTEREST

Interest accrued and not paid at the end of year is as follows:	As at 31 March 2020	As at 31 March 2019
Alkem Laboratories, Ltd.	$ 130,667	$ -
Ascend Laboratories, LLC	274	-
Citibank loans	32,444	119,034
	$ 163,385	$ 119,034

Particulars

NOTE 2.13: TRADE PAYABLES

	As at 31 March 2020	As at 31 March 2019
Trade payable	$ 1,654,120	$ 639,975
Outstanding related party payable – Alkem/Ascend	3,245,405	-
Total payable	$ 4,899,525	$ 639,975

NOTE 2.14: OTHER CURRENT LIABILITIES

	As at 31 March 2020	As at 31 March 2019
Accrued expenses	$ 1,314,994	$ 1,269,237
Billings in excess of earnings on customer contracts	-	104,357
Profit sharing plan contribution	89,609	84,738
	$ 1,404,603	$ 1,458,332

NOTE 2.15: REVENUE FROM OPERATIONS

	As at 31 March 2020	As at 31 March 2019
Commercial products	$ 3,651,054	$ 7,000,341
Commercial products – Ascend	5,016,636	5,467,175
Contract services	1,091,311	2,951,850
Contract services – Alkem-India	14,149,884	9,916,111
Total Revenue	$ 23,908,885	$ 25,335,477

NOTE 2.16: OTHER INCOME

	For the year ended 31 March 2020	For the year ended 31 March 2019
Interest income	$ 58,559	$ 15,458
Customer settlement	-	533,459
Other miscellaneous income	61,476	-
Total other income	$ 120,035	$ 548,917

NOTE 2.17: COST OF MATERIALS CONSUMED

	As at 31 March 2020	As at 31 March 2019
Cost of materials consumed	$ 4,296,958	$ 4,919,216

Particulars

NOTE 2.18: CHANGES IN INVENTORIES OF FINISHED GOODS, STOCK-IN-TRADE AND WORK-IN-PROCESS

	As at 31 March 2020	As at 31 March 2019
Opening Stock:		
Work in process	$ 1,405,777	$ 973,388
Finished goods	158,474	1,260,602
	$ 1,564,251	$ 2,233,990
Less Closing Stock:		
Work in process	$ 1,516,251	$ 1,405,777
Finished goods	1,269,011	158,474
	$ 2,785,262	$ 1,564,251
Increase (Decrease) in inventories of finished goods, stock-in-trade and work in process	$ 1,221,011	$ (669,739)

The table below represents changes in provision of obsolete / slow moving inventory.

	As at 31 March 2020	As at 31 March 2019
Begining balance:		
Raw materials	$ 406,908	$ -
Less Ending balance:		
Raw materials	$ 2,889,742	$ 406,908
Work in process	291,460	-
Finished goods	318	-
	$ 3,181,520	$ 406,908
Increase (Decrease) in provision of obsolete / slow moving inventory	$ 2,774,612	$ 406,908

NOTE 2.19: EMPLOYEE BENEFIT EXPENSES

	For the year ended 31 March 2020	For the year ended 31 March 2019
Salaries, wages and bonus	$ 13,720,565	$ 14,420,968
Retirement expense	437,131	475,570
Welfare expense	1,874,612	2,021,437
Worker's compensation insurance	197,233	295,153
Total employee benefit expenses	$ 16,229,541	$ 17,213,128

Particulars

NOTE 2.20: FINANCE COST

	For the year ended 31 March 2020	For the year ended 31 March 2019
Interest expense - related party loans	$ 130,941	$ 176,944
Interest expense - Citibank loans	983,372	1,013,842
Interest expense - lease	63,563	-
Bank letter of credit fee - Citibank	192,443	200,450
Loan guarantee fees paid to Alkem - India	205,905	168,430
Other bank charges	8,144	15,357
	1,584,368	1,575,023
Interest capitalized to construction in process	(275,000)	(180,000)
Total finance cost	$ 1,309,368	$ 1,395,023

NOTE 2.21: DEPRECIATION AND AMORTIZATION EXPENSE

	For the year ended 31 March 2020	For the year ended 31 March 2019
Depreciation expense - buildings	$ 516,447	$ 504,953
Depreciation expense - machineries	3,321,196	2,899,956
Depreciation expense - furniture & fixtures	35,538	39,995
Depreciation expense - computers	733,199	560,338
Amortization expense - right-of-use assets	353,132	-
Total depreciation and amortization	$ 4,959,512	$ 4,005,242

Particulars

NOTE 2.22: OTHER EXPENSES

	For the year ended 31 March 2020	For the year ended 31 March 2019
Power and fuel	$ 905,031	$ 730,617
Rent	47,125	350,903
Payroll and property taxes	1,788,418	1,522,337
Insurance	363,321	337,417
Marketing and promotions	2,097	-
Applicable net G/L on foreign currency	-	(17,113)
Selling and distribution expenses	25,459	45,398
Legal and professional fees	509,056	568,128
Commission and cash discount	168,245	91,039
Travelling and conveyance	86,123	130,894
Repairs and maintenance	1,360,473	1,410,179
Loss on sale of fixed assets (net)	324,504	638,197
Change in FMV of investment	230,000	-
Communication and printing expenses	88,596	86,802
Clinical and analytical charges	49,232	19,825
Bad debt (recovery) expense	(28,200)	(135,188)
License, registration & technology fees	472,224	762,734
Royalty expenses	244,135	348,159
Office expenses	314,780	188,454
Miscellaneous expenses	334,248	365,573
Total other expenses	$ 7,284,867	$ 7,444,355

NOTE 2.23: 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 2020 and 2019, the Company's contributions to the plan were $362,457 and $365,734, respectively. Of these amounts, $89,609 and $84,738 were accrued and not paid as at 31 March 2020 and 2019.

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 2020 and 2019, the Company's matching contributions accrued and paid were $74,674, net of forfeiture applied, and $109,836, respectively.

Particulars

NOTE 2.24: RELATED PARTY TRANSACTIONS

As of 31 March 2020, the Company' Balance Sheet includes a short-term receivable balance due from Alkem – India of $3,217,686, and a short-term payable balance due to Alkem – India of $1,804,036.

As of 31 March 2020, the Company' Balance Sheet includes a net short-term accounts payable balance due to Ascend Laboratories LLC (Ascend) of $1,441,368.

During the year ended 31 March 2020, the Company sold fixed assets and equipment not in service with net book value of $1,173,133 to Alkem – India. The sales proceeds were $1,103,500. The Company incurred $69,633 loss on the sale transaction. The loss is included in other expenses within the Statement of Profit and Loss.

During the year ended 31 March 2020, the Company purchased fixed assets of $23,184 from the parent company. The amount is included in the construction in process account within the Balance Sheet.

On 26 April 2019, the Company entered into a loan agreement with Alkem - India for $2,000,000. See Note 2.10 for more information regarding this transaction. As of 31 March 2020, the accrued interest on the loan is $130,667, which is included in the accrued interest within the Balance Sheet.

On 26 March 2020, the Company entered into an agreement with Ascend Laboratories LLC ("Ascend") that established a revolving credit facility between the Company and Ascend. The terms of the agreement provide the Company a $1,000,000 borrowing capacity. See Note 2.10 for more information regarding this transaction. As of 31 March 2020, the accrued interest on the loan is $274, which is included in the accrued interest within the Balance Sheet.

On 13 December 2019, the Company issued 36,645 shares of common stock, par value $.01 per share, to Alkem – India in exchange for $25,999,626. Amounts paid in excess of par value were recorded in Additional Paid in Capital.

The Company earned $14,149,884 and $9,916,111 in revenues for the years ended 31 March 2020 and 2019, respectively, from R&D service contracts with Alkem – India, the Company's parent organization, which are included in revenue from operations within the Statement of Profit and Loss.

The Company earned $5,016,636 and $5,467,175 in revenues for the years ended 31 March 2020 and 2019, respectively, from product sales to Ascend Laboratories LLC, a related party, which are included in revenue from operations within the Statement of Profit and Loss.

For the years ended 31 March 2020 and 2019, the Company paid Alkem – India $398,348 and $368,880, respectively, in exchange for guaranteeing the Company's indebtedness with Citibank. These expenses are included in finance cost within the Statement of Profit and Loss.

For the year ended 31 March 2020 and 2019, royalty expenses charged by Alkem-India on products sold by the Company were $244,135 and $348,159, respectively. These expenses are included in other expenses within the Statement of Profit and Loss.

During the year ended 31 March 2020, the Company reimbursed Alkem – India the expense of $1,237,309 and received expense reimbursement from Alkem-India of $181,150.

Particulars

NOTE 2.24: RELATED PARTY TRANSACTIONS (Continued)

During the year ended 31 March 2020, the Company purchased $248,903 worth of material and $21,420 worth of goods from Alkem-India.

The table below lists the Key Management Personnel ("KMP"). For the years ended 31 March 2020 and 2019, the remuneration to KMP is $1,138,564 and $1,118,536, respectively.

Name of the KMP	Designation
Mr. Sandeep Singh	Director
Mr. Amit Ghare	Director
Mr. Michael Kent Gorman (A)	Director
Mr. Richard Roland Green	Director
Mr. Daniel Levin	Director
Mr. Lester Stephen Ordway	Director

(A) Mr. Michael Kent Gorman is no longer employed since June 2019.

NOTE 2.25: FAIR VALUE MEASUREMENT

The fair market value of certain assets possessed by the Company are subject to fluctuations in value. Pursuant to accounting standard, the following assets do not receive an adjustment to their fair market value unless indications of impairment exist, of which there are none for the fiscal year ended 31 March 2020 and 2019.

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

Non-Recurring:	Levels as at 31 March 2020	Levels as at 31 March 2019
Intangible assets (Note 1.10 and 2.2)	$ 3,942,668	$ 3,942,668
Investments (Note 1.11 and 2.6)	757,406	557,408
	$ 4,700,074	$ 4,500,076

Particulars

NOTE 2.26: 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 2016.

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

	As at 31 March 2020	As at 31 March 2019
Federal		
Current	$ -	$ -
Deferred	(3,200,000)	(2,200,000)
State and local		
Current		
Deferred	(800,000)	(700,000)
Change in valuation allowance	6,447,381	2,900,000
Income tax provision (benefit)	$ 2,447,381	$ -

As at 31 March 2020, the Company's deferred tax assets and liabilities consisted of the effects of temporary differences attributable to the following:

	As at 31 March 2020	As at 31 March 2019
Deferred tax assets:		
Net operating losses and tax credits:	$ 15,300,000	$ 10,550,000
Other deductions	685,000	216,000
Valuation allowance	(12,200,000)	(5,760,000)
Deferred tax assets, net of valuation allowance	$ 3,785,000	$ 5,006,000
Deferred tax liabilities:		
Excess of book over tax basis of:		
Property and equipment	(3,050,000)	(4,300,000)
Goodwill	(454,000)	(425,000)
Deferred tax liabilities	(3,504,000)	(4,725,000)
Deferred tax assets - net	$ 281,000	$ 281,000

As at 31 March 2020, the Company had approximately $55,000,000 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.

Particulars

NOTE 2.26: INCOME TAXES (Continued)

Unrecognized deferred tax assets

	31-Mar-20		31-Mar-19	
Particulars	Gross Amount	Unrecognized tax effect	Gross Amount	Unrecognized Tax effect
Temporary difference Deductible Tax losses and tax credits	$ 55,000,000	$ 15,300,000	$ 40,000,000	$ 10,550,000
Total	$ 55,000,000	$ 15,300,000	$ 40,000,000	$ 10,550,000

Below is a listing of the net operating loss incurred by the Company as of March 31, 2020. The listing shows the year the losses were incurred and the year the utilization of the net operating loss will expire.

Particulars	**Expiration Date**	**Amount As at 31 Mar-20**	**Expiration Date**	**Amount As at 31 Mar-19**
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	$ 43,600,000	No expiration date	$ 28,600,000
Total		$ 55,000,000		$ 40,000,000

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 2020 and 2019, 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 2.26: INCOME TAXES (Continued)

For the year ended 31 March 2020, the Company paid $2,447,381 income tax to India taxing authorities in connection with the income earned from R&D services provided to Alkem – India. The payment represents a future tax credit the Company can utilize when the Company generates taxable income in the United States (U.S.). Thus, the amount is initially recorded as a deferred tax asset. However, given the uncertainty about when the Company is able to generate future U.S. taxable income in order to utilize the foreign tax credit, the Company increased the deferred tax valuation allowance by $2,447,381. The increase in the valuation allowance resulted in the income tax expense within the Statement of Profit and Loss for the year ended 31 March 2020.

NOTE 2.27: COMMITMENTS

Customer Agreements

The Company entered into a five-year supply commitment agreement with a customer, expiring 31 December 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.

During the year ended 31 March 2020, the parent company, Alkem – India acquired certain intellectual property rights related to the product controlled by the customer agreement. As a result of the acquisition of these rights, Alkem – India has taken over the customer agreement and will recognize the obligations, covenants and conditions of the agreement.

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 $168,245. This amount was incurred and paid in August 2019.

Purchase Commitments

As at 31 March 2020, the Company ordered $3,678,030 of equipment for which it has paid $919,507, with a commitment due of $2,758,523.

Lease Commitments

The Company leases certain equipment and real estate under non-cancelable operating leases expiring through April 2024. The Company adopted Ind AS 116, regarding leases, commencing 1 April 2019 and recognized right-of-use assets and liabilities for its leases of offices, warehouse and certain equipment (note 2.11).

For 31 March 2020, the amortization of the right to use assets under Ind AS 116 resulted in amortization expense of $353,132 with $252,668 for facility rent and $100,464 for equipment rent. Further, in accordance with Ind AS 116, $349,595 is recorded as a reduction of the right to use liabilities and $63,563 is recorded as interest expense.

Equipment rent not related to Ind AS 116 of $47,125 is included in other expense.

Particulars

NOTE 2.27: COMMITMENTS (Continued)

For the year ended 31 March 2019, prior to the adoption of Ind AS116, total equipment rent expense of $82,674 and facility rent expense of $268,229 are included in other expenses.

The following is a schedule of future minimum rental payments due under the leases not subject to Ind AS116 as at 31 March 2020:

For the following period,	Equipment	Real Estate	Total
4/1/2020 – 3/31/2021	$ 31,100	$ -	$ 31,100
4/1/2021 – 3/31/2022	19,564	-	19,564
4/1/2022 – 3/31/2023	6,708	-	6,708
4/1/2023 – 3/31/2024	939	-	939
4/1/2024 – 3/31/2025	-	-	-
	$ 58,311	$ -	$ 58,311

Research and Development

The Company engages in research and development contracts to develop a formulation of a generic pharmaceutical product. For the years ended 31 March 2020 and 2019, the Company incurred research and development costs of $49,232 and $19,825, respectively.

NOTE 2.28: 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.

For the year ended 31 March 2020, related parties Alkem – India and Ascend accounted for 59% of revenues, or $14,149,884, and 22% of revenues, or $5,016,636, respectively. Additionally, one other customer accounted for revenues of $2,619,758 or 11% of revenues. For the year ended 31 March 2019, related parties Alkem – India and Ascend accounted for 39% of revenues, or $9,916,111, and 22% of revenues, or $5,467,175, respectively. One other customer accounted for revenues of $6,621,187, or 26% of revenues.

As at 31 March 2020 and 2019, one customer accounted for 80% and 46% of the accounts receivable, or $535,900 and $769,700, 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 2020 and 2019, the amount in excess of insured limits was $4,276,704 and $3,758,588, respectively.

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

Particulars

NOTE 2.28: RISK MANAGEMENT (Continued)

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

31 March 2020		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 and related parties (A)	$ 15,500,000	$ 19,475,000	$ -	$ 7,000,000	$ 7,500,000	$ 4,975,000	$ -
Trade and other payables	1,654,120	1,654,120	1,654,120	-	-	-	-
Other financial liability	1,007,926	1,007,926	1,007,926	-	-	-	-
Total	$ 18,162,046	$ 22,137,046	$ 2,662,046	$ 7,000,000	$ 7,500,000	$ 4,975,000	$ -

31 March 2019		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 and related parties (A)	$ 34,000,000	$ 34,975,000	$ 3,975,000	$ 2,500,000	$ 5,000,000	$ 23,500,000	$ -
Trade and other payables	639,975	639,975	639,975	-	-	-	-
Other financial liability	1,047,845	1,047,845	1,047,845	-	-	-	-
Total	$ 35,687,820	$ 36,662,820	$ 5,662,820	$ 2,500,000	$ 5,000,000	$ 23,500,000	$ -

(A) The total financial liabilities include all of the Company's borrowing capacities regardless of the outstanding balances at the financial statement date.

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.

Particulars

NOTE 2.28: RISK MANAGEMENT (Continued)

The Company's adjusted net debt to equity ratio at March 31, 2020 and 2019 was as follows.

	As at 31 March 2020	As at 31 March 2019
Total borrowings	$ 15,500,000	$ 34,000,000
Less: Cash and cash equivalent	(4,526,704)	(4,008,588)
Adjusted net debt	$ 10,973,296	$ 29,991,412
Total equity	$ 39,363,661	$ 27,416,343
Adjusted net debt to adjusted equity ratio	0.28	1.09

NOTE 2.29: 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 $12,500,000 and $34,000,000 in floating-rate debt outstanding as at 31 March 2020 and 2019, 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.

					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 2020								
Variable-rate Instruments	Citibank Loans	$12,500,000	LIBOR	1.25%	$ (87,500)	$ 87,500	$ (87,500)	$ 87,500
Cash flow sensitivity (net)					$ (87,500)	$ 87,500	$ (87,500)	$ 87,500
31 March 2019								
Variable-rate Instruments	Citibank Loans	$34,000,000	LIBOR	1.25%	$ (238,000)	$ 238,000	$ (238,000)	$ 238,000
Cash flow sensitivity (net)					$ (238,000)	$ 238,000	$ (238,000)	$ 238,000

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

Particulars

NOTE 2.30: SUBSEQUENT EVENTS

- The Company has evaluated subsequent events through 29 May 2020 which is the date the financial statements were available to be issued.
- In May 2020, the Company borrowed $1,000,000 loan from Ascend.
- In June 2020, the Company expects to renew the line of credit with Citibank for $3,975,000 (note 2.10).

NOTE 2.31: RECENT ACCOUNTING PRONOUNCEMENTS

Ind AS 116 – Leases

The Company adopted Ind AS 116, Leases on 1 April 2019 and the impact of adoption was not material to the company. Ind AS 116 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. It replaces existing leases guidance, Ind AS 17, Leases.

Leases in which the Company is a lessee

Previously, the Company recognized operating lease expense on a straight-line basis over the term of the lease, and recognized assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

The Company recognizes new assets and liabilities for its operating leases of offices, warehouse and factory facilities. The nature of expenses related to those leases now changes because the Company recognizes a depreciation charge for right-of-use assets and interest expense on lease liabilities. See footnote 2.11 for additional information regarding the adoption of this accounting standards update.

NOTE 2.32: PAYMENT TO AUDITORS

	For the year ended 31 March 2020	For the year ended 31 March 2019
As Auditor		
- Audit fees	$ 75,420	$ 75,000
In other capacity		
- Financial statements review	20,647	14,000
- Taxation matters	12,761	10,278
- Reimbursement of out of pocket expense	5,420	3,248
Total	$ 114,248	$ 102,526