

WDC & Associates, LLP

Certified Public Accountants, Forensic Experts, Business Advisors

Locations
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• San Jose

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

From: Paul C. Wahlquist, WDC & Associates, LLP

Date: 7 May 2021

Subject: Component Audit of S&B Pharma, Inc for the year ended 31 March 2021

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 2021, we have audited, for the purpose of your audit of the Ind AS consolidated financial statements for the year ended 31 March 2021 of Alkem (the "Group"), the accompanying financial information of S&B Pharma, Inc ("the Company") for the year ended 31 March 2021. 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 2021.

Opinion

In our opinion and to the best of our information and according to the explanation given to us, the accompanying financial information is provided in accordance with policies and instructions contained in the Group's Instructions dated 31 March 2021 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 2021, its profit/loss and changes in equity for the year ended on that date.

In our opinion and to the best of our information and according to the explanation given to us, the Company has, in all material respects, an adequate internal financial controls system with reference to financial information.

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 2021 for consolidated financial statements as of and for the year ended 31 March 2021 and in accordance with the 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 International Standards on 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

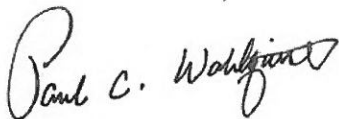
- a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the financial information;
- b) In our opinion, proper books of account as required by law relating to the preparation of the financial information 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 solely for the information and use of B S R & Co. LLP, Mumbai to assist you in your audit of the consolidated financial statements of Group as of and for the year ended 31 March 2021. It should not be distributed to anyone in the Group, any of its components, or any other third party.

WDC & Associates, LLP

A handwritten signature in black ink that reads "Paul C. Wahlquist". The signature is written in a cursive, flowing style with a large initial "P" and a distinct "W".

Paul C. Wahlquist, CPA

Partner

7 May 2021

S&B PHARMA, INC.
BALANCE SHEET
AS OF 31 MARCH 2021 AND 2020

Particulars	Note No.	As of 31 March 2021	As of 31 March 2020
1 Non-Current Assets			
(a) Property, plant and equipment	2.1	\$ 37,097,930	\$ 38,875,075
(b) Right-of-use assets	2.11	706,264	1,059,395
(c) Intangible assets	2.2	3,942,668	3,942,668
(d) Construction in process and equipment not in service		7,939,549	4,832,268
(e) Deferred tax asset	2.26	281,000	281,000
(f) Deposits on equipment	2.3	216,000	-
Total Non-current Assets		<u>50,183,411</u>	<u>48,990,406</u>
2 Current Assets			
(a) Inventories	2.4	3,204,018	3,462,067
(b) Trade receivables	2.5	55,330	667,489
(c) Due from related party	2.5	4,847,508	3,217,686
(d) Investment	2.6	2,073,906	977,406
(e) Cash and cash equivalents	2.7	5,660,272	4,526,704
(f) Prepaid expenses		462,839	552,348
Total Current Assets		<u>16,303,873</u>	<u>13,403,700</u>
TOTAL ASSETS		<u>\$ 66,487,284</u>	<u>\$ 62,394,106</u>
II. EQUITY AND LIABILITIES			
1 Shareholders' Funds			
(a) Equity share capital	2.8	\$ 1,385	\$ 1,202
(b) Reserves and Surplus	2.9	45,754,482	39,362,459
Total Equity		<u>45,755,867</u>	<u>39,363,661</u>
2 Liabilities			
2a Non-Current Liabilities			
(a) Loans payable	2.10	4,500,000	9,500,000
(b) Right-of-use liabilities	2.11	389,101	733,430
Total Non-current Liabilities		<u>4,889,101</u>	<u>10,233,430</u>
2b Current Liabilities			
(a) Short term payable	2.10	6,000,000	6,000,000
(b) Current portion of right-of-use liabilities	2.11	344,329	329,502
(c) Accrued interest	2.12	283,629	163,385
(d) Trade payable	2.13	1,216,594	1,654,120
(e) Due to related party	2.13	6,389,502	3,245,405
(f) Other current liabilities	2.14	1,608,262	1,404,603
Total Current Liabilities		<u>15,842,316</u>	<u>12,797,015</u>
TOTAL EQUITY AND LIABILITIES		<u>\$ 66,487,284</u>	<u>\$ 62,394,106</u>

Significant Accounting Policies

1

Notes to The Financial Statements

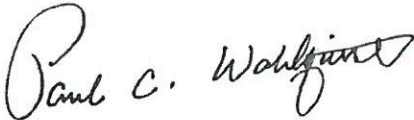
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The accompanying notes are an integral part of these financial statements.

S&B PHARMA, INC.
BALANCE SHEET
AS OF 31 MARCH 2021 AND 2020

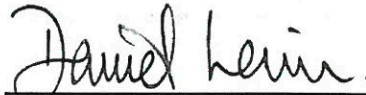
As per our report of even date attached,

For WDC & Associates, LLP
Certified Public Accountants

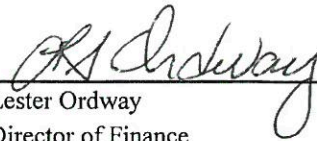


Paul C. Wahlquist, CPA
Partner
California, USA
Dated: 7 May 2021

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



Daniel Levin
President



Lester Ordway
Director of Finance



Richard Green
Director and Vice President



Amit Ghura
Director of Finance

California and Missouri, USA
Dated: 7 May 2021

S&B PHARMA, INC.
STATEMENT OF PROFIT AND LOSS
FOR THE YEARS ENDED 31 MARCH 2021 AND 2020

Particulars	Note No.	For the year ended 31 March 2021	For the year ended 31 March 2020
1 Income			
(a) Revenue from operations	2.15	\$ 24,836,909	\$ 23,908,885
(b) Other income	2.16	911,470	120,035
Total Income		<u>25,748,379</u>	<u>24,028,920</u>
2 Expenses			
(a) Cost of materials consumed	2.17	2,797,578	4,296,958
(b) Changes in inventories of finished goods, stock-in-trade and work-in-progress	2.18	273,294	(1,221,011)
(c) Changes in provision of obsolete/slow moving inventory	2.18	1,543,597	2,774,612
(d) Employee benefits expense	2.19	14,331,388	16,229,541
(e) Finance cost	2.20	436,102	1,309,368
(f) Depreciation and amortization expense	2.21	4,882,239	4,959,512
(g) Other expenses	2.22	6,197,441	7,284,867
Total Expenses		<u>30,461,639</u>	<u>35,633,847</u>
3 (Loss) before Tax (1) - (2)		(4,713,260)	(11,604,927)
4 Income Taxes	2.26	<u>1,893,519</u>	<u>2,447,381</u>
5 Profit (Loss) for the period (3) - (4)		<u>\$ (6,606,779)</u>	<u>\$ (14,052,308)</u>

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: 7 May 2021

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

Richard Green

Richard Green
Director and Vice President

Amit Ghura

Amit Ghura
Director of Finance

California and Missouri, USA
Dated: 7 May 2021

S&B PHARMA, INC.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 MARCH 2021 AND 2020

Particulars

Equity Share Capital

	As of 31 March 2021		As of 31 March 2020	
	No. of Shares	Amount	No. of Shares	Amount
Balance at the beginning of the reporting period	120,202	\$ 1,202	83,557	\$ 836
Changes in equity share capital during the year	18,257	183	36,645	366
Balance at the end of the reporting period	138,459	\$ 1,385	120,202	\$ 1,202

Reserves and Surplus

	Additional Paid in Capital	Deficit in Statement of Profit and Loss	Total Other Equity
Balance at 1 April 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
Premium for issuing stocks	12,998,802	-	12,998,802
Loss for the year	-	(6,606,779)	(6,606,779)
Balance at 31 March 2021	\$ 88,715,109	\$ (42,960,627)	\$ 45,754,482

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

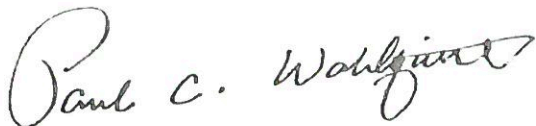
Additional Paid in Capital: Premiums received over the par value of the Company's stocks that are issued.

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

S&B PHARMA, INC.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 MARCH 2021 AND 2020

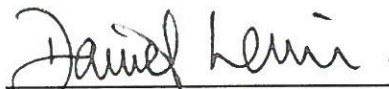
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For WDC & Associates, LLP
Certified Public Accountants

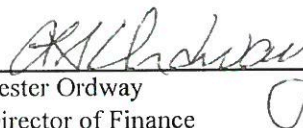


Paul C. Wahlquist, CPA
Partner
California, USA
Dated: 7 May 2021

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



Daniel Levin
President



Lester Ordway
Director of Finance



Richard Green
Director and Vice President



Amit Ghura
Director of Finance

California and Missouri, USA
Dated: 7 May 2021

S&B PHARMA, INC.
STATEMENT OF CASH FLOW
FOR THE YEARS ENDED 31 MARCH 2021 AND 2020

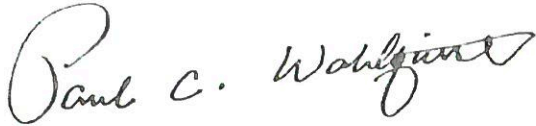
Particulars	For the year ended 31 March 2021	For the year ended 31 March 2020
A Cash Flow from Operating Activities:		
Loss before tax	\$ (6,606,779)	\$ (14,052,308)
Adjustment for:		
Depreciation and amortization	4,882,239	4,959,512
(Gain) loss on sale of fixed assets (net)	40,711	324,504
(Gain) loss on sale of investments	(905,663)	-
Excess and obsolete inventory	1,543,597	2,774,612
Provision for doubtful debts	-	(28,200)
Accrued interest on loans	120,244	44,351
Subtotal of Adjustments	5,681,128	8,074,779
Operating loss before working capital changes	(925,651)	(5,977,529)
Changes in working capital:		
Trade receivables	612,159	924,284
Related party trade receivable/payable	1,514,275	2,332,451
Other current assets	89,510	(34,727)
Inventory	(1,285,548)	(1,009,358)
Trade payables	(437,526)	1,014,145
Other current liabilities	203,659	(53,726)
Subtotal of Adjustments	696,529	3,173,069
Net cash used in operating activities	(229,122)	(2,804,460)
B Cash Flow from Investing Activities:		
Proceeds from sale of fixed assets	1,094,400	1,112,050
Proceeds from sale of investments	1,125,663	-
Deposits on fixed assets	(216,000)	-
Acquisition of fixed assets	(6,994,355)	(5,169,505)
Acquisition of investments	(1,316,500)	-
Unrealized (gain) loss on fair valuation of investments - net	-	230,000
Net cash used in investing activities	(6,306,792)	(3,827,455)
C Cash Flow from Financing Activities:		
Issuance of share capital	12,998,984	25,999,626
Proceeds from borrowings		
Related party loan	-	3,000,000
Citibank	-	9,000,000
Repayments toward borrowings		
Citibank	(5,000,000)	(30,500,000)
Cash paid on finance type leases	(329,502)	(349,595)
Net cash generated from financing activities	7,669,482	7,150,031
D Net Increase in Cash and Cash Equivalents (A+B+C)	1,133,568	518,116
E Cash and Cash Equivalents as of Beginning of the Year	4,526,704	4,008,588
F Cash and Cash Equivalents as of End of the Year (D+E)	\$ 5,660,272	\$ 4,526,704
Notes:		
1 Cash and cash equivalents include:		
Cash on hand	964	894
Balance with banks	5,659,308	4,525,810
Total cash and cash equivalents	\$ 5,660,272	\$ 4,526,704

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 2021 AND 2020

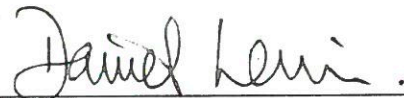
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For WDC & Associates, LLP
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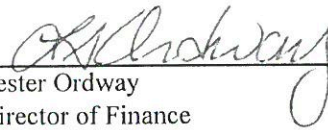


Paul C. Wahlquist, CPA
Partner
California, USA
Dated: 7 May 2021

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



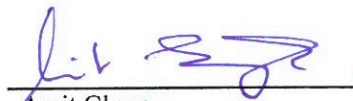
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Director of Finance



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Director and Vice President



Amit Ghura
Director of Finance

California and Missouri, USA
Dated: 7 May 2021

S&B PHARMA, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2021 AND 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, development and sale 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 substances 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 the parent company (research and development services) on a contract basis. Further, Norac provides production testing services to third party customers.

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 2021 and 2020, Alkem – St. Louis' primary source of revenue was related to formulating and fulfilling product orders and research and development for the parent company.

S&B PHARMA, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2021 AND 2020

Particulars

1.1 Principal Business Activities (Continued)

Further, as of 31 March 2021, 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.

COVID-19 Update

In the first quarter of 2020, a novel strain of coronavirus, COVID-19, was declared a pandemic. Efforts in the United States to prevent the spread of COVID-19 and mitigate its impacts intensified during March 2020. All 50 states in the United States have declared states of emergency, and various countries around the world, including the United States, have taken steps to restrict travel. Many states and cities within the United States have also enacted temporary closures of businesses, issued stay-at-home orders and taken other restrictive measures in response to the pandemic. These actions and measures have been changing frequently, and often on a daily basis.

For the year ended 31 March 2021, the COVID-19 pandemic did not have a significant impact on the Company's business. The vast majority of the Company's projects have been considered essential business activities, which has allowed the Company's projects to continue while implementing new health and safety requirements. However, some of the Company's projects, primarily for private (commercial) customers, have experienced or continue to experience temporary suspensions or reduced project activities as a result of the COVID-19 pandemic. Further, periodic staff absences occurred during the year to properly quarantine individuals to protect staff, mitigate infections and limit COVID-19 exposure. The financial impact to the Company thus far has been minimal and primarily resulted in temporary suspensions, new social distancing and other health and safety requirements.

Due to the fluidity of the COVID-19 pandemic, uncertainties as to its scope and duration, and ongoing changes in the way that governments, businesses, and individuals react and respond to the pandemic, the Company is unable at this time to accurately predict the pandemic's future impact on the Company's business, results of operations, financial condition or liquidity.

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.

S&B PHARMA, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2021 AND 2020

Particulars

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 2021, 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.

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. As of 31 March 2021 and 2020, management has recorded no allowance for doubtful accounts and believes all accounts receivable are expected to be collected.

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

S&B PHARMA, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 MARCH 2021 AND 2020

Particulars

1.9 Property, Plant and Equipment (Continued)

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 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. If the Company performs the detailed quantitative impairment test and the carrying amount of the cash-generating unit 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 2021. 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 2021.

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. No impairment was deemed to exist as of 31 March 2021.

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 (note 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

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1.11 Fair Value of Financial Instruments (Continued)

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

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.

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1.12 Revenue Recognition (Continued)

Revenues from service

Revenue from services rendered is recognized based on agreements / arrangements with the customers as the service is performed.

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.

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 2021 and 2020, \$23,349,816 and \$19,166,520, or 94% and 80%, of the Company's revenue was generated from the sale of products or services to related party entities.

1.14 Expenses

Cost of Materials Consumed

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 recorded 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.

Employee Benefits Expense

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

Other Expenses

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 years ended 31 March 2021 and 2020 were \$6,989 and \$6,828, respectively.

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1.16 Finance Cost - Expense and Capitalization

Finance cost includes interest expense on indebtedness and fees paid to Alkem – India for guaranteeing the Company's indebtedness. If finance 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 finance cost is capitalized as part of the cost of the asset. All other finance costs are expensed in the period incurred. During the years ended 31 March 2021 and 2020, the Company capitalized interest costs of \$73,000 and \$275,000, respectively.

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 2021 and 2020, marketing and promotion costs were \$2,245 and \$2,097, respectively.

1.18 Clinical and Analytical Charges

Clinical and analytical (research and development) charges related to both future and present products are expensed as incurred. For the years ended 31 March 2021 and 2020, research and development costs were \$0 and \$49,232, respectively.

1.19 Royalty Expenses

Alkem – St. Louis incurs royalty expenses for selling products that utilize intellectual property developed and registered by Alkem – India. For the years ended 31 March 2021 and 2020, royalty expenses were \$126,820 and \$244,135, respectively.

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.

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1.20 Income Taxes (Continued)

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 2021 and 2020. As of 31 March 2021 and 2020, 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.

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 years ended 31 March 2021 and 2020, the Company paid \$1,893,519 and \$2,446,581, respectively, of income tax to India taxing authorities in connection with the income earned from R&D services provided to Alkem – India. The income tax payments can be utilized as tax credits, subject to limitation, against income taxes owing in the United States (U.S.). Thus, the amounts are initially recorded as deferred tax asset. However, given the uncertainty about when the Company is able to generate future U.S. taxable income to utilize the foreign tax credit, the Company increased the deferred tax valuation allowance by \$1,893,519 and \$2,446,581, respectively, as of 31 March 2021 and 2020. The increase in the valuation allowance resulted in income tax expense within the Statement of Profit and Loss for the years ended 31 March 2021 and 2020.

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NOTE 2 - NOTES TO THE FINANCIAL STATEMENTS

NOTE 2.1: PROPERTY, PLANT AND EQUIPMENT

<u>Cost</u>	Land	Building	Machinery	Furniture	Computer	Total
Balance as of 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
Reclassification	-	(2,652,439)	2,652,439	-	-	-
Disposals	-	(78,696)	(809,579)	(1,478)	(4,662)	(894,415)
Balance as of 31 March 2020	\$ 1,855,155	\$ 18,825,108	\$ 28,763,346	\$ 321,484	\$ 2,693,434	\$ 52,458,527
Balance as of 1 April 2020	\$ 1,855,155	\$ 18,825,108	\$ 28,763,346	\$ 321,484	\$ 2,693,434	\$ 52,458,527
Additions	-	16,609	3,828,205	-	36,015	3,880,829
Disposals	-	(8,131)	(1,604,282)	(14,800)	-	(1,627,213)
Balance as of 31 March 2021	\$ 1,855,155	\$ 18,833,586	\$ 30,987,269	\$ 306,684	\$ 2,729,449	\$ 54,712,143

<u>Depreciation</u>	Land	Building	Machinery	Furniture	Computer	Total
Balance as of 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
Reclassification	-	114,828	(114,828)	-	-	-
Disposals	-	(4,631)	(359,095)	(287)	(3,350)	(367,363)
Balance as of 31 March 2020	-	\$ 2,025,167	\$ 9,666,319	\$ 212,171	\$ 1,679,795	\$ 13,583,452
Balance as of 1 April 2020	\$ -	\$ 2,025,167	\$ 9,666,319	\$ 212,171	\$ 1,679,795	\$ 13,583,452
Additions	-	512,303	3,432,870	19,362	564,573	4,529,108
Disposals	-	(7,212)	(481,562)	(9,573)	-	(498,347)
Balance as of 31 March 2021	\$ -	\$ 2,530,258	\$ 12,617,627	\$ 221,960	\$ 2,244,368	\$ 17,614,213
Net Fixed Assets	\$ 1,855,155	\$ 16,303,328	\$ 18,369,642	\$ 84,724	\$ 485,081	\$ 37,097,930

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NOTE 2.2: INTANGIBLE ASSETS (Note 2.25)

	Norac	Alkem	Total
	Goodwill	Goodwill	
Balance as of 1 April 2019	\$ 2,595,020	\$ 1,347,648	\$ 3,942,668
Additions	-	-	-
Amortization	-	-	-
Impairments (note 1.10)	-	-	-
Balance as of 31 March 2020	<u>2,595,020</u>	<u>1,347,648</u>	<u>3,942,668</u>
Balance as of 1 April 2020	2,595,020	1,347,648	3,942,668
Additions	-	-	-
Amortization	-	-	-
Impairments (note 1.10)	-	-	-
Balance as of 31 March 2021	<u>\$ 2,595,020</u>	<u>\$ 1,347,648</u>	<u>\$ 3,942,668</u>

NOTE 2.3: DEPOSITS ON EQUIPMENT

	As of 31 March 2021	As of 31 March 2020
Deposits on equipment	<u>\$ 216,000</u>	<u>\$ -</u>

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

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

	As of 31 March 2021	As of 31 March 2020
Closing Stock:		
Raw materials	\$ 5,417,167	\$ 3,858,325
Work in process	1,740,469	1,516,251
Finished goods	771,500	1,269,011
Provision for slow/non-moving inventory	(4,725,117)	(3,181,520)
Total inventories	<u>\$ 3,204,018</u>	<u>\$ 3,462,067</u>

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NOTE 2.5: RECEIVABLES

The following schedule details receivable accounts at 31 March 2021 and 2020:

	As of 31 March 2021	As of 31 March 2020
Trade receivables - third party		
Outstanding for a period of less than six months from due date	\$ 54,946	\$ 662,536
Outstanding for a period of greater than six months from due date	384	4,953
Less allowance for doubtful accounts (A)	-	-
Total trade receivables - third party	<u>55,330</u>	<u>667,489</u>
Due from related party		
Due from Alkem Laboratories, Ltd.	3,743,122	3,217,686
Due from Ascend Laboratories, LLC	<u>1,104,386</u>	<u>-</u>
Total due from related party	4,847,508	3,217,686
Total receivables	<u>\$ 4,902,838</u>	<u>\$ 3,885,175</u>

(A) As of 31 March 2021 and 2020, all receivables are expected to be collected.

NOTE 2.6: INVESTMENTS

	As of 31 March 2021	As of 31 March 2020
Investment - level 1 investment (500,000 shares) (1)	\$ -	\$ 220,000
Investment - fair value through profit and loss (1,156,250 shares) (2)	2,016,499	699,999
Investment - fair value through profit and loss (173,303 shares) (2)	<u>57,407</u>	<u>57,407</u>
Total Investment	<u>\$ 2,073,906</u>	<u>\$ 977,406</u>

1. This investment consists of 500,000 shares of publicly traded stock of a pharmaceutical company. These securities are valued using Level 1 measurement inputs and are reported at their fair market value based on quoted market prices in an active market. Unrealized gain or loss is included in Other Expenses within the Statement of Profit and Loss.

During the year ended 31 March 2021, the Company sold all 500,000 shares of this investment. Gain or loss on sale is recorded in Other Income within the Statement of Profit and Loss.

2. These investments resulted from conversions of a portion of the unpaid balance of two distinct customers' accounts receivable into equity shares of the two debtors. Both debtors are nonpublic companies and there is no active trading market for the securities owned by the Company. The Company accounts for these investments under the fair value through profit and loss method. Under this method, investments are recorded on the balance sheet at fair value (Note 2.25), and changes in fair value are recognized in the Statement of Profit and Loss as they arise. Because both investments are non-publicly traded securities, where access to information about the operation of the investees is not readily available, and the investees' principal products are in development and not available for commercialization, the fair value of these investments is not reliably assessable. The investments are measured at historical costs, which management believes is the best representation of the fair value of the investments. No gain or loss has been recognized in the Statement of Profit and Loss since the fair value of the investments is maintained at historical cost throughout the year ended 31 March 2021.

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NOTE 2.6: INVESTMENTS (Continued)

The Company tests for impairment of its investments periodically. If events arise which indicate that the fair value of these investments has decreased below their costs, impairment allowance will be recognized to reduce the investments to fair value. As of 31 March 2021, the Company did not identify any events which would require an impairment assessment of these investments.

As of 31 March 2021, the Company possesses a total of 1,156,250 shares and 173,303 shares in the two investees, respectively. The Company doesn't have significant influence over both investees. Therefore, the investees are not considered Associates of the Company.

NOTE 2.7: CASH AND CASH EQUIVALENTS

	As of 31 March 2021	As of 31 March 2020
Cash and cash equivalents		
Cash on hand	\$ 964	\$ 894
Checking account	4,356,738	1,690,994
Money market account	1,302,570	2,834,816
Total cash and cash equivalents	<u>\$ 5,660,272</u>	<u>\$ 4,526,704</u>

NOTE 2.8: SHARE CAPITAL

On 16 June 2020, the Company issued 11,235 shares of common stock, par value \$.01 per share, to Alkem – India for \$7,999,320. On 14 August, 2020, the Company issued 7,022 shares of common stock, par value \$.01 per share, to Alkem – India for \$4,999,664. The total 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 of 31 March 2021	As of 31 March 2020
Authorized Share Capital:		
500,000 equity shares of USD\$.01/each	<u>\$ 5,000</u>	<u>\$ 5,000</u>
Issued, Subscribed & Paid-up:		
138,459 equity shares of USD\$.01/each	<u>\$ 1,385</u>	<u>\$ 1,202</u>

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

	As of 31 March 2021	As of 31 March 2020
Numbers of shares outstanding at the beginning of the year	120,202	83,557
Shares issued during the year	18,257	36,645
Numbers of shares outstanding at the end of the year	<u>138,459</u>	<u>120,202</u>

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NOTE 2.8: SHARE CAPITAL (Continued)

(C) Number of shares owned by shareholder with more than 5% interest in the Company

	As of 31 March 2021	As of 31 March 2020
Alkem Laboratories Limited	<u>138,459</u>	<u>120,202</u>

NOTE 2.9: RESERVES AND SURPLUS

	As of 31 March 2021	As of 31 March 2020
Additional Paid in Capital		
At the beginning of the year	\$ 75,716,307	\$ 49,717,047
Premium for issuing 36,645 shares of stock	-	25,999,260
Premium for issuing 18,257 shares of stock	12,998,802	-
Additional paid in capital at the end of the year	<u>88,715,109</u>	<u>75,716,307</u>
Deficit in Statement of Profit and Loss		
At the beginning of the year	(36,353,848)	(22,301,540)
Loss for current year	(6,606,779)	(14,052,308)
Loss to be absorbed	<u>(42,960,627)</u>	<u>(36,353,848)</u>
Reserves and surplus at the end of the year	<u>\$ 45,754,482</u>	<u>\$ 39,362,459</u>

NOTE 2.10: LOANS PAYABLE

	As of 31 March 2021	As of 31 March 2020
Long term debt		
Loan - Citibank (2)	\$ 2,500,000	\$ 7,500,000
Loan payable - Alkem Laboratories, Ltd. (4)	2,000,000	2,000,000
Total long term debt	<u>4,500,000</u>	<u>9,500,000</u>
Short term debt		
Loan payable - Ascend Laboratories, LLC (1)	1,000,000	1,000,000
Loan - Citibank (2)	5,000,000	5,000,000
Bank line of credit (3)	-	-
Total short-term debt	<u>6,000,000</u>	<u>6,000,000</u>
Total debt	<u>\$ 10,500,000</u>	<u>\$ 15,500,000</u>

- 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 2021 and is expected to be paid within one year from the balance sheet

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NOTE 2.10: LOANS PAYABLE (Continued)

date. The credit facility expires in March 2025 and can be renewed automatically for a further period. This loan is secured by a subordinated interest in the Company's assets.

2. In 2017, the Company entered into a term loan agreement with Citibank for \$15,000,000. The loan matures on 15 August 2022. The principal balance of the loan is to be repaid in 6 equal semi-annual installments beginning 15 February 2020. During the year ended 31 March 2021, the Company made scheduled payment of \$2,500,000 on 15 August 2020 and \$2,500,000 on 15 February 2021. As of 31 March 2021, three semi-annual installments of \$2,500,000 are outstanding, for a balance of \$7,500,000. The interest rate applicable to this loan varies based on LIBOR rate plus 125 basis points. Interest on the loan is paid quarterly. The interest rate on the loan on 31 March 2021 was 1.36%. This loan is secured by a standby letter of credit (SBLC) issued by Alkem – India.
3. The Company possesses a line of credit with Citibank that matured on 31 March 2020. The Company renewed the line of credit on 6 August 2020 and extended the maturity date till 23 April 2021. The Company did not renew this line of credit after the expiration date (note 2.30). The interest rate applicable to the line of credit is LIBOR plus 125 basis points. There is no outstanding balance of this line of credit as of 31 March 2021 and 2020.
4. 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 loan agreement expires on 20 December 2022. Repayment of the amount borrowed will be due on expiry of the loan agreement or termination thereof, whichever is earlier. On 1 June 2017, the borrowing capacity was increased to \$25,000,000. The outstanding balance is \$2,000,000 as of 31 March 2021 and 2020.

The Citibank loan and line of credit are secured by standby letter of credit (SBLC) issued by the parent company, Alkem – India. The Company reimburses the parent company for SBLC and guarantee commission fees incurred and paid by the parent company. For years ended 31 March 2021 and 2020, the Company paid the parent company SBLC fees of \$74,953 and \$192,443, respectively, and guarantee commission fees of \$79,779 and \$205,905, respectively (note 2.20). The amounts are included in finance cost on the Statement of Profit and Loss.

Annual principal payments on indebtedness are as follows:

For the following period,	As of 31 March 2021	As of 31 March 2020
First year from the balance sheet date	\$ 6,000,000	\$ 6,000,000
Second year from the balance sheet date	4,500,000	5,000,000
Third year from the balance sheet date	-	4,500,000
Fourth year from the balance sheet date	-	-
Fifth year from the balance sheet date	-	-
Thereafter	-	-
Total debt	<u>\$ 10,500,000</u>	<u>\$ 15,500,000</u>

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.

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NOTE 2.11: RIGHT-OF-USE LEASE ASSETS AND LIABILITIES (Continued)

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 2021, the right-of-use lease asset and right-of-use lease liability amounted to \$706,264 and \$733,430 (current portion \$344,329 and non-current portion \$389,101) respectively. Interest expense recorded within the Statement of Profit and Loss for the year ended 31 March 2021 and 2020 related to the Company's right-of-use liabilities amounted to \$47,832 and \$63,563, respectively.

NOTE 2.12: ACCRUED INTEREST

	As of 31 March 2021	As of 31 March 2020
Interest accrued and not paid at the end of year:		
Loan from Alkem Laboratories, Ltd.	\$ 270,667	\$ 130,667
Loan from Ascend Laboratories, LLC	-	274
Citibank loans	12,962	32,444
Total accrued interest	<u>\$ 283,629</u>	<u>\$ 163,385</u>

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NOTE 2.13: TRADE PAYABLES

	As of 31 March 2021	As of 31 March 2020
Trade payable - third party	\$ 1,216,594	\$ 1,654,120
Due to related party		
Due to Alkem Laboratories, Ltd.	1,873,387	1,804,036
Due to Ascend Laboratories, LLC	4,516,115	1,441,369
Total trade payable - related party	6,389,502	3,245,405
Total payable	\$ 7,606,096	\$ 4,899,525

NOTE 2.14: OTHER CURRENT LIABILITIES

	As of 31 March 2021	As of 31 March 2020
Accrued expenses	\$ 1,516,314	\$ 1,314,994
Accrued profit sharing plan contribution	91,948	89,609
Total other current liabilities	\$ 1,608,262	\$ 1,404,603

NOTE 2.15: REVENUE FROM OPERATIONS

	As of 31 March 2021	As of 31 March 2020
Commercial products – third party	\$ 667,453	\$ 3,651,054
Commercial products – Ascend Laboratories, LLC	7,685,279	5,016,636
Contract services – third party	819,640	1,091,311
Contract services – Alkem Laboratories, Ltd.	15,664,536	14,149,884
Total Revenue	\$ 24,836,909	\$ 23,908,885

NOTE 2.16: OTHER INCOME

	For the year ended 31 March 2021	For the year ended 31 March 2020
Interest income	\$ 4,106	58,559
Other miscellaneous income	1,702	61,476
Gain (loss) on sale of investment	905,663	-
Total other income	\$ 911,470	120,035

NOTE 2.17: COST OF MATERIALS CONSUMED

	For the year ended 31 March 2021	For the year ended 31 March 2020
Cost of materials consumed	\$ 2,797,578	\$ 4,296,958

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

	As of 31 March 2021	As of 31 March 2020
Opening Stock:		
Work in process	\$ 1,516,251	\$ 1,405,777
Finished goods	1,269,011	158,474
	<u>\$ 2,785,262</u>	<u>\$ 1,564,251</u>
Less Closing Stock:		
Work in process	\$ 1,740,469	\$ 1,516,251
Finished goods	771,499	1,269,011
	<u>\$ 2,511,968</u>	<u>\$ 2,785,262</u>
Increase (Decrease) in inventories of finished goods, stock-in-trade and work in process	<u>\$ (273,294)</u>	<u>\$ 1,221,011</u>

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

	As of 31 March 2021	As of 31 March 2020
Beginning balance of provision in obsolete / slow moving inventory:		
Raw materials	\$ 2,889,742	\$ 406,908
Work in process	291,460	-
Finished goods	318	-
	<u>\$ 3,181,520</u>	<u>\$ 406,908</u>
Less Ending balance of provision in obsolete / slow moving inventory:		
Raw materials	\$ 4,263,617	\$ 2,889,742
Work in process	461,113	291,460
Finished goods	388	318
	<u>\$ 4,725,117</u>	<u>\$ 3,181,520</u>
Change in provision of obsolete / slow moving inventory - increase (decrease)	<u>\$ 1,543,597</u>	<u>\$ 2,774,612</u>

NOTE 2.19: EMPLOYEE BENEFIT EXPENSES

	For the year ended 31 March 2021	For the year ended 31 March 2020
Salaries, wages and bonus	\$ 11,678,101	\$ 13,720,565
Retirement expense	473,641	437,131
Welfare expense	1,592,047	1,874,612
Miscellaneous employee benefit expense	587,599	197,233
Total employee benefit expenses	<u>\$ 14,331,388</u>	<u>\$ 16,229,541</u>

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NOTE 2.20: FINANCE COST

	For the year ended 31 March 2021	For the year ended 31 March 2020
Interest expense - related party loans	\$ 146,036	\$ 130,941
Interest expense - Citibank loans	149,099	983,372
Interest expense - right-of-use liabilities	47,832	63,563
Standby letter of credit fees paid to Alkem Laboratories, Ltd.	74,953	192,443
Guarantee commission fees paid to Alkem Laboratories, Ltd.	79,779	205,905
Other bank charges	11,403	8,144
	<u>509,102</u>	<u>1,584,368</u>
Interest capitalized to construction in process	(73,000)	(275,000)
Total finance cost	<u>\$ 436,102</u>	<u>\$ 1,309,368</u>

NOTE 2.21: DEPRECIATION AND AMORTIZATION EXPENSE

	For the year ended 31 March 2021	For the year ended 31 March 2020
Depreciation expense - buildings	\$ 512,303	\$ 516,447
Depreciation expense - machineries	3,432,870	3,321,196
Depreciation expense - furniture & fixtures	19,361	35,538
Depreciation expense - computers	564,573	733,199
Amortization expense - right-of-use assets	353,132	353,132
Total depreciation and amortization	<u>\$ 4,882,239</u>	<u>\$ 4,959,512</u>

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NOTE 2.22: OTHER EXPENSES

	For the year ended 31 March 2021	For the year ended 31 March 2020
Power and fuel	\$ 1,072,722	\$ 905,031
Rent	63,583	47,125
Payroll and property taxes	1,304,557	1,788,418
Insurance	409,481	363,321
Marketing and promotions	2,245	2,097
Selling and distribution expenses	42,103	25,459
Legal and professional fees	694,201	509,056
Commission and cash discount	97,553	168,245
Travelling and conveyance	6,986	86,123
Repairs and maintenance	1,138,165	1,360,473
(Gain) loss on sale of fixed assets (net)	40,711	324,504
Unrealized (gain) loss on investment	-	230,000
Communication and printing expenses	78,905	88,596
Clinical and analytical charges	-	49,232
Bad debt (recovery) expense	-	(28,200)
License, registration & technology fees	416,600	472,224
Royalty expenses	126,820	244,135
Office expenses	360,739	314,780
Miscellaneous expenses	342,070	334,248
Total other expenses	<u>\$ 6,197,441</u>	<u>\$ 7,284,867</u>

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 2021 and 2020, the Company's contributions to the plan were \$386,789 and \$362,457, respectively. Of these amounts, \$91,948 and \$89,609 were accrued and not paid as of 31 March 2021 and 2020.

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 2021 and 2020, the Company's matching contributions accrued and paid were \$86,852 and \$74,674, respectively, net of forfeiture applied.

NOTE 2.24: RELATED PARTY TRANSACTIONS

The Company's related parties include Alkem Laboratories, Ltd. (Alkem – India), the Company's parent company, and Ascend Laboratories, LLC (Ascend), a related party owned by the same parent company.

As of 31 March 2021, the Company's Balance Sheet includes a short-term receivable balance due from Alkem – India of \$3,743,122, and a short-term payable balance due to Alkem – India of \$1,873,387.

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NOTE 2.24: RELATED PARTY TRANSACTIONS (Continued)

As of 31 March 2021, the Company's Balance Sheet includes a net short-term receivable balance due from Ascend Laboratories, LLC (Ascend) of \$1,104,386, and a short-term payable balance due to Ascend of \$4,516,115, which includes \$3,016,115 reimbursement of the Company's expense by Ascend, and \$1,500,000 advance payment from Ascend.

During the year ended 31 March 2021, the Company sold fixed assets and equipment not in service with net book value of \$1,134,192 to Alkem – India. The sales proceeds were \$1,091,400. The Company incurred \$39,792 loss on the sale transaction. The loss is included in other expenses within the Statement of Profit and Loss.

On 26 April 2019, the Company borrowed \$2,000,000 from Alkem – India under the revolving credit facility agreement dated 20 December 2012. See Note 2.10 for more information regarding this transaction. As of 31 March 2021, the accrued interest on the loan is \$270,667, 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 2021, no interest is accrued on this loan.

On 16 June 2020, the Company issued 11,235 shares of common stock, par value \$.01 per share, to Alkem – India for \$7,999,320. On 14 August, 2020, the Company issued 7,022 shares of common stock, par value \$.01 per share, to Alkem – India for \$4,999,664. Amounts paid in excess of par value were recorded in Additional Paid in Capital.

The Company earned \$15,664,536 and \$14,149,884 in revenues for the years ended 31 March 2021 and 2020, 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 \$7,685,279 and \$5,016,636 in revenues for the years ended 31 March 2021 and 2020, 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 2021 and 2020, the Company paid Alkem – India standby letter of credit fees of \$74,953 and \$192,443, respectively, and guarantee commission fees of \$79,779 and \$205,905, 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 2021 and 2020, royalty expenses charged by Alkem-India on products sold by the Company were \$126,820 and \$244,135, respectively. These expenses are included in other expenses within the Statement of Profit and Loss.

During the year ended 31 March 2021 and 2020, the Company paid Ascend expense reimbursement of \$3,976 and \$2,750, respectively, and received expense reimbursement from Ascend of \$142,348 and \$148,022, respectively. These amounts are included in cost of materials consumed within the Statement of Profit and Loss.

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NOTE 2.24: RELATED PARTY TRANSACTIONS (Continued)

During the year ended 31 March 2021 and 2020, the Company paid Alkem – India expense reimbursement of \$83,606 and \$1,237,309, respectively, and received expense reimbursement from Alkem-India of \$22,410 and \$181,150, respectively. These amounts are included in cost of materials consumed within the Statement of Profit and Loss.

During the year ended 31 March 2021 and 2020, the Company purchased \$23,280 and \$248,903, respectively, worth of material, and \$9,290 and \$21,420, respectively, worth of products from Alkem-India. These expenses are included in cost of materials consumed within the Statement of Profit and Loss.

The table below lists the Key Management Personnel ("KMP"). For the years ended 31 March 2021 and 2020, the remuneration to KMP was \$1,189,034 and \$1,138,564, respectively.

Name of the KMP	Designation
Mr. Sandeep Singh	Director
Mr. Amit Ghare	Director
Mr. Richard Roland Green	Director
Dr. Daniel Levin	Director
Mr. Lester Stephen Ordway	Director
Mr. Amit Ghura	Director

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 2021 and 2020.

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

Non-Recurring:	Levels as of 31 March 2021	Levels as of 31 March 2020
Intangible assets (Note 1.10 and 2.2)	\$ 3,942,668	\$ 3,942,668
Investments (Note 1.11 and 2.6)	2,073,906	757,406
	<u>\$ 6,016,574</u>	<u>\$ 4,700,074</u>

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 2017.

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NOTE 2.26: INCOME TAXES (Continued)

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

	As of 31 March 2021	As of 31 March 2020
Federal		
Current	\$ -	\$ -
Deferred	(3,200,000)	(3,200,000)
State and local		
Current	-	-
Deferred	(300,000)	(800,000)
Change in valuation allowance	3,500,000	4,000,000
Income tax provision (benefit)	-	-
Foreign tax - India	1,893,519	2,446,581
Income tax expense	<u>\$ 1,893,519</u>	<u>\$ 2,446,581</u>

As of 31 March 2021, the Company's deferred tax assets and liabilities consisted of the effects of temporary differences attributable to the following:

	As of 31 March 2021	As of 31 March 2020
Deferred tax assets:		
Net operating losses and tax credits:	\$ 18,800,000	\$ 15,300,000
Other deductions	1,500,000	685,000
Valuation allowance	(15,700,000)	(12,200,000)
Deferred tax assets, net of valuation allowance	<u>\$ 4,600,000</u>	<u>\$ 3,785,000</u>
Deferred tax liabilities:		
Excess of book over tax basis of:		
Property and equipment	(3,800,000)	(3,050,000)
Goodwill	(519,000)	(454,000)
Deferred tax liabilities	<u>(4,319,000)</u>	<u>(3,504,000)</u>
Deferred tax assets - net	<u>\$ 281,000</u>	<u>\$ 281,000</u>

As of 31 March 2021, the Company had approximately \$59,000,000 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.

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NOTE 2.26: INCOME TAXES (Continued)

Unrecognized deferred tax assets

Particulars	31-Mar-21		31-Mar-20	
	Gross Amount	Unrecognized tax effect	Gross Amount	Unrecognized Tax effect
Temporary difference Deductible Tax losses and tax credits	\$ 59,000,000	\$ 18,800,000	\$ 55,000,000	\$ 15,300,000
Total	\$ 59,000,000	\$ 18,800,000	\$ 55,000,000	\$ 15,300,000

Below is a listing of the net operating loss incurred by the Company as of March 31, 2021. 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 of 31 Mar-21	Expiration Date	Amount as of 31 Mar-20
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	\$ 47,600,000	No expiration date	\$ 43,600,000
Total		\$ 59,000,000		\$ 55,000,000

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 2021 and 2020, 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.

For the year ended 31 March 2021, the Company paid \$1,893,519 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 \$1,893,519. 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 2021.

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NOTE 2.27: COMMITMENTS

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 \$97,553. This amount was paid as of 31 March 2021.

Purchase Commitments

As of 31 March 2021, the Company signed contracts for equipment purchase and construction service for total amount of \$9,729,916, for which it has paid \$5,798,671, with a commitment due of \$3,931,245.

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 the year ended 31 March 2021, 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, \$329,502 is recorded as a reduction of the right to use liabilities and \$47,832 is recorded as interest expense.

For the year ended 31 March 2021, equipment rent not related to Ind AS 116 of \$63,583 is included in other expense within the Statement of Profit and Loss.

The following is a schedule of future minimum rental payments due under the leases not subject to Ind AS 116 as of 31 March 2021:

For the following period,	Equipment
4/1/2021 - 3/31/2022	\$ 19,564
4/1/2022 - 3/31/2023	7,544
4/1/2023 - 3/31/2024	1,096
4/1/2024 - 3/31/2025	-
4/1/2025 - 3/31/2026	-
	<u>\$ 28,204</u>

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 2021 and 2020, the Company incurred research and development costs of \$0 and \$49,232, respectively.

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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 2021, related parties Alkem – India and Ascend accounted for 63% of revenues, or \$15,664,536, and 31% of revenues, or \$7,685,279, respectively. Additionally, one other customer accounted for 3% of revenues, or \$650,827. 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. One other customer accounted 11% of revenues, or \$2,619,758.

As of 31 March 2021 and 2020, one customer accounted for 64% and 80% of the accounts receivable, or \$35,500 and \$535,900, 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 of 31 March 2021 and 2020, the amount in excess of insured limits was \$5,410,272 and \$4,276,704, 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 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.

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NOTE 2.28: RISK MANAGEMENT (Continued)

	Contractual cash flows						
	Carrying amount	Total	2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
31 March 2021							
Non-derivative financial liabilities USD							
Local currency term loans from banks and related parties (A)	\$ 10,500,000	\$ 14,475,000	\$ -	\$ 5,000,000	\$ 2,500,000	\$ 3,000,000	\$ -
Trade and other payables	1,216,594	1,216,594	1,216,594	-	-	-	-
Other financial liability	1,274,693	1,274,693	1,274,693	-	-	-	-
Total	\$ 12,991,287	\$ 16,966,287	\$ 2,491,287	\$ 5,000,000	\$ 2,500,000	\$ 3,000,000	\$ -
	Contractual cash flows						
	Carrying amount	Total	2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
31 March 2020							
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	\$ -

(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.

The Company's adjusted net debt to equity ratio at March 31, 2021 and 2020 was as follows.

	As of 31 March 2021	As of 31 March 2020
Total borrowings	\$ 10,500,000	\$ 15,500,000
Less: Cash and cash equivalent	(5,660,272)	(4,526,704)
Adjusted net debt	\$ 4,839,728	\$ 10,973,296
Total equity	\$ 45,755,867	\$ 39,363,661
Adjusted net debt to adjusted equity ratio	0.11	0.28

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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 \$7,500,000 and \$12,500,000 in floating-rate debt outstanding as of 31 March 2021 and 2020, 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.

US Dollars	Instruments	Principal Amount	Variable Index	Addition to Libor Index	Profit or (Loss)		Equity	
					net of tax (1)		net of tax (1)	
					100 Basis Points Increase	100 Basis Points Decrease	100 Basis Points Increase	100 Basis Points Decrease
31 March 2021								
Variable-rate Instruments	Citibank Loans	\$7,500,000	LIBOR	1.25%	\$ (52,500)	\$ 52,500	\$ (52,500)	\$ 52,500
Cash flow sensitivity (net)					\$ (52,500)	\$ 52,500	\$ (52,500)	\$ 52,500
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

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

NOTE 2.30: SUBSEQUENT EVENTS

The Company performed a review of events subsequent to the balance sheet date through 7 May 2021 which is the date the financial statements were available to be issued. The following event and transaction occurred subsequent to 31 March 2021.

- The Company did not renew the line of credit with Citibank after this line of credit expired on 23 April 2021 (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.

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NOTE 2.31: RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

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 note 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 2021	For the year ended 31 March 2020
As Auditor		
Audit fees	\$ 103,838	\$ 75,420
In other capacity		
Financial statements review	36,500	20,647
Taxation matters	14,098	12,761
Reimbursement of out of pocket expense	3,761	5,420
Total	<u>\$ 158,197</u>	<u>\$ 114,248</u>