

NATCO PHARMA (CANADA) INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2020

NATCO PHARMA (CANADA) INC.

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Year Ended March 31, 2020

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF
NATCO PHARAM (CANADA) INC.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Natco Pharma (Canada) Inc. ("the Company"), which comprise the balance sheet as at March 31, 2020, and the statements of income, retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Natco Pharma (Canada) Inc. as at March 31, 2020 and the results of its operations and its cash flows for the year then ended in accordance with Accounting Standards for Private Enterprises (ASPE).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with ASPE, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Chartered Professional Accountants
Licensed Public Accountants
Vaughan, Ontario

May 4, 2020

NATCO PHARMA (CANADA) INC.

Balance Sheet

As At March 31, 2020

See Accompanying Notes

	2020	2019
ASSETS		
Current Assets		
Cash	\$ 1,624,620	\$ 347,474
Short-term deposits	-	2,515,244
Accounts receivable – trade, no allowance	8,779,802	4,618,863
Inventory (Note 2)	2,073,975	2,371,291
Goods and services taxes receivable	89,714	61,337
Prepaid and sundry expenses	34,332	31,323
Total Current Assets	12,602,443	9,945,532
Equipment (Note 3)	105,845	83,447
Total Assets	\$ 12,708,288	\$ 10,028,979
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$3,986,399	\$ 2,208,619
Income taxes payable	221,610	86,563
Customer deposits	10,833	-
Due to related party (Note 4)	2,246,276	2,536,793
Total Current Liabilities	6,465,118	4,831,975
EQUITY		
Share capital (Note 6)	2,810,881	2,810,881
Retained earnings	3,432,289	2,386,123
Total Equity	6,243,170	5,197,004
Total Liabilities and Equity	\$ 12,708,288	\$ 10,028,979

Commitments and contingencies (Note 8 and 9)

Approved on Behalf of the Board:

NATCO PHARMA (CANADA) INC.

Statement of Income For The Year Ended March 31, 2020 See Accompanying Notes

	2020	2019
Revenue		
Sales, net of returns	\$ 24,114,364	\$ 18,056,744
Interest income	19,622	34,425
Miscellaneous income	45,639	2,247
Total revenue	24,179,625	18,093,416
Cost of goods sold	3,360,616	2,184,961
Gross profit	20,819,009	15,908,455
Operating Expenses		
Marketing support program	12,158,727	9,150,511
Salaries and benefits	1,741,545	1,423,726
Wholesaler upcharge and other charges	653,263	665,767
Regulatory and QA expenses	547,157	610,527
Marketing expense	358,053	160,692
Rent	313,680	286,411
Sales commission	306,581	148,830
Remuneration to salesmen	243,525	81,566
Freight charges	177,286	111,973
Travel expenses	125,728	96,120
Tender claims	96,348	-
Professional fees - others	78,790	102,021
Computer expenses	44,734	38,134
Office expenses	41,470	65,026
Insurance	31,725	30,413
Professional fees – audit	25,000	25,000
Meals and entertainment	18,197	12,893
Auto expenses	16,068	15,924
Telephone	10,042	10,747
Loss on exchange	-	83
Total operating expenses	16,987,919	13,036,364
Income before interest, amortization and prompt payment incentive	3,831,090	2,872,091
Prompt payment incentive	352,079	314,324
Amortization of tangible assets	50,638	23,855
Interest and bank charges	10,950	8,600
Income before taxes and extraordinary expenses	3,417,423	2,525,312
Product development and IP legal charges	923,689	735,295
Expired inventory	1,082,307	484,804
Income before income taxes	1,411,427	1,305,213
Income tax	365,261	346,563
Net income for the year	\$ 1,046,166	\$ 958,650

NATCO PHARMA (CANADA) INC.

Statement of Retained Earnings For The Year Ended March 31, 2020 See Accompanying Notes

	2020	2019
Retained earnings, beginning of year	\$ 2,386,123	\$ 1,427,473
Net income for the year	1,046,166	958,650
Retained earnings, end of year	\$ 3,432,289	\$ 2,386,123

NATCO PHARMA (CANADA) INC.

Statement of Cash Flows For The Year Ended March 31, 2020 See Accompanying Notes

	2020	2019
Cash provided by (used in) operating activities		
Net income for the period	\$ 1,046,166	\$ 958,650
Adjustment for non-cash item:		
Amortization	50,638	23,855
Net changes in working capital balances		
Accounts receivable	(4,160,939)	2,886,386
Inventory	297,316	(728,230)
Prepaid and sundry expenses	(3,009)	6,229
Goods and services taxes receivable	(28,377)	2,697
Income taxes	135,047	(429,915)
Customer deposits	10,843	-
Accounts payable and accrued expenses	1,777,780	(1,808,130)
Total cash flow from operating activities	(874,535)	911,542
Investing Activities		
Short-term deposits	2,515,244	(2,515,244)
Acquisition of capital assets	(73,046)	(83,498)
Total cash flow from investing activities	2,442,198	(2,598,742)
Financing Activities		
Due to related party	(290,517)	369,780
Total cash flow from financing activities	(290,517)	369,780
(Decrease) Increase in cash during the year	1,277,146	(1,317,420)
Cash, beginning of year	347,474	1,664,894
Cash, end of year	\$ 1,624,620	\$ 347,474

NATCO PHARMA (CANADA) INC.

Notes to Financial Statements March 31, 2020

Natco Pharma (Canada) Inc. (the "Company") is incorporated on November 7, 2012 under the Canada Business Corporation Act. The Company is in the business of importing and selling Health Care Pharmaceutical products in Canada.

1. Summary of Accounting Policies

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the preceding period. Outlined below are those policies considered particularly significant.

a. Cash

Cash represents cash on hand, net of cheques issued and outstanding at the reporting date.

b. Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is determined on a weighted average basis.

c. Equipment

Equipment are initially recorded at cost. Amortization is provided annually at rates calculated to write off the assets over their estimated useful lives as follows, except in the year of acquisition when one half of the rate is used.

Equipment, furniture and fixture	20%	declining balance
Computer hardware	55%	declining balance

d. Revenue recognition

Sales revenue is recognized in accordance with industry practice which is when all the risks and benefits of ownership of products have been transferred to customers under executed sales agreements.

e. Impairment of long lived assets

Equipment is tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the long-lived assets exceeds its fair value.

NATCO PHARMA (CANADA) INC.

Notes to Financial Statements
March 31, 2020

f. Income taxes

The Company follows the income taxes payable method of accounting for income taxes. Under this method, only current income tax assets and liabilities are recognized which are determined in accordance with the rules established by the taxation.

g. Foreign currency translation

Foreign currency accounts are translated to Canadian dollars as follows:

- At the transaction date, each asset, liability, revenue or expense is translated into Canadian dollars by the use of the exchange rate in effect at that date.
- At period end date, monetary assets and liabilities are translated by using the exchange rate in effect and the resulting foreign exchange gains and losses are included in income in the current period value.

h. Measurement uncertainty

The presentation of financial statements in accordance with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Significant items subject to such estimates and assumptions include the estimated useful lives of equipment, the valuation of allowance for accounts receivable, valuation of inventories, impairment of financial assets and accruals. Actual results could differ from those estimates.

i. Leases

Leases are classified as either capital or operating leases. At the time the Company enters into a capital lease, an asset is recorded with its related long term obligation to reflect the acquisition and financing. Rental payments under operating leases are expensed as incurred.

NATCO PHARMA (CANADA) INC.

Notes to Financial Statements March 31, 2020

j. Financial instruments

The Company initially measures its financial assets and liabilities at fair value, except for certain related party transactions that are measured at the carrying amount or exchange amount as appropriate. The company subsequently measures all its financial assets and financial liabilities at amortized costs.

Financial assets measured at amortized cost include cash, term deposits and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and amounts due to related party.

The Company has no financial assets measured at fair market value and has not elected to carry any financial asset or liability at fair value.

For secured lines of credit annual transaction costs are treated as prepaid expenses and amortized over one year period. Non-recurring costs to initiate a line of credit are expensed as incurred.

2. Inventory

	2020	2019
Finished goods	\$ 2,073,975	\$ 2,371,291

3. Equipment

	Cost	Accumulated Amortization	2020 Net Value	2019 Net Value
Computer equipment	\$ 154,069	\$ 84,462	\$ 69,607	\$ 40,778
Equipment, furniture and fixtures	68,387	32,149	36,238	42,669
	\$ 222,456	\$ 116,611	\$ 105,845	\$ 83,447

4. Due to related party

Amounts due to related party, the corporate shareholder, are unsecured, non-interest bearing, and have no fixed terms of repayment.

NATCO PHARMA (CANADA) INC.

Notes to Financial Statements March 31, 2020

5. Related party transactions

During the year the Company purchased \$2,956,100 (2019 – \$2,789,979) of finished goods from its shareholder. These purchases were made in normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related party.

6. Share capital

	2020	2019
<u>Authorized</u>		
Unlimited Class A shares		
Unlimited Class B shares		
<u>Issued</u>		
2,810,881 Class A shares	\$ 2,810,881	\$ 2,810,881

7. Income taxes

The Company reported income tax expense is calculated in accordance with applicable income tax rules. The income tax expense therefore differs from the application of statutory rates to reported income as a result of the following tax reconciliation items:

	2020	2019
Income before income taxes for the period	1,411,427	1,305,213
Combined statutory income tax rate	26.5%	26.5%
Income tax expense at combined federal and provincial tax rate	\$ 374,028	\$ 345,881
Increase (decrease) in tax resulting from:		
Non-deductible expenses	2,411	1,708
Capital cost allowance difference	(10,428)	(67)
Prior year tax expense difference	(750)	(959)
Effective tax expense	\$ 365,261	\$ 346,563

8. Lease commitment

The Company's total obligations, under operating leases for occupied premises, exclusive of realty taxes and other occupancy charges in the next three years are as follows:

2021	87,367
2022	89,610
2023	89,610
Total	\$ 266,587

NATCO PHARMA (CANADA) INC.

Notes to Financial Statements
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9. Contingent liability

The Company is defending Intellectual Property proceedings initiated against it in connection with its submission for an approval to market certain products. The Company has filed a counterclaim that the proceedings initiated against it are void and of no force and effect. There is no exposure to damages as the Company has not yet sold the products. The exposure is limited to costs that may be awarded to prevailing party which is difficult to quantify.

10. Bank loan

The Company has an operating line of credit in the amount of \$1,500,000 bearing interest at the bank prime rate plus 1.5%. It is secured by a general security agreement. There were no amounts outstanding at the end of the year.

11. Economic dependence

The Company primarily purchases its product from its shareholder in India. The Company is exposed to risk associated with the nonperformance of the shareholder which can be directly impacted by a decline in economic conditions, which would impair the shareholder's ability to satisfy their obligations to the Company.

12. Financial risk and concentration of risk

The Company is exposed to various risks through its financial instruments. The following analysis provides a measure of the Company's risk exposure and concentrations at the balance sheet date.

Credit risk

The Company is exposed to credit risk in the event of non-performance by counterparties in connection with its cash and receivable. In order to reduce its credit risk from receivables, the company reviews of its existing receivables' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The Company manages the credit risk from its cash balances by maintaining its accounts with credit worthy and highly reputable financial institutions. The Company does not obtain collateral or other security to support the accounts receivable subject to credit risk but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant losses for non-performance. There has been no change in the risk assessment from the prior year.

NATCO PHARMA (CANADA) INC.

Notes to Financial Statements
March 31, 2020

12. Financial risk and concentration of risk (cont'd)

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The company is exposed to this risk mainly in respect of its accounts payable and to meet commitments. The company expects to meet these obligations as they come due by generating sufficient cash flow from operations and borrowings from its shareholder. In addition, the Company manages liquidity risk by maintaining sufficient cash on hand to settle obligations. There has been no change in the risk assessment from the prior year.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Company is mainly exposed to currency risk.

Currency risk

Currency risk is the risk that the fair value or future cash flows will fluctuate because of changes in foreign exchange rates. Approximately all the Company's purchases are from a foreign company. These purchases are payable in home currency however profitability could be effected due to foreign currency fluctuations. At period end, the Company had no amounts payable in foreign currencies.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk as there are no borrowings.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to other price risk.

NATCO PHARMA (CANADA) INC.

Notes to Financial Statements
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13. COVID-19 Situation

The COVID-19 pandemic evolved rapidly over the course of the first quarter of 2020. Many companies have taken and continuing to take specific measures in response to COVID-19 that have impacted and will continue to impact their operations, revenues and profits, and the risks and uncertainties affecting their operations going forward. Some businesses have been classified as non-essential services and have been required to shut down operations entirely, while other businesses have been required to limit their operations.

Operations at Natco Pharma (Canada) Inc. have not been materially impacted as the company continues to operate being in the essential services category. There have been some delays in receiving fresh inventory due to the COVID-19 lockdowns and transport delays, however this is being addressed and is not expected to have any serious impact in the normal business operations of the Company. There has been no impairment of capital assets and the management is of the opinion that there will not be any material impact on future operations.

14. Comparative Figures

Certain reclassifications may have been made to the prior year's financial statements to enhance comparability with the current year's financial statements.