Financial Statements of

NATCO PHARMA (CANADA) INC.

And Independent Auditors' Report thereon

Year ended March 31, 2022

KPMG LLP
Vaughan Metropolitan Centre
100 New Park Place, Suite 1400
Vaughan ON L4K 0J3
Canada
Tel 905-265-5900
Fax 905-265-6390

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Natco Pharma (Canada) Inc.

Opinion

We have audited the financial statements of Natco Pharma (Canada) Inc. (the Entity), which comprise:

- the balance sheet as at March 31, 2022
- the statement of earnings for the year then ended
- the statement of retained earnings for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2022, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

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 ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity 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 for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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 the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditors' 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 auditors' 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 the 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 Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- 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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

May 20, 2022

NATCO PHARMA (CANADA) INC.
Balance Sheet

March 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Current assets:		
Cash	$ 9,606,882	$ 2,643,598
Short-term investments (note 2)	13,540,817	15,061,863
Derivative financial instruments (note 3)	393,383	-
Accounts receivable (notes 4 and 7)	4,314,191	3,278,456
Inventory (note 5)	4,019,027	2,920,902
Due from shareholder (note 6)	255,887	2,731,171
Goods and services taxes receivable	352,214	198,316
Prepaid expenses	253,702	88,634
	32,736,103	26,922,940
Long-term investments (note 2)	3,000,000	6,509,391
Derivative financial instruments (note 3)	164,931	361,049
Loan receivable from related party (note 7)	4,998,400	-
Equipment (note 8)	85,631	66,737
	$ 40,985,065	$ 33,860,117
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,646,058	$ 572,387
Income taxes payable	142,171	223,529
	1,788,229	795,916
Shareholders' equity:		
Share capital (note 9)	2,810,881	2,810,881
Retained earnings	36,385,955	30,253,320
	39,196,836	33,064,201
Commitments (note 13)		
Contingent liabilities (note 14)		
	$ 40,985,065	$ 33,860,117

See accompanying notes to financial statements.

On behalf of the Board:

____________________________ Director

NATCO PHARMA (CANADA) INC.

Statement of Earnings

Year ended March 31, 2022, with comparative information for 2021

	2022	2021
Revenue:		
Gross sales	$ 46,976,235	$ 29,235,569
Sales returns and other allowances (note 10)	(592,536)	(2,209,164)
Marketing support programs	(27,016,728)	(11,299,155)
Interest income (note 7)	277,176	355,917
Compensation and claims	5,680,000	60,000,000
Government assistance	146,041	324,341
	25,470,188	76,407,508
Cost of goods sold:		
Cost of inventories sold	5,704,809	9,387,671
Write-down of inventory	1,830,381	852,567
	7,535,190	10,240,238
Income before operating expenses	17,934,998	66,167,270
Operating expenses:		
Salaries and benefits	3,109,740	4,518,675
Marketing expenses	1,585,966	435,013
Regulatory expenses	1,146,154	523,197
Wholesaler upcharge	467,076	280,496
Rent	338,265	322,803
Professional fees	313,459	210,555
Remuneration to salesman	297,150	358,600
Freight charges	256,755	202,608
Office and general	168,979	124,280
Travel and entertainment	148,558	78,550
Tender claim	-	72,261
	7,832,102	7,127,038
Income before other expenses	10,102,896	59,040,232
Other expenses (income):		
Product development and legal charges	1,429,894	22,524,715
Interest and bank charges	207,131	30,296
Foreign exchange loss on loan receivable (note 7)	159,600	-
Loss on investments	85,154	309,708
Amortization	34,980	46,917
Loss on disposal of equipment	-	2,954
Unrealized gain on derivative financial instruments (note 3)	(197,265)	(361,049)
	1,719,494	22,553,541
Income before income taxes	8,383,402	36,486,691
Income taxes (note 11)	2,250,767	9,665,660
Net income	$ 6,132,635	$ 26,821,031

See accompanying notes to financial statements.

NATCO PHARMA (CANADA) INC.

Statement of Retained Earnings

Year ended March 31, 2022, with comparative information for 2021

	2022	2021
Retained earnings, beginning of year	$ 30,253,320	$ 3,432,289
Net income	6,132,635	26,821,031
Retained earnings, end of year	$ 36,385,955	$ 30,253,320

See accompanying notes to financial statements.

NATCO PHARMA (CANADA) INC.

Statement of Cash Flows

Year ended March 31, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Operating activities:		
Net income	$ 6,132,635	$ 26,821,031
Items not involving cash:		
Amortization	34,980	46,917
Loss on disposal of equipment	-	2,954
Unrealized gain on derivative financial instruments (note 3)	(197,265)	(361,049)
Loss on investments	85,154	309,708
Unrealized foreign exchange on related party loan receivable (note 7)	159,600	-
Changes in non-cash operating working capital:		
Accounts receivable	(1,035,735)	2,712,978
Inventory	(1,098,125)	(846,927)
Prepaid expenses	(165,068)	(54,302)
Income taxes	(81,358)	1,919
Goods and services taxes receivable	(153,898)	(108,602)
Accounts payable and accrued liabilities	1,073,671	(625,966)
Customer deposits	-	(10,833)
	4,754,591	27,887,828
Financing activities:		
Due from (to) shareholder	2,475,284	(4,977,126)
Loan receivable to related party	(5,158,000)	-
	(2,682,716)	(4,977,126)
Investing activities:		
Redemption (purchase) of investments, net	4,945,283	(21,880,962)
Purchase of equipment	(53,874)	(10,762)
	4,891,409	(21,891,724)
Increase in cash	6,963,284	1,018,978
Cash, beginning of year	2,643,598	1,624,620
Cash, end of year	$ 9,606,882	$ 2,643,598

See accompanying notes to financial statements.

Nature of operations:

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. Significant accounting policies:

These financial statements are prepared in accordance with Canadian accounting standards for private enterprises. The Company's significant accounting policies are as follows:

(a) Cash and cash equivalents:

Cash and cash equivalents include cash and short-term deposits with original maturity under 90 days.

(b) Inventory:

Inventory consists of pharmaceuticals held for resale and are stated at the lower of cost, determined on a weighted average basis and net realizable value. Net realizable value is the estimated selling price in the normal course of business less the estimated costs required to bring the inventory to market. Included in the cost of inventories are costs of purchase net of vendor allowances, plus other costs, such as freight, commissions and duty, that are directly incurred to bring inventories to their present location and condition. The provision for inventory obsolescence is assessed regularly based on estimated usage and shelf life of products.

(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.

Asset	Basis	Rate
Equipment, furniture and fixtures	Declining balance	20%
Computer equipment	Declining balance	55%
Vehicles	Declining balance	30%

1. Significant accounting policies (continued):

(d) 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.

(e) Revenue recognition:

The Company recognizes revenue when products are delivered, the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Revenue is net of items such as returns, allowances and claims for damaged goods, prompt payment incentives, marketing support programs and professional allowances. The Company's offering of products include pharmaceuticals that are subject to price control established by local government authorities.

Income from compensation, claims and government assistance is recognized when collection of the amount receivable is assured.

(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 taxation authorities.

(g) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenue and expenses are translated at exchange rates prevailing at the respective transaction dates, with the exception of amortization, which are translated at historic rates. Exchange gains and losses are included in net income.

1. Significant accounting policies (continued):

(h) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Company has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments that will not be measured subsequently at fair value are adjusted by transaction costs and financing fees that are directly attributable to the origination and acquisition of these instruments. These costs are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Company determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Company expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial impairment charge.

(i) Use of estimates:

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 year. Significant items subject to such estimates and assumptions include the estimated useful lives of equipment, the valuation of allowance for accounts receivable, returns and market support programs, valuation of inventories, impairment of financial assets, accruals for accounts payable and provision for other liabilities. Actual results could differ from those estimates.

2. Investments:

		2022		2021
Guaranteed investment certificates	$	10,000,000	$	15,000,000
Fixed income securities		6,315,225		6,400,379
Accrued interest		225,592		170,875
		16,540,817		21,571,254
Less short-term investments		13,540,817		15,061,863
Long-term investments	$	3,000,000	$	6,509,391

Short-term investments consist of fixed income securities and guaranteed investment certificates with maturity dates less than one year.

The Company has seven (2021 - nine) guaranteed investment certificates bearing interest of 1.30% (2021 - ranging from 0.80% to 1.00%) with maturity dates ranging from February 2023 to April 2023 (2021 - May 2021 to March 2022).

The fixed income securities bears interest at 3% per annum, paid on maturity, and matures in August 2022.

3. Derivative financial instruments:

The Company entered into two (2021 - one) foreign exchange forward contracts to manage risks from fluctuations in foreign exchange rates. The Company does not account for its foreign exchange agreements as hedges for accounting purposes and as a result, records the instruments on a mark-to-market basis with resulting gains or losses recorded in, or charged against net income. The contracts have a maturity date of August 2022 and December 2023 respectively.

The change in fair value of these contracts at March 31, 2022 resulted in an unrealized gain of $197,265 (2021 - $361,049) which is recorded as other income within net income.

4. Accounts receivable:

	2022	2021
Trade receivables	$ 11,978,885	$ 4,683,703
Other receivables	56,008	36,111
Less allowance for returns	3,899	4,048
Less allowance for market support programs	7,716,803	1,437,310
	$ 4,314,191	$ 3,278,456

5. Inventory:

	2022	2021
Finished goods	$ 3,670,375	$ 2,789,757
In-transit inventory	819,909	131,145
Less provision for obsolescence	471,257	-
	$ 4,019,027	$ 2,920,902

In the current year, the cost of inventories that is included in cost of goods sold that was recognized as expense amounted to $5,704,809 (2021 - $9,387,671).

6. Due from shareholder:

Amounts due from shareholder are unsecured and non-interest bearing. The repayment period is within the next year and the amounts due are in the normal course of business.

7. Loan receivable from related party:

Loan receivable is due from a company commonly controlled by the ultimate parent. As at March 31, 2022, the loan balance consists of $4,000,000 USD (2021 - nil). The loan matures in December 2026 and may be repaid in advance by the borrower. The loan bears interest at 4.17% per annum, payable at the end of each calendar quarter.

The Company has earned interest income in the amount of $56,008 (2021 - nil) during the year, of which $56,008 (2021 - nil) is included in accounts receivable at March 31, 2022.

During the year, the Company has recognized a foreign exchange loss of $159,600 (2021 - nil) on the loan receivable.

8. Equipment:

	Cost	Accumulated amortization	2022 Net book value	2021 Net book value
Equipment, furniture and fixtures	$ 61,721	$ 36,161	$ 25,560	$ 31,686
Computer equipment	161,586	144,091	17,495	35,051
Vehicles	51,264	8,688	42,576	-
	$ 274,571	$ 188,940	$ 85,631	$ 66,737

9. Share capital:

	2022	2021
Authorized:		
Unlimited Class A shares, voting		
Unlimited Class B shares, non-voting, with dividend and distribution priority over Class A shares		
Issued:		
2,810,881 Class A shares	$ 2,810,881	$ 2,810,881

10. Sales returns and other allowances:

Sales returns and other allowances are comprised of prompt payment incentives, sales returns, price protection and inventory nearing expiry allowances.

	2022	2021
Prompt payment incentive	$ 533,882	$ 421,401
Sales returns	58,654	984,595
Price protection allowance	-	522,470
Inventory nearing expiry allowance	-	280,698
	$ 592,536	$ 2,209,164

11. 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:

	2022	2021
Income before income taxes for the year	$ 8,383,402	$ 36,486,691
Combined statutory income tax rate	26.50 %	26.50 %
Income tax expense at combined federal and provincial tax rate	$ 2,221,601	$ 9,668,973
Impact of timing difference in amortization	818	5,271
Non-deductible expenses	6,968	5,021
Net capital loss carried forward	-	82,073
Unrealized loss (gain)	12,784	(95,678)
True-up of prior year's provision	8,596	-
Effective tax expense	$ 2,250,767	$ 9,665,660

12. Related party transactions:

During the year, the Company purchased $6,475,284 (2021 - $10,062,131) 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.

13. Commitments:

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

2023	$ 89,610
2024	44,805
	$ 134,415

14. Contingent liabilities:

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

15. Credit facility:

The Company has an operating line of credit in the amount of $2,000,000 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 (2021 - nil).

16. Economic dependence:

The Company primarily purchases its product from its shareholder in India. The Company is exposed to risk associated with the non-performance 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 or the supply of inventory.

17. Financial risks 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.

(a) Significant customers and credit risk:

The Company is exposed to credit risk in the event of non-performance by counterparties in connection with its cash, accounts receivable, and investments. In order to reduce its credit risk from receivables, the Company reviews 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.

The Company has two customers (2021 - three) which account for 35% (2021 - 61%) of gross sales and has 38% of trade receivables at March 31, 2022 (2021 - 72%).

17. Financial risks and concentration of risk (continued):

(b) 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.

(c) 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 of the Company’s purchases are from a foreign company. These purchases are payable in Canadian dollars. At year end, the Company had no amounts payable in foreign currencies.

The Company has US$5,242,267 (2021 - US$5,187,175) total cash and investments denominated in foreign currencies. The Company also has a related party loan receivable for US$4,000,000 (2021 - nil) as described in note 7.

The Company manages its exposure to fluctuations in foreign exchange rates through the use of foreign exchange forward contracts. At March 31, 2022, the contract value of the derivative financial instrument is US$9,093,050 (2021 - US$5,093,050).

(d) 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 does not have significant exposure to interest rate risk on its liabilities as the balances are non-interest bearing. The Company's investments earn interest at fixed rates.

18. COVID-19 pandemic:

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on our operations is not known at this time. This has resulted in governments worldwide, including the Canadian and Provincial governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing. Operations at the Company have not been materially impacted as the Company is considered an essential services by the government authorities. 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 to the Company. Furthermore, management has reviewed the assets of the Company and determines that no impairment is necessary in respect of its accounts receivable and investments due to creditworthiness of the counterparty and durations until maturity.

19. Comparative information:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year end. The changes do not affect prior year income.