

MARKSANS PHARMA, INC. AND SUBSIDIARIES

**Consolidated Consolidated Financial Statements and Supplementary
Information**

March 31, 2019

MARKSANS PHARMA, INC. AND SUBSIDIARIES

March 31, 2019

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VIRMANI, CPA, P.C.

Independent Auditors' Report

To the Board of Directors
MARKSANS PHARMA, INC. AND SUBSIDIARIES

We have audited the accompanying consolidated financial statements of MARKSANS PHARMA, INC. AND SUBSIDIARIES and its subsidiaries, which comprise the consolidated balance sheet as of March 31, 2019 and the related consolidated statements of income, retained earnings and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MARKSANS PHARMA, INC. AND SUBSIDIARIES and its subsidiaries as of March 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Virmani, CPA, P.C.

May 17, 2019

MARKSANS PHARMA, INC. AND SUBSIDIARIES

Consolidated Balance Sheet

March 31, 2019

	2019
Assets	
Current Assets	
Cash	\$ 857,999
Accounts receivable, net of allowances	11,112,942
Inventory	13,824,191
Other current assets	1,764,508
Total Current Assets	27,559,640
Property, plant and equipment, net of accumulated depreciation	11,226,193
Intangibles, net of accumulated amortization	4,017,223
Other long term assets	317,568
Total Assets	\$ 43,120,624
Liabilities and Stockholders' Equity	
Current Liabilities	
Accounts payable and accrued liabilities	\$ 9,595,937
Other current liabilities	1,730,095
Total Current Liabilities	11,326,032
Long term debt	7,000,000
Total Liabilities	18,326,032
Equity	
Common stock, \$.01 pv; 200 shares auth. and 100 issued	1
Additional Paid-in Capital	26,381,742
Deficit	(1,587,151)
Total Equity	24,794,592
Total Liabilities and Equity	\$ 43,120,624

MARKSANS PHARMA, INC. AND SUBSIDIARIES

Consolidated Consolidated Statement of Income

For the Year Ended March 31, 2019

	2019
Revenue	
Goods and services	\$ 57,912,261
Sales returns and allowances	(4,960,147)
Net revenue	52,952,114
Cost of goods sold	
Purchases	35,895,184
Direct wages	5,206,443
Payroll taxes	450,795
Other direct costs	3,727,350
Allocated overhead	1,464,377
Inventory change	(1,542,832)
Cost of goods sold	45,201,317
Gross profit	7,750,797
Operating expenses	
Utilities	659,187
Travel expenses	158,700
Salaries and wages	2,402,892
Repairs and maintenance	9,206
Rental	8,799
Property taxes	200,239
Professional fees	567,591
Penalties	13,378
Other operating expenses	39,212
Office expenses	89,683
Miscellaneous Expense	110,164
Memberships and licenses	209,880
Lab Testing TCL	4,458
Interest and bank charges	196,216
Insurance	1,095,228
Employee benefits	4,985
Depreciation of tangible assets	383,812
Depreciation of intangible assets	416,262
Computer-related expenses	170,100
Commissions	236,977

MARKSANS PHARMA, INC. AND SUBSIDIARIES

Consolidated Consolidated Statement of Income

For the Year Ended March 31, 2019

	2019
Bad debt expense	182,048
Advertising and promotion	39,521
Payroll taxes	165,067
Total operating expenses	7,363,605
Loss from operations	387,192
Non operating income and expenses	
Interest income	3,011
Loss before income taxes	390,203
Income taxes	
Current income taxes	24,175
Net Income	\$ 366,028

MARKSANS PHARMA, INC. AND SUBSIDIARIES

Consolidated Statement of Retained Earnings

For the Year Ended March 31, 2019

	2019
Common shares	\$ 1
Deficit - beginning	(1,953,178)
Net loss	366,028
Deficit - ending	\$ (1,587,149)

MARKSANS PHARMA, INC. AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For the Year Ended March 31, 2019

	2019
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income (loss) for the period	\$ 366,028
Depreciation, depletion and amortization	800,074
Goodwill valuation adjustment	4,000,182
Increase (decrease) in receivables	1,972,702
Increase (decrease) in inventories	(4,541,993)
Increase (decrease) in prepaid expense and other assets	(626,075)
Increase (decrease) in accounts payable and accrued expenses	1,697,488
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	3,668,406
CASH FLOWS FROM INVESTING ACTIVITIES:	
Payments to acquire property, plant, and equipment	(488,466)
Payments to acquire intangible assets	(350,000)
NET CASH USED BY INVESTING ACTIVITIES	(838,466)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayments of short-term debt	(2,603,970)
Deferred financing	47,234
NET CASH USED BY FINANCING ACTIVITIES	(2,556,736)
OTHER ACTIVITIES:	
Net cash increase (decreases) in cash and cash equivalents	273,204
Cash and cash equivalents at beginning of period	584,795
Cash and cash equivalents at end of period	\$ 857,999

MARKSANS PHARMA, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
March 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

Marksans Pharma, Inc. ("Marksans") a New York corporation, is a wholly owned subsidiary of Marksans Pharma, Ltd., India ("Parent"). On June 22, 2015, Marksans acquired the stock of Time-Cap Laboratories Inc. ("Time-Cap") and its wholly owned subsidiary Custom Coating Inc. ("Coatings"). Simultaneously, Marksans Realty LLC ("Realty"), a wholly owned subsidiary of Time-Cap, was formed and acquired the real estate in which Time-Cap and Coatings have their operations. Time-Cap and Coatings are engaged primarily in the manufacture, coating, distribution and sales of pharmaceutical products in the continental United States.

PRINCIPLES OF CONSOLIDATION

These consolidated financial statements include the accounts of Marksans and its wholly owned subsidiaries Time-Cap, Coatings and Realty (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

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.

CASH AND CASH EQUIVALENTS

For purposes of balance sheet presentation and reporting of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At times, the Company's cash may be uninsured or in deposit amounts that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limit. At March 31, 2019, all of the Company's cash was held in three financial institutions.

MARKSANS PHARMA, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
March 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

LEASES

The Company has an operating lease for a facility expiring in 2024. The Company will amortize the total lease cost on a straight line basis over the minimum lease term.

ACCOUNTS RECEIVABLE

Accounts receivable are stated at an amount the Company expects to collect from outstanding balances. The Company's exposure to credit risk is dependent, to a large extent, on the pharmaceutical industry. The Company routinely addresses the financial strength of its customers, and, as a consequence, believes that its receivable credit risk is limited.

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by a review of their current credit information. While credit losses have historically been within the Company's expectations, the Company cannot guarantee that the same credit loss rates will be experienced in the future. The allowance for doubtful accounts reflects management's best estimate of probable losses inherent in the accounts receivable balance.

Accounts receivable are written off when they are determined to be uncollectible. Based on management's evaluation of collectability, an allowance for doubtful accounts has not been provided as the amount is not considered material at March 31, 2019.

FINANCIAL INSTRUMENTS

The estimated fair values of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amounts due to their short-term maturities. The carrying value of the capital lease obligations approximates fair value based upon the market interest rates available to the Company for capital lease obligations with similar risk and maturities.

INVENTORIES

The Company values its inventories at the lower of cost or market using the first-in, first-out ("FIFO") method.

MARKSANS PHARMA, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
March 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided over the estimated useful lives of the assets using the straight-line method ranging from five to thirty-nine years.

GOODWILL

Goodwill represents the excess of the purchase price of a business over the fair value of the identifiable net assets acquired. The Company has elected the accounting alternative to amortize goodwill on a straight-line basis over ten years and elected to test goodwill for impairment at the entity level upon occurrence of a triggering event.

INTANGIBLES

Intangibles consist of marketing rights with an indefinite life which are not being amortized, but will be evaluated for impairment on an annual basis or at other times during the year if events and circumstances indicate that it is more likely than not that the fair value of the marketing rights is below the carrying value.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews its long-lived assets for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. Long-lived assets held for use are subject to an impairment assessment if the carrying value is no longer recoverable based upon the undiscounted cash flows of the assets. The amount of the impairment is the difference between the carrying amount and the fair value of the asset. The Company does not believe any of its long-lived assets were impaired at March 31, 2019.

MARKSANS PHARMA, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
March 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

INCOME TAXES

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records net deferred tax assets to the extent it believes these assets will more-likely-than-not be realized. In making such determination, the Company considers all available positive and negative evidences, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. In the event the Company were to determine that it would be able to realize its deferred income tax assets in the future in excess of its net recorded amount, the Company would make an adjustment to the valuation allowance which would reduce the provision for income taxes.

The Company accounts for tax benefits from an uncertain tax position taken or expected to be taken only if it is "more likely than not" that the position is sustainable upon tax authority examination, based on its technical merits. The tax benefit of a qualifying position under this guidance would equal the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority having full knowledge of all the relevant information. A liability is established in the financial statements to the extent a current benefit has been recognized on a tax return for matters that are considered contingent upon the outcome of an uncertain tax position. In the opinion of management, the Company has no uncertain tax positions. The Company's policy is to recognize interest and penalties on recognized tax benefits in income tax expense, if any, in the income statement.

MARKSANS PHARMA, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
March 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting estimates made by the Company relates to allowances for doubtful accounts, impairment of long-lived assets and useful lives of intangibles. Actual results could differ from those estimates.

ADVERTISING EXPENSE

Advertising costs, included in selling expenses, are expensed as incurred.

RECENT ACCOUNTING PRONOUNCEMENTS

The FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842): Accounting for Leases ("ASU 2016-02"), which supersedes existing guidance on accounting for leases in Topic 840 and generally requires all leases, including operating leases, to be recognized in the balance sheet as right-of-use assets and lease liabilities by lessees. For private business entities, the amendments in this ASU are effective for financial statements issued for annual periods beginning after December 15, 2019, and interim periods within those annual periods. The Company is evaluating the effects that adoption for this ASU will have on its consolidated financial statements. In May 2014, the Financial Accounting Standards Board ("FASB") issued an update ("ASU 2014-09") Revenue from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides five steps for an entity to achieve that core principle and provides disclosure requirements for revenue recognition. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer. In August 2015, the FASB issued ASU 2015-14, Deferral of the Effective Date, which amended the effective date to reporting periods beginning after December 15, 2018 for nonpublic reporting entities.

MARKSANS PHARMA, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
March 31, 2019

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

RECENT ACCOUNTING PRONOUNCEMENTS (Cont.)

In March 2016, the FASB issued an update ("ASU 2016-08"), Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the guidance on principal versus agent considerations. In April 2016, the FASB issued an update ("ASU 2016-10"), Identifying Performance Obligations and Licensing, which provides clarification related to identifying performance obligations and licensing implementation guidance under ASU 2014-09. In May 2016, the FASB issued an update ("ASU 2016-12"), Narrow-Scope Improvements and Practical Expedients, which amends guidance on transition, collectability, noncash consideration and the presentation of sales and other similar taxes. The effective date and transition requirements are the same as those in ASU 2014-09 for all subsequent clarifying guidance discussed herein. The Company is currently evaluating the impact of adopting these ASU's on the Company's financial statements.

NOTE 2 **CONCENTRATION OF CREDIT RISK**

Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of cash and cash equivalents and trade accounts receivable.

Concentrations of credit risk with respect to trade receivables are limited due to the diverse group of customers to whom the Company sells. The Company reviews a customer's credit history before extending credit, and will establish an allowance for possible losses, if necessary, based upon factors such as the credit risk of specific customers, historical trends and other information.

MAJOR CUSTOMERS

As of March 31, 2019 five customers accounted for approximately 53.5% its accounts receivable and revenues from these customers were approximately 44% of total revenues.

MARKSANS PHARMA, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
March 31, 2019

NOTE 3 **PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant, and equipment consist of the following at March 31, 2019:

Land	\$	62,080
Building and improvements		8,877,385
Machinery and Equipment		3,076,665
Furniture and fixtures		63,635
Vehicles		<u>22,029</u>
		12,101,794
Accumulated depreciation		<u>(875,601)</u>
Total property, plant and equipment, net		<u>\$11,226,193</u>

Depreciation expense for the year ended March 31, 2019 was, \$383,812.

NOTE 4 **GOODWILL AND INTANGIBLES**

Goodwill and intangibles consist of the following at March 31, 2019:

	<u>Goodwill</u>	<u>Intangibles</u>
Balance - April 1, 2018	\$ 8,517,323	\$ 1,925,000
Accumulated amortization and adjustment	<u>(4,000,182)</u>	<u>-</u>
ANDA Aquisition	-	350,000
Balance - March 31, 2019	<u>\$ 4,517,141</u>	<u>\$ 2,275,000</u>

As of March 31, 2019, the Company had received a settlement agreement with the original sellers, whereby, the company received cash of \$4,000,182 towards the original purchase price and hence the original Goodwill was adjusted by the same amount. The remaining balance of \$4,517,141 will be amortized going forward.

The Company acquired transferrable marketing rights of various Parent products from a third party for an aggregate amount of \$1,925,000. On July 31, 2018, the Company purchased an intangible in the amount of \$350,000 as an Abbreviated New Drug Application (ANDA) from laboratories. Management has determined that as of March 31, 2019, the company intangibles are not impaired.

NOTE 5 **DEBT**

The Company had paid of \$2,603,970 towards its line of credit with State Bank of India and has a \$0 as of March 31, 2019 with the bank.

MARKSANS PHARMA, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
March 31, 2019

MARKSANS PHARMA, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
March 31, 2019

NOTE 6 DEFERRED TAXES

Significant components of the Company's deferred tax assets and liabilities at March 31, 2019 are as follows:

	<u>Amount</u>
Deferred Tax Assets (Liabilities):	
Net operating loss carryovers	\$ 22,660
Goodwill and other intangibles	291,235
Property, equipment and capital leases	(214,823)
Accruals and reserves not currently deductible	123,567
Capitalized inventory costs	80,081
Alternative minimum tax credit	5,304
State tax credit carryovers	<u>9,544</u>
 Net Deferred Tax Assets	 <u>\$317,568</u>

The Company has \$66,647 of Federal net operating loss carryforwards ("NOL's") that are available to reduce future taxable income. These NOL's expire at various dates through 2035.

The Company has \$14,460 of New York investment tax credit carryforwards that will start to expire after 2032.

NOTE 7 COMMITMENTS AND CONTINGENCIES

LEASES

The Company leases office space located in Hauppauge, New York, under a non-cancelable operating lease which expired on November 2017 and automatically renews on an annual basis unless a 3 month written notice is provided. The Company is responsible for certain utilities and monthly maintenance under the lease. Rent expense was approximately \$11,500 for the year ended March 31, 2019.

The Company entered into a non-cancelable operating lease in March 2017 for warehouse space located in Hicksville, NY. The lease commence upon completion of various improvements as stipulated by the lease and will expire on the last day of the calendar month in which the eighty seven month anniversary of the commencement date occurred. The Company also entered into a three year non-cancelable operating lease in October 2018 for warehouse space located in Farmingdale, NY. The lease will expire on the last day of the calendar month in which the thirty sixth month anniversary of the commencement date occurred.

MARKSANS PHARMA, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
March 31, 2019

NOTE 7 COMMITMENTS AND CONTINGENCIES (CONT.)

Future minimum rental payments required under the above non-cancelable operating leases at March 31, 2019 are as follows:

<u>For the</u> <u>Year Ending March 31,</u>	<u>Amount</u>
2020	203,229
2021	207,823
2022	212,576
2023	145,496
Thereafter	202,248
Total	<u>\$971,372</u>

NOTE 8 LITIGATION AND CONTINGENCIES

From time to time, the Company may be a party to litigation arising in the normal course of its business operations. In the opinion of management, it is not anticipated that the settlement or resolution of any such matters will have a material adverse impact on the Company's financial condition, liquidity or results of operations.

NOTE 9 SUBSEQUENT EVENTS

The Company evaluates events that occur after the year-end date through the date the financial statements are available to be issued. Accordingly, management has evaluated subsequent events through May 17, 2019, and has determined that there were no subsequent events requiring adjustment to, or disclosure in, the financial statements.