

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

**INDEPENDENT AUDITOR'S REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEARS ENDED MARCH 31, 2023 AND 2022



Certified Public Accountants and Advisors

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To the Stockholder
Alembic Pharmaceuticals, Inc. and Subsidiaries
Bedminster, NJ

Opinion

We have audited the consolidated financial statements of **Alembic Pharmaceuticals, Inc. and Subsidiaries (collectively, the "Company")**, which comprise the consolidated balance sheets as of March 31, 2023 and 2022, and the related consolidated statements of income, consolidated changes in stockholder's equity, and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Alembic Pharmaceuticals, Inc. and Subsidiaries as of March 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Alembic Pharmaceuticals, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Alembic Pharmaceuticals, Inc. and Subsidiaries' ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. 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. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- 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 Alembic Pharmaceuticals, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about alembic pharmaceuticals, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Matters - Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. Supplementary information on pages 18 through 21 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Acquavella, Chiarelli, Hunter, LLP

Iselin, New Jersey
May 1, 2023

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	As of March 31,	
	2023	2022
ASSETS		
Current assets:		
Cash	\$ 4,755,401	\$ 4,306,912
Accounts receivable, net	181,163,066	204,802,052
Inventory	37,866,645	45,135,186
Prepaid expenses	843,001	861,933
Prepaid taxes	769,088	450,385
Advances to vendors	2,044,819	3,488,039
Total current assets	227,442,020	259,044,507
Property and equipment, net	1,314,847	2,160,771
Deferred tax asset, net	2,088,694	2,804,782
Operating lease right of use asset	1,374,917	1,449,445
Other assets	55,733	54,189
Total assets	\$ 232,276,211	\$ 265,513,694
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 8,899,356	\$ 11,832,434
Accrued chargebacks and other sales deductions	84,512,991	102,913,658
Operating lease liability, current	84,191	74,528
Due to related parties	114,970,588	125,804,743
Total current liabilities	208,467,126	240,625,363
Operating lease liability	1,368,546	1,430,077
Employee related obligations	1,350,000	6,082,957
Total liabilities	211,185,672	248,138,397
Stockholder's equity:		
Preferred stock, \$1.00 par value, 200,000 shares authorized, 0 shares issued and outstanding	-	-
Common stock, \$1.00 par value, 1,000,000 shares authorized, 120,000 shares issued and outstanding	120,000	120,000
Additional paid-in capital	4,000,000	4,000,000
Retained earnings	16,970,539	13,255,297
Total stockholder's equity	21,090,539	17,375,297
Total liabilities and stockholder's equity	\$ 232,276,211	\$ 265,513,694

The notes to consolidated financial statements are an integral part of these statements.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended March 31,	
	2023	2022
Net revenues	\$ 186,689,824	\$ 243,138,543
Cost of sales	159,824,141	215,621,250
Gross profit	26,865,683	27,517,293
Operating expenses		
Selling, general and administrative expenses	22,726,718	20,281,991
Income from operations	4,138,965	7,235,302
Other income (expenses)		
Other income	839,617	366,412
Interest expense	(24,845)	(21,656)
Total other income, net	814,772	344,756
Income before provision for income taxes	4,953,737	7,580,058
Provision for income taxes	1,238,495	1,825,237
Net income	\$ 3,715,242	\$ 5,754,821
Basic and diluted earnings per share	\$ 30.96	\$ 47.96
Weighted average shares outstanding	120,000	120,000

The notes to consolidated financial statements are an integral part of these statements.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

For the Years Ended March 31,

	<u>Common Stock</u>			<u>Retained Earnings</u>	<u>Total Stockholder's Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Additional Paid-in Capital</u>		
Balance, April 1, 2021	120,000	\$ 120,000	\$ 4,000,000	\$ 7,500,476	\$ 11,620,476
Net income	-	-	-	5,754,821	5,754,821
Balance, March 31, 2022	<u>120,000</u>	<u>\$ 120,000</u>	<u>\$ 4,000,000</u>	<u>\$ 13,255,297</u>	<u>\$ 17,375,297</u>
Balance, April 1, 2022	120,000	\$ 120,000	\$ 4,000,000	\$ 13,255,297	\$ 17,375,297
Net income	-	-	-	3,715,242	3,715,242
Balance, March 31, 2023	<u>120,000</u>	<u>\$ 120,000</u>	<u>\$ 4,000,000</u>	<u>\$ 16,970,539</u>	<u>\$ 21,090,539</u>

The notes to consolidated financial statements are an integral part of these statements.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended March 31,	
	2023	2022
Cash flows from operating activities		
Net income	\$ 3,715,242	\$ 5,754,821
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred taxes	716,088	16,366
Reserve for bad debts	(876,164)	960,192
Depreciation	169,770	169,402
Loss on sale of assets	515,969	-
(Increase) Decrease in operating assets:		
Accounts receivable	24,515,150	(66,928,140)
Inventory	7,268,541	(21,267,810)
Prepaid expenses	18,932	63,465
Prepaid taxes	(318,703)	2,515,163
Advances to vendors	1,443,220	(1,376,825)
Increase (Decrease) in operating liabilities:		
Accounts payable and accrued expenses	(2,933,078)	2,502,976
Accrued chargebacks and other sales deductions	(18,400,667)	(3,190,799)
Employee related obligations	(10,834,155)	(775,921)
Lease liabilities	22,660	55,160
Due to related parties	(4,732,957)	82,880,545
Net cash provided by operating activities	289,848	1,378,595
Cash flows from investing activities:		
Employee advances	(1,544)	2,264
Security deposits	-	13,531
Proceeds from sale of assets	195,852	-
Purchase of equipment	(35,667)	(331,688)
Net cash provided by (used in) investing activities	158,641	(315,893)
Net increase in cash	448,489	1,062,702
Cash, beginning of year	4,306,912	3,244,210
Cash, end of year	\$ 4,755,401	\$ 4,306,912
Supplement disclosure of cash flow information		
Cash paid during the year for:		
Income taxes	\$ 841,110	\$ 180,000
Interest	\$ -	\$ -

The notes to consolidated financial statements are an integral part of these statements.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2023 and 2022

1. Nature of Operations

Nature of Operations

Alembic Pharmaceuticals, Inc. and Subsidiaries (the “Company”), a Delaware corporation, is a wholly owned subsidiary of Alembic Pharmaceuticals Limited (“APL”). On March 1, 2020, in an internal reorganization, APL acquired 100% interest in the Company from its subsidiary Alembic Global Holding S.A. (“AGH”). The Company is engaged in the marketing and distribution of generic pharmaceutical products for resale by others. While the Company was incorporated in 2012, operations began in 2015. The Company sells its products directly to wholesalers, retail drug store chains, drug distributors, mail order pharmacies and other direct purchasers as well as customers that purchase its products indirectly through the wholesalers, including independent pharmacies, non-warehousing retail drug store chains, managed health care providers and other indirect purchasers.

The Company has three separate lines of business – **Alembic Pharmaceuticals, Inc.** (“API”) [Distribution], **Alembic Labs, LLC** (“Labs”) [Research & Development] and **Okner Realty, LLC**, (“Okner”) [Real Estate management]. Net revenues from API, Labs and Okner were 99.9%, 0.1% and 0%, respectively, for the years ended March 31, 2023 and 2022.

Labs has suspended its research and development operations and sold its assets and intellectual property. See Note 15 – Other Income.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as detailed in the Financial Accounting Standards Board’s Accounting Standards Codification. The consolidated financial statements have been prepared on the accrual basis of accounting.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries (Labs and Okner). All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates because of the uncertainty inherent in such estimates. The Company makes significant estimates in many areas of its accounting, including but not limited to the following: sales returns, chargebacks, allowances and discounts, leases, inventory obsolescence, the useful lives of property and equipment and its impairment and accruals.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2023 and 2022

2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents are highly liquid debt instruments with original maturities of three months or less. As of March 31, 2023 and 2022, the Company did not have any cash equivalents.

Inventory Valuation

Inventories consist of finished goods including goods in transit that are stated at the lower of cost or net realizable value, with cost being determined by the weighted average cost method. The Company considers obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value. There was no allowance for inventory obsolescence during the years ended March 31, 2023 and 2022.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed and recorded on a straight-line basis over the assets estimated service lives which range from three to thirty-nine years. Repairs and maintenance expenditures, which do not extend the useful lives of the related assets, are expensed as incurred.

Research and Development

Costs incurred for research and product development are expensed as incurred. The Company recognizes research and development expenses in the period in which it becomes obligated to incur such costs.

Revenue Recognition

Revenue is recognized for product sales at the time of shipment of the product to the customer. Provisions are recorded for discounts, rebates, promotional adjustments, chargebacks, and other potential adjustments when they are reasonably determinable at the time when sales revenues are recorded. The risks related to price adjustments and returns are borne by the parent company.

Consistent with industry practice, the company maintains a return policy that allows customers to return product within a specified period of time prior and subsequent to the expiration date. The Company's estimate of the provision for returns is based on industry experience and current evaluation.

Accounts Receivable and Credit Policy

Accounts receivable are due under the normal terms which generally range from thirty to sixty days from the invoice date. Accounts receivable are stated at amounts billed less chargebacks submitted by the customer. Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2023 and 2022

2. Summary of Significant Accounting Policies (Continued)

Chargebacks

The Company enters into contractual agreements with certain third parties such as pharmacies and group-purchasing organizations to sell certain products at predetermined prices. The parties have elected to have these contracts administered through wholesalers that buy products from the Company and subsequently sell them to these third parties. When a wholesaler sells products to one of these third parties that are subject to a contractual price agreement, the difference between the price paid to the Company by the wholesaler and the price under the specific contract is charged back to the Company by the wholesaler. The Company tracks sales and submitted chargebacks by product number and contract for each wholesaler. Utilizing this information, the Company estimates a chargeback percentage for each product. The Company reduces gross sales and increases the chargeback allowance by the estimated chargeback amount for each product sold to a wholesaler. When an actual chargeback request is received from a wholesaler, the Company reduces the chargeback allowance when it processes the chargeback. Actual chargebacks processed by the Company can vary materially from period to period based upon actual sales volume through the wholesalers. However, the Company's expense provision for chargebacks is recorded at the time when sales revenues are recognized. See Note 12 - Accrued Chargebacks and Other Sales Deductions.

Management obtains periodic wholesaler inventory reports to aid in analyzing the reasonableness of the chargeback allowance. The Company evaluates the reasonableness of its chargeback allowance by applying the product chargeback percentage based on historical activity to the quantities of inventory on hand based on each wholesaler's inventory reports and an estimate of inventory in transit to the wholesaler at the end of the period. In accordance with its accounting policy, the Company's estimate of the percentage of wholesaler inventory that will ultimately be sold to a third party that is subject to a contractual price agreement is based on the trend of such sales through wholesalers. The Company uses the established percentage estimate based on industry experience and evaluation of current trends.

Risks and Uncertainties

The Company's business may be affected by a variety of events. These risks potentially may have a material impact on Company's consolidated financial position, results of operations and/or reputation. The risks are as follows:

Product launches – Launching a new pharmaceutical product takes time and can involve significant investment in product inventories before launch and other types of expense. There is a risk that launches of new products in existing or new markets are unsuccessful which may have a negative impact on the Company.

Competitive market – A large number of companies provide pharmaceutical products or are active in research and development of compounds and may compete with the products of the Company. More intense competition may imply a risk that the Company is unable to maintain its current margins on its products, which may negatively impact the Company.

Rapid changes in the pharmaceutical industry – One of the distinguishing features of the industry where the Company is active is its changeability and rapid rate of development. This means that product and improved therapeutic methods are continuously emerging. If the Company does not develop products at the same rate as its competitors, or its products do not satisfy the standards the market is applying, there is a risk of adverse impact on the Company.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2023 and 2022

2. Summary of Significant Accounting Policies (Continued)

Risks and Uncertainties (Continued)

Regulatory consideration and product standards – Research and development, as well as the production and marketing of pharmaceuticals, is subject to the control of several regulators. There is a risk of adverse impact on the Company if its products have to be withdrawn from the market as a result of restrictions and requests from regulatory authorities.

The extent of the impact of the coronavirus (“COVID-19”) outbreak on operations of the Company will depend on future developments, including the duration and spread of the outbreak, related advisories and restrictions, government actions, the impact on financial markets and the overall economy, all of which are highly uncertain and cannot be predicted. If the financial markets and/or the overall economy are impacted for an extended period, the Company’s operations may be affected. However, the Company does not expect that the current outbreak will have a material adverse effect on consolidated operations or financial results at this time.

Advertising Costs

Advertising costs are expensed as incurred and are included in selling, general and administrative expenses in the consolidated statements of income. Advertising expense for the years ended March 31, 2023 and 2022 were \$291,466 and \$250,528, respectively, and are included under the line item selling, general and administrative expenses on the consolidated statements of income.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses are comprised primarily of salaries, benefits and other staff-related costs associated with sales and marketing, finance, and other administrative personnel; facilities and overhead costs; outside marketing, distribution costs, advertising and legal expenses and other general and administrative costs, as well as customer shipping costs.

Freight

Freight billed on purchases of inventory is included in the cost of sales. Total freight expense the years ended March 31, 2023, and 2022 were \$9,093,297 and \$8,468,529, respectively, and are included within the line-item cost of sales on the consolidated statements of income.

Adoption of Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, (Topic 842) Leases, which establishes a right of use model (“ROU”) that requires a lessee to record a ROU asset and a lease liability on the balance sheets for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. For lessors, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as financing. If the lessor does not convey risks and rewards or control, then the lease would be classified as an operating lease. The new standard requires a modified retrospective approach to adoption and is effective for nonpublic companies with annual periods beginning after December 15, 2022 (i.e., periods beginning on April 1, 2023) and interim periods thereafter. Effective September 1, 2021, the Company has adopted this ASU. The adoption did not result in any retrospective recognition of operating lease liabilities.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2023 and 2022

2. Summary of Significant Accounting Policies (Continued)

Income Taxes and Deferred Income Taxes

The Company files federal and state tax returns as a "C" Corporation.

Deferred income taxes arise as a result of timing differences between income per books and income reported for tax purposes. The components with temporary differences that impact the deferred taxes are accounts receivable allowances, accrued sales deductions, deferred compensation, deferred lease payments, deferred acquisition costs and research and development costs. The Company is liable for federal, state, and local taxes as applicable. The amount of current and deferred taxes payable or receivable is recognized as of the date of the consolidated financial statements, utilizing currently enacted tax laws and rates. The net deferred tax assets on March 31, 2023 and 2022 were \$2,088,694 and \$2,804,782, respectively.

Reclassification

The presentation of certain prior period balances has been reclassified to confirm to the current period presentation. These reclassifications had no effect on the reported results of operations.

3. Inventory

The components of inventory consist of the following on March 31:

	<u>2023</u>	<u>2022</u>
Raw materials	\$ 103,009	\$ 1,026,999
Semi finished goods	-	327,322
Finished goods	<u>37,763,636</u>	<u>43,780,865</u>
	<u>\$ 37,866,645</u>	<u>\$ 45,135,186</u>

4. Prepaid Expenses

Prepaid expenses consist of the following on March 31:

	<u>2023</u>	<u>2022</u>
Prepaid insurance	\$ 395,974	\$ 383,342
Prepaid conference expense	-	13,360
Membership dues and other	<u>447,027</u>	<u>465,231</u>
	<u>\$ 843,001</u>	<u>\$ 861,933</u>

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2023 and 2022

5. Property and Equipment

Property and equipment consist of the following on March 31:

	<u>Estimated Useful Life (Years)</u>	<u>2023</u>	<u>2022</u>
Land	Indefinite	\$ 200,000	\$ 200,000
Building	39	800,000	800,000
Building improvements	15-39	403,781	403,781
Furniture and equipment	3-10	214,825	213,794
Plant and machinery	10-11	-	1,065,639
		<u>1,618,606</u>	<u>2,683,214</u>
Less: Accumulated depreciation		<u>303,759</u>	<u>522,443</u>
		<u>\$ 1,314,847</u>	<u>\$ 2,160,771</u>

Depreciation expense charged to operations amounted to \$169,770 and \$169,402 for the years ended March 31, 2023 and 2022, respectively.

6. Income Taxes

The Company is required to file consolidated income tax returns for the federal and various state jurisdictions. Labs and Okner are disregarded entities for tax purposes and are included in Company's consolidated tax returns. During the year ended March 31, 2023, deferred tax assets were reduced by \$716,088 due to amendment of prior year tax returns.

Total income tax provision (benefit) for the years ended March 31:

	<u>2023</u>	<u>2022</u>
Current - federal	\$ 413,096	\$ 1,521,366
Current - state	109,311	287,505
Deferred - federal, provision	566,250	13,764
Deferred - state, provision	149,838	2,602
Total income tax provision (benefit)	<u>\$ 1,238,495</u>	<u>\$ 1,825,237</u>

The effective tax rates for the years ended March 31, 2023 and 2022 were 25.16% and 24.08%, respectively.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2023 and 2022

6. Income Taxes (Continued)

The components of the Company's deferred tax assets, net consist of the following as on March 31:

	2023	2022
Current deferred tax assets;		
Accounts receivable allowances	\$ 803,559	\$ 977,640
Total current deferred tax assets	\$ 803,559	\$ 977,640
Non current deferred tax assets (liabilities):		
Property, plant and equipment depreciation	\$ (48,034)	\$ (195,108)
Capitalized R&D costs	293,187	-
Deferred compensation	339,644	1,461,126
Deferred lease payments	19,579	13,249
Deferred acquisition	(33,206)	(35,012)
Other accrued liabilities	713,966	582,887
Total non current deferred tax assets (liabilities)	\$ 1,285,135	\$ 1,827,142
 Deferred tax asset, net	 \$ 2,088,694	 \$ 2,804,782

7. Lines of Credit

The Company has a line of credit agreement with a financial institution for \$8,000,000. The line bears interest at Secured Overnight Financing Rate (SOFR) of one month duration (4.63004% on March 31, 2023) plus 1.6%. The effective interest rate on this line on March 31, 2023 was 6.23004%. The line of credit is renewed annually on September 30th. The line is also due on demand and is secured by the Company's current assets. As of March 31, 2023, and 2022, there was no outstanding balance.

The Company has an additional a line of credit agreement with a bank for \$9,500,000. The line bears interest at Secured Overnight Financing Rate (SOFR) of one month duration (4.63004% on March 31, 2023) plus 0.11448%. The effective interest rate on this line on March 31, 2023 was 4.74452%. This line is reviewed annually on August 31. This line is due on demand and is secured by the corporate guarantee provided by the parent company based in India. As of March 31, 2023, and 2022, there was no outstanding balance.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2023 and 2022

8. Related Party Transactions

The Company entered into the following transactions with its related parties during the years ended March 31:

	<u>2023</u>	<u>2022</u>
Inventory purchases from related parties	\$ 125,504,436	\$ 209,491,028
Total due to related parties	\$ 114,970,588	\$ 125,804,743

The outstanding balance due to the related parties does not accrue interest and has a term of 180 days.

9. Leased Employees

The Company leases its employees from Extensis, Inc. ("Extensis"), under a renewable leasing arrangement, that charges the Company for the cost of compensating leased employees plus the costs of the related payroll taxes, benefits, vacation pay, and an administrative fee.

10. Lease

The Company entered into a 10.5-year operating lease of its new corporate offices at 550 Hills Drive in Bedminster, New Jersey effective September 1, 2022. The Company has the option of renewing the lease for an additional five-year term but does not consider any additional renewal periods to be reasonably certain of being exercised. This lease is classified as operating leases and is presented on the balance sheet as follows on March 31:

	<u>2023</u>	<u>2022</u>
<u>Asset</u>		
Operating Lease - Right of Use Asset	\$ 1,374,917	\$ 1,449,445
<u>Liabilities</u>		
Operating Lease Liability, Current	84,191	74,528
Operating Lease Liability	<u>1,368,546</u>	<u>1,430,077</u>
	<u>\$ 1,452,737</u>	<u>\$ 1,504,605</u>

The Company recognizes lease expense on a straight-line basis. Operating lease costs incurred during the years ended March 31, 2023 and 2022 were \$210,539 and \$122,814, respectively and are included in selling, general and administrative expenses on the consolidated statements of income.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2023 and 2022

10. Lease (Continued)

The Company weighted average lease term and discount rate used are as follow:

Weighted-average remaining lease term in years for operating leases	7.91
Weighted-average discount rate for operating lease	8.00%

The aggregate future minimum annual lease payments under the lease in effect on March 31, 2023 is presented in the table below. Such commitments are reflected at undiscounted values and are reconciled to the discounted present value recognized in the balance sheet as follows:

<u>Years Ending March 31,</u>	<u>Amount</u>
2024	\$ 191,231
2025	194,583
2026	216,068
2027	219,725
2028	223,382
Thereafter	<u>910,136</u>
Total undiscounted future minimum lease payments	1,955,125
Less: present value discount	<u>(502,388)</u>
Total lease liabilities	<u>\$ 1,452,737</u>

11. Accounts Receivable

Accounts receivable is comprised of the following at March 31:

	<u>2023</u>	<u>2022</u>
Accounts receivable	\$ 184,357,009	\$ 208,872,159
Less: Allowance for doubtful accounts	<u>3,193,943</u>	<u>4,070,107</u>
Accounts receivable, net	181,163,066	204,802,052
Less: Sales-related deductions (see Note 12)	<u>77,204,024</u>	<u>95,868,179</u>
Net receivables	<u>\$ 103,959,042</u>	<u>\$ 108,933,873</u>

During the year ending March 31, 2023 and 2022, the Company increased its reserves by \$752,821 and \$960,192, respectively. Amounts charged to reserves were \$1,628,985 and \$0 for the years the year ended March 31, 2023 and 2022.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2023 and 2022

12. Accrued Chargebacks and Other Sales Deductions

Accrued chargebacks and other sales deductions are comprised of the following on March 31:

	<u>2023</u>	<u>2022</u>
Accrued chargebacks	\$ 69,823,073	\$ 83,865,917
Other sales deductions	7,380,951	12,002,262
Sales-related deductions (see Note 11)	77,204,024	95,868,179
Rebates and administration fees	7,308,967	7,045,479
Total accrued chargebacks and other sales deductions	<u>\$ 84,512,991</u>	<u>\$ 102,913,658</u>

13. Significant Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents.

Concentration of credit risk

The Company maintains its cash in bank deposit accounts that, at times, may exceed the federally insured limit up to \$250,000 per depositor per bank. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

Customers

For the years ended March 31, 2023, sales to three major pharmaceutical wholesale customers were approximately 41%, 25% and 25% respectively. These customers represented approximately 89% of the accounts receivable on March 31, 2023.

For the year ended March 31, 2022, sales to three major pharmaceutical wholesale customers were approximately 43%, 28% and 15% respectively. These customers represented approximately 84% of the accounts receivable on March 31, 2022.

Vendors

The Company has contracted with Life Sciences Logistics ("LSL") for warehousing and distribution services since October 2015. Effective April 1, 2022, LSL was replaced by J. Knipper and Company Inc. If these services were interrupted, the Company would need to engage another service provider. While there are a number of options available to the Company, such an interruption of services could cause a delay in processing customer orders.

The Company utilizes services of iContracts, Inc. who provides software to facilitate the gross-to-net revenue recognition. Discontinuity or disruption could affect the Company's ability to process chargebacks and recognize revenue in a timely and accurate manner.

API purchases most of its inventory from its parent company, Alembic Pharmaceuticals Limited. (See Note 8).

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 2023 and 2022

14. Employee Related Obligations

The Company has a deferred compensation plan for its highly compensated employees. Under the plan, a certain amount is accrued each year based on the performance of the Company. The amount deferred for each fiscal year will be paid in the fourth year of service.

For other key employees, the company has adopted an employee retention plan.

These accrued amounts have been included in the consolidated balance sheets under Employee Related Obligations and the related expenses have been included in Selling, General and Administrative Expenses. The total employee related obligation balances as of March 31, 2023 and 2022 were \$1,350,000 and \$6,082,957, respectively.

15. Other Income

For the year ended March 31, 2023, other income consisted of the following for the year ended March 31:

	<u>2023</u>	<u>2022</u>
Proceeds from insurance claim	\$ 69,868	\$ -
Miscellaneous consulting income	416,963	366,412
Proceeds from sale of intellectual property, Labs	868,755	-
Loss on sale of assets, Labs	(515,969)	-
	<u>\$ 839,617</u>	<u>\$ 366,412</u>

16. Subsequent Events

The Company has evaluated subsequent events for potential recognition and disclosure through May 1, 2023, the date the consolidated financial statements were available to be issued. The Company has identified no such events that would require disclosure in these financial statements.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION

Accounts Receivable Aging at March 31, 2023

Details	Outstanding for following periods from Due date of payment						As at 31st March, 2023 Total
	Not Due	Less than 6 months	Less than 1 year	1 - 2 years	2 - 3 years	More than 3 years	
i) Undisputed Trade Receivables – considered good	\$ 181,163,066	\$ 1,600,202	\$ 1,547,193	\$ 46,548	\$ -	\$ -	\$ 184,357,009
ii) Undisputed Trade Receivables – which have significant increase in credit risk	-	-	-	-	-	-	-
iii) Undisputed Trade Receivables – credit impaired	-	-	-	-	-	-	-
iv) Disputed Trade - Receivables – considered good	-	-	-	-	-	-	-
v) Disputed Trade Receivables – which have significant increase in credit risk	-	-	-	-	-	-	-
vi) Disputed Trade Receivables – credit impaired	-	-	-	-	-	-	-
Less: Expected Trade Loss Allowance	-	(1,600,202)	(1,547,193)	(46,548)	-	-	(3,193,943)
Total Accounts Receivable	\$ 181,163,066	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 181,163,066

See independent auditor's report.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION

Accounts Receivable Aging at March 31, 2022

Details	Outstanding for following periods from Due date of payment						As at 31st March, 2022 Total
	Not Due	Less than 6 months	Less than 1 year	1 - 2 years	2 - 3 years	More than 3 years	
i) Undisputed Trade Receivables – considered good	\$ 204,802,052	\$ 1,710,916	\$ 1,452,801	\$ 906,391	\$ -	\$ -	\$ 208,872,160
ii) Undisputed Trade Receivables – which have significant increase in credit risk	-	-	-	-	-	-	-
iii) Undisputed Trade Receivables – credit impaired	-	-	-	-	-	-	-
iv) Disputed Trade - Receivables – considered good	-	-	-	-	-	-	-
v) Disputed Trade Receivables – which have significant increase in credit risk	-	-	-	-	-	-	-
vi) Disputed Trade Receivables – credit impaired	-	-	-	-	-	-	-
Less: Expected Trade Loss Allowance	-	(1,710,916)	(1,452,801)	(906,391)	-	-	(4,070,108)
Total Accounts Receivable	\$ 204,802,052	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 204,802,052

See independent auditor's report.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION

Accounts Payable and Accrued Expenses Aging at March 31, 2023

Details	Outstanding for following periods from Due date of payment					As at 31st March, 2023 Total
	Not Due	Less than 1 year	1 - 2 years	2 - 3 years	More than 3 years	
i) Micro & Small Enterprise	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
ii) Medium Enterprise	-	-	-	-	-	-
iii) Others	997,673	-	-	-	-	997,673
iv) Unbilled Dues	-	-	-	-	-	-
Total Accounts Payable	<u>\$ 997,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 997,673</u>
Service Fees payable to Customers (non-trade)	\$ 4,580,871	\$ -	\$ -	\$ -	\$ -	\$ 4,580,871
Accrued Liabilities	3,320,812	-	-	-	-	3,320,812
Total Accounts Payable and Accrued Expenses	<u>\$ 8,899,356</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,899,356</u>

See independent auditor's report.

ALEMBIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION

Accounts Payable and Accrued Expenses Aging at March 31, 2022

Details	Outstanding for following periods from Due date of payment					As at 31st March, 2022 Total
	Not Due	Less than 1 year	1 - 2 years	2 - 3 years	More than 3 years	
i) Micro & Small Enterprise	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
ii) Medium Enterprise	-	-	-	-	-	-
iii) Others	1,110,530	-	-	-	-	1,110,530
iv) Unbilled Dues	-	-	-	-	-	-
Total Accounts Payable	<u>\$ 1,110,530</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,110,530</u>
Service Fees payable to Customers (non-trade)	\$ 6,603,785	\$ -	\$ -	\$ -	\$ -	\$ 6,603,785
Accrued Liabilities	\$ 4,118,119	\$ -	\$ -	\$ -	\$ -	\$ 4,118,119
Total Accounts Payable and Accrued Expenses	<u>\$ 11,832,434</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,832,434</u>

See independent auditor's report.