ALEMBIC PHARMACEUTICALS CANADA LTD.

2019 Financial Statements

ALEMBIC PHARMACEUTICALS CANADA LTD.
2019 Financial Statements

Contents

Independent Auditor's Report

To the Shareholder of
Alembic Pharmaceuticals Canada Ltd.

Opinion
We have audited the financial statements of Alembic Pharmaceuticals Canada Ltd., which comprise the statement of financial position as at March 31, 2019, and the statements of comprehensive operations, changes in shareholder's equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

BGD LLP
6375 Dixie Road, Suite 400, Mississauga, ON L5T 2E7
P: (905) 676 6000 I F: (905) 676 0887 I E: info@bgdgroup.com I bgdgroup.com

Independent Auditor's Report — continued

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

BGD LLP

Chartered Professional Accountants
Licensed Public Accountants
Mississauga, Ontario
April 27, 2019

ALEMBIC PHARMACEUTICALS CANADA LTD.
Statement of Financial Position
As at March 31

	2019	2018
ASSETS		
Current assets		
Cash	$ 21,490	$ 12,224
Prepaid expenses	3,424	4,141
HST receivable	1,729	4,627
	$ 26,643	$ 20,992
LIABILITIES, SHARES AND DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities	$ 6,579	$ 5,000
Due to shareholder (note 4)	110,000	85,000
	116,579	90,000
Share capital and deficit		
Class A shares (note 5)	10,000	10,000
Deficit	(99,936)	(79,008)
	(89,936)	(69,008)
	$ 26,643	$ 20,992

See note 1- Nature of operations

See accompanying notes

On behalf of the Board

(____________________________) **Director**

ALEMBIC PHARMACEUTICALS CANADA LTD.
Statement of Comprehensive Operations
Year ended March 31

	2019	2018
Revenue	$ -	$ -
Expenses		
Regulatory filings	9,017	8,451
Management fees	6,700	6,312
Professional fees	5,000	4,600
Bank charges	211	270
	20,928	19,633
Net loss and comprehensive loss	$ (20,928)	$ (19,633)

See accompanying notes

ALEMBIC PHARMACEUTICALS CANADA LTD.
Statement of Changes in Equity
Year ended March 31

	Class A shares	Deficit	Total
Balance, March 31, 2017	$ 10,000	$ (59,375)	$ (49,375)
Net loss and comprehensive loss	-	(19,633)	(19,633)
Balance, March 31, 2018	10,000	(79,008)	(69,008)
Net loss and comprehensive loss	-	(20,928)	(20,928)
Balance, March 31, 2019	$ 10,000	$ (99,936)	$ (89,936)

See accompanying notes

ALEMBIC PHARMACEUTICALS CANADA LTD.

Statement of Cash Flows
Year ended March 31

	2019	2018
Operating activities		
Net loss and comprehensive loss	$ (20,928)	$ (19,633)
Net change in non-cash working capital items		
Prepaid expenses	717	(49)
HST	2,898	(1,755)
Accounts payable and accrued liabilities	1,579	(400)
	5,194	(2,204)
Cash flows used in operating activities	(15,734)	(21,837)
Financing activity		
Advances from shareholder	25,000	30,000
Net change in cash during the year	9,266	8,163
Cash, beginning of year	12,224	4,061
Cash, end of year	$ 21,490	$ 12,224

See accompanying notes

1. Nature of operations

Alembic Pharmaceuticals Canada Ltd. is a privately held company, incorporated under the laws of Ontario. The company, which has its registered office at 12 York Street, Toronto Ontario is a wholly owned subsidiary of Alembic Global Holding SA, a company incorporated in Switzerland. The company's ultimate parent is Alembic Pharmaceuticals Limited, a company incorporated and listed in India. The company is entering the Canadian pharmaceutical market to engage in the sale of pharmaceutical products. The ultimate parent company in India and its group are vertically integrated with the ability to develop, manufacture and market pharmaceutical products, and pharmaceutical substances.

2. Basis of presentation and going concern

The financial statements have been prepared in accordance with International Financial Reporting Standards on a going concern basis, which assumes the company can realize its assets and discharge its liabilities in the normal course of operations. Use of the going concern basis may be inappropriate because there is significant doubt about the appropriateness of this assumption. The company’s ability to continue operations and commence earning revenues and positive cash flows in Canada is dependent on the continued support from its parent.

The accompanying financial statements do not include any adjustments that would be necessary if the going concern assumption were not appropriate. They were authorized for issue by the company's Board of Directors on April 27, 2019.

3. Summary of significant accounting policies

Accounting estimates

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically and are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Income taxes

Current income tax represents the expected income recoverable (or payable) on taxable income for the period using income tax rates enacted or substantially enacted at the end of the reporting period and taking into account any adjustments arising from prior years.

Deferred income taxes are accounted for using the liability method. Under this method, deferred income tax assets and liabilties are recognized for the estimated future tax consequences attributable to differences between the carrying amount of existing assets and liabilities in the financial statements and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in earning in the period that includes the substantive enactment date. A deferred tax asset is recognized initially when it is probable that future taxable income will be sufficient to use the related tax benefits and may be subsequently reduced, if necessary, to an amount that is more likely than not to be realized. A deferred tax expense or benefit is recognized in other comprehensive earnings or otherwise directly in equity to the extent that it relates to items that are recognized in other comprehensive earnings or directly in equity in the same or a different period.

3. Summary of significant accounting policies — continued

Financial instruments - IAS 39 accounting policy, effective prior to April 1, 2018

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification at the initial recognition of financial instruments, the company must classify financial assets into one of the following categories: at fair value through profit or loss, held to maturity, loans and receivables and available for sale.

Financial instruments - new IFRS 9 accounting policy, effective from April 1, 2018

Effective April 1, 2018, the company adopted IFRS 9 Financial Instruments, which replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 was adopted retrospectively without restatement, as allowed under the standard's transition provisions. The company updated its accounting policies for financial assets and financial liabilities to comply with the requirements of IFRS 9. Adoption had no effect on measurement of financial instruments.

Financial instruments are initially recognized at fair value when the company becomes a party to a contract, plus or minus transaction costs for instruments subsequently measured at amortized cost. Subsequent accounting is described below.

Financial Assets

On initial recognition, the measurement category is determined, based on both the business model under which the asset is held and the contractual cash flow characteristics of the instrument.

Financial assets are measured as either:

(i) Fair value through profit and loss (FVTPL) – which is required for instruments that are held for trading and derivative assets.

(ii) Amortized cost – if the instrument is held within a business model whose objective is to collect contractual cash flows and the cash flows represent Solely Payments of Principal and Interest (SPPI).

(iii) Fair value through other comprehensive income (FVOCI) – which is required for debt instruments held in a dual-purpose business model (to collect contractual cash flows and to sell the instruments) and can be irrevocably elected at initial recognition provided they have not been designated as FVTPL and are not held for trading.

(iv) Designated as FVTPL – available on initial recognition provided certain criteria are met.

The company's financial asset, which consist of cash is accounted for at amortized cost.

Impairment of financial assets

Financial assets measured at amortized cost are assessed for impairment at each reporting date using an Expected Credit Loss (ECL) model. The ECL model uses a three-stage impairment approach based on changes in the credit risk of the instrument since initial recognition.The company's financial assets are short-term in nature and contain no financing component. Therefore, ECLs arising from possible loss events over the expected life of the asset (lifetime ECLs) are recognized.

3. Summary of significant accounting policies — continued

Financial instruments - new IFRS 9 accounting policy, effective from April 1, 2018

Financial Liabilities

Financial liabilities are measured as either:

(i) FVTPL – which is required for any financial instrument liability held for trading and for derivative liabilities.

(ii) Designated as FVTPL – available on initial recognition if either: the instrument includes one or more embedded derivatives and the host contract is not a financial asset; or if the instrument meets certain criteria.

(iii) Designated as at fair value – in certain circumstances a financial liability can be irrevocably designated at initial recognition as at fair value, with changes in fair value related to changes in the entity's own credit risk recognized in other comprehensive income and all other changes in fair value recognized in net income.

(iv) Amortized cost – which is the default category and is also used for any host contract that is a financial instrument liability.

The company's accounts payable and accrued liabilities and due to shareholder are measured at amortized cost using the effective interest method.

Future accounting standard

IFRS 16 sets out principles for the recognition, measurement, presentation and disclosure of leases. The standard replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC 15, Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with earlier adoption permitted and the company will adopt the new standard for the year ended March 31, 2020.

4. Related party transactions

(i) The amount due to shareholder (Alembic Global Holding SA) is unsecured, non-interest bearing with no specific terms of repayment.

(ii) Key management for the current and prior years was provided by the company's parent, Alembic Global Holding SA, for no consideration.

5. Class A shares

Authorized

Unlimited number of Class A shares, voting at par value

	2019	2018
Issued		
Class A shares	$ 10,000	$ 10,000

6. Income taxes

(a) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 26.5% (2018 - 26.5%) to the loss for the years as follows:

		2019		2018
Loss for the year before income taxes	$	(20,928)	$	(19,633)
Anticipated income tax recovery	$	(5,546)	$	(5,203)
Tax effect of the following:				
Deferred tax asset not recognized	$	5,546	$	5,203

(b) The Company has non-capital losses for income tax purposes of approximately $99,935 (2018- $79,008) which are available to be applied against future years' taxable income. The benefit of these non-capital losses has not been recognised in the financial statement.

7. Capital management

The Company defines capital as due to shareholder, Class A shares and deficit. The Company manages its capital with the following objectives:

To ensure sufficient financial flexibility to achieve the ongoing business objectives (including funding of future growth opportunities and to maximize shareholder return through enhancing value) and to ensure the company's ability to continue as a going concern.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

8. Financial instruments

Transactions in financial instruments may result in an entity assuming or transferring to another entity one or more of the financial risks described below. The company is not exposed to significant currency, interest or other price risks. There have been no significant changes in risk exposure since the prior year.

Liquidity risk

Liquidity risk is the risk that an entity 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 accrued liabilities. The company has a comprehensive plan in place to meet its obligations as they come due, primarily through the financial support of the parent company to achieve the company's objectives. See note 1 Nature of operations.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The company is exposed to credit risk due to its cash, which is held at a Canadian chartered bank and is considered to be subject to nominal credit risk

Fair values

The shareholder advance and Class A shares are due on demand and therefore their carrying amounts are representative of fair values. The company's other financial instruments approximate fair values due to their short-term maturities.