Wilkin & Guttenplan P.C.
Certified Public Accountants and Consultants

# Independent Auditors' Review Report

**To the Board of Directors of**

**Claris Lifesciences, Inc.**

We have audited the accompanying financial statements of Claris Lifesciences, Inc. (the "Company"), which comprise the balance sheet as of December 31, 2015 and the related statement of operations, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements.

## *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 financials statements that are free from material misstatement, whether due to fraud or error.

## *Auditors' Responsibility*

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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



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### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in Notes 2, 6 and 9 to the financial statements, the Company purchases substantially all of the inventory through a related party at variable prices which are set by the related party. Our opinion is not modified with respect to this matter

### *Report on Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information shown on page 13 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying account and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Wilkin & Guttenplan

East Brunswick, New Jersey

April 20, 2016

**Claris Lifesciences, Inc.**
**Balance Sheet**
**December 31, 2015**

| | |
|---|---|
| **Assets** | |
| **Current Assets** | |
| Cash in bank | $ 751,359 |
| Inventories | 6,963,845 |
| Accounts receivable, net | 10,887,477 |
| Prepaid expenses | 35,247 |
| Other current assets | 1,200 |
| Prepaid federal income taxes | 481,387 |
| Due from related parties | 1,330,565 |
| **Total Current Assets** | 20,451,080 |
| Property and equipment, net of $6,204 of accumulated depreciation | 40,838 |
| **Total Assets** | $ 20,491,918 |
| **Liabilities and Shareholder's Equity** | |
| **Liabilities** | |
| **Current Liabilities** | |
| Accounts payable and accrued expenses | $ 2,766,802 |
| Accrued payroll and payroll taxes | 18,571 |
| State income tax liability | 282,483 |
| Loan and advances payable - related parties | 11,677,976 |
| **Total Current Liabilities** | 14,745,832 |
| **Shareholder's Equity** | |
| Common stock, $1 par value, 7,000,000 shares authorized; 4,350,200 issued and outstanding | 4,350,200 |
| Retained earnings | 1,395,886 |
| **Total Shareholder's Equity** | 5,746,086 |
| **Total Liabilities and Shareholder's Equity** | $ 20,491,918 |

The accompanying notes are an integral part of these financial statements.

## Claris Lifesciences, Inc.
### Statement of Operations
### For the Year Ended December 31, 2015

| | |
|---|---|
| **Net Sales** | $ 41,992,298 |
| **Cost of Goods Sold** | 29,670,860 |
| **Gross Profit** | 12,321,438 |
| **Operating Expenses** | |
| Selling | 6,921,620 |
| Administrative | 749,716 |
| Payroll and related expenses | 1,327,237 |
| **Total Operating Expenses** | 8,998,573 |
| **Income from Operations** | 3,322,865 |
| **Non-Operating Income (Expense)** | |
| Other income | 25,159 |
| Interest expense | (308,983) |
| **Income Before Provision for Income Taxes** | 3,039,041 |
| **Provision for Income Taxes** | 1,294,327 |
| **Net Income** | $ 1,744,714 |

The accompanying notes are an integral part of these financial statements.

# Claris Lifesciences, Inc.
## Statement of Changes in Stockholder's Equity
## For the Year Ended December 31, 2015

| | Common Stock | Retained Earnings (Deficit) | Total |
|---|---|---|---|
| Balances at December 31, 2014, as Previously Stated | $ 4,350,200 | $ (348,828) | $ 4,001,372 |
| Net Income | - | 1,744,714 | 1,744,714 |
| Balances at December 31, 2015 | $ 4,350,200 | $ 1,395,886 | $ 5,746,086 |

The accompanying notes are an integral part of these financial statements.

## Claris Lifesciences, Inc.
### Statement of Cash Flows
### For the Year Ended December 31, 2015

| | |
|---|---|
| **Cash Flows from Operating Activities** | |
| Net income | $ 1,744,714 |
| Adjustment to reconcile net income to net cash used in operating activities | |
| Depreciation | 6,204 |
| Deferred tax asset | 250,000 |
| Changes in operating assets and liabilities | |
| Accounts receivable | (6,272,626) |
| Prepaid expenses | (27,235) |
| Inventories | (1,390,774) |
| Other assets | 15,580 |
| Prepaid federal income taxes | (481,387) |
| Due from related parties | (1,281,621) |
| Accounts payable and accrued expenses | (3,463,304) |
| Accrued payroll and payroll taxes | 15,253 |
| State income tax liability | 282,483 |
| **Net Cash Used in Operating Activities** | (10,602,713) |
| **Cash Flows from Investing Activities** | |
| Purchases of fixed assets | (47,042) |
| **Cash Flows from Financing Activities** | |
| Net change in loan and advances payable - related party | 10,826,664 |
| **Net Increase in Cash** | 176,909 |
| **Cash - Beginning of Year** | 574,450 |
| **Cash - End of Year** | $ 751,359 |
| **Cash Paid During the Year for** | |
| Interest | $ 222,062 |
| Income taxes paid | $ 1,239,100 |

The accompanying notes are an integral part of these financial statements.

## Note 1 Nature of Operations

Claris Lifesciences, Inc. (the "Company") is incorporated under the laws of the State of New Jersey and is a wholly owned subsidiary of Claris Pharmaservices, Inc. ("CP"). CP is a lower level subsidiary, which is ultimately owned by Claris Lifesciences Limited, India. The Company is engaged in the business of importing, marketing, selling, and distributing in the United States, injectable pharmaceuticals, which are primarily manufactured by related entities.

## Note 2 Summary of Significant Accounting Policies

### Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. Significant estimates affecting amounts reported or disclosed in the financial statements include allowances and provisions for customer chargebacks, rebates, and cash discounts. These estimates are based on historical experience and on various assumptions that are believed to be reasonable under the current circumstances. Actual results could differ from those estimates.

### Accounts Receivable

Accounts receivable are stated net of various allowances. On a periodic basis, management evaluates its accounts receivable and establishes the allowances, based on past history and other current conditions.

### Customer Allowances

The Company has provided an estimate for pending customer rebates. Certain wholesaler customers submit for reimbursement throughout the course of business. The estimated allowance is based on the pending credit memos and rebates incurred by the Company, not yet approved by the Company.

### Inventories

Inventories are valued at the lower of cost or market. Cost is primarily determined by using a first in-first out method. The Company regularly reviews the inventory quantities on hand, and when appropriate, records a provision for obsolete and excess inventory. No such provision was required at December 31, 2015. The Company purchases substantially all of its inventory from a related entity, Claris Lifesciences, Limited ("CLL").

## Note 2 Summary of Significant Accounting Policies (Continued)

### Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization is provided using straight-line and accelerated methods over their respective estimated useful lives, ranging from three to seven years for furniture and equipment and the shorter of lease term or actual useful life for leasehold improvements. Repairs and maintenance, which do not extend the useful lives of the related assets, are expensed as incurred.

The Company reviews the carrying value of property and equipment whenever events and circumstances indicate that the carrying value or an asset may not be coverable from the estimated future cash flows expected to result from its eventual use and disposition. Based on this assessment, management has determined that there was no impairment.

### Income Taxes

The Company accounts for income taxes under the balance sheet method, which requires recognition of deferred tax liabilities and deferred tax assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and deferred tax assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

The Company periodically evaluates whether there are any uncertain tax positions requiring accounting recognition in the financial statements. Based on this evaluation, the Company has determined that there are no material uncertain tax positions requiring recognition or disclosure for the year ended December 31, 2015.

The statute of limitations for the examination of the Company's income tax returns by the Internal Revenue Service and State is generally three years from the filing date of the tax returns.

### Revenue Recognition

#### Product Sales

The Company's primary customers consist of wholesalers and distributions who in-turn sell the products directly to clinics, hospitals, and private medical practices. Revenue from product sales is recognized when substantially all the risks and rewards of ownership have transferred to customers, when estimates of their selling price and discounts, rebates, and promotional adjustments, price adjustments, returns, chargebacks, and other potential adjustments are reasonably determinable, collection is reasonably assured, and persuasive evidence of an arrangement exists.

**Note 2 Summary of Significant Accounting Policies (Continued)**
**Revenue Recognition (Continued)**
**Product Sales (Continued)**

The Company establishes allowances for discounts, rebates, returns, chargebacks, and other adjustments at the time of the sale. In determining the amount of pricing allowances to be established, the Company considers its own business experience and knowledge of industry and competitive practices, as well as its assessment of the impact on price adjustments due to external market forces, if any. The factors considered include, but are not limited to, actual pricing allowance experience by product by customer, the Company's contractual arrangements with its customers, inventory reports, estimates of products in the distribution channel, customers' right of return, applicable marketing and pricing regulations and current and projected economic conditions. The data used by the Company in establishing pricing allowances is based on information developed internally and obtained from external sources. Pricing allowances are presented as a reduction of revenue in the statements of operations and retained earnings. The principal allowances are as follows:

**Chargebacks**
The provision for chargebacks is a significant estimate used in the recognition of revenue. As part of the its contracts with the wholesale customers, the Company agrees to reimburse wholesalers for the difference between the gross sales price at which the Company sells its products to the wholesalers and the actual prices of the products at the time of resale to the end user. The Company estimates chargeback at the time of the sale to wholesalers based on wholesaler inventory, historical chargeback rates and current pricing.

**Prompt Payment Discounts**
Discounts for prompt payment is established based on the eligible customers' payment history, the contractual discount percentage, and the ending accounts receivable balance.

**Product Return Allowance**
The customers are permitted to return purchased products for a credit when they are within three months of the expiration date, additionally, once the product has expired, the Company will take returned goods for an additional six months. Returned product is generally not resold by the Company. As of December 31, 2015, management has determined that no allowance for product return was required.

**Advertising**
The Company's policy is to expense advertising costs as the costs are incurred. Advertising costs of $88,792 have been incurred for the year ended December 31, 2015.

## Note 2 Summary of Significant Accounting Policies (Continued)

**Shipping and Handling**
Freight billed to customers is considered sales revenue and the related freight costs as a selling expense.

**Subsequent Events**
The Company has evaluated subsequent events and transactions for potential recognition or disclosure through the date of the auditors' review report, which is the date the financial statements were available to be issued, and no additional disclosures are required.

## Note 3 Accounts Receivable, Net

Accounts receivable with customers are reflected net of allowances for pending chargebacks, rebates, and cash discount. The receivables are generally due within 30 to 90 days, depending on the customer, from the invoice date.

Accounts receivable consist of:

| | December 31, 2015 |
|---|---|
| Accounts Receivable | $ 14,462,225 |
| Allowance for chargeback provision | (2,665,497) |
| Allowance for pending rebates | (634,006) |
| Allowance for cash discount | (275,245) |
| Accounts Receivable, Net | $ 10,887,477 |

## Note 4 Inventories

Inventories consist of the following:

| | December 31, 2015 |
|---|---|
| Finished Goods: | |
| Inventory on hand | $ 5,140,851 |
| Inventory in transit | 1,822,994 |
| Total | $ 6,963,845 |

## Note 5 Gross-to-Net Product Sales

The schedule below presents the Gross-to-Net product sales reconciliation for the year ended December 31, 2015:

| | |
|---|---|
| Gross sales | $ 74,479,810 |
| Chargebacks | (30,711,997) |
| Cash discount | (1,386,013) |
| Freight damage | (56,831) |
| Other reductions | (332,671) |
| Net sales | $ 41,992,298 |

## Note 6 Related Party Transactions

The Company purchases a substantially all of its inventory from a related entity, Claris Lifesciences Ltd. The Company purchased and received $25,962,641 for the year ended December 31, 2015. The Company also purchased inventory which was in transit at December 31, 2015, totaling $1,822,994.

As of December 31, 2015, the Company has advanced funds for the future inventory purchases to CLL and CIL totaling is $929,565 and $401,000, respectively.

During February 2015, the Company borrowed $11,640,000 from Catalys Venture Cap Ltd. (CVCL), Mauritius, an entity with common ownership as CLL. The loan matured during February 2016 and has since been extended for six months with a new maturity during August 2016. The note bears interest of 2.88%. The interest accrued for the year ended December 31, 2015 totaled $308,983. As of December 31, 2015, the outstanding balance owed to CVCL totaled $11,677,976.

## Note 7 Income Taxes

Federal and state income taxes have been provided as follows as of December 31, 2015:

| | |
|---|---|
| Current Tax Provision: | |
| Federal income tax expense | $1,011,844 |
| State income tax expense | 282,483 |
| Tax benefit of net operating Loss carryforward | (250,000) |
| Current Provision | 1,044,327 |
| Deferred Tax Expense | 250,000 |
| Total | $1,294,327 |

## Note 8 Operating Lease Commitments

The Company leases office space in New Brunswick, New Jersey under an operating lease expiring on August 1, 2017. The lease requires monthly payments of $3,580. The rent expense for the year ended December 31, 2015 totaled $39,674.

The future aggregate minimum rental payments under the operating lease are as follows:

| | |
|---|---|
| Year ending December 31, | |
| 2016 | $ 42,960 |
| 2017 | 25,060 |
| Total | $ 68,020 |

## Note 9 Concentration

During the year ended December 31, 2015, the Company had revenues from three large pharmaceutical wholesaler customers which represented approximately 84% of the total net sales. As of December 31, 2015, the accounts receivable from these customers represented 94% of the total accounts receivable. In addition, three products accounted for 56% of net sales for the years ended December 31, 2015.

Cash is held in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any loss in such accounts.

The Company purchased substantially all of the inventory from its related party.

# SUPPLEMENTARY INFORMATION

## Claris Lifesciences, Inc.
### Schedule of Cost of Goods Sold and Operating Expenses
### For the Year Ended December 31, 2015

| | |
|---|---|
| **Cost of Goods Sold** | |
| Opening inventory | $ 5,573,071 |
| Purchases, including inventory in transit | 30,608,295 |
| Freight and import charges | 453,339 |
| Closing inventory, including inventory in transit | (6,963,845) |
| **Total Cost of Goods Sold** | $ 29,670,860 |
| **Operating Expenses** | |
| **Selling** | |
| Supplier fees | $ 2,226,684 |
| Logistics charges | 1,416,206 |
| Outbound freight | 1,113,570 |
| Group purchasing organization fees | 1,007,889 |
| Commission | 539,433 |
| Marketing expense | 366,065 |
| Travel expenses | 243,023 |
| Laboratory testing | 8,750 |
| **Total Selling** | $ 6,921,620 |
| **Administrative** | |
| Legal and professional fees | $ 547,732 |
| Rent | 39,674 |
| Consulting | 39,653 |
| Telephone | 29,839 |
| Auto expense | 23,326 |
| Equipment | 12,937 |
| Licenses and fees | 11,833 |
| Regulatory expenses | 11,586 |
| Insurance | 11,218 |
| Postage | 6,627 |
| Office expense | 6,243 |
| Depreciation | 6,204 |
| Bank charges | 2,844 |
| **Total Administrative** | $ 749,716 |
| **Payroll and Related Expenses** | |
| Payroll | $ 1,164,130 |
| Employee benefits | 86,313 |
| Payroll taxes | 76,794 |
| **Total Payroll and Related Expenses** | $ 1,327,237 |

The accompanying notes are an integral part of these financial statements.