

Independent Auditors' 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 March 31, 2017 and the related statements 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2017 and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information shown on page 14 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.

Emphasis of Matter

The Company functions as a U.S. distributor of products manufactured by a related party and purchased at variable prices which are set by the related party. The pricing model is set at maintaining the Company's pretax income at levels commensurate with other independent distributors. Our conclusion is not modified with respect to this matter.



East Brunswick, New Jersey

May 9, 2017

Claris Lifesciences Inc

Balance Sheet

March 31, 2017

Assets

Current Assets

| | |
|------------------------------|--------------|
| Cash in bank | \$ 1,096,579 |
| Accounts receivable, net | 15,911,520 |
| Inventories | 14,635,704 |
| Prepaid expenses | 211,088 |
| Other current assets | 279,180 |
| Prepaid federal income taxes | 917,587 |

Total Current Assets 33,051,658

| | |
|-----------------------------|-----------|
| Property and equipment, net | 1,236,699 |
|-----------------------------|-----------|

Total Assets \$ 34,288,357

Liabilities and Shareholder's Equity

Liabilities

Current Liabilities

| | |
|---------------------------------------|---------------|
| Due to related parties | \$ 10,699,993 |
| Accounts payable and accrued expenses | 1,543,593 |
| Accrued payroll and payroll taxes | 11,458 |
| State income tax liability | 2,434 |
| Line of credit | 12,985,000 |

Total Current Liabilities 25,242,478

Shareholder's Equity

| | |
|---|-----------|
| Common stock, \$1 par value, 7,000,000 shares authorized; 4,350,200 issued and outstanding | 4,350,200 |
| Retained earnings | 4,695,679 |

Total Shareholder's Equity 9,045,879

Total Liabilities and Shareholder's Equity \$ 34,288,357

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

Claris Lifesciences Inc
Statement of Operations
For the Year Ended March 31, 2017

| | |
|---|----------------------------|
| Net Sales | \$ 76,852,666 |
| Cost of Goods Sold | <u>61,722,591</u> |
| Gross Profit | <u>15,130,075</u> |
| Operating Expenses | |
| Selling | 5,460,847 |
| Administrative | 2,501,198 |
| Payroll and related expenses | <u>2,742,619</u> |
| Total Operating Expenses | <u>10,704,664</u> |
| Income from Operations | 4,425,411 |
| Non-Operating Income (Expense) | |
| Other income | 34,018 |
| Interest expense | <u>(644,969)</u> |
| Income Before Provision for Income Taxes | 3,814,460 |
| Provision for Income Taxes | <u>1,273,791</u> |
| Net Income | <u><u>\$ 2,540,669</u></u> |

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 March 31, 2017

| | Common Stock | Retained Earnings | Total |
|----------------------------|---------------------|----------------------|---------------------|
| Balances at March 31, 2016 | \$ 4,350,200 | \$ 2,155,010 | \$ 6,505,210 |
| Net Income | - | 2,540,669 | 2,540,669 |
| Balances at March 31, 2017 | <u>\$ 4,350,200</u> | <u>\$ 4,695,679</u> | <u>\$ 9,045,879</u> |

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

Claris Lifesciences Inc
Statement of Cash Flows
For the Year Ended March 31, 2017

Cash Flows from Operating Activities

| | |
|---|----------------|
| Net income | \$ 2,540,669 |
| Adjustment to reconcile net income to net cash provided by operating activities | |
| Depreciation | 36,046 |
| Changes in operating assets and liabilities | |
| Accounts receivable | (3,457,853) |
| Inventories | (5,550,943) |
| Prepaid expenses | (123,145) |
| Other current assets | (277,280) |
| Prepaid federal income taxes | (858,103) |
| Due to related parties | 9,550,391 |
| Accounts payable and accrued expenses | (655,738) |
| Accrued payroll and payroll taxes | (261,897) |
| State income tax liability | (280,049) |
| | <u>662,098</u> |
| Net Cash Provided by Operating Activities | <u>662,098</u> |

Cash Flows from Investing Activities

| | |
|-------------------------------------|--------------------|
| Purchases of property and equipment | <u>(1,226,240)</u> |
|-------------------------------------|--------------------|

Cash Flows from Financing Activities

| | |
|---|-------------------|
| Net change in loan and advances payable - related party | (11,598,633) |
| Proceeds from line of credit | <u>12,985,000</u> |

| | |
|--|------------------|
| Net Cash Provided by Financing Activities | <u>1,386,367</u> |
|--|------------------|

| | |
|-----------------------------|---------|
| Net Increase in Cash | 822,225 |
|-----------------------------|---------|

| | |
|-----------------------------------|----------------|
| Cash - Beginning of Period | <u>274,354</u> |
|-----------------------------------|----------------|

| | |
|-----------------------------|----------------------------|
| Cash - End of Period | <u><u>\$ 1,096,579</u></u> |
|-----------------------------|----------------------------|

Cash Paid During the Period for

| | |
|--------------|----------------------------|
| Interest | <u>\$ 536,724</u> |
| Income taxes | <u><u>\$ 2,417,953</u></u> |

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. As a result of a reorganization, effective June 1, 2016, the Company became a wholly owned subsidiary of Claris Injectables Limited ("CIL"). CIL is a lower level subsidiary, which is ultimately owned by Claris Lifesciences Limited ("CLL") (See Note 13) Prior to June 1, 2016, the Company was a wholly owned subsidiary of Claris Pharmaservices, which is also a wholly owned subsidiary of CLL. 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 at cost, net of various allowances. On a periodic basis, management evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions.

Pending Rebates

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 net realizable value. 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. As of March 31, 2017, management has determined that the amount of excess, obsolete, damaged, returned, expiry, and otherwise unavailable for sale, was \$272,592.

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

The Company purchases substantially all of its inventory from a related entity, or from third party contract manufacturing agreements set up by a related entity, Claris Injectables, Limited ("CIL").

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. Residential real estate is being depreciated over twenty seven years. Repairs and maintenance, which do not extend the useful lives of the related assets, are expensed as incurred. Property and equipment on the accompanying financial statements includes residential real estate.

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.

Revenue Recognition

Product Sales

The Company's primary customers consist of wholesalers and distributors 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.

The Company establishes allowances for chargebacks, discounts, returns, rebates, 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.

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

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 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.

Wholesaler Fees

Current accounting standards related to consideration given by a vendor to a customer, including a reseller of a vendor's products, specify that cash consideration given by a vendor to a customer is presumed to be a reduction of the selling price of the vendor's products or services and therefore should be characterized as a reduction of product sales. Consideration should be characterized as a cost incurred, if the Company received, or will receive, an indefinable benefit (goods or services) in exchange for the consideration and the Company can reasonably estimate the fair value of the benefit received.

Because the fees paid to wholesalers do not meet the foregoing conditions to be characterized as a cost, the Company characterized these fees as a reduction of product sales and have included them in supplier rebates in the table in Note 7. The wholesaler reduces outstanding accounts receivables periodically to account for the invoices for the wholesaler fees. Accordingly, there is an accrual calculated monthly for the estimated fee due back to the wholesaler based on the wholesaler inventory levels and historical contracted wholesaler fees.

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.

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

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. The allowance for product returns is included as a component of inventory described above.

Advertising

The Company's policy is to expense advertising costs as the costs are incurred. Advertising costs totaled \$143,392 for the year ended March 31, 2017.

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' report, which is the date the financial statements were available to be issued, and no additional disclosures are required. See Note 13.

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:

| | |
|--|----------------------|
| Accounts Receivable | \$ 21,672,330 |
| Allowance for chargeback provision | (3,512,880) |
| Allowance for pending fees and rebates | (1,831,248) |
| Allowance for cash discount | <u>(416,682)</u> |
| Accounts Receivable, Net | <u>\$ 15,911,520</u> |

Claris Lifesciences Inc
Notes to the Financial Statements
March 31, 2017

Note 4 Inventories

Inventories consist of the following:

| | |
|---------------------------------|----------------------|
| Finished Goods: | |
| Inventory on hand | \$ 9,279,481 |
| Inventory in transit – outbound | 865,079 |
| Inventory in transit – inbound | <u>4,491,144</u> |
| Total Inventories | <u>\$ 14,635,704</u> |

Note 5 Property and Equipment

Property and equipment consist of:

| | |
|--------------------------------|---------------------|
| Land | \$ 415,649 |
| Building | 744,352 |
| Leasehold improvements | 39,472 |
| Furniture and equipment | 37,135 |
| Vehicle | 25,621 |
| Computer software | <u>46,962</u> |
| | 1,309,191 |
| Less: Accumulated Depreciation | <u>(72,492)</u> |
| Property and Equipment, Net | <u>\$ 1,236,699</u> |

Note 6 Line of Credit

On May 9, 2016 the Company entered into a short term line of credit agreement with Canara Bank New York. The maximum amount of the line of credit is \$13,500,000 of which \$12,985,000 was outstanding at March 31, 2017. The loan matured March 29, 2017 and has been extended on a month-to-month basis with a current maturity date of May 9, 2017. The line of credit requires monthly payments of interest beginning June 9, 2016 at an interest rate of 350 basis points above the six month LIBOR. As of March 31, 2017 the rate was 4.755%. The interest incurred associated with this line of credit, including the loan origination costs, approximated \$534,070 for the year ended March 31, 2017. The line of credit is secured by inventory and accounts receivable and is guaranteed by CIL.

Claris Lifesciences Inc
Notes to the Financial Statements
March 31, 2017

Note 7 Gross-to-Net Product Sales

The schedule below presents the Gross-to-Net product sales reconciliation for the year ended March 31, 2017:

| | |
|------------------|----------------------|
| Gross sales | \$130,808,180 |
| Chargebacks | (45,021,662) |
| Supplier rebates | (4,959,591) |
| Cash discount | (2,342,287) |
| Other reductions | <u>(1,631,974)</u> |
| Net sales | <u>\$ 76,852,666</u> |

Note 8 Related Party Transactions

The Company purchases substantially all of the products sold from a related entity, Claris Injectibles Ltd. For the year ended March 31, 2017, the Company purchased and received products totalling \$62,263,839. The Company also purchased inventory which was in transit at March 31, 2017 totalling \$4,491,144. The Company owed Claris Injectibles Ltd. funds as a result of the inventory purchases aggregating \$10,699,993 as of March 31, 2017.

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 in February 2016 and was extended for six months with a new maturity of August 2016. On May 9, 2016, the loan and all accrued interest was paid in full with the funds received from a line of credit, see Note 6. The note interest rate was 2.88% for the year ended March 31, 2017 and interest expense on this loan totaled approximately \$42,100. As of March 31, 2017, there was no outstanding balance owed to CVCL relating to this loan and CVCL owed the Company \$48,945, which is included as a component of other current assets.

Note 9 Income Taxes

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.

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.

Note 9 Income Taxes (Continued)

Federal and state income taxes have been provided as follows:

Current tax provision:

| | |
|----------------------------|---------------------|
| Federal income tax expense | \$ 1,316,897 |
| State income tax benefit | <u>(43,106)</u> |
| Total | <u>\$ 1,273,791</u> |

Note 10 Operating Lease Commitments

The Company leases office space in North Brunswick, New Jersey under an operating lease expiring on August 1, 2017. The lease requires monthly payments of \$5,100. The rent expense for year ended March 31, 2017 totaled \$59,520.

The future aggregate minimum rental payments under the operating lease are \$20,400.

Note 11 Concentration

During the year ended March 31, 2017, the Company's revenues from three large pharmaceutical wholesaler customers represented approximately 80% of the total net sales. As of March 31, 2017, the accounts receivable from these customers represented 90% of the total accounts receivable. In addition, three products accounted for 71% of net sales for the year ended March 31, 2017.

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 a related party.

Note 12 Contingency

From time to time, the Company may be involved in litigation. Management periodically evaluates all outstanding claims of actual, pending, and threatened limitation. As of March 31, 2017, the Company is not aware of actual, pending, or threatened claims against the Company.

Note 13 Subsequent Event

The Company's Ultimate holding company CLL, has entered into a Share purchase agreement on December 15th 2016, to sell its entire Injectables Business to Baxter Healthcare (Asia) Pty. Ltd. and/or its wholly owned subsidiaries and/or its nominees. The transaction is expected to be closed in the second half of the year 2017.

SUPPLEMENTARY INFORMATION

Claris Lifesciences Inc
Schedule of Cost of Goods Sold and Operating Expenses
For the Year Ended March 31, 2017

Cost of Goods Sold

| | |
|---|---------------------|
| Opening inventory | \$ 9,084,761 |
| Purchases, including inventory in transit | 66,735,690 |
| Freight and import charges | 537,844 |
| Closing inventory, including inventory in transit | <u>(14,635,704)</u> |

Total Cost of Goods Sold \$ 61,722,591

Operating Expenses

Selling

| | |
|------------------------------------|------------------|
| Group purchasing organization fees | \$ 1,812,914 |
| Logistics charges | 1,578,826 |
| Outbound freight | 1,221,490 |
| Marketing expense | 524,400 |
| Travel expenses | 403,992 |
| Laboratory fees | 58,711 |
| Commission | 1,962 |
| Failure to supply | <u>(141,448)</u> |

Total Selling \$ 5,460,847

Administrative

| | |
|-----------------------------|--------------|
| Legal and professional fees | \$ 1,972,841 |
| Office expense | 143,789 |
| Licenses and fees | 67,202 |
| Auto expense | 63,237 |
| Rent | 59,520 |
| Insurance | 56,487 |
| Depreciation | 36,046 |
| Postage | 31,473 |
| Telephone | 24,033 |
| Equipment | 18,127 |
| Regulatory expenses | 16,800 |
| Dues and membership fees | 8,378 |
| Bank charges | <u>3,265</u> |

Total Administrative \$ 2,501,198

Payroll and Related Expenses

| | |
|-------------------|----------------|
| Payroll | \$ 2,452,656 |
| Employee benefits | 146,849 |
| Payroll taxes | <u>143,114</u> |

Total Payroll and Related Expenses \$ 2,742,619

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