

Summary Financial Statements of

NATCO PHARMA (CANADA) INC

And Independent Auditor's Report thereon

Year ended March 31, 2024



KPMG LLP

Vaughan Metropolitan Centre
100 New Park Place, Suite 1400
Vaughan, ON L4K 0J3
Canada
Telephone 905 265 5900
Fax 905 265 6390

**REPORT OF THE INDEPENDENT AUDITORS ON THE SUMMARY
FINANCIAL STATEMENTS**

To the Shareholder of Natco Pharma (Canada) Inc.

Opinion

The summary financial statements of Natco Pharma (Canada) Inc. (the Entity), which comprise:

- The summary balance sheet as at March 31, 2024
- the summary statement of earnings for the year then ended
- the summary statement of retained earnings for the year then ended
- the summary statement of cash flows for the year then ended
- and related notes

are derived from the audited financial statements of Natco Pharma (Canada) Inc. as at and for the year ended March 31, 2024 (audited financial statements).

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with the criteria disclosed in Note 1 in the summary financial statements.

Summary Financial Statements

The summary financial statements do not contain all the disclosures required by Canadian accounting standards for private enterprises. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the Entity's audited financial statements and the auditor's report thereon.

The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.



Page 2

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of the summary financial statements in accordance with the criteria disclosed in Note 1 in the summary financial statements.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, the audited financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standards 810, Engagements to Report on Summary Financial Statements.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

August 30, 2024

NATCO PHARMA (CANADA) INC

Summary Balance Sheet

March 31, 2024, with comparative information for 2023

	2024	2023
Assets		
Current assets:		
Cash	\$ 4,722,881	\$ 14,815,503
Investments (note 2)	46,995,079	27,137,136
Accounts receivable	7,877,097	10,147,336
Inventory	12,073,244	8,287,697
Due from shareholder (note 6)	-	1,777,842
Prepaid expenses	231,133	230,362
Goods and services taxes receivable	490,091	293,994
Income taxes recoverable	181,320	-
	<hr/> 72,570,845	<hr/> 62,689,870
Equipment (note 3)	83,003	95,750
	<hr/> \$ 72,653,848	<hr/> \$ 62,785,620
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,390,409	\$ 12,463,279
Derivate financial instrument	2,342	285,137
Income taxes payable	-	271,956
Customer deposits	281,879	329,250
Due to shareholder (note 6)	5,889,115	-
	<hr/> 13,563,745	<hr/> 13,349,622
Share capital (note 4)	2,810,881	2,810,881
Retained earnings	56,279,222	46,625,117
	<hr/> 59,090,103	<hr/> 49,435,998
Commitments (note 7)		
Contingent liabilities (note 8)		
	<hr/> \$ 72,653,848	<hr/> \$ 62,785,620

See accompanying notes to summary financial statements.

On behalf of the Board:

Director

NATCO PHARMA (CANADA) INC

Summary Statement of Earnings

Year ended March 31, 2024, with comparative information for 2023

	2024	2023
Gross product sales less returns and other allowances	\$ 36,127,484	\$ 42,621,917
Interest and dividend income	2,127,388	1,205,595
	<u>38,254,871</u>	<u>43,827,512</u>
Cost of sales	10,975,481	15,675,175
	<u>27,279,390</u>	<u>28,152,337</u>
EXPENSES:		
Selling, general and administrative expenses	14,106,358	14,244,947
(Gain) Loss on investments	(23,226)	249,777
Foreign exchange gain on related party loan receivable	-	(420,400)
Amortization	42,410	40,485
	<u>14,125,542</u>	<u>14,114,809</u>
Income before income taxes	13,153,849	14,037,528
Income taxes (note 5)	3,499,744	3,798,366
	<u>\$ 9,654,105</u>	<u>\$ 10,239,162</u>

See accompanying notes to summary financial statements.

NATCO PHARMA (CANADA)

Summary statement of Retained Earnings

Year ended March 31, 2024, with comparative information for 2023.

	2024	2023
Retained earnings, beginning of year	\$ 46,625,117	\$ 36,385,955
Net earnings	9,654,105	10,239,162
Retained earnings, end of year	\$ 56,279,222	\$ 46,625,117

See accompanying notes to summary financial statements.

NATCO PHARMA (CANADA)

Summary statement of Cash Flows

Year ended March 31, 2024, with comparative information for 2023.

	2024	2023
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 9,654,105	\$ 10,239,162
Items not involving cash:		
Amortization	42,410	40,485
(Gain) on investments (note 2)	(23,226)	249,777
Foreign exchange gain on related party loan receivable	-	(420,400)
Changes in non-cash operating working capital:		
Accounts receivable	2,270,240	(5,833,145)
Inventory	(3,785,548)	(4,268,670)
Prepaid expenses	(772)	23,340
Customer Deposits	(47,371)	329,250
Goods and services taxes receivable	(196,098)	58,220
Accounts payable and accrued liabilities	(5,072,870)	10,817,221
Income taxes payable	(453,276)	129,785
	2,387,594	11,365,025
Financing activities:		
Due from (to) shareholder	7,666,958	(1,521,955)
Investing activities:		
Purchase of investments, net	(19,834,716)	(9,996,081)
Loan repayment from related party	-	5,418,800
Purchase of equipment	(29,662)	(50,604)
Net payment on settlement of derivative financial instrument	(282,796)	(6,564)
	(20,147,174)	(4,634,449)
Increase (decrease) in cash	(10,092,622)	5,208,621
Cash, beginning of year	14,815,503	9,606,882
Cash, end of year	\$ 4,722,881	\$ 14,815,503

See accompanying notes to summary financial statements.

NATCO PHARMA (CANADA)

Notes to Summary Financial Statements

Year ended March 31, 2024

Nature of operations:

Natco Pharma (Canada) Inc. (the "Company") is incorporated on November 7, 2012 under the Canada Business Corporation Act. The Company is in the business of importing and selling health care pharmaceutical products in Canada.

1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian accounting standards for private enterprises. The Company's significant accounting policies are as follows:

(a) Cash and cash equivalents:

Cash and cash equivalents include cash and short-term deposits with original maturity under 90 days.

(b) Inventory:

Inventory consists of pharmaceuticals held for resale and are stated at the lower of cost, determined on a weighted average basis and net realizable value. Net realizable value is the estimated selling price in the normal course of business less the estimated costs required to bring the inventory to market. Included in the cost of inventories are costs of purchase net of vendor allowances, plus other costs, such as freight, commissions and duty, that are directly incurred to bring inventories to their present location and condition. The provision for inventory obsolescence is assessed regularly based on estimated usage and shelf life of products.

(c) Equipment:

Property, plant and equipment are stated at cost, less accumulated amortization. Amortization is provided using the following method and annual rates:

Asset	Basis	Rate
Equipment, furniture and fixtures	Declining balance	20%
Computer equipment	Declining balance	55%
Vehicles	Declining balance	30%

NATCO PHARMA (CANADA) INC.

Notes to Summary Financial Statements (continued)

Year ended March 31, 2024

1. Significant accounting policies (continued):

(d) Impairment of long-lived assets:

Equipment is tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the long-lived assets exceeds its fair value.

(e) Revenue recognition:

The Company recognizes revenue when products are delivered, the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Revenue is net of items such as returns, allowances and claims for damaged goods, prompt payment incentives, marketing support programs and professional allowances. The Company's offering of products include pharmaceuticals that are subject to price control established by local government authorities.

Income from compensation, claims and government assistance is recognized when collection of the amount receivable is assured.

(f) Income taxes:

The Company follows the income taxes payable method of accounting for income taxes. Under this method, only current income tax assets and liabilities are recognized which are determined in accordance with the rules established by taxation authorities.

(g) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenue and expenses are translated at exchange rates prevailing at the respective transaction dates, with the exception of amortization, which are translated at historic rates. Exchange gains and losses are included in net income.

NATCO PHARMA (CANADA) INC.

Notes to Summary Financial Statements (continued)

Year ended March 31, 2024

1. Significant accounting policies (continued):

(h) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Company has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments that will not be measured subsequently at fair value are adjusted by transaction costs and financing fees that are directly attributable to the origination and acquisition of these instruments. These costs are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Company determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Company expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial impairment charge.

(i) Use of estimates:

The presentation of financial statements in accordance with Canadian accounting standards for private enterprises 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 financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the estimated useful lives of equipment, the valuation of allowance for accounts receivable, returns and market support programs, valuation of inventories, impairment of financial assets, accruals for accounts payable and provision for other liabilities. Actual results could differ from those estimates.

2. Investments:

Short term Investments consist of guaranteed investment certificates, investment in quoted shares and fixed income securities with maturity dates less than one year.

NATCO PHARMA (CANADA) INC.

Notes to Summary Financial Statements (continued)

Year ended March 31, 2024

3. Equipment:

			2024	2023
	Cost	Accumulated amortization	Net book value	Net book value
Equipment, furniture and fixtures	\$ 83,605	\$ 48,823	\$ 34,782	\$ 26,297
Computer equipment	216,140	190,011	26,129	37,893
Vehicles	52,776	30,684	22,092	31,560
	\$ 352,521	\$ 269,518	\$ 83,003	\$ 95,750

4. Share capital:

	2024	2023
Authorized:		
Unlimited Class A shares, voting		
Unlimited Class B shares, non-voting, with dividend and distribution priority over Class A shares		
Issued:		
2,810,881 Class A shares	\$ 2,810,881	\$ 2,810,881

5. Income taxes:

The Company reported income tax expense is calculated in accordance with applicable income tax rules. The income tax expense therefore differs from the application of statutory rates to reported income as a result of the following tax reconciliation items:

	2024	2023
Income before income taxes	\$ 13,153,849	\$ 14,037,528
Combine statutory income tax rate	26.50%	26.50%
Income tax expense at combined federal and provincial tax rate	3,485,770	3,719,945
Impact of timing difference in amortization	8,802	(5,128)
Non-deductible expenses	11,327	8,592
Unrealized foreign exchange on account of capital	(6,155)	66,376
Other	-	8,581
Effective tax expense	\$ 3,499,744	\$ 3,798,366

NATCO PHARMA (CANADA) INC.

Notes to Summary Financial Statements (continued)

Year ended March 31, 2024

6. Related party transactions:

During the year, the Company purchased \$12,482,480 (2023 - \$16,740,295) of finished goods from its shareholder. These purchases were made in a normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related party. As of March 31, 2024 there was an amount payable to the shareholder of \$5,889,115 (2023 – due from the shareholder \$1,777,842).

Amounts due to a shareholder are unsecured and non-interest bearing. The repayment period is within the next year and the amounts due are in the normal course of business.

7. Commitments:

The Company's total obligations, under operating leases for occupied premises and vehicles, exclusive of realty taxes and other occupancy charges in future years are as follows:

2025	\$	106,485
2026		104,940
2027		108,030
2028		101,229
2029		94,245
2030		47,895
	\$	562,824

8. Contingent liabilities:

The Company is defending five intellectual property proceedings initiated against it in connection with its submission for approval to market products. The Company has filed counterclaims that the proceedings initiated against it are void and of no force and effect. There is no exposure to damage as the Company has not yet sold the products. The exposure is limited to costs that may be awarded to the prevailing party which is difficult to quantify.

9. Credit facility:

The Company has an operating line of credit in the amount of \$2,000,000 (2023 - \$2,000,000) bearing interest at the bank prime rate plus 1.5%. It is secured by a general security agreement. There were no amounts outstanding at end of the year (March 31, 2023 - nil).

NATCO PHARMA (CANADA) INC.

Notes to Summary Financial Statements (continued)

Year ended March 31, 2024

10. Economic dependence:

The Company primarily purchases its product from its shareholder in India. The Company is exposed to risk associated with the non-performance of the shareholder which can be directly impacted by a decline in economic conditions, which would impair the shareholder's ability to satisfy their obligations to the Company or the supply of inventory.

11. Financial risks and concentration of risk:

The Company is exposed to various risks through its financial instruments. The following analysis provides a measure of the Company's risk exposure and concentrations at the balance sheet date.

a. Significant customers and credit risk:

The Company is exposed to credit risk in the event of non-performance by counterparties in connection with its cash, accounts receivable, and investments. In order to reduce its credit risk from receivables, the Company reviews its existing receivables' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The Company manages the credit risk from its cash balances by maintaining its accounts with creditworthy and highly reputable financial institutions. The Company does not obtain collateral or other security to support the accounts receivable subject to credit risk but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant losses for non-performance.

b. Liquidity risk:

Liquidity risk is the risk that the Company 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 to meeting commitments. The Company expects to meet these obligations as they come due by generating sufficient cash flow from operations and borrowings from its shareholder. In addition, the Company manages liquidity risk by maintaining sufficient cash on hand to settle obligations. There has been no change in the risk assessment from the prior year.

c. Currency risk:

Currency risk is the risk that the fair value or future cash flows will fluctuate because of changes in foreign exchange rates. Approximately all the Company's purchases are from a foreign company. These purchases are payable in Canadian dollars. At year end, the Company had no amounts payable in foreign currencies.

NATCO PHARMA (CANADA) INC.

Notes to Summary Financial Statements (continued)

Year ended March 31, 2024

Financial risks and concentration of risk (continued):

The Company manages its exposure to fluctuations in foreign exchange rates through the use of foreign exchange forward contracts.

d. Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not have significant exposure to interest rate risk on its liabilities as the balances are non-interest bearing. The Company's investments earn interest at fixed rates.

12. Comparative information:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year end. The changes do not affect prior year income.