

# **Granules Pharmaceuticals, Inc.**

Financial Statements

March 31, 2020 and March 31, 2019

**KNAV P.A.**

Certified Public Accountants

One Lakeside Commons, Suite 850,  
990 Hammond Drive NE, Atlanta, GA 30328



America Counts on CPAs

# Table of Contents

<b>Independent Accountant's Review Report .....</b>	<b>3</b>
<b>Financial Statements .....</b>	<b>4</b>
Balance sheets .....	5
Statements of (loss) income .....	6
Statements of stockholder's equity .....	7
Statements of cash flows .....	8
<b>Notes to Financial Statements .....</b>	<b>9</b>

# Independent Accountant's Review Report

To Board of Directors,  
Granules Pharmaceuticals Inc.

We have reviewed the accompanying balance sheets of Granules Pharmaceuticals Inc. ('the Company') as at March 31, 2020 and March 31, 2019, and the related statements of (loss) income, stockholder's equity and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

## **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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

## **Accountant's responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States. We believe that the results of our procedures provide a reasonable basis for our conclusion.

## **Accountant's conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States.

KNAV P.A.

Atlanta, Georgia  
June 01, 2020

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**KNAV P.A.**

**Certified Public Accountants**

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2020-167

## **Financial Statements**

## Balance sheets

*(All amounts are in United State Dollars, unless otherwise stated)*

### ASSETS

#### Current assets

Cash and cash equivalents	815,705	3,437,955
Accounts receivable, net	15,945,375	7,455,774
Inventories	10,226,442	5,584,759
Prepaid expenses and other current assets	863,133	669,347
<b>Total current assets</b>	<b>27,850,655</b>	<b>17,147,835</b>

Property, plant & equipment, net	26,427,819	20,234,731
Intangible assets, net	635,502	2,686,340
Investment	2,481,847	5,481,847
Deferred tax assets	9,141,009	9,475,300
Other assets	1,525,330	1,525,330
<b>Total assets</b>	<b>68,062,162</b>	<b>56,551,383</b>

### LIABILITIES AND STOCKHOLDER'S EQUITY

#### Current liabilities

Accounts payable	9,072,830	9,256,513
Short term borrowings	16,000,000	7,000,000
Other current liabilities	3,310,058	1,151,541
<b>Total liabilities</b>	<b>28,382,888</b>	<b>17,408,054</b>

#### Stockholder's equity

Common stock	3,751	3,751
Additional paid in capital	66,225,981	65,500,124
Accumulated deficit	(26,550,458)	(26,360,546)
<b>Total stockholder's equity</b>	<b>39,679,274</b>	<b>39,143,329</b>

<b>Total liabilities and stockholder's equity</b>	<b>68,062,162</b>	<b>56,551,383</b>
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*(The accompanying notes are an integral part of these financial statements)*

*(See independent accountant's review report)*

## Statements of (loss) income

*(All amounts are in United States Dollars, unless otherwise stated)*

	<b>Year ended March 31, 2020</b>	<b>Year ended March 31, 2019</b>
Revenue from operations	41,653,412	27,559,722
Less: Cost of revenues	18,341,412	8,963,000
<b>Gross profit</b>	<b>23,312,000</b>	<b>18,596,722</b>
<b>Operating cost and expenses</b>		
Research and development expenses	8,073,643	11,681,966
Selling, general and administrative expenses	10,469,399	3,014,274
Interest expense	1,034,469	814,013
Impairment of investment	3,000,000	-
Depreciation and amortization	1,543,906	1,598,752
<b>Total operating cost and expenses</b>	<b>24,121,417</b>	<b>17,109,005</b>
<b>Operating (loss) profit</b>	<b>(809,417)</b>	<b>1,487,717</b>
<b>Other income</b>		
Interest income	(102,170)	(107,351)
Other income	(1,019,393)	(392,347)
<b>Profit before taxes</b>	<b>312,146</b>	<b>1,987,415</b>
<b>Income tax expense</b>		
Current tax expense	167,769	53,588
Deferred tax expense (benefit)	334,290	(8,267,413)
<b>Net (loss) profit</b>	<b>(189,913)</b>	<b>10,201,240</b>

*(The accompanying notes are an integral part of these financial statements)*

*(See independent accountant's review report)*

## Statements of stockholder's equity

*(All amounts are in United States Dollars, except number of shares)*

Particulars	Common stock		Additional paid in capital	Accumulated deficit	Total stockholder's equity
	Shares	Amount			
<b>Balance as at April 01, 2018</b>	<b>2,000</b>	<b>2,000</b>	<b>1,998,000</b>	<b>(36,561,786)</b>	<b>(34,561,786)</b>
Issue of shares	1,751	1,751	62,901,249	-	62,903,000
Stock-based compensation cost	-	-	600,875	-	600,875
Net profit for the year	-	-	-	10,201,240	10,201,240
<b>Balance as at March 31, 2019</b>	<b>3,751</b>	<b>3,751</b>	<b>65,500,124</b>	<b>(26,360,546)</b>	<b>39,143,329</b>
<b>Balance as at April 01, 2019</b>	<b>3,751</b>	<b>3,751</b>	<b>65,500,124</b>	<b>(26,360,546)</b>	<b>39,143,329</b>
Stock-based compensation cost	-	-	725,857	-	725,857
Net loss for the year	-	-	-	(189,913)	(189,913)
<b>Balance as at March 31, 2020</b>	<b>3,751</b>	<b>3,751</b>	<b>66,225,981</b>	<b>(26,550,458)</b>	<b>39,679,274</b>

*(The accompanying notes are an integral part of these financial statements)*

*(See independent accountant's review report)*

## Statements of cash flows

*(All amounts are in United States Dollars, unless otherwise stated)*

	<b>Year ended March 31, 2020</b>	<b>Year ended March 31, 2019</b>
<b>Cash flow from operating activities</b>		
Net (loss) profit	(189,913)	10,201,240
<b>Adjustments to reconcile net (loss) profit to net cash used in operating activities</b>		
Depreciation and amortization	1,543,906	1,598,752
Deferred tax expense (benefit)	334,290	(8,267,413)
Stock-based compensation cost	725,857	600,875
Impairment loss on investments	3,000,000	-
Capital work-in-progress written off	1,994,218	-
<i>Changes in current assets and current liabilities</i>		
Accounts receivable, net	(8,489,601)	(7,455,774)
Inventories	(4,641,683)	(3,712,827)
Prepaid expenses and other current assets	(193,786)	(119,293)
Accounts payable	(183,682)	7,331,600
Other assets	-	529,510
Other current liabilities	2,158,517	(2,591,073)
<b>Net cash used in operating activities</b>	<b>(3,941,877)</b>	<b>(1,884,403)</b>
<b>Cash flow from investing activities</b>		
Investment in US Pharma Inc.	-	(544,968)
Purchase of property and equipment and capital work in progress	(7,680,373)	(3,966,907)
<b>Net cash used in investing activities</b>	<b>(7,680,373)</b>	<b>(4,511,875)</b>
<b>Cash flow from financing activities</b>		
Proceeds of loan from parent company	9,000,000	8,650,000
<b>Net cash provided by financing activities</b>	<b>9,000,000</b>	<b>8,650,000</b>
<b>Net (decrease) increase in cash and cash equivalents during the year</b>	<b>(2,622,250)</b>	<b>2,253,722</b>
Cash and cash equivalents at the beginning of the year	3,437,955	1,184,233
<b>Cash and cash equivalents at the end of the year</b>	<b>815,705</b>	<b>3,437,955</b>
<b>Supplemental cash flow information</b>		
Income tax paid	179,570	-
Interest paid	-	2,844,318
Conversion of loan to common stock	-	62,903,000

*(The accompanying notes are an integral part of these financial statements)*

*(See independent accountant's review report)*



## **Notes to Financial Statements**

*(All amounts are in United State Dollars, unless otherwise stated)*

### **NOTE A - NATURE OF OPERATIONS**

Granules Pharmaceuticals, Inc ("GPI" the "Company") was incorporated in Delaware on October 21, 2014. The Company is a wholly owned subsidiary of Granules India Limited, a company incorporated in India. The Company focuses on research & development and manufacturing & distribution of pharmaceutical formulations and contract research services for others. The Company commenced commercial operations in the financial year 2017-2018.

### **NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements are as follows:

#### *1. Basis of preparation*

- a. The accompanying financial statements are prepared under the historical cost convention on the accrual basis of accounting in accordance with the accounting and reporting requirements of generally accepted accounting principles in the United States ("US GAAP") to reflect the financial position, results of operations and cash flows of the Company.
- b. All amounts are stated in United States dollars, except as otherwise specified.
- c. These financial statements are presented for the year ended March 31, 2020 and March 31, 2019.
- d. Certain reclassifications, regroupings and reworking have been made in the financial statements of prior periods to conform to the classifications used in the current year. These changes had no impact on previously reported net (loss) income or stockholder's equity.

#### *2. Estimates and assumptions*

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles 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 revenues and expenses during the period reported. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of property and equipment, allowances for doubtful accounts, recognition of deferred tax assets, amortization period of intangibles, valuation of inventories and investments, provision for employee benefit obligations, and other contingencies. The estimates are made using historical information and other relevant factors available to management. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates. Appropriate changes in estimates are made as management becomes aware of changes in circumstances surrounding the estimates. Any revision in an accounting estimate are recognized prospectively in the current and future period.

#### *3. Cash and cash equivalents*

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. The Company believes it is not exposed to any significant risk on cash and cash equivalents.

*4. Accounts receivable & allowance for doubtful accounts*

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and the customers' financial condition, the amounts of receivables in dispute, and the current receivables ageing and current payment patterns. The Company reviews its allowance for doubtful accounts monthly. Past due balances over 180 days and over a specified amount are reviewed individually for collectability. Allowance for doubtful accounts is included in marketing and selling expenses in the statement of (loss) income. The Company charges off uncollectable amounts against the reserves in the period in which it determines they are uncollectable.

*5. Property, plant and equipment*

Property, plant & equipment are stated at cost less accumulated depreciation and impairment. Cost of items of property and equipment comprises cost of purchase and other costs necessarily incurred to bring it to the condition and location necessary for its intended use.

The Company depreciates property, plant & equipment over the estimated useful life using the straight-line method. Expenditures for maintenance and repairs are charged to expense. Upon retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is credited to statements of (loss) income.

The estimated useful lives used to determine depreciation are:

<b>Nature of assets</b>	<b>Estimated useful life of assets</b>
Furniture and fixtures	3 to 7 years
Computers	3 to 5 years
Equipment	3 to 7 years
Building	39 years
Vehicles	5 years
Improvements	15 years

*6. Intangible assets*

The Company amortizes intangible assets over their estimated useful lives unless such lives are determined to be indefinite. Amortizable intangible assets are amortized over their estimated useful lives in proportion to the economic benefits consumed in each period. Intangible assets with indefinite lives are tested at least annually for impairment and written down to the fair value as required.

<b>Nature of assets</b>	<b>Estimated useful life of assets</b>
Marketing licenses	15 years
Software	3 to 5 years

*7. Impairment of long-lived assets*

Long-lived assets, including certain identifiable intangible assets, to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Such assets are considered to be impaired if the carrying amount of the assets is higher than the future undiscounted net cash flows expected to be generated from the assets. The impairment amount to be recognized is measured by the amount by which the carrying value of the assets exceeds its fair value.

#### *8. Revenue recognition*

The Company adopted Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) as of April 1, 2019. Results for the year ended March 31, 2020 are presented under Topic 606, while earlier periods are presented under previous guidance. Please refer Note T “Revenue from contracts with customers” for further information on the Company’s revenue.

Revenue is recognized when obligations under the terms of a contract with a customer are satisfied; generally, this occurs with the transfer of control of the Company’s products or services. The Company’s payment terms are typically between 60-90 days. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in the contract. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Some of the Company’s contracts have multiple performance obligations.

The majority of the Company’s performance obligations are satisfied at a point in time. This includes sales of the Company’s broad portfolio of active pharmaceutical ingredients (“API”) and other dosage forms. For a majority of these sales, the Company’s performance obligation is satisfied upon dispatch or delivery of goods to the customer. Shipping and handling activities are considered to be fulfillment activities and are not considered to be a separate performance obligation.

##### Significant judgments

Revenues from product sales are recorded at the net sales price (transaction price), which includes estimates of variable consideration for reserves related to rebates, product returns, sales discounts, and wholesaler chargebacks. These reserves are based on estimates of the amounts earned or to be claimed on the related sales and are included in accounts receivable as contra accounts to the respective accounts receivable balances. Management’s estimates take into consideration historical experience, current contractual and statutory requirements, specific known market events and trends, industry data, and forecasted customer buying and payment patterns. Overall, these reserves reflect the Company’s best estimates of the amount of consideration to which it is entitled based on the terms of the contract using the expected value method. The amount of variable consideration included in the net sales price is limited to the amount that is probable not to result in a significant reversal in the amount of the cumulative revenue recognized in a future period.

##### Erstwhile revenue recognition policy as per ASC 605

The Company’s revenue is recognized when significant risk and rewards in respect of ownership are transferred to the customer and when the following criteria are met: (i) written evidence that an arrangement exists; (ii) the service has been performed and the Company has no significant remaining obligation; (iii) the price to the buyer is fixed or determinable; and (iv) collectability is reasonably assured.

Provisions for sales discount, damaged product returns, exchanges of expired products are established as a reduction of product sales revenue at the time such revenues are recognized. Certain charge backs and rebate programs extended to customers pursuant to the industry standards, are recognized as a reduction from product sales revenue at the time of shipment.

#### *9. Research and development*

Expenditures for research and development are expensed as incurred and include salaries, benefits, and other employee-related costs, clinical trial and related clinical manufacturing costs, pharmaceutical supplies and other outside service fees and facilities and overhead costs.

*10. Income taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized. All deferred tax assets and liabilities, along with any related valuation allowance, is classified as non-current on the balance sheets.

The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company recognizes interest and penalties related to uncertain tax positions within the provision for income taxes.

*11. Commitments and contingencies*

Liabilities for loss contingencies arising from claims, assessments, litigations, fines, penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Contingent liabilities are not recognized but disclosed in notes. Contingent assets are neither recognized nor disclosed.

*12. Retirement and employee benefits*

Contribution to defined contribution plans are charged to statements of (loss) income in the year in which they accrue.

*13. Stock-based compensation*

The Company accounts for stock-based compensation expense relating to stock options that have been issued by the Company to the employees. The Company computes the fair value of options granted using the Black Scholes option pricing model. An amount equal to such compensation expense for the year is credited to additional paid in capital of the Company.

The Company has used guidance in Accounting Standard Codification (“ASC”) 718; “Compensation-Stock Compensation” to account for employee share-based payments. ASC 718 requires share-based payments to employees, including grants of employee stock options and purchases under employee stock purchase plans, to be recognized in statements of operations based on their fair values.

In accordance with ASC 718, the Company recognized stock-based compensation for awards granted, that the Company expects to vest on a straight-line basis over the requisite service period of the awards. In respect of awards that have graded vesting, the Company recognizes compensation expense over the service period for each separately vesting tranche of the award as though the award were in substance, multiple awards. In determining whether an award is expected to vest, the Company uses an estimated forfeiture rate based on historical rates. The estimated forfeiture rate is updated for actual forfeitures annually.

*14. Investments*

The Company elected to measure equity security without a readily determinable fair value that does not qualify for the practical expedient to estimate fair value in accordance with ASC paragraph 821-10-35-59 at its cost minus impairment, if any. Acquisition related expenditure, if any, is expensed in the year of incurring the same.

*15. Fair value measurements and financial instruments*

Assets and liabilities recorded at fair value in the financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels which are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets or liabilities are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.

Level 3 – Unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, short term borrowings and accrued liabilities. The estimated fair value of cash, accounts receivable, accounts payable, short term borrowings and accrued liabilities approximate their carrying amounts due to the short-term nature of these instruments. None of these instruments are held for trading purposes.

**NOTE C - FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents and accounts receivable. By their nature, all accounts receivable involve risk including the credit risk of non-performance by counter parties. In management's opinion, as of March 31, 2020 and March 31, 2019, there was no significant risk of loss in the event of non-performance of the counter parties to these cash equivalents and accounts receivable.

Three customers having greater than 10% of accounts receivable (gross) accounted for approximately 89% (previous year end, four customers for 98%) of total accounts receivable (gross). This is majorly on account of majority of revenue contracts with wholesale customers in the United States.

Two vendors having greater than 10% of the accounts payable accounted for 60% (previous year end, one vendor accounted for 66%) of total accounts payable.

**NOTE D - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise the following:

	<b>As at March 31, 2020</b>	<b>As at March 31, 2019</b>
Bank balance	815,705	3,437,955
<b>Total</b>	<b>815,705</b>	<b>3,437,955</b>

Cash balances on deposits with banks in the United States are insured by the Federal Deposit Insurance Corporation up to an aggregate of \$ 250,000.

## **NOTE E - ACCOUNTS RECEIVABLE, NET**

The Company maintains an allowance for doubtful debts on all accounts receivable, based on present and prospective financial condition of the customer and aging of accounts receivable after considering historical experience and the current economic environment. Accounts receivable as at March 31, 2020 and March 31, 2019 are stated net of provision for doubtful accounts and other allowances and includes trade receivables from related parties.

Accounts receivable, net, comprise the following:

	<b>As at March 31, 2020</b>	<b>As at March 31, 2019</b>
Due from customers	25,647,787	11,441,375
Less: provision for chargebacks, rebates, discount and others	(9,702,412)	(3,985,601)
<b>Total</b>	<b>15,945,375</b>	<b>7,455,774</b>

The activity in provision for charge backs, rebates, discount and others is given below:

	<b>Year ended March 31, 2020</b>	<b>Year ended March 31, 2019</b>
Balance at beginning of the year	(3,985,601)	-
Net provision for chargebacks, rebates and others	(48,454,920)	(14,956,980)
Chargeback, rebates and others, claimed and utilized	42,738,109	10,971,379
<b>Balance at the end of the year</b>	<b>(9,702,412)</b>	<b>(3,985,601)</b>

## **NOTE F - INVENTORIES**

Inventories comprise the following:

	<b>As at March 31, 2020</b>	<b>As at March 31, 2019</b>
Raw material	3,133,557	1,725,735
Packaging material	153,862	62,638
Stores and spares	29,553	15,108
Semi-finished goods	673,300	-
Finished goods	6,236,170	3,781,278
<b>Total</b>	<b>10,226,442</b>	<b>5,584,759</b>

## **NOTE G - PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets comprise the following:

	<b>As at March 31, 2020</b>	<b>As at March 31, 2019</b>
Prepaid expenses	171,437	120,794
Interest receivable on loan to US Pharma Inc.	127,315	25,463
Deposits	-	2,500
Advance for materials and services	564,381	520,590
<b>Total</b>	<b>863,133</b>	<b>669,347</b>

## **NOTE H - PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment, net, comprises the following:

	<b>As at March 31, 2020</b>	<b>As at March 31, 2019</b>
Vehicles	47,457	47,457
Buildings	9,002,088	9,002,088
Computers	138,039	138,039
Furniture & fixtures	149,137	149,137
Improvements	2,316,219	2,316,219
Land	2,609,165	2,609,165
Machinery & equipment	5,421,232	5,421,232
Office equipment	3,265	3,265
Less: Accumulated depreciation	(5,462,859)	(3,975,573)
<b>Property, plant and equipment, net</b>	<b>14,223,743</b>	<b>15,711,029</b>
Capital work in progress	12,204,076	4,523,702
<b>Total</b>	<b>26,427,819</b>	<b>20,234,731</b>

Depreciation expense for the year ended March 31, 2020 and year ended March 31, 2019 was \$1,487,286 and \$1,524,537, respectively.

## **NOTE I - INTANGIBLE ASSETS, NET**

Intangible assets, net, comprises the following:

	<b>As at March 31, 2020</b>	<b>As at March 31, 2019</b>
Market licenses	650,000	650,000
Software	92,645	92,645
Less: Accumulated amortization	(212,925)	(156,305)
<b>Intangible assets, net</b>	<b>529,720</b>	<b>586,340</b>
Capital work in progress	105,782	2,100,000
<b>Total</b>	<b>635,502</b>	<b>2,686,340</b>

Amortization expense for the year ended March 31, 2020 and year ended March 31, 2019 was \$56,620 and \$74,215, respectively.

## **NOTE J - INVESTMENTS**

The Company has investments in US Pharma Inc amounting to \$5,481,847. The Company does not have any significant influence in US Pharma Inc. and is recorded at cost.

Investments comprises the following:

	<b>As at March 31, 2020</b>	<b>As at March 31, 2019</b>
Investment in US Pharma Inc.	5,481,847	5,481,847
Less: permanent diminution in value (impairment loss)	(3,000,000)	-
<b>Total</b>	<b>2,481,847</b>	<b>5,481,847</b>

The Company records an investment impairment charge, when management believes an investment has experienced a decline in value that is judged to be other than temporary. The Company monitors its investments for impairment by considering current factors including economic environment, market conditions and the operational performance and other specific factors relating to the business underlying the investment. Based on its assessment of its carrying value of investment, the Company impaired the carrying value of its investment in



**Granules Pharmaceuticals, Inc.**  
Financial Statements  
March 31, 2020 and March 31, 2019

US Pharma Inc., and recorded permanent diminution in value in investment amounting to \$3,000,000 (previous year: \$NIL) in the statement of (loss) income for the year ended March 31, 2020. The Company has evaluated the current business operation and the risk and uncertainties involved to determine recoverability of the Company's remaining cost.

**NOTE K - OTHER ASSETS**

Other assets comprise the following:

	<b>As at March 31, 2020</b>	<b>As at March 31, 2019</b>
Loan to US Pharma Inc.*	1,455,033	1,455,033
Security deposits	70,297	70,297
<b>Total</b>	<b>1,525,330</b>	<b>1,525,330</b>

\*The Company advanced a loan to US Pharma Inc. at 7% p.a. The Company earned an interest income amounting to \$ 102,170 (March 31, 2019: \$ 107,351).

**NOTE L - SHORT TERM BORROWINGS**

The Company has obtained short term loans from Granules India Limited ("GIL" or "Parent Company"). The following table summarizes the loan:

	<b>As at March 31, 2020</b>	<b>As at March 31, 2019</b>
Loan from parent company	16,000,000	7,000,000
<b>Total</b>	<b>16,000,000</b>	<b>7,000,000</b>

The Company, at the end of the year, has a short-term borrowing amounting to \$16,000,000 (March 31, 2019: \$7,000,000) from GIL. The interest expense, for the year ended March 31, 2020 is \$1,034,469 (March 31, 2019: \$814,013). The interest accrued on this loan, as of March 31, 2020 is \$1,848,506 (March 31, 2019: \$387,366). The average interest rate during the year ended March 31, 2020 was 6.01% per annum.

**NOTE M - OTHER CURRENT LIABILITIES**

Other current liabilities comprise the following:

	<b>As at March 31, 2020</b>	<b>As at March 31, 2019</b>
Employee benefits	849,750	535,106
Payroll taxes	10,110	9,248
Accrued interest	1,421,835	387,366
Other payables and provisions	1,028,363	219,821
<b>Total</b>	<b>3,310,058</b>	<b>1,151,541</b>

**NOTE N - RESEARCH AND DEVELOPMENT EXPENSES**

Research and development expenses comprise the following:

	<b>Year ended March 31, 2020</b>	<b>Year ended March 31, 2019</b>
Cost of labor	3,282,009	5,389,151
Cost of supplies	4,174,773	3,155,879
Other contract research expenses	616,861	3,136,936
<b>Total</b>	<b>8,073,643</b>	<b>11,681,966</b>



## **NOTE O - RETIREMENT BENEFITS**

The Company has a 401(k) Defined Contribution Plan. Under the plan, each employee can elect to participate after meeting the minimum age requirement and other eligibility requirements set forth in the Adoption Agreement. The Company makes a matching contribution to the plan up to 2% of employee wages for those electing to participate in the plan. The total employer contribution for the year ended March 31, 2020 and March 31, 2019, was \$51,323 and \$53,225, respectively. The 401(k) contribution is charged to expense in the period in which incurred.

## **NOTE P - STOCK OPTION PLAN**

The Company adopted an incentive stock option plan in accordance with section 422 of the Internal Revenue Code (the "Plan"), under which the employees of the Company may subscribe to incentive stock options. Under the Plan, incentive stock options to purchase the Company's common stock may be granted to employees at prices not lower than fair value at the date of grant. Stock options have a maximum term of 10 years. Activity under the Plan to the extent related to employees of the Company is as under:

	-----Options-----	Weighted average remaining contractual life (months)
	Outstanding	Weighted average exercise price
As at April 01, 2019	190	19,149
Granted during the year	38	19,149
As at March 31, 2020	228	19,149

The grant date fair value of options has been estimated using the Black-Scholes single option pricing model. The Company has recognized \$725,827 and \$600,875 as stock-based compensation expenses for the year ended March 31, 2020 and March 31, 2019, respectively.

## **NOTE Q - INCOME TAXES**

The Company files federal and state tax returns as per regulations applicable to Chapter C corporations in the United States. The components of the provision for income taxes are as follows:

	Year ended March 31, 2020	Year ended March 31, 2019
<b>Current tax</b>		
State	167,769	53,588
<b>Deferred tax</b>		
Federal	245,997	(8,768,729)
State	88,294	501,316
<b>Income tax expense (benefit)</b>	<b>502,059</b>	<b>(8,213,824)</b>

The items accounting for the difference between income taxes computed at the federal statutory rate and the provision for income taxes are as follows:

	Year ended March 31, 2020	Year ended March 31, 2019
Income tax at federal rate	74,351	422,435
State tax, net of federal effect	55,836	517,934
Changes in research and development credit	(566,686)	(1,095,504)
Permanent differences	152,679	126,184
Change in valuation allowance	780,895	(8,184,874)
Federal true up	232,782	-
Change in net operating losses	(227,798)	-
<b>Income tax expense (benefit)</b>	<b>502,059</b>	<b>(8,213,824)</b>

**Granules Pharmaceuticals, Inc.**  
Financial Statements  
March 31, 2020 and March 31, 2019

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income taxes are as follows:

	As at March 31, 2020	As at March 31, 2019
<b>Deferred tax liability</b>		
- Property, plant and equipment	(177,048)	(279,255)
<b>Total</b>	<b>(177,048)</b>	<b>(279,255)</b>
<b>Deferred tax assets</b>		
- Net operating losses	6,982,662	7,946,217
- Research credit	1,806,652	1,239,965
- Disallowed interest	481,163	508,466
- Provision for Medicaid	38,945	25,207
- Provision for sales returns	8,636	34,700
- Impairment loss	780,895	-
<b>Total</b>	<b>10,098,951</b>	<b>9,754,555</b>
<b>Deferred tax assets, net</b>	<b>9,921,904</b>	<b>9,475,300</b>
Less: valuation allowance	(780,895)	-
<b>Deferred tax assets, net</b>	<b>9,141,009</b>	<b>9,475,300</b>

Realization of net deferred tax assets is dependent upon generation of sufficient taxable income in future years, benefit from the reversal of taxable temporary differences and tax planning strategies. Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. The amount of net deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income change.

The Company owns 11.87% interest in US Pharma Inc. In the current year, the management has recorded impairment of loss of \$3,000,000 for the investment in US Pharma Inc. Since this loss will be treated as capital loss as per IRC 165, the management believes that it is more likely that the deferred tax assets may not be realized during foreseeable future and accordingly, a valuation allowance of \$780,895 was recognized as at March 31, 2020. The Company has recognized deferred tax assets of \$9,141,009 and \$9,475,300, respectively, as of March 31, 2020 and March 31, 2019 on account of temporary differences.

The Company has federal NOLs of \$29,992,418 and \$35,158,099 as at March 31, 2020 and March 31, 2019, respectively. The net operating losses generated till tax year 2017, if unutilized, will expire by the year 2037 and the net operating losses generated from tax year 2018 will be carried forward indefinitely.

The Company has state net operating loss carryforwards of approximately \$14,435,746 and \$16,918,885 as at March 31, 2020 and March 31, 2019, respectively, which if unutilized will expire based on the state statutes.

***Accounting for uncertain tax positions***

The Company recognizes the benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. Interest and penalties, if incurred, are recognized in the statement of income. The Company has no unrecognized tax positions at March 31, 2020 and March 31, 2019.

The tax years of 2016 through 2018 remain subject to examination by the taxing authorities.

## **NOTE R - RELATED PARTY TRANSACTIONS**

A. List of related parties with whom transactions have taken place:

<b>No</b>	<b>Name of the party</b>	<b>Nature of relationship</b>
1	Granules India Limited	Parent company
2	Granules USA Inc.	Affiliate company

B. The Company had transactions in the ordinary course of business with the following related parties:

	<b>March 31, 2020</b>	<b>March 31, 2019</b>
<b>Granules India Limited</b>		
<i>Transactions during the year ended</i>		
- Purchase of goods	13,397,741	7,087,246
- Borrowings*	9,000,000	8,650,000
- Accrued interest on the borrowing	1,848,506	387,366
- Withholding taxes paid by the Company	-	426,648
<i>Balance</i>		
- Loan payable	16,000,000	7,000,000
- Accounts payable	5,423,059	4,636,309
- Receivables	-	426,648
<b>Granules USA Inc.</b>		
<i>Transactions during the year ended</i>		
- Purchase of goods	83,811	29,550
- Services availed	-	2,220
- Expenses incurred by the Company	32,651	27,241
<i>Balance</i>		
- Receivable	70,361	-

\* The Company has taken a loan from the parent company. The Company has accrued interest on the outstanding loan at an average interest rate of 6.01% per annum. On April 30, 2018, the Company converted a loan of \$62,903,000 into common stock.

## **NOTE S - STOCKHOLDER'S EQUITY**

### *Common stock*

The Company was incorporated on October 20, 2014, with an authorized capital of 10,000,000 shares of its common stock with a par value of \$ 0.001 per share. The Company had 3,751,000 and 3,751,000 shares issued and outstanding as of March 31, 2020 and March 31, 2019, respectively.

Effective July 26, 2018, the Company reduced its authorized shares from 10,000,000 shares of \$0.001 each to 10,000 shares of \$1 each. All share information for all years presented have been restated to give retroactive effect.

### *Voting*

Each holder of common stock is entitled to one vote in respect of each share held by him/her in the records of the Company for all matters submitted to a vote.

### *Liquidation*

In the event of liquidation of the Company, the holders of common stock shall be entitled to receive all of the remaining assets of the Company, after distribution of all preferential amounts, if any. Such amounts will be in proportion to the number of equity shares held by the shareholders.

## **NOTE T - REVENUE FROM CONTRACTS WITH CUSTOMERS**

The Company's contracts with customers are comprised of purchase orders along with standard terms and conditions. These contracts with customers typically consist of sale of products which represent single performance obligations that are satisfied upon transfer of control of the product to the customer at a point in time. The Company adopted the new revenue recognition standard using the modified retrospective transition approach and determined that the existing revenue recognition practices are in compliance with ASC 606. Accordingly, there was no cumulative effect adjustment to the balance of accumulated surplus in the balance sheet for the year ended March 31, 2019, as the adoption did not result in a change to our timing of revenue recognition.

The following table presents revenue disaggregated by source of revenue:

	<b>Year ended March 31, 2020</b>
Sale of goods	41,653,412
<b>Total</b>	<b>41,653,412</b>

The following table disaggregates revenue based on geographical regions.

	<b>Year ended March 31, 2020</b>
United States	41,653,412
<b>Total</b>	<b>41,653,412</b>

The following table presents revenue disaggregated by timing of recognition:

	<b>Year ended March 31, 2020</b>
Products or services transferred over time	-
Products transferred at a point in time	41,653,412
<b>Total</b>	<b>41,653,412</b>

### Contract balances

The contract liabilities primarily relate to advance consideration received from customers for sale of products, for which revenue is recorded at a point in time and trade receivables are non-interest bearing and are generally on terms of 60 to 90 days.

	<b>As at March 31, 2020</b>
Accounts receivable	15,945,375
Advance from customers	-
<b>Total</b>	<b>15,945,375</b>

## **NOTE U - SUBSEQUENT EVENTS**

The Company evaluated all events and transactions that occurred after March 31, 2020 up through June 01, 2020, the date the financial statements are issued. The Company evaluated all events and transactions that occurred after March 31, 2020 up through June 01, 2020, the date the financial statements are issued. The Company's operations have not been adversely affected due to the global pandemic relating to COVID 19. The Company has been able to fulfill the volumes to their customers even when there were supply disruptions faced by competitors. The Company can meet its committed volumes till date on a consistent basis. However, the Company has already communicated to the customers that they will be able to meet the volumes over a period of time on account of lockdown in India.