

VIONA PHARMACEUTICALS INC

FINANCIAL STATEMENTS

Years Ended March 31, 2023 and 2022

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VIONA PHARMACEUTICALS INC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholder's
of Viona Pharmaceuticals Inc.

Opinion

We have audited the accompanying financial statements of Viona Pharmaceuticals Inc. (a New Jersey corporation), which comprise the balance sheet as of March 31, 2023, and the related statements of operations, changes in stockholder's deficit, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Viona Pharmaceuticals Inc. as of March 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Viona Pharmaceuticals Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

We performed a compilation engagement with respect to the year ended March 31, 2022 financial statements, and our report thereon, dated May 3, 2023, stated we did not audit or review those financial statements and, accordingly, express no opinion or other form of assurance on them.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Viona Pharmaceuticals Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Viona Pharmaceuticals Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Viona Pharmaceuticals Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Ram Associates

Hamilton, New Jersey

May 16, 2023

VIONA PHARMACEUTICALS INC

Balance Sheets

March 31,

(all in thousands except shares)

| | 2023 | 2022 |
|---|------------------|------------------|
| | (Audited) | (Compiled) |
| <u>ASSETS</u> | | |
| Current assets : | | |
| Cash | \$ 693 | \$ 477 |
| Accounts receivable | 12,894 | 6,925 |
| Inventories | 6,309 | 4,261 |
| Prepaid expenses | 222 | 173 |
| Other current assets | 195 | 65 |
| Total current assets | 20,313 | 11,901 |
| Fixed assets, net | 27 | 34 |
| Intangible assets, net | 27 | 49 |
| Deferred tax assets | 73 | 72 |
| TOTAL ASSETS | \$ 20,440 | \$ 12,056 |
| <u>LIABILITIES AND STOCKHOLDER'S DEFICIT</u> | | |
| Current liabilities : | | |
| Accounts payable | \$ 7,620 | \$ 2,800 |
| Accrued expenses | 1,652 | 833 |
| Total current liabilities | 9,272 | 3,633 |
| Long-term liabilities : | | |
| Loan from related parties | 11,250 | 8,750 |
| Total current and long-term liabilities | 20,522 | 12,383 |
| Stockholder's deficit | | |
| Common stock, \$1 per share par value - 500,000 shares authorized, issued and outstanding | 500 | 500 |
| Accumulated deficit | (582) | (827) |
| Total stockholder's deficit | (82) | (327) |
| TOTAL LIABILITIES AND STOCKHOLDER'S DEFICIT | \$ 20,440 | \$ 12,056 |

-See accompanying notes to financial statements-

VIONA PHARMACEUTICALS INC

Statements of Income

For the years ended March 31,

(all in thousands except shares)

| | 2023 | 2022 |
|---|---------------|---------------|
| | (Audited) | (Compiled) |
| Net revenue | \$ 22,562 | \$ 15,232 |
| Cost of sales | 16,049 | 10,344 |
| Gross profit | 6,513 | 4,888 |
| Operating expenses: | | |
| General and administrative expenses | 5,814 | 4,422 |
| Total operating expenses | 5,814 | 4,422 |
| Operating income before other income and (expense) | 699 | 466 |
| Other income and (expense): | | |
| Depreciation and amortization | (35) | (37) |
| Interest expense | (355) | (46) |
| Total other income and (expense) | (390) | (83) |
| Income before income tax | 309 | 383 |
| Income taxes (expense)/benefit: | | |
| Federal income tax | (55) | (18) |
| State income tax | (11) | (16) |
| Deferred income tax | 2 | (93) |
| Income taxes | (64) | (127) |
| Net income | \$ 245 | \$ 256 |

-See accompanying notes to financial statements-

VIONA PHARMACEUTICALS INC
Statements of Changes in Stockholder's Deficit
For The Years Ended March 31, 2023 (Audited) and March 31, 2022 (Compiled)

(all in thousands except shares)

| | Common stock | | Accumulated deficit | Total stockholder's deficit |
|----------------------------------|-----------------------------|---------------|--------------------------------|--|
| | Number of shares | Amount | | |
| Balance at March 31, 2021 | 500,000 | \$ 500 | \$ (1,083) | \$ (583) |
| Net income | | | 256 | 256 |
| Balance at March 31, 2022 | 500,000 | \$ 500 | \$ (827) | \$ (327) |
| Net income | | | 245 | 245 |
| Balance at March 31, 2023 | 500,000 | \$ 500 | \$ (582) | \$ (82) |

-See accompanying notes to financial statements-

VIONA PHARMACEUTICALS INC

Statements of Cash Flows

For the years ended March 31,

(all in thousands except shares)

| | 2023 | 2022 |
|--|------------------|-------------------|
| | <i>(Audited)</i> | <i>(Compiled)</i> |
| Cash flows from operating activities | | |
| Net income | \$ 245 | \$ 256 |
| Adjustment to reconcile net income to net cash provided by (used in) operating activities | | |
| Depreciation and amortization | 35 | 37 |
| Deferred income taxes | (1) | 93 |
| Changes in assets and liabilities : | | |
| (Increase) / decrease in : | | |
| Accounts receivable | (5,969) | (2,768) |
| Inventory | (2,048) | (1,852) |
| Prepaid expenses | (49) | 49 |
| Other current assets | (130) | - |
| Increase / (decrease) in : | | |
| Accounts payable | 4,820 | 115 |
| Accrued expenses | 819 | 234 |
| Net cash provided by (used in) operating activities | (2,278) | (3,836) |
| Cash flows from investing activities | | |
| Capital expenditures | (6) | (1) |
| Net cash used in investing activities | (6) | (1) |
| Cash flows from financing activities | | |
| Increase in loan from related parties | 2,500 | 3,000 |
| Net cash provided by investing activities | 2,500 | 3,000 |
| Net increase (decrease) in cash and cash equivalents | 216 | (837) |
| Cash and cash equivalent at the beginning of the year | 477 | 1,314 |
| Cash and cash equivalent at the end of the year | \$ 693 | \$ 477 |
| Supplementary disclosure of cash flows information: | | |
| Cash paid during the years for: | | |
| Income taxes | \$ 99 | \$ - |
| Interest | 355 | 46 |

-See accompanying notes to financial statements-

VIONA PHARMACEUTICALS Inc.

NOTES TO FINANCIAL STATEMENTS For the years ended March 31, 2023 and 2022

(In thousands except share and per share data)

1) Organization and Description of Business

Viona Pharmaceuticals Inc (“the Company”) was incorporated in New Jersey on May 11, 2018, and is a 100% subsidiary Zydus Animal Health Investment Ltd (which is 100% subsidiary of Zydus Lifesciences Limited (formerly known as Cadila Healthcare Limited), India, (“Zydus Life”).

The Company markets and distributes Generic and Authorized Generic pharmaceutical products in the United States of America. The products are procured from Zydus Life. The Company also markets and distributes products manufactured by a third party.

The corporate office of the Company is located at Cranford, New Jersey.

2) Summary of Significant Accounting Policies

Accounting Policies

These financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (US GAAP); consequently, revenue is recognized when services are rendered, and expenses are reflected when costs are incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are often based on judgments, probabilities and assumptions that management believes are reasonable but that are inherently uncertain and unpredictable. As a result, actual result could differ from those estimates. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustment, if any, to the estimates used are made prospectively based on such periodic evaluations.

Revenue Recognition

General

On January 1, 2019, the Company adopted the new revenue Accounting Standard Codification 606 (ASC 606) to all contracts using the modified retrospective method. The cumulative initial effect of applying the new revenue standard was immaterial and consequently did not record an adjustment to the opening balance of retained earnings.

VIONA PHARMACEUTICALS Inc.

NOTES TO FINANCIAL STATEMENTS For the years ended March 31, 2023 and 2022

(In thousands except share and per share data)

A contract with a customer exists only when the parties to the contract have approved it and are committed to perform their respective obligations, the Company can identify each party's rights regarding the distinct goods or services to be transferred ("performance obligations"), the Company can determine the transaction price for the goods or services to be transferred, the contract has commercial substance and it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

The amount of consideration to which the Company expects to be entitled varies as a result of rebates, chargebacks, returns and other sales reserves and allowances ("SR&A") that the Company offers to its customers and their customers, as well as the occurrence or nonoccurrence of future events, including milestone events. A minimum amount of variable consideration is recorded by the Company concurrently with the satisfaction of performance obligations to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Estimates of variable consideration are based on historical experience and the specific terms in the individual agreements (which the Company believes approximates expected value). Rebates and chargebacks are the largest components of SR&A. For further description of SR&A components and how they are estimated, see "Variable Consideration" below.

Shipping and handling costs are recorded under Selling and Marketing expenses.

Nature of revenue streams

Most of the Company's contracts related to product sales include single performance obligation, which is to deliver products to customers based on the purchase orders received. Revenue from sales of goods, including sales to distributors is recognized when the customer obtains control of the product. This generally occurs when products are shipped and delivered to the customer and the Company has determined that physical possession, legal title and risk and rewards of ownership of the products are transferred to the customer and Company is entitled to payment. The amount of consideration the Company expects to be entitled includes invoice value, net of accruals for estimated variable considerations including but not limited to wholesaler's chargeback, rebates, distribution service fees, returns and allowances, discount, incentives and other allowances.

Contract assets and liabilities

Contract assets are mainly comprised of trade receivables net of allowance for doubtful debts, which includes amounts billed and currently due from customers.

Contract liabilities are mainly comprised of deferred revenues which were Nil as of March 31, 2023 and 2022.

VIONA PHARMACEUTICALS Inc.

NOTES TO FINANCIAL STATEMENTS For the years ended March 31, 2023 and 2022

(In thousands except share and per share data)

Variable consideration

Variable consideration mainly includes SR&A, comprised of rebates (including Medicaid and other governmental program discounts), chargebacks, returns and other promotional (including shelf stock adjustments) items. All variable considerations except Medicaid and returns are netted against trade receivables. The Company recognizes these provisions at the time of sale and adjusts them if the actual amounts differ from the estimated provisions. The following describes the nature of each deduction and how provisions are estimated:

Chargebacks

The Company has agreements with certain indirect customers, such as independent pharmacies, retail pharmacy chains, managed care organizations, hospitals, governmental agencies and pharmacy benefit managers, which establish contract prices for certain products. The indirect customers then independently select a wholesaler from which to purchase the products at these contracted prices. Alternatively, certain wholesalers may enter into agreements with indirect customers that establish contract pricing for certain products, which the wholesalers provide. Under either arrangement, the Company will provide credit to the wholesaler for any difference between the contracted price with the indirect party and the wholesaler's invoice price. Such credits are called chargebacks. The provision for chargebacks is based on expected sell-through levels by the wholesaler customers to indirect customers, as well as estimated wholesaler inventory levels at a given date.

Rebates, promotional programs and other sales allowances

This category includes rebate and other programs to assist in product sales. These programs generally provide that the customer receives credit directly related to the amount of purchases or credits upon the attainment of preestablished volumes. Also included in this category are prompt pay discounts, administrative fees and price adjustments to reflect decreases in the selling prices of products. Since these rebates and allowances are contractually agreed upon, they are estimated based on the specific terms in each agreement based on historical trends and expected sales. Externally obtained inventory levels are evaluated in relation to estimates made for rebates payable to indirect customers.

Medicaid and Other Governmental Rebates

Pharmaceutical manufacturers whose products are covered by the Medicaid, Medicare and other Government programs are required to provide a rebate to each state as a percentage of their average manufacturer's price for the products dispensed. Many states have also implemented supplemental rebate programs that obligate manufacturers to pay rebates in excess of those required under federal law. The Company estimates these rebates based on historical trends of rebates paid, as well as on changes in wholesaler inventory levels and increases or decreases in sales.

VIONA PHARMACEUTICALS Inc.

NOTES TO FINANCIAL STATEMENTS For the years ended March 31, 2023 and 2022

(In thousands except share and per share data)

Shelf Stock Adjustments

The custom in the pharmaceutical industry is generally to grant customers a shelf stock adjustment based on the customers' existing inventory contemporaneously with decreases in the market price of the related product. The most significant of these relate to products for which an exclusive or semi-exclusive period exists. Provisions for price reductions depend on future events, including price competition, new competitive launches and the level of customer inventories at the time of the price decline. The Company regularly monitors the competitive factors that influence the pricing of its products and customer inventory levels and adjust these estimates where appropriate.

Returns

Returns primarily relate to customer returns of expired products which, the customer has the right to return six months before and up to one year following the expiration date. Such returned products are destroyed, and credits and/or refunds are issued to the customer for the value of the returns. Accordingly, no returned assets are recorded in connection with those products. The returns provision is estimated by applying a historical return rate to the amounts of revenue estimated to be subject to returns. Revenue subject to returns is estimated based on the lag time from time of sale to date of return. The estimated lag time is developed by analyzing historical experience. Additionally, the Company considers specific factors, such as estimated levels of inventory in the distribution channel, product dating and expiration, size and maturity of launch, entrance of new competitors, changes in formularies and any changes to customer terms, for determining the overall expected levels of returns.

Accounts receivable balances in the Company's financial statements are presented net of SRA estimates. SRA balances in accounts receivable were \$6,277 and \$3,111 on March 31, 2023 and 2022, respectively. SRA balances within accounts payable and accrued expenses were \$844 and \$524 on March 31, 2023 and 2022, respectively.

The movements in the SRA reserve balances during the year ended March 31, 2023 are as follows:

| | | |
|--|-----------|---------------------|
| Balance as of March 31, 2022 | \$ | 3,636 |
| Accrual to reduce gross sales to net sales | | 55,221 |
| Payments and other | | <u>(51,735)</u> |
| Balance as of March 31, 2023 | \$ | <u>7,122</u> |

The SRA accruals recorded to reduce gross product sales to net product sales were as follows for the years ended March 31,

VIONA PHARMACEUTICALS Inc.

NOTES TO FINANCIAL STATEMENTS For the years ended March 31, 2023 and 2022

(In thousands except share and per share data)

| | <u>2023</u> | <u>2022</u> |
|--|-------------------------|-------------------------|
| Gross product sales | \$ 77,783 | \$ 48,928 |
| Accruals to reduce gross sales to net sales | <u>(55,221)</u> | <u>(33,696)</u> |
| Net product sales | <u>\$ 22,562</u> | <u>\$ 15,232</u> |
| <i>Percentage of SRA accruals to gross sales</i> | 71% | 69% |

The increase in SRA accruals was primarily due to increased competition and price reduction.

Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents and trade accounts receivable. The Company maintains cash balances, which may exceed federally insured limits. The Company does not believe that this results in any significant credit risk.

Concentration of credit risks with respect to accounts receivable is limited because of the credit worthiness of the Company's major customers. The majority of the Company's accounts receivable arise from product sales in the United States and are primarily due from drug wholesalers and retailers, distributors and pharmacy benefit managers. The Company monitors the financial performance and creditworthiness of its customers so that it can properly assess and respond to changes in their credit profile. Revenue from the Company's four major customers represented approximately 51% and 40% of the Company's net revenue for the years ended March 31, 2023 and 2022, respectively. Accounts receivable from the same four customers represented approximately 67% and 67% of total accounts receivable as of March 31, 2023 and 2022, respectively. A major customer is defined as any customer that accounts for 10% or more of total revenues.

Cash and cash equivalents

The Company considers all highly-liquid investments (including money market funds) with an original maturity at acquisition of three months or less to be cash equivalents. The Company maintains cash balances, which may exceed federally insured limits. The Company does not believe that this results in any significant credit risk.

Accounts receivable

The Company extends credit to clients based upon management's assessment of their creditworthiness on an unsecured basis. The Company provides an allowance for uncollectible accounts based on historical experience and management evaluation of trend analysis. The Company does not expect to have write-offs or adjustments to accounts receivable which

VIONA PHARMACEUTICALS Inc.

NOTES TO FINANCIAL STATEMENTS For the years ended March 31, 2023 and 2022

(In thousands except share and per share data)

would have a material adverse effect on its financial position, liquidity or results of operations. The allowances for uncollectible accounts as of March 31, 2023 and 2022 were \$ Nil and \$ Nil respectively.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a moving weighted average basis. The Company establishes reserves for its inventory to reflect situations in which the cost of the inventory is not expected to be recovered. In evaluating whether inventory is stated at the lower of cost or net realizable value, management considers such factors as the amount of inventory on hand; estimated time required to sell such inventory, remaining shelf life and current and expected market conditions, including level of competition. As of March 31, 2023 and 2022, provisions for the inventory reserves were \$580 and \$442, respectively.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss if any. The Company provides for depreciation of property and equipment using the straight-line method over the estimated useful lives of the related assets ranging from 3 to 39.5 years. The Company charges repairs and maintenance costs that do not extend the lives of the assets to expenses as incurred. Repairs and maintenance expenses during the years ended March 31, 2023 and 2022 were \$0 and \$0, respectively.

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures* defines fair value and establishes a hierarchy for reporting the reliability of input measurements used to assess fair value for all assets and liabilities. FASB ASC 820 defines fair value as the selling price that would be received for an asset, or paid to transfer a liability, in the principal or most advantageous market on the measurement date. That framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Certain financial instruments are carried at cost on the balance sheet, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash, accounts receivable, accounts payable and accrued expenses and other liabilities.

VIONA PHARMACEUTICALS Inc.

NOTES TO FINANCIAL STATEMENTS For the years ended March 31, 2023 and 2022

(In thousands except share and per share data)

Income taxes

Income taxes have been provided for using an assets and liability approach in which deferred tax assets and liabilities are recognized for the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided for the portion of deferred tax assets when, based on available evidence, it is not “more-likely-than-not” that a portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rate and laws.

The Company’s effective tax rate is 21% for period ended March 31, 2023 and 21% for the period ended March 31, 2022. The future effective income tax rate depends on various factors, such as the Company’s income (loss) before taxes, tax legislation and the geographic composition of pre-tax income.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

3) Property and Equipment

Property and equipment consisted of the following on March 31,

| | 2023 | 2022 |
|--------------------------------|-------|-------|
| Computer and Equipment | \$ 20 | \$ 16 |
| Furniture and Fixtures | 56 | 54 |
| Computer Software | 0 | 0 |
| Office Equipment | 27 | 27 |
| | 103 | 97 |
| Less: Accumulated Depreciation | 76 | 63 |
| Net Fixed Assets | \$ 27 | \$ 34 |

Depreciation expenses during the years ended March 31, 2023 and 2022 were \$35 and \$37 respectively.

4) Intangible assets

Intangible assets consisted of the following at March 31,

VIONA PHARMACEUTICALS Inc.

NOTES TO FINANCIAL STATEMENTS For the years ended March 31, 2023 and 2022

(In thousands except share and per share data)

| | 2023 | 2022 |
|--------------------------|--------------|--------------|
| Logo | \$ 109 | \$ 109 |
| Accumulated amortization | (82) | (60) |
| Total | <u>\$ 27</u> | <u>\$ 49</u> |

Amortization expense during the years ended March 31, 2023 and 2022 were \$22 and \$22. Estimated amortization expenses for intangible assets for each of the next five years are as follows:

Period ending March 31,

| | |
|-------|--------------|
| 2024 | \$ 22 |
| 2025 | 5 |
| Total | <u>\$ 27</u> |

5) Accounts payable

Accounts payable includes amounts due to Zydus Life, the parent Company. The balance due on March 31, 2023 and 2022 were \$7,498 and \$2,794 respectively.

Accounts payable includes amounts due to Zydus Worldwide DMCC. The balance due on March 31, 2023 and 2022 were \$92 and \$6 respectively.

6) Accrued expenses

Accrued expenses represent amounts accrued towards various expenses outstanding at the end of year. It also includes \$ 1,652 and \$ 832 respectively, for the years ended March 31, 2023 and 2022 towards Medicaid, Medicare, Tricare, Brand prescription fees, Product Returns, etc. accrued for different state and federal programs.

7) Short-Term Debt

i) *Loan from Zydus Animal Health and Investment Limited.*

The Company had entered in to short-term loan agreement for \$5,000 with the parent company Zydus Animal Health and Investments Limited. For the years ended March 31, 2023 and 2022 the outstanding loan amount was \$5,000 and \$5,000 respectively. The Company has paid interest at the applicable arm's length rates.

ii) *Loan from Zydus Pharmaceuticals USA Inc.*

The Company had entered in to short-term loan agreement with the related company Zydus

VIONA PHARMACEUTICALS Inc.

NOTES TO FINANCIAL STATEMENTS For the years ended March 31, 2023 and 2022

(In thousands except share and per share data)

Pharmaceuticals (USA) Inc. For the years ended March 31, 2023 and 2022 the outstanding loan amount was \$6,250 and \$3,750 respectively. The Company has paid interest at the applicable arm's length rates.

8) Employee Benefit Plan

The Company participates in a savings plan under section 401(k) of the Internal Revenue Code (Code) covering all eligible employees. The plan provides that the Company can make matching contributions, which is equivalent to the employee's contributions subject to a maximum of 5% of the gross pay of the employee subject to Federal limits. All qualifying matching contributions are 100% vested at the completion of five years of service by an employee and are subject to certain withdrawal restrictions. For the years ended March 31, 2023 and 2022, the Company's contribution to the plan, were \$ 61 and \$60 respectively.

9) Contingent Liability

The Company has guaranteed a severance package covering three to six months of annual salary to some of its employees for the years ended March 31, 2023 and 2022, in the event the Company terminates employment for reason other than cause and in case of voluntary termination of employment due to significant and adverse change to; title, current salary, mandatory relocation or change in management reporting structure. The contingent liabilities for the years ended March 31, 2023 and 2022 were approximately \$ 542 and \$ 506 respectively.

10) Related Party Transactions

a) For the years ended March 31, 2023 and 2022, purchases of \$17,584 and \$12,702 respectively were made from Zydus Lifesciences Limited, the parent Company. The Company has paid towards various expenses on behalf of Zydus Life during the years ended March 31, 2023 and 2022. The Company has been reimbursed a net amount of \$603 and (\$1,538) by Zydus Life for the years ended March 31, 2023 and 2022, respectively.

b) During the year ended March 2022, the Company received an additional loan of \$2,500 from Zydus Pharmaceuticals USA Inc. The interest paid towards the same during the year ended March 31, 2023 and 2022 was \$182 and \$11 respectively.

c) For the years ended March 31, 2023 and 2022, the Company has paid interest amount of \$173 and \$35 respectively to Zydus Animal Health and Investment Ltd

11) Product Liability

Accruals for product liability claims if any are recorded, on an undiscounted basis, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing information. The accruals are adjusted periodically as additional

VIONA PHARMACEUTICALS Inc.

NOTES TO FINANCIAL STATEMENTS For the years ended March 31, 2023 and 2022

(In thousands except share and per share data)

information becomes available. From time to time the Company is subject to claims and law suits arising in the ordinary course of business, including patent, product liability and other litigation. In determining whether liabilities should be recorded for pending claims, the Company assesses the allegations made and the likelihood that it will be able to defend against the claim successfully. The Company records provisions to the extent it concludes that a contingent liability is probable, and the amount thereof is estimable. Because litigation outcomes and contingencies are unpredictable, and because excessive verdicts can occur, these assessments involve complex judgments about future events and can rely heavily on estimates and assumptions. The Company is not involved in product liability lawsuits for the years ended March 31, 2023 and 2022, and hence no accruals for product liability were made. Zydus Life, the parent Company will reimburse product liability related expenses incurred by the Company in case of any claims on products sourced from them.

12) Income Tax

The Company accounts for income taxes in accordance with FASB ASC Topic 740, *Income Taxes*. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Management evaluates all available evidence about future taxable income and other possible sources of realization of deferred tax assets. A valuation allowance is established to reduce deferred tax assets to an amount that represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized. To the extent the Company establishes a valuation allowance or increased the allowance in any given period, an expense is recognized within the provision for income taxes in the statement of income.

The Company recognizes the tax benefit from uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The Company recognizes interest and penalties related to income tax matters as other expense in the statement of income. Based on management's evaluations, there are no uncertain tax positions requiring recognition as of the date of these financial statements.

Income tax expense (benefit) was computed as follows for the years ended March 31,

| | 2023 | 2022 |
|---------------------------------------|-------|-------|
| Federal income tax | \$ 55 | \$ 18 |
| State income tax | 11 | 16 |
| Total income taxes, current provision | 66 | 34 |

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(In thousands except share and per share data)

| | | |
|------------------------------------|--------------|---------------|
| Deferred income taxes (benefit) | (2) | 93 |
| Total income tax expense (benefit) | <u>\$ 64</u> | <u>\$ 127</u> |

The deferred tax assets (liabilities) consist of the following at March 31,

| | 2023 | 2022 |
|--------------------------------|--------------|--------------|
| Property and equipment | \$ (14) | \$ 21 |
| Sales accruals and other items | 87 | 51 |
| Total deferred income taxes | <u>\$ 73</u> | <u>\$ 72</u> |

The Company's provision for income taxes differs from applying the statutory U.S. federal income tax rate to income before income taxes. The primary differences result from different State income tax effective rates that were used in the accrual for the income provision for financial statement purposes versus the actual rate realized on the income tax returns. The Company files its income tax returns on a calendar year basis.

The Company files income tax returns in the U.S. federal jurisdiction, and various State jurisdictions. The Company is generally no longer subject to U.S. Federal, State and local examinations by tax authorities for the years before 2019. There are no on-going open period income tax audits with any Federal, State and/or local tax authorities.

13) Supply and Distribution Agreement

The Company has entered into a supply and distribution agreement with Zydus Life, its ultimate parent Company. Zydus Life has appointed the Company as its distributor in US territory to sell, warehouse and distribute the products, either directly or through its sub-distributors. The agreement also records the entire understanding between the parties in respect of development, approvals (regulatory), manufacture, quality control, and liabilities of the parties in respect of claims from third parties and or as between the parties for pre-manufacturing and post-manufacturing defects and operations. The agreement also sets the parameter for determining the price, which shall be reviewed periodically, to enable the Company to earn return on an arm's length basis for the distribution functions that it performs, having regard to its assets utilized, and risks undertaken.

14) New Accounting Pronouncements

i) In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance

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or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. In addition, a lessee is required to record (i) a right-of-use asset and a lease liability on its balance sheet for all leases with accounting lease terms of more than 12 months regardless of whether it is an operating or financing lease and (ii) lease expense in its consolidated statement of operations for operating leases and amortization and interest expense in its consolidated statement of operations for financing leases. Leases with a term of 12 months or less may be accounted for similar to prior guidance for operating leases today. In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842), which added an optional transition method that allows companies to adopt the standard as of the beginning of the year of adoption as opposed to the earliest comparative period presented. In November 2019, the FASB issued guidance delaying the effective date for all entities, except for public business entities. For nonpublic entities, this guidance is effective for annual periods beginning after December 15, 2020. In June 2020, the FASB issued additional guidance delaying the effective date for all entities, except for public business entities. For public entities, ASU 2016-02 was effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. For nonpublic entities, this guidance is effective for annual periods beginning after December 15, 2021. Early adoption is permitted. The Company adopted ASU 2016-02 effective from April 1, 2022. The adoption of ASU 2016-02 standard did not have a material impact on the Company's financial statements.

ii) Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (Credit Losses) - The amendment in this ASU affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this update affect an entity to varying degrees depending on the credit quality of the assets held by the entity, their duration, and how the entity applies current GAAP. Accounting Standards Update 2019-10 amends the mandatory effective dates for implementation of accounting for Credit Losses for all entities as follows:

Public business entities that meet the definition of a Securities and Exchange Commission (SEC) filer, excluding entities eligible to be smaller reporting companies as defined by the SEC, for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All other entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early

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application continues to be allowed. The Company is currently evaluating the effect that implementation of this ASU will have on its financial statements.

15) Commitments

The Company has rented office premises from Commerce Drive LLC On October 23, 2018 ending on January 31, 2024. The Company has elected to apply the short-term lease exception to all leases with a term of one year or less.

The future minimum rental payments under the lease agreement for the years ended March 31,

| | 2023 | 2022 |
|-------------------|--------|--------|
| 2023 | - | 139 |
| 2024 | 117 | 117 |
| Total Commitments | \$ 117 | \$ 256 |

For the years ended March 31, 2023 and 2022, rent expenses were \$ 157 and \$149 respectively.

16) Contingencies

The Company records accruals for contingencies to the extent that the Company determines their occurrence is probable and that the related liabilities are estimable. When accruing these costs, the Company will recognize an accrual of best estimable amount based on the data and knowledge available. No accrual has been made for contingencies for the years ended March 31, 2023 and 2022.

17) Subsequent events

The Company has evaluated subsequent events through May 16, 2023, the date, which the financial statements were available to be issued. No reportable subsequent events have occurred through May 16, 2023, which would have a significant effect on the financial statements as of March 31, 2023, except as otherwise disclosed.