

Zydus Pharmaceuticals (USA) INC.

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2023 and 2022

RAM ASSOCIATES, CPAS

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ZYDUS PHARMACEUTICALS (USA) INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholder's
of Zydus Pharmaceuticals (USA) Inc.

Opinion

We have audited the accompanying consolidated financial statements of Zydus Pharmaceuticals (USA) Inc. (a New Jersey Corporation) and subsidiaries, which comprise the consolidated balance sheets as of March 31, 2023 and 2022, and the related consolidated statements of income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Zydus Pharmaceuticals (USA) Inc. and subsidiaries as of March 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Zydus Pharmaceuticals (USA) Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Zydus Pharmaceuticals (USA) Inc.'s ability to continue as a going concern within one year after the date that the consolidated 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 consolidated 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 consolidated 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 consolidated 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 Zydus Pharmaceuticals (USA) 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Zydus Pharmaceuticals (USA) 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, NJ

May 15, 2023

ZYDUS PHARMACEUTICALS (USA) INC.

Consolidated Balance Sheets

March 31,

(all in thousands except shares)

	2023	2022
<u>ASSETS</u>		
Current assets :		
Cash	\$ 12,118	\$ 3,716
Accounts receivable	358,951	280,966
Inventories	197,056	194,333
Prepaid expenses	3,036	3,307
Other current assets	3,929	3,361
Current assets held-for-sale	206	2,858
Total current assets	575,296	488,541
Fixed assets, net	6,509	3,997
Intangible assets, net	108	110
Operating lease right-of-use asset	1,006	-
Deferred tax assets	30,480	28,764
Other assets	82,850	88,130
Noncurrent assets held-for-sale	474	13,681
TOTAL ASSETS	\$ 696,723	\$ 623,223
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities :		
Line of credit	\$ -	\$ 75,000
Accounts payable	341,744	212,283
Accrued expenses	114,290	106,481
Loan from parent	167,050	170,000
Current portion of operating lease	411	-
Current liabilities held-for-sale	424	1,433
Total current liabilities	623,919	565,197
Long-term liabilities :		
Operating lease - net of current portion	608	-
Total current and long-term liabilities	624,527	565,197
Stockholders' equity		
Common stock, \$1 per share par value - 3,000,000 shares authorized, issued and outstanding	3,000	3,000
Retained earnings	97,196	83,026
Treasury stock, at cost		
700,000 shares - March 31, 2023 and 2022	(28,000)	(28,000)
Total stockholders' equity	72,196	58,026
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 696,723	\$ 623,223

-See accompanying notes to financial statements-

ZYDUS PHARMACEUTICALS (USA) INC.
Consolidated Statements of Income / (Operations)
For the period ended March 31,

(all in thousands except shares)

	2023	2022
Net revenue	\$ 853,182	\$ 722,495
Cost of sales	774,337	659,072
Gross profit	78,845	63,423
Operating expenses:		
General and administrative expenses	53,974	44,262
Total operating expenses	53,974	44,262
Operating income before other income and (expense)	24,871	19,161
Other income and (expense):		
Depreciation	(844)	(505)
Amortization	(20)	(19)
Interest income	2,403	988
Interest expense	(6,633)	(1,528)
Total other income and (expense)	(5,093)	(1,064)
Income (loss) from continuing operations, before tax	19,778	18,097
Income taxes:		
Federal income tax	(5,788)	(10,576)
State income tax	(426)	(183)
Deferred income tax	1,717	6,747
Income taxes	(4,497)	(4,012)
Income (loss) from continuing operations	15,281	14,085
Discontinued operations (Note 3)		
Loss from operations of discontinued activity	(1,406)	(40,918)
Income tax expense	295	8,593
Loss from discontinued operations	(1,111)	(32,325)
Net income (loss)	\$ 14,170	\$ (18,240)

-See accompanying notes to financial statements-

ZYDUS PHARMACEUTICALS (USA) INC.
Consolidated Statement of Changes in Stockholders' Equity
For the years ended March 31, 2023 and 2022

(all in thousands except shares)

	Common Stock		Retained earnings	Treasury stock		Total stockholders' equity
	Number of shares	Amount		Number of treasury stocks	Amount	
Balance at March 31, 2021	3,000,000	\$ 3,000	\$ 101,266	(700,000)	\$ (28,000)	\$ 76,266
Net loss			(18,240)			(18,240)
Balance at March 31, 2022	3,000,000	\$ 3,000	\$ 83,026	(700,000)	\$ (28,000)	\$ 58,026
Net income			14,170			14,170
Balance at March 31, 2023	3,000,000	\$ 3,000	\$ 97,196	(700,000)	\$ (28,000)	\$ 72,196

-See accompanying notes to financial statements-

ZYDUS PHARMACEUTICALS (USA) INC.
Consolidated Statements of Cash Flows
For the years ended March 31,

(all in thousands except shares)

	2023	2022
Cash flows from operating activities		
Net income/(loss)	\$ 14,170	\$ (18,240)
Less net loss from discontinued operations	(1,406)	(40,918)
Net income from continuing operations	15,576	22,678
Adjustment to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	864	524
Deferred income taxes	(1,717)	(6,747)
Changes in assets and liabilities :		
(Increase) / decrease in :		
Accounts receivable	(77,985)	(13,660)
Inventory	(2,723)	(55,463)
Prepaid expenses	271	575
Other current assets	(568)	(2,885)
Other assets	19,386	(77,159)
Increase / (decrease) in :		
Accounts payable	129,461	67,396
Accrued expenses	7,808	20,454
Net cash provided by (used in) operating activities - continuing operations	90,372	(44,287)
Net cash provided by (used in) operating activities - discontinued operations	1,782	(5,259)
Cash flows from investing activities		
Capital expenditures	(3,361)	(501)
Net cash provided by (used in) investing activities - continuing operations	(3,361)	(501)
Net cash provided by (used in) investing activities - discontinued operations	11,664	634
Cash flows from financing activities		
(Decrease) / Increase in line of credit	(75,000)	40,000
(Decrease) / Increase in loan from parent	(2,950)	-
Net cash provided by (used in) investing activities - continuing operations	(77,950)	40,000
Net cash provided by (used in) investing activities - discontinued operations	(14,105)	4,908
Net increase (decrease) in cash and cash equivalents	8,402	(4,504)
Cash and cash equivalent at the beginning of the year	3,716	8,220
Cash and cash equivalent at the end of the year	\$ 12,118	\$ 3,716
Supplementary disclosure of cash flows information:		
Cash paid during the years for:		
Income taxes	\$ 3,762	\$ 3,050
Interest	6,731	1,433

-See accompanying notes to financial statements-

ZYDUS PHARMACEUTICALS (USA), Inc.

NOTES TO CONSOLIDATED 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

Zydus Pharmaceuticals (USA) Inc (“the Company”) was incorporated in New Jersey on November 18, 2003 and is a 100% subsidiary of Zydus Lifesciences Limited (formerly Cadila Healthcare Limited), India, (“Zydus Life”).

The Company markets and distributes Generic and Authorized Generic pharmaceutical products in the United States of America. The Company also markets and distributes products manufactured by third parties.

The corporate office of the Company is located at Pennington, New Jersey. The building is owned by Zydus Healthcare (USA) LLC (“Zydus Healthcare”), a related party.

Nesher Pharmaceuticals (USA) LLC

Nesher Pharmaceuticals (USA) LLC (“Nesher”) which is a 100% subsidiary of the Company was formed in the State of Missouri on May 17, 2011 to acquire the Generics business, including certain manufacturing, packaging and laboratory facilities, certain intellectual property, existing and future product opportunities, as well as equipment specific to the generic business.

Nesher has discontinued its operations from September 2021 and have been considered and disclosed as “Discontinued Operations” as per ASC 205-20. All the assets and liabilities related to these operations have been considered as "Held for sale" as per ASC 205-20 and disclosed separately in Balance Sheet. Refer note 3 “Discontinued Operations”.

ZyVet Animal Health Inc.

ZyVet Animal Health Inc (“ZyVet”) which is a 100% subsidiary of the Company was formed in the State of New Jersey on April 9, 2019 to market and distribute pharmaceutical products for animal consumption.

2) Summary of Significant Accounting Policies

Basis of consolidated financial statements

The consolidated financial statements include the financial statements of the Company and its Subsidiaries. All significant related party accounts and transactions between the Company and

the Subsidiaries have been eliminated upon consolidation. Previous year’s numbers are regrouped wherever necessary.

ZYDUS PHARMACEUTICALS (USA), Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2023 and 2022
(In thousands except share and per share data)

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 consolidated 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.

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

ZYDUS PHARMACEUTICALS (USA), Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2023 and 2022

(In thousands except share and per share data)

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.

Other revenues are primarily comprised of contract manufacturing services and other miscellaneous items. Revenue is recognized when the customer obtains control of the products. This generally occurs when products are shipped once the Company has a present right to payment and legal title and risk and rewards of ownership are obtained by the customer.

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.

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:

ZYDUS PHARMACEUTICALS (USA), Inc.

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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 pre-established 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.

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

ZYDUS PHARMACEUTICALS (USA), Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**For the years ended March 31, 2023 and 2022
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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 consolidated financial statements are presented net of SRA estimates. SRA balances in accounts receivable were \$231,115 and \$215,631 on March 31, 2023 and 2022, respectively. SRA balances within accounts payable and accrued expenses were \$93,221 and \$89,528 on March 31, 2023 and 2022, respectively.

The movements in the SRA reserve balances during the years ended March 31, 2023 and 2022 are as follows:

Balance as of March 31, 2022	\$	305,159	\$	318,355
Accrual to reduce gross sales to net sales		1,931,369		1,849,456
Payments and other		<u>(1,912,192)</u>		<u>(1,862,652)</u>
Balance as of March 31, 2023	\$	<u>324,336</u>	\$	<u>305,159</u>

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

	<u>2023</u>	<u>2022</u>
Gross product sales	\$ 2,784,551	\$ 2,571,951
Accruals to reduce gross sales to net sales	<u>(1,931,369)</u>	<u>(1,849,456)</u>
Net product sales	<u>\$ 853,182</u>	<u>\$ 722,495</u>
<i>Percentage of SRA accruals to gross sales</i>	69 %	72 %

ZYDUS PHARMACEUTICALS (USA), Inc.

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The increase in SRA accruals was primarily due to increase in retail sale as percentage of total sale and change in product mix during 2022-23.

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. As of March 31, 2023 and 2022, the Company had \$13,319 and \$4,110, respectively, of uninsured cash balances.

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 three major customers represented approximately 66% and 63% of the Company's net revenue for the years ended March 31, 2023 and 2022, respectively. Accounts receivable from the top three customers represented approximately 64% and 74% of total accounts receivable as of March 31, 2023 and 2022, respectively.

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 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

ZYDUS PHARMACEUTICALS (USA), Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2023 and 2022
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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 \$26,891 and \$26,740, 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 \$210 and \$103, respectively.

Intangible assets

The Company amortize intangible assets with finite lives on a straight-line basis over their estimated useful lives. Intangible assets are reviewed annually for impairment or when events or circumstances indicate their carrying amount may not be recoverable. Based on the evaluation of intangible assets completed during the years ended March 31, 2023 and 2022, no impairment was recorded.

Impairments

In accordance with U.S. GAAP, we evaluate the carrying amount of our long-lived assets such as property and equipment, and finite-lived intangible assets subject to amortization for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by the comparison of its carrying amount with the future net cash flows the asset is expected to generate. We look primarily to the undiscounted future cash flows in the assessment of whether or not long-lived assets have been impaired. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset. The Company has recorded impairment of \$ Nil and \$ 22,292 respectively for the years ended March 31, 2023 and 2022 for its manufacturing facilities located in St. Louis Missouri.

Discontinued Operations.

ASC 205-20-45, "Presentation of Financial Statements Discontinued Operations" requires discontinued operations to be reported if the disposal of a business component represents a strategic shift that has a major effect on an entity's operations and financial reports. It is determined that the sale of the assets and discontinuation of business operations of Neshor Pharmaceuticals (USA) LLC meet this criterion. Accordingly, the assets, liabilities, revenues, and income statement of these entities were transferred to discontinued operations to close out

ZYDUS PHARMACEUTICALS (USA), Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2023 and 2022

(In thousands except share and per share data)

the business. See Note 3 “Discontinued Operations”, for additional disclosures regarding this entity.

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.

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 23% for period ended March 31, 2023 and 20% 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.

Advertising expenses

The Company expenses advertising as incurred. Advertising paid in advance is recorded as a prepaid expense until such time as the advertisement is published.

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.

ZYDUS PHARMACEUTICALS (USA), Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2023 and 2022
(In thousands except share and per share data)

3) Discontinued Operations

Nesher a Missouri based entity, manufactured five products including a product on contract basis until September 2021. The operations at Missouri facility was discontinued effective from September 2021. Nesher's both manufacturing facilities in St. Louis, Missouri were sold on April 6th, 2022. The vacant land adjacent to the manufacturing facility was sold on June 29th, 2022. The remaining building situated in St. Louis, Missouri is held for sale and hence all the assets and liabilities related to Nesher have been considered as "Held for sale" as per ASC 205-20 and disclosed separately in Balance Sheet.

The major classes of assets and liabilities of the entity classified as held for sale were as follows on March 31, 2023:

<i>Major classes of Assets</i>	
Accounts receivable	\$ 37
Current assets	169
Discontinued operations - current assets	206
Other assets	474
Total major classes of assets - discontinued operations	<u>\$ 680</u>
<i>Major classes of Liabilities</i>	
Accounts payable	\$ 100
Other liabilities	324
Total major classes of liabilities -discontinued operations	<u>\$ 424</u>

The financial results of the discontinued operations are as follows:

Revenue	\$ 65
Total operating costs and expenses	3,127
Income (loss) from discontinued operations	(3,062)
Other income (expense), net	1,656
Income tax benefit (expense)	-
Net income (loss) from discontinued operations	<u>\$ (1,406)</u>

During the current year, Nesher sold two manufacturing facilities, land and certain machinery and equipment. The total gross value of the assets sold were \$61,640 with accumulated depreciation totaling \$30,828. The sale value of all the assets sold was \$14,750 which resulted in a net loss of \$16,062.

4) Property and Equipment

Consolidated property and equipment consisted of the following on March 31,

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	2023	2022
Computer and Equipment	\$ 510	\$ 492
Furniture and Fixtures	1,409	925
Computer Software	7,048	3,749
Office Equipment	69	532
Leasehold Improvements	2,123	2,123
Fixed Assets in progress	613	597
	11,772	8,418
Less: Accumulated Depreciation	5,263	4,421
Net Fixed Assets	\$ 6,509	\$ 3,997

Depreciation expenses during the years ended March 31, 2023 and 2022 were \$844 and \$505 respectively.

5) Intangible assets

Intangible assets consisted of the following at March 31,

	2023	2022
Logo	\$ 179	\$ 162
Accumulated amortization	(71)	(51)
Total	\$ 108	\$ 110

Amortization expense during the years ended March 31, 2023 and 2022 were \$20 and \$ 19. Estimated amortization expenses for intangible assets for each of the next five years are as follows:

Period ending March 31,	
2024	\$ 22
2025	22
2026	22
2027	22
Thereafter,	20
Total	\$ 108

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6) Other assets

Other current assets represent the amount that was paid in advance towards federal and state taxes. The balance in other assets includes loan and advances to Zydus Healthcare (USA) LLC., Zydus Noveltech Inc., Sentyln Therapeutics Inc., Zydus Therapeutics Inc. and Viona Pharmaceuticals Inc., which are related parties. The Company charges interest at arm's length rates on these loans given to related parties. Loan and advances outstanding were as follows for the years ended March 31,

	2023	2022
Zydus Healthcare (USA) LLC.	\$ 2,500	\$ 2,500
Zydus Noveltech Inc.	-	2,430
Sentyln Therapeutics Inc.	48,000	73,000
Zydus Therapeutics Inc.	26,100	6,450
Viona Pharmaceuticals Inc.	6,250	3,750
Total	\$ 82,850	\$ 88,130

7) Accounts payable

Accounts payable includes amounts due to Zydus Life, the parent Company. The balance due on March 31, 2023 and 2022 were \$287,172 and \$182,866 respectively.

Accounts payable includes amounts due to Zydus Worldwide DMCC, a related party. The balance due on March 31, 2023 and 2022 were \$40,486 and \$15,427 respectively.

Accounts payable includes amounts due to Zydus Noveltech Inc , a related party. The balance due on March 31, 2023 and 2022 were \$26 and NIL respectively.

8) Accrued expenses

Accrued expenses represent amounts accrued towards various expenses outstanding at the end of year. It also includes \$ 93,221 and \$ 89,528 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.

9) Short-Term Debt

i) Loan from Citibank

The Company had an approved line of credit of \$ 90,000 with Citibank.. The facility had interest rate at applicable benchmark rate (LIBOR until December 2021 and SOFR from January 2022) plus negotiated margin. For the years ended March 31, 2023 and 2022 the outstanding loan amounts were \$ Nil and \$ 40,000 respectively. Zydus Life has provided corporate guarantee for this loan.

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ii) Loan from Bank of America

The Company has an uncommitted line of credit of \$ 40,000 with Bank of America. The facility will bear interest at applicable base rate plus margin. For the years ended March 31, 2023 and 2022 the outstanding loan amounts were \$ Nil and \$ 35,000 respectively, which is payable on demand. Zydus Life has provided corporate guarantee for this loan.

iii) Loan from Zydus Lifesciences Limited.

The Company had entered in to short-term loan agreement for \$170,000 with the parent company Zydus Lifesciences Limited. For the years ended March 31, 2023 and 2022 the outstanding loan amount was \$165,000 and \$ 170,000 respectively. The Company has paid interest at the applicable arm's length rate.

iv) Loan from Zydus Noveltech Inc.

The Company had entered in to short-term loan agreement with the related company Zydus Noveltech Inc. For the years ended March 31, 2023 and 2022, the outstanding loan amount was \$2,050 and \$ NIL respectively. The Company has paid interest at the applicable arm's length rate.

11) 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 \$ 588 and \$ 712 respectively.

The Company has a deferred compensation plan in which certain key employees are eligible to participate. The plan allows each participant to accrue deferred compensation equal to their share, as further defined in the plan agreement, of annual net revenue growth measured against previous year annual net revenue. For example, the computation of deferred compensation for the year 2022 is based on the growth in annual net revenue for 2022 compared with 2021. The deferred liability for each participant vests equally over five-year period and vested amount is paid out at the end of the following year. The participant must be employed at the Company in order to be eligible for vesting and subsequent payment. If the participants employment is terminated any unvested amounts are forfeited. The Company may have an exception to this rule at its sole discretion. The Company accounts for the deferred compensation asset separately from the liability.

Deferred compensation payment for each of the next five years are expected to be as follows:

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Period ending March 31,

2024	\$	852
2025		527
2026		372
2027		178
2028		178
Total	\$	2,107

12) 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 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 \$ 2,288 and \$ 1,875, respectively.

13) Related Party Transactions

a) For the years ended March 31, 2023 and 2022, purchases of \$661,140 and \$589,768 respectively were made from Zydus Life, the parent Company. The Company and its subsidiaries have 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 \$27,164 and \$46,435 by Zydus Life for the years ended March 31, 2023 and 2022, respectively.

b) As of March 31, 2023, the Company had a loan balance of \$165,000 from Zydus Life. The interest paid towards the same during the year ended March 31, 2023 and 2022 was \$5,322 and \$1,160 respectively.

c) For the years ended March 31, 2023 and 2022, the Company has paid \$380 and \$222 respectively to Zydus Life, the parent company towards the Corporate Guarantee given to Citibank NA, Bank of America N.A, and J P Morgan Chase Bank N.A.

d) Neshar sold materials worth \$37 to Zydus Life, the parent company during the year ending March 31, 2023. Neshar has a receivable balance of \$37 as on March 31, 2023 from Zydus Life.

e) For the years ended March 31, 2023 and 2022, a sum of \$230 and \$120 respectively were paid to Mahadev Management Inc. for management consultancy services rendered to the Company. Mr. Mahendra Patel, Director of the Company owns 50% interest in Mahadev Management Inc.

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f) For the years ended March 31, 2023 and 2022, the Company has paid lease rental of \$434 and \$426 respectively to Zydus Healthcare and received interest income of \$139 and \$150 for the years ended March 31, 2023 and 2022 from Zydus Healthcare on the loan provided to them. The Company has also received a net amount of \$50 and \$39 for various other expenses incurred for Zydus Healthcare during the years ended March 31, 2023 and 2022.

g) During the year, Sentyln repaid partial loan in the amount of \$25,000. The Company recovered the interest and bank guarantee fee totaling to \$1,491 and \$218 during the years ended March 31, 2023 and 2022 respectively. During the years ended March 31, 2023 and 2022, Sentyln paid \$ 62 and \$ 10 respectively towards various expenses incurred by the Company on behalf of Sentyln. The Company has receivable balance of \$567 and \$151 respectively as of March 31, 2023 and 2022 respectively.

h) Nesher entered into a product development agreement with Sentyln Therapeutics Inc. a related party. For the years ended March 31, 2023 and 2022, sales of \$NIL and \$789 were made to Sentyln by Nesher.

i) During the years ended March 31, 2023 and 2022, the Company purchased finished products of \$NIL and \$192 from related party Hercon Pharmaceuticals LLC (Hercon). During the years ended March 31, 2023 and 2022, Hercon paid \$341 and \$109 towards reimbursement of various expenses incurred by the Company and its subsidiaries. There is a net receivable balance of \$62 and \$21 as of March 31, 2023 and March 31, 2022 respectively.

j) For the years ended March 31, 2023 and 2022, purchases of \$67,811 and \$29,873 were made from Zydus World Wide Dubai ('Zydus Dubai'), a related party. During the years ended March 31, 2023 and 2022, Zydus Dubai paid \$3,125 and \$Nil respectively towards reimbursement of various expenses. There is a net payable balance of \$40,160 and \$43,233 as of as of March 31, 2023 and March 31, 2022 respectively.

k) During the year ending March 31, 2023, Zydus Noveltech repaid the entire loan of \$2,430 to the Company. For the years ended March 31, 2023 and 2022, interest amount of \$18 and \$13 respectively was received from Zydus Noveltech Inc., a related party on the short-term loan.

l) During the year, the Company received the loan in the amount of \$2,050 from Zydus Noveltech Inc. Accordingly, the Company paid \$18 towards the interest for the period ended March 31, 2023. The Company has a net payable balance of \$26 and a receivable balance of \$2 as of March 31, 2023 and 2022 respectively.

m) During the year, the Company gave additional loan of \$2,500 to Viona Pharmaceuticals Inc. (Viona), a related party. The outstanding balance as of March 31, 2023 is \$6,250. For the years ended March 31, 2023 and 2022, interest amount of \$182 and \$11 respectively were received from Viona on the short-term loan. The Company has been reimbursed a net amount of \$116 and \$42 by Viona for the years ended March 31, 2023 and 2022, respectively for the

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various expenses incurred for Viona. The Company has a receivable balance of \$92 and \$ 6 as of March 31, 2023 and 2022 respectively.

n) The Company has a receivable balance of \$101 and \$101 due from Zydus Animal Health and Investments Ltd. as of March 31, 2023 and 2022 respectively.

o) During the year ended March 31, 2023, the Company gave loan of \$19,650 to Zydus Therapeutics Inc. The outstanding balance as of March 31, 2023 is \$26,100 as of March 31, 2023 and \$6,450 as of March 31,2022. During the year ended March 31, 2023 and 2022, the Company received interest income of \$606 and \$15 respectively. Also, the Company received a net reimbursement of \$6 and \$10 incurred by the Company on behalf of Zydus Therapeutics Inc for the year ended March 31, 2023 and March 31, 2022 respectively. The Company had a receivable balance of \$106 as of March 31, 2023 and \$7 as of March 31, 2022.

14) 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 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 involved in product liability lawsuits related to alleged personal injuries arising out of use of product distributed by the Company. The Company believes that it has meritorious defenses to the lawsuit and is vigorously defending itself with respect to this matter. For the years ended March 31, 2023 and 2022, no accruals for product liability were made. Zydus Life, the parent Company reimburses product liability related expenses incurred by the Company in case of any claims on products sourced from them.

15) Legal Settlements and Proceedings

The Company is involved in, or has been involved in, legal proceedings that arise from the normal course of business. The Company cannot predict the timing or outcome of these claims and other proceedings. Currently, the Company is not involved in any arbitration and/or other legal proceedings that it expects to have a material effect on the business, financial condition, results of operations or liquidity of the Company. All legal cost is expensed as incurred.

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Government Investigations and Litigation Relating to Generic Products Pricing

In late 2016, a union health and welfare fund filed two actions against the Company and other generic drug companies in the U.S. District Court for the Eastern District of Pennsylvania. These actions alleged conspiracies to fix prices or allocate markets for two drugs (divalproex and pravastatin) in violation of federal and state antitrust laws. Subsequently, these and the other actions detailed below have been coordinated in a multi-district litigation in the Eastern District of Pennsylvania. Ultimately, putative classes of direct purchasers, end payors, and indirect resellers each filed multiple actions in which the Company is named as one of several defendants: (i) an action alleging a conspiracy to fix prices or allocate markets for pravastatin, (ii) an action to fix prices or allocate markets for divalproex, and (iii) an action alleging both a conspiracy to fix prices or allocate markets for a third drug (acetazolamide) as well as an “overarching,” industry-wide conspiracy. In June 2018, Connecticut and other states filed a complaint against the Company and other defendants alleging a number of individual-drug conspiracies (including acetazolamide for the Company) as well as an “overarching” conspiracy. Several opt-out plaintiffs have filed complaint as well, and the claims in these complaints track the claims outlined above. In May 2019, Connecticut and other states filed a second complaint against the Company and other defendants. That complaint alleges a number of individual-drug conspiracies (including eight drugs for the Company) as well as an “overarching” conspiracy. Beginning in October 2019, putative classes of direct purchases, indirect resellers, and end payors as well as several opt-out plaintiffs and a group of New York counties filed additional complaints against the Company and other defendants with substantially similar claims. In October 2019, the Court entered a case management order setting a preliminary schedule and the cases are currently proceeding through fact discovery. No trial dates have been set for the Company. The Company believes it has meritorious defenses to these lawsuits.

16) 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

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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	\$ 5,493	\$ 1,983
State income tax	426	183
Total income taxes, current provision	5,919	2,166
Deferred income taxes (benefit)	(1,717)	(6,747)
Total income tax expense (benefit)	\$ 4,202	\$ (4,581)

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

	2023	2022
Property and equipment	\$ (203)	\$ 1,592
Sales accruals and other items	30,683	27,172
Total deferred income taxes	\$ 30,480	\$ 28,764

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.

17) Supply and Distribution Agreement

The Company has entered into a supply and distribution agreement with Zydus Life, its parent Company. Zydus Life has appointed the Company as its exclusive 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

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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.

18) 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 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:

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

19) Leasing Arrangements

The Company leases certain office space. The Company assesses whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense is recognized for these leases on a straight-line basis over the lease term.

The lease terms include options to extend the leases when it is reasonably certain that the Company will exercise that option. These operating leases contain renewal options for periods ranging from three to five years that expire at various dates with no residual value guarantees. Future obligations relating to the exercise of renewal options is included in the measurement if, based on the judgment of management, the renewal option is reasonably certain to be exercised. Factors in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of leasehold improvements, the value of the renewal rate compared to market rates, and the presence of factors that would cause a significant economic penalty to the Company if the option is not exercised. The exercise of lease renewal options is at the Company's sole discretion. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise.

The lease assets and liabilities were calculated utilizing the risk-free discount rate (3.60%), according to the Company's elected policy.

	Classification	03/31/2023
Assets	Operating lease right of use assets	\$ 1,006
Liabilities	Current portion of operating lease	\$ 411
	Noncurrent portion of operating lease	\$ 608

Operating lease costs for the years ended March 31, 2023 and 2022, was \$448 and \$426 and is included in selling, general and administrative expenses in the accompanying statement of income.

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Supplemental cash flow and other information is as follows:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$	434
Lease assets obtained in exchange for lease liabilities		1,365
Weighted-average remaining lease term (years)		2.42
Weighted average discount rate		3.60%

Total future minimum payments required under the lease obligations are as follows as of March 31, 2023,

2024	\$	440
2025		440
2026		182
Total lease payments		<u>1,062</u>
Less: amount representing interest		43
Total lease obligation	\$	<u>1,019</u>

For the years ended March 31, 2023 and 2022, rent expenses were \$ 447 and \$426 respectively.

20) Contingencies

The Company is involved in product liabilities, government investigation and other legal proceedings that arise from time to time in the ordinary course of business. The Company records accruals for these types of 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.

21) Subsequent events

The Company has evaluated subsequent events through May 15, 2023, the date, which the financial statements were available to be issued. No reportable subsequent events have occurred through May 15, 2023, which would have a significant effect on the financial statements as of March 31, 2023, except as otherwise disclosed.