

NEULAND LABORATORIES, INC.

FINANCIAL STATEMENTS

MARCH 31, 2014

NEULAND LABORATORIES, INC.

FINANCIAL STATEMENTS

MARCH 31, 2014

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Wright Ford Young & Co.

Certified Public Accountants and Consultants, Inc.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of
Neuland Laboratories, Inc.:

We have audited the accompanying balance sheet of Neuland Laboratories, Inc. (the Company) as of March 31, 2014, and the related statements of income and retained earnings, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2014, 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.

Wright Ford Young & Co.

WRIGHT FORD YOUNG & CO.

Irvine, California

April 25, 2014

NEULAND LABORATORIES, INC.

BALANCE SHEET

MARCH 31, 2014

ASSETS

CURRENT ASSETS:

Cash	\$ 31,914
Accounts receivable from parent company	336,840
Receivable from employee	3,783
Prepaid expenses	3,853
Other current assets	<u>8,618</u>
Total current assets	<u>385,008</u>
Total assets	<u><u>\$ 385,008</u></u>

LIABILITIES AND SHAREHOLDER'S EQUITY

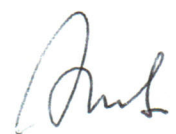
CURRENT LIABILITIES:

Accounts payable and accrued expenses	\$ 87,576
Payable to employee	10,036
Income taxes payable	14,043
Deferred income taxes payable	<u>51,453</u>
Total liabilities	<u>163,108</u>

SHAREHOLDER'S EQUITY:

Common stock, par value of \$1 per share, 1,000 shares authorized, issued and outstanding	1,000
Retained earnings	<u>220,900</u>
Total shareholder's equity	<u>221,900</u>
Total liabilities and shareholder's equity	<u><u>\$ 385,008</u></u>

See independent auditors' report
and accompanying notes to the financial statements



NEULAND LABORATORIES, INC.

STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED MARCH 31, 2014

REVENUES:

From parent company	\$ 1,034,461
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Total revenues	<u>1,034,461</u>
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EXPENSES:

Compensation and benefits	674,943
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Operating expenses	<u>310,258</u>
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Total expenses	<u>985,201</u>
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Income before provision for income taxes	49,260
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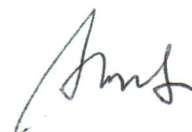
PROVISION FOR INCOME TAXES	<u>36,063</u>
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Net income	13,197
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RETAINED EARNINGS, beginning of year	<u>207,703</u>
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RETAINED EARNINGS, end of year	<u><u>\$ 220,900</u></u>
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See independent auditors' report
and accompanying notes to the financial statements



NEULAND LABORATORIES, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 13,197
Deferred tax provision	22,020
Changes in operating assets and liabilities:	
Accounts receivable from parent company	24,453
Receivable from employee	(550)
Prepaid expenses	(3,853)
Other current assets	289
Accounts payable and accrued expenses	(8,779)
Payable to employee	10,036
Income taxes payable	14,043
	<hr/>
Net cash provided by operating activities	70,856

CASH FLOWS FROM FINANCING ACTIVITIES:

Bank overdraft	<hr/> (38,942)
Net cash used in financing activities	<hr/> (38,942)

NET INCREASE IN CASH 31,914

CASH, beginning of year

 -

CASH, end of year

 \$ 31,914

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:	
Income taxes	<hr/> \$ 800 <hr/>

SUPPLEMENTAL DISCLOSURES OF NON CASH OPERATING ACTIVITIES:

The Company offset the payable to parent company of \$225,785 with accounts receivable from parent company during the year ended March 31, 2014.

See independent auditors' report
and accompanying notes to the financial statements



NEULAND LABORATORIES, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014

1. BUSINESS ACTIVITY

Neuland Laboratories, Inc. (the Company) was incorporated on January 4, 2007 in the State of Delaware. The Company is a wholly owned subsidiary of Neuland Laboratories Limited (the Parent). The Parent is based in Hyderabad, India. The Parent is a manufacturer and exporter of active pharmaceutical ingredients and intermediates for the pharmaceuticals industry. The Parent and the Company have entered into a Marketing and Business Support Services Agreement (the Agreement). The Company provides marketing and business support services for the Parent throughout North America. The Company utilizes a fiscal year end of March 31.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Company are prepared under the accrual method of accounting.

Cash and Cash Equivalents

The Company considers cash in operating bank accounts and cash-on-hand as cash equivalents for financial reporting purposes.

Accounts Receivable

Accounts receivable are stated at the amount the Company expects to collect. Accounts receivable represents the balance due from the Parent.

Revenue Recognition

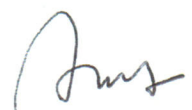
The Company recognizes revenues when services are performed. In accordance with the Agreement, the Company generally recognizes revenue equal to 105% of the actual costs incurred.

Concentration of Credit Risk

The Company generates all of its revenues from the Parent.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense was approximately \$7,000 for the year ended March 31, 2014.



NEULAND LABORATORIES, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Deferred Income Taxes

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

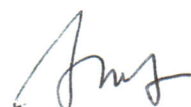
Accounting for Uncertainty in Income Taxes

The Company accounts for uncertainty in income taxes under the required provisions of accounting guidance issued by the FASB. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance requires that the Company determine whether the benefits of tax positions are "more likely than not" of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, the Company recognizes the largest amount of the benefit that is more likely than not of being sustained in the financial statements. For tax positions that are not more likely than not of being sustained upon audit, the Company does not recognize any portion of the benefit in the financial statements. For the year ended March 31, 2014, the Company had no accruals for potential losses related to uncertain tax positions. The Company believes it is no longer subject to income tax examinations for years prior to 2010.

Fair Value of Financial Instruments

The Financial Accounting Standards Board (FASB) provides the framework for measuring fair value. That framework provides a fair value 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 measurements) and lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under this framework are described as follows:

- | | |
|----------------|---|
| <u>Level 1</u> | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access. |
| <u>Level 2</u> | Inputs to the valuation methodology include: <ul style="list-style-type: none">• quoted prices for similar assets or liabilities in active markets;• quoted prices for identical or similar assets or liabilities in inactive markets;• inputs other than quoted prices that are observable for the asset or liability;• inputs that are derived principally from or corroborated by observable market data by correlation or other means. |



NEULAND LABORATORIES, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Fair Value of Financial Instruments – (Continued)

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

Accordingly, the Company believes the carrying value of cash, accounts receivable, accounts payable and accrued expenses to be representative of their fair values based on their short term nature.

Subsequent Events

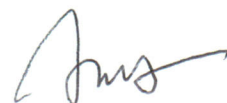
The Company has evaluated subsequent events through the date of the independent auditors' report, which is the date the accompanying financial statements were available to be issued.

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 assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. COMMITMENTS

The Company entered into an operating lease agreement on May 2, 2012 for an office space located in San Clemente, California. Lease payments of \$1,275 per month began in June 2012 and ended in May 2013. The Company remained in the office space located in San Clemente under month to month terms subsequent to the termination of the lease. Total rent expense for the year ended March 31, 2014 was approximately \$17,000.



NEULAND LABORATORIES, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014

4. INCOME TAXES

The provision for income taxes consists of the following:

Current tax provision:

Federal	\$	8,243
State		5,800

Deferred tax provision:

Federal		14,896
State		<u>7,124</u>

Total provision	\$	<u>36,063</u>
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The deferred income tax liability consists of the accrual to cash basis adjustment.

