



Lupin Inc.

Lupin Inc.
Financial Statements
As of and For the Year Ended
March 31, 2017

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KPMG LLP
1 East Pratt Street
Baltimore, MD 21202-1128

Independent Auditors' Report

The Board of Directors and Stockholders
Lupin Inc.:

We have audited the accompanying financial statements of Lupin Inc., which comprise the balance sheet as of March 31, 2017, and the related statements of operations, changes in stockholder's equity, 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 from 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 Lupin Inc. as of March 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

May 18, 2017

**LUPIN INC.
BALANCE SHEET**

March 31, 2017.

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 11,503,849
Intercompany receivables	18,193,085
Intracompany receivables	37,465,276
Income taxes receivable	11,083,229
Prepaid expenses and other current assets	3,665,222
Total current assets	81,910,661
Investment in subsidiaries	98,372,525
Property, plant and equipment, net	21,097,254
Goodwill	73,280,544
Other assets	48,400,001
Total assets	\$ 323,060,985
LIABILITIES AND STOCKHOLDER'S EQUITY	
Current liabilities:	
Accounts payable	\$ 2,226,432
Accrued expenses	7,936,671
Intercompany payables	1,982,951
Intracompany payables	17,334,264
Total current liabilities	29,480,318
Deferred income taxes	4,285,685
Long term debt, net	118,530,000
Other liabilities	48,610,311
Total liabilities	200,906,314
Commitments and contingencies	
Stockholder's equity:	
Common stock	2
Additional paid-in capital	120,049,999
Retained earnings	2,104,670
Total stockholder's equity	122,154,671
Total liabilities and stockholder's equity	\$ 323,060,985

See accompanying notes to financial statements.

LUPIN INC.
STATEMENT OF OPERATIONS

	<u>Year Ended</u> <u>March 31, 2017</u>
Service revenues	\$ 42,370,878
Costs and expenses:	
Cost of revenues	40,757,052
Selling, general and administrative	20,387,543
Research and development	2,710,401
Loss from operations	(21,484,118)
Interest expense, net	(2,734,409)
Equity income in subsidiary	11,457,587
Other income	5,269,668
Loss from operations before income tax	\$ (7,491,272)
Income tax benefit	9,435,303
Net income	<u>\$ 1,944,031</u>

See accompanying notes to financial statements.

LUPIN INC.
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

	Common Stock, \$0.001 Par Value		Additional Paid-in Capital	Retained Earnings	Total Stockholder's Equity
	Shares	Amount			
Balance at April 1, 2016	1,000	\$ 2	\$ 40,049,999	\$ 160,639	\$ 40,210,640
Net income	—	—	—	1,944,031	1,944,031
Capital contributions	—	—	80,000,000	—	80,000,000
Balance at March 31, 2017	1,000	\$ 2	\$ 120,049,999	\$ 2,104,670	\$ 122,154,671

See accompanying notes to financial statements.

LUPIN INC.
STATEMENT OF CASH FLOWS

	Year Ended March 31, 2017
Operating activities:	
Net income	\$ 1,944,031
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation of property, plant and equipment	2,800,960
Loss on disposal of property and equipment	219,368
Deferred income taxes	3,107,577
Equity income from affiliates	(11,457,587)
Dividends and distributions from equity method affiliates	14,550,000
Amortization of debt issuance costs	330,000
Changes in operating assets and liabilities:	
Accounts receivable	240,618
Intercompany/intracompany receivables	(3,603,212)
Prepaid expenses and other assets	20,435,304
Accounts payable	1,173,248
Accrued expenses	1,532,034
Intercompany/intracompany payables	(7,272,344)
Income taxes payable	(6,871,409)
Other liabilities	(18,639,536)
Net cash used in operating activities	(1,510,948)
Investing activities:	
Purchases of property, plant and equipment	(5,780,749)
Net cash used in investing activities	(5,780,749)
Financing activities:	
Proceeds from issuance of debt	120,000,000
Debt repayments	(201,630,000)
Payments for costs related to issuance of debt	(1,800,000)
Capital contributions	80,000,000
Net cash used in financing activities	(3,430,000)
Net decrease in cash and cash equivalents	(10,721,697)
Cash and cash equivalents—beginning of period	22,225,546
Cash and cash equivalents—end of period	\$ 11,503,849
SUPPLEMENTAL INFORMATION	
Cash paid for interest	\$ 1,910,908
Cash paid for taxes	\$ 713,781
Accrual for purchases of property, plant and equipment	\$ 282,559

See accompanying notes to financial statements.

LUPIN INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

1. Organization and Description of the Business

Lupin Inc. (the Company) was incorporated in the United States of America (USA) under the Laws of the State of Virginia on June 27, 2013 as a Maryland Corporation and converted to a Delaware Corporation on March 8, 2016. The Company is a consolidated subsidiary of Lupin Atlantis Holdings, S.A. (LAHSA), who is wholly owned by Lupin Limited (LL), the Company's ultimate parent company. The Company's core business is to act as support for U.S. domestic subsidiaries and engage in research and development activities in the pharmaceutical sector for identification of new products, technologies and therapies.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Any reference in these notes to applicable guidance is meant to refer to GAAP as found in the Accounting Standards Codification (ASC) and Accounting Standards Update (ASU) of the Financial Accounting Standards Board (FASB).

Use of Estimates

Management considers many factors in developing the estimates and assumptions that are used in the preparation of these financial statements. Management must apply significant judgment in this process. In addition, other factors may affect estimates, including expected business and operational changes, sensitivity and volatility associated with the assumptions used in developing estimates, and whether historical trends are expected to be representative of future trends. The estimation process often may yield a range of potentially reasonable estimates of the ultimate future outcomes and management must select an amount that falls within that range of reasonable estimates. This process may result in actual results differing materially from those estimated amounts used in the preparation of the financial statements if these results differ from historical experience, or other assumptions do not turn out to be substantially accurate, even if such assumptions are reasonable when made.

Revenue Recognition

Revenues from research services are recognized as earned in accordance with the contract terms when services have been performed and collectability is reasonably assured.

Acquisitions

In a business combination, the acquisition method of accounting requires that the assets acquired and liabilities assumed be recorded as of the date of the acquisition at their respective fair values with limited exceptions. Assets acquired and liabilities assumed in a business combination that arise from contingencies are recognized at fair value if fair value can reasonably be estimated. If the acquisition date fair value of an asset acquired or liability assumed that arises from a contingency cannot be determined, the asset or liability is recognized if probable and reasonably estimable; if these criteria are not met, no asset or liability is recognized. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Any excess of the purchase price (consideration transferred) over the estimated fair values of net assets acquired is recorded as goodwill. Transaction costs and costs to restructure the acquired company are expensed as incurred. The operating results of the acquired business are reflected in the Company's financial statements after the date of the acquisition. If the Company determines the assets acquired do not meet the definition of a business under the acquisition method of accounting, the transaction will be accounted for as an acquisition of assets rather than a business combination and, therefore, no goodwill will be recorded.

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments with original maturities of three months or less.

Intercompany and Intracompany Receivables and Payables

Intercompany receivables and payables represent balances due to and due from related parties which are outside of the United States. Intracompany receivables and payables represent balances due to and due from related parties which are within the United States.

LUPIN INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

Property, Plant and Equipment

Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which are generally two to ten years. Maintenance and repairs are expensed as incurred. Upon disposal, retirement, or sale, the related cost and accumulated depreciation is removed from the accounts and any resulting gain or loss is included in the results of operations.

Goodwill

Goodwill relates to amounts that arose in connection with the acquisition of Gavis Pharmaceuticals, LLC in March 2016 (as described in note 6). Goodwill represents the excess of the purchase price over the fair value of the net assets acquired when accounted for using the acquisition method of accounting for business combinations. Goodwill is not amortized but is evaluated for impairment on an annual basis, in the fourth quarter, or more frequently if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of the Company's reporting unit below its carrying amount.

The Company performs its annual impairment review of goodwill as of its fiscal year-end, and when a triggering event occurs between annual impairment tests. The Company utilizes a qualitative evaluation about the likelihood of goodwill impairment to determine whether it is necessary to calculate the fair values of the reporting units under the two-step goodwill impairment test. The Company completed the qualitative assessment of potential goodwill impairment and determined that it was not more likely than not that the fair values of the reporting units were less than their carrying amounts.

Other Income

Other income is comprised of related party billings for reimbursements of expenses associated with non research and development services.

Income Taxes

Income taxes are recorded in accordance with ASC Topic 740, *Income Taxes* (ASC 740), which provides for deferred taxes using an asset and liability approach. The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are provided, if based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company accounts for uncertain tax positions in accordance with the provisions of ASC 740. When uncertain tax positions exist, the Company recognizes the tax benefit of tax positions to the extent that the benefit will more likely than not be realized. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position as well as consideration of the available facts and circumstances.

Contingencies

The Company records accruals for contingencies expected to be incurred in connection with a loss contingency when it is probable that a liability has been incurred and the amount can be reasonably estimated.

Research and Development Expenses

Research and development costs are charged to expense as incurred. These costs include, but are not limited to, employee-related expenses, including salaries, benefits and travel as well as expenses related to collaborations and contract research agreements; expenses incurred under agreements with contract research organizations and investigative sites that conduct preclinical and clinical studies; the cost of acquiring, developing and manufacturing clinical trial materials; facilities, depreciation and other expenses, which include direct and allocated expenses for rent and maintenance of facilities, insurance and other supplies; and costs associated with preclinical and clinical activities and regulatory operations.

Costs for certain development activities, such as preclinical and clinical studies, are recognized based on an evaluation of the progress to completion of specific tasks using data such as patient enrollment, preclinical site activations, or information provided to the Company by its vendors with respect to their actual costs incurred. Payments for these activities are based on the terms of the individual arrangements, which may differ from the pattern of costs incurred, and are reflected in the financial statements as prepaid or accrued research and development expense, as the case may be.

LUPIN INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

Under a Product Development Agreement, certain research and development costs are billed back to LL and LAHSA. These transactions are reflected in cost of revenues with a ten percent markup. The Company's remuneration for such services is subject to an annual transfer pricing study.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents. At March 31, 2017, the Company's cash and cash equivalents were held by two financial institutions and the amounts on deposit were in excess of Federal Deposit Insurance Company insurance limits. The Company mitigates this risk by depositing its uninsured cash in major well capitalized financial institutions. The Company has not recognized any losses on its cash and cash equivalents. Concentrations of credit risk with respect to accounts receivable are limited as there are no external customers.

Equity Method Affiliates

The Company owns 97% of Lupin Pharmaceuticals, Inc., (LPI), 100% of Novel Laboratories, Inc. (Novel) and 100% of Lupin Research, Inc. (LRI), which it accounts for under the equity method of accounting. The Company records its pro-rata share of income from LPI within the equity income in subsidiary line item on the statement of operations and will reduce its investments in subsidiaries balance based upon dividends received.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new standard replaces existing guidance on revenue recognition, including most industry specific guidance, with a five step model for recognizing and measuring revenue from contracts with customers. The objective of the new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries and across capital markets. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance also requires a number of disclosures regarding the nature, amount, timing and uncertainty of revenue and the related cash flows. The guidance can be applied retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of initial adoption (modified retrospective method). The Company is currently assessing the impacts this guidance may have on their financial statements and disclosures as well as the transition method that they will use to adopt the guidance. In August 2015, the FASB issued an amendment to provide a one year deferral of the effective date to annual reporting periods beginning on or after December 15, 2018, as well as an option to early adopt the standard for annual periods beginning on or after December 15, 2016. The Company does not plan to early adopt the standard.

In April 2015, the FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The new standard changes the presentation of debt issuance costs in financial statements. The new guidance requires entities to present such costs in the balance sheet as a direct reduction to the related debt liability rather than as a deferred cost (i.e., an asset) as required by current guidance. The new guidance does not change the recognition or measurement of debt issuance costs. The guidance is effective for the Company for fiscal years beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The Company adopted the ASU in fiscal 2017 and reduced long term debt, net by \$1,470,000, which was previously recorded in other assets.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), which requires lessees to recognize assets and liabilities for the rights and obligations created by most leases on their balance sheet. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years beginning after December 15, 2020. Early application is permitted. ASU 2016-02 requires modified retrospective adoption for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the impact the standard may have on the Company's financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which amended the existing accounting standards for the statement of cash flows by providing guidance on eight classification issues related to the statement of cash flows. ASU 2016-15 will be effective in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and early adoption is permitted. The amendments should be applied retrospectively to all periods presented. For issues that are impracticable to apply retrospectively, the amendments may be applied prospectively as of the earliest date practicable. The Company is currently in the process of assessing the impact of ASU 2016-15 on the Company's financial statements and related disclosures.

LUPIN INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

Note 3. Property, Plant and Equipment, net

Property, plant and equipment, net consists of the following:

	March 31, 2017
Buildings	\$ 11,853,957
Computers and office equipment	2,229,352
Machinery and equipment	8,870,224
Furniture and fixtures	775,199
Construction in process	2,047,024
	25,775,756
Less: accumulated depreciation	(4,678,502)
Property, plant and equipment, net	\$ 21,097,254

Depreciation expense was \$2,800,960 for the year ended March 31, 2017.

Note 4. Accrued Expenses

Accrued expenses consist of the following:

	March 31, 2017
Accrued interest	\$ 377,066
Bonus and incentives	2,752,578
General and administrative expenses	1,770,398
Payroll and benefits	461,543
Research and development expenses	2,575,086
Accrued expenses	\$ 7,936,671

Note 5. Other assets and Other liabilities

Other assets of \$48,400,001 and other liabilities of \$48,610,311 as of March 31, 2017 consists primarily of escrow payable balances related to the Gavis Group acquisition (as described in note 6).

Note 6. Business Combinations and Acquisitions

Acquisition of Gavis Pharmaceuticals

On March 8, 2016, Lupin Inc. (LI) completed its acquisition of Gavis Pharmaceuticals, LLC (Gavis), Novel Laboratories, Inc. (Novel) and VGS Holdings Inc. (VGS) (collectively the Gavis Group) through a combination of asset (Gavis) and stock transactions (Novel and VGS). Pursuant to the transaction, the Gavis Group ownership received cash consideration. As a result of the acquisition, all vested membership unit appreciation rights awards, employee stock options and compensation options are to be settled in cash. All unvested awards were cancelled.

The acquisition-date fair value of the consideration transferred is as follows:

	March 8, 2016
Cash consideration	\$ 823,773,647
Repayment of indebtedness	71,469,215
Total consideration	\$ 895,242,862

The transaction was accounted for as a business combination under the acquisition method of accounting. Accordingly, the tangible and identifiable intangible assets acquired and liabilities assumed were recorded at fair value as of the date of acquisition, with the remaining purchase price recorded as goodwill. Due to the structure of the transaction, certain goodwill is not deductible for tax purposes.

LUPIN INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	March 8, 2016
Cash	\$ 28,504,702
Accounts receivable	21,353,180
Inventories, net	28,184,358
Prepaid expenses and other current assets	4,059,108
Property, plant and equipment	46,753,400
Intangible assets	689,380,000
Accounts payable and accrued expenses	(5,147,418)
Accrued expenses and other liabilities	(22,028,910)
Deferred tax liability	(21,774,817)
Total net assets acquired	769,283,603
Goodwill	125,959,259
Total consideration	\$ 895,242,862

The fair values of intangible assets were determined using an income approach, including a discount rate applied to the projected net cash flows. The Company believes the assumptions are representative of those a market participant would use in estimating fair value. The preliminary fair value of intangible assets included the following:

	Fair Value
Currently marketed products	\$ 382,480,000
Filed abbreviated new drug applications (ANDAs)	306,900,000
Total acquired intangible assets	\$ 689,380,000

The deferred tax liability of \$21,774,817 million relates primarily to the temporary differences associated with the identifiable intangible assets, which are not deductible for tax purposes.

Under an intercompany agreement, LI, as buying representative for LAHSA, transferred to LAHSA under an Asset Purchase Agreement, certain intellectual property (IP) of the Gavis Group that was acquired by LI as part of the Gavis transaction. The value of the assets transferred was \$678,350,000. An analysis was performed to assess the implications of the transfer pricing and it was concluded that the transfer price is substantially representative of the fair value of the assets in an arm's length transaction. This purchase of IP included \$647,480,000 of ANDAs and \$30,870,000 of goodwill that is associated with those intangible assets. The total cost basis of \$678,350,000 was transferred to LAHSA. As part of the acquisition, pushdown accounting was applied to the respective acquiree except for goodwill of \$73,280,544 due to the fact that substantially all of the activities of Gavis were merged into the operations of the Company and its subsidiaries.

Note 7. Investment in Subsidiaries

The activity in the investment in subsidiaries consists of:

	LPI	Novel	LRI	Total
Balance at April 1, 2016	\$ 9,700,001	\$ 91,764,938	\$ (1)	\$ 101,464,938
Investment income (loss)	13,161,825	(1,704,238)	—	11,457,587
Dividends received	(14,550,000)	—	—	(14,550,000)
Balance at March 31, 2017	\$ 8,311,826	\$ 90,060,700	\$ (1)	\$ 98,372,525

LUPIN INC.
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2017

Note 8. Goodwill

The table below provides a roll-forward of the goodwill balance:

Goodwill balance at April 1, 2016	\$	73,280,544
Fiscal 2017 activity		—
Goodwill balance at March 31, 2017	\$	73,280,544

There was no impairment recorded to goodwill during the year ended March 31, 2017.

Note 9. Debt

The Company entered into a Credit Agreement dated February 29, 2016 with JPMorgan Chase Bank (JPM) to finance \$201,630,000 (Bridge Loan) to fund the Gavis acquisition with an intention to replace the Bridge Loan with a long-term loan in the future. LL acted as a guarantor to the Agreement.

On March 31, 2016, the Company entered into a Facilities Agreement for loan assistance of \$120,000,000 so as to replace the existing Bridge Loan with an additional capital contribution of \$80,000,000 from LAHSA. On May 3, 2016, the Bridge Loan was repaid. The Facilities Agreement contains a six year term with \$40,000,000 payable at March 31, 2020, \$40,000,000 payable at March 31, 2021 and \$40,000,000 payable at March 31, 2022. Interest is accrued on the note at the rate of 0.95% plus the three month LIBOR rate. Interest is payable quarterly. Debt issue costs of approximately \$1,800,000 were capitalized and are being amortized over the term of the loan, which approximates the effective interest method, and is recorded against long term debt, net on the balance sheet. LL acts as a guarantor for the Facilities Agreement.

The Company recorded interest expense of \$2,497,551 during the year ended March 31, 2017. The aggregate outstanding principal and accrued interest balance at March 31, 2017 was \$120,377,066.

Note 10. Commitments and Contingencies

Operating Leases

The Company leases office and facility space, office and testing equipment and furniture. As of March 31, 2017, the Company expects to receive \$2,593,860 in sublease income through 2025 that will be recorded as an offset to rent expense. Rent expense under operating leases for the year ended March 31, 2017 was \$1,576,002.

Future minimum lease payments as of March 31, 2017 are as follows:

Fiscal 2018	\$	1,874,283
Fiscal 2019		1,827,562
Fiscal 2020		1,854,819
Fiscal 2021		1,878,822
Fiscal 2022		1,941,261
Thereafter		4,209,347
Total	\$	13,586,094

Legal Proceedings

The Company is not involved in any legal proceeding that it expects to have a material effect on its business, financial condition, results of operations and cash flows.

Note 11. Income Taxes

The Company's loss before income taxes was \$7,491,272 for the twelve months ended March 31, 2017, and was generated entirely in the United States.

LUPIN INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

Income tax benefit consists of:

	For the Year Ended March 31, 2017
Current benefit:	
U.S. federal	\$ (12,161,987)
U.S. state and local	(747,141)
Total current benefit	(12,909,128)
Deferred provision:	
U.S. federal	3,419,375
U.S. state and local	54,450
Total deferred provision	3,473,825
Total current and deferred benefit	\$ (9,435,303)

Income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 35% to pretax income as a result of the following:

	For the Year Ended March 31, 2017
Loss before income tax	\$ (7,491,272)
Statutory tax rate	35%
Income tax benefit at statutory rate	(2,621,945)
U.S. state tax benefit	(442,966)
	(3,064,911)
(Increase) decrease in income tax benefit resulting from:	
Non-deductible expenses	63,017
Dividend/equity income	(4,010,155)
R&D tax credits (net of reserve)	(2,276,976)
Other	(146,278)
Income tax benefit	\$ (9,435,303)

The income tax benefit for the twelve months ended March 31, 2017 was partially driven by research and development credits. The Company performed a research and development analysis for the current period as well as the prior periods to identify qualified research expenditures. The Company's Coral Springs, Florida office is a dedicated facility for research and development purposes, including the development of inhalation products.

The Company recognized approximately \$3,100,000 of research and development tax credits. The Company is also recognizing an ASC 740-10 reserve of approximately 26% against the total credits resulting in a net research and development credit of approximately \$2,300,000. The Company calculated the reserve based upon the potential deniability of those expenditures as qualified research expenditures. The risk assessment included assignment of levels of risks associated with each component of the expenditures based upon their R&D activities. The Company will re-assess this reserve on an annual basis and adjust the reserve, if necessary.

Deferred taxes are recognized for temporary differences between the basis of assets and liabilities for financial statement and income tax purposes. The significant components of the Company's deferred tax assets are related to accrued expenses, as well as deferred rent and acquisition costs. The temporary differences that give rise to significant portions of the deferred tax liabilities at March 31, 2017 are related to building improvements and equipment (principally due to differences in depreciation), as well as goodwill amortization.

The Gavis acquisition was deemed an asset acquisition due to its flow-through nature (disregarded entity for federal income tax purposes) for income tax purposes. As a result of the acquisition, the Company recognized \$73,280,544 of tax goodwill. The Company will amortize this goodwill over a fifteen year period. The Company will not amortize this goodwill for book purposes. Therefore, the deferred tax liability associated with this goodwill will continue to increase until such time the Company disposes of this asset.

LUPIN INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

The Company incurred tax losses since inception. The Company previously reported a deferred tax asset for its net operating loss (NOL) from its first year of existence, fiscal year ended March 31, 2014. During the current fiscal year ended March 31, 2017, the Company filed an amended corporate income tax return to carryforward that NOL to the succeeding fiscal year, March 31, 2015 to offset its subsidiary's, Lupin Pharmaceuticals, Inc., taxable income. As a result, the Company's inventory of deferred tax assets no longer includes the NOL. Also, the Company is in a net deferred tax liability position at March 31, 2017. Therefore, the Company expects to be profitable in future periods when those deferred tax liability accounts begin to reverse. Furthermore, the Company files a consolidated corporate income tax return with its profitable subsidiary and its standalone net operating loss will be offset by its affiliate's taxable income. No valuation allowance is deemed necessary on any of the Company's deferred tax assets.

	March 31, 2017
Deferred tax assets:	
Accrued payroll related liabilities	\$ 426,948
Deferred rent	183,958
Acquisition costs	324,270
Other	145,060
Total net deferred tax assets	\$ 1,080,236
Deferred tax liabilities:	
Goodwill amortization	\$ 1,740,060
Depreciation	3,527,761
Other	98,100
Total net deferred tax liabilities	\$ 5,365,921
Net deferred tax liability	\$ 4,285,685

The Company files income tax returns in the United States and various state jurisdictions. The federal and state income tax returns are generally subject to tax examinations for the tax year ended March 31, 2014 and succeeding tax years. To the extent the Company has tax attribute carryforwards, the tax years in which the attribute was generated may still be adjusted upon examination by the Internal Revenue Service or state tax authorities to the extent utilized in a future period.

Note 12. Related Party Transactions

The Company enters into transactions with related parties. Related parties are:

Companies where control exists:

- LL (Ultimate Parent Company)
- LAHSA (Parent Company)
- LPI, USA (Subsidiary Company)
- Novel, USA (Subsidiary Company)
- Gavis, USA (Subsidiary Company)
- LRI, USA (Subsidiary Company)

Other Related Parties having transactions with the Company's fellow subsidiaries:

- Lupin GmbH, Switzerland
- Laboratorios Grin, S.A. de C.V., Mexico
- Medquimica Industria Farmaceutica Ltda, Brazil (Medquimica)
- Lupin Pharma Canada Ltd., Canada (Canada)
- Lupin Latam, Inc. (Latam), USA
- Nanomi B.V., India
- LL Research Park, India (LL Research Park)

Transactions, which take place at an arm's length, between entities range from clinical service charges, capital contributions, dividend payments, expense reimbursement, guarantee fees, management fees, research services, short term borrowings and tax sharing.

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The following represents related party sales:

	Year Ended March 31, 2017
Sales to LL	\$ 21,431,612
Sales to LAHSA	20,929,289
Sales to Nanomi BV	9,977
Related party sales	<u>\$ 42,370,878</u>

The following represents related party purchases:

	Year Ended March 31, 2017
Purchases from LL	\$ 631,589
Purchases from LL Research Park	830,005
Purchases from GmbH	1,173,352
Purchases from Medquicima	416,977
Purchases from Novel	635,471
Related party purchases	<u>\$ 3,687,394</u>

The following represents due to/from balances with related parties:

	March 31, 2017
Due from Nanomi BV	\$ 1,143,952
Due from GmbH	1,016,602
Due from Medquimica	459,272
Due from Laboratories Grin	161,845
Due from LL	1,278,366
Due from LL Research Park	7,690,627
Due from LAHSA	5,815,155
Due from Canada	27,434
Due from Latam	599,832
Intercompany receivables	<u>\$ 18,193,085</u>

	March 31, 2017
Due from LPI	\$ 11,106,904
Due from Gavis	5,293,019
Due from Novel	21,065,351
Intracompany receivables	<u>\$ 37,465,276</u>

	March 31, 2017
Due to GmbH	\$ 457,409
Due to Medquimica	416,977
Due to LL	690,430
Due to LL Research Park	418,135
Intercompany payables	<u>\$ 1,982,951</u>

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	March 31, 2017
Due to LPI	\$ 11,857,139
Due to Novel	5,477,125
Intracompany payables	\$ 17,334,264

Note 13. Employee Benefit Plan

The Company maintains a 401(k) plan, pursuant to which employees may make contributions which are not to exceed statutory limits. Employer matching contributions are equal to 100% of the first 3%, and 50% of the second 3% of employee contributions. For the year ended March 31, 2017, the Company made matching contributions of \$365,012.

Note 14. Subsequent Events

The Company evaluates events or transactions that occur after the balance sheet date but prior to the issuance of financial statements and concluded that no subsequent events have occurred through May 18, 2017 that require adjustment to or disclosure in the Company's financial statements, except for the following:

On May 1, 2017, the Company entered into an option agreement to acquire all of the outstanding equity of a New Jersey based privately held biopharmaceutical company. The Company may be able to exercise its option as soon as the end of the second quarter of fiscal year ending March 31, 2018. If exercised, the acquisition will deepen it's specialty presence in the U.S.