U.S. Nutraceuticals, Inc. (d/b/a Valensa International) and Subsidiary

Consolidated Financial Statements
Years Ended March 31, 2020 and 2019

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Contents

Tel: 407-841-6930
Fax: 407-841-6347
www.bdo.com

450 South Orange Ave., Suite 550
Orlando, FL 32801

Independent Auditor's Report

Board of Directors
U.S. Nutraceuticals, Inc. (d/b/a Valensa International)
Eustis, Florida

We have audited the accompanying consolidated financial statements of U.S. Nutraceuticals, Inc., formerly U.S. Nutraceuticals, LLC, (d/b/a Valensa International) and its subsidiary, which comprise the consolidated balance sheets as of March 31, 2020 and 2019, and the related consolidated statements of operations and cash flows for the years then ended, the consolidated statements of stockholder's equity for the period from October 1, 2018 through March 31, 2020, and the statement of members' equity for the period from April 1, 2018 through September 30, 2018, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of U.S. Nutraceuticals, Inc. (d/b/a Valensa International) and its subsidiary as of March 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 3 to the consolidated financial statements, the Company has an accumulated deficit, incurred a net loss, used significant cash for operating activities during fiscal 2020, and determined it is probable that a certain financial covenant will be violated within a year of the date of these financial statements all of which raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

BDO USA, LLP

Certified Public Accountants
June 3, 2020

Consolidated Financial Statements

U.S. Nutraceuticals, Inc. (d/b/a Valensa International) and Subsidiary

Consolidated Balance Sheets

March 31,	**2020**	2019
Assets		
Current:		
Cash and cash equivalents	**$ 94,382**	$ 31,021
Accounts receivable trade, net	**5,654,083**	3,501,319
Related party receivables (Note 8)	**—**	781,077
Inventories, net (Note 4)	**9,035,424**	7,400,389
Prepaid expenses and other current assets	**1,119,529**	410,689
Total current assets	**15,903,418**	12,124,495
Property and equipment, net (Note 5)	**1,803,450**	1,500,290
Other assets:		
Intangible assets, net (Note 6)	**1,873,573**	1,942,849
Goodwill, net (Note 6)	**629,009**	—
Investment in LaBelle Botanics, LLC (Note 7)	**—**	1,497,239
Deferred tax asset (Note 14)	**884,253**	779,854
Deposits	**27,070**	25,680
Total other assets	**3,413,905**	4,245,622
	$ 21,120,773	$ 17,870,407
Liabilities and Stockholder's Equity		
Liabilities		
Current:		
Accounts payable	**$ 1,043,609**	$ 1,032,915
Accrued expenses	**1,534,210**	1,745,192
Related party payables (Note 8)	**1,487,302**	1,069,987
Line of credit (Note 9)	**6,140,000**	2,750,000
Total current liabilities	**10,205,121**	6,598,094
Commitments and contingencies (Notes 11 and 13)		
Stockholder's equity:		
Common stock, $1 par value, 1,000 shares authorized; 1,027 and 1,000 issued and outstanding	**1,027**	1,000
Additional paid-in capital	**20,121,437**	19,571,464
Accumulated deficit	**(9,206,812)**	(8,300,151)
Total stockholder's equity	**10,915,652**	11,272,313
	$ 21,120,773	$ 17,870,407

See accompanying notes to consolidated financial statements.

U.S. Nutraceuticals, Inc. (d/b/a Valensa International) and Subsidiary

Consolidated Statements of Operations

Year Ended March 31,	**2020**	2019
Revenues:		
Product sales	**$ 19,864,968**	$ 17,748,732
Tolling revenues	**1,657,250**	2,444,298
Other revenues (Note 8)	**694,726**	589,153
Total revenues	**22,216,944**	20,782,183
Cost of sales	**15,536,324**	13,989,802
Gross profit	**6,680,620**	6,792,381
Selling, general and administrative expenses:		
Salaries and wages	**3,269,952**	2,858,506
Insurance	**730,079**	602,709
Royalties and external commissions (Note 11)	**10,354**	68,352
Depreciation	**407,354**	396,452
Professional fees	**1,060,275**	635,631
Gas	**380,572**	322,328
Travel expenses	**344,237**	408,867
Repairs and maintenance	**249,361**	333,318
Amortization	**274,341**	247,199
Payroll taxes	**218,552**	191,041
Utilities	**179,987**	167,046
Supplies	**215,066**	184,714
Promotional events	**174,964**	205,263
Employee benefits	**106,993**	96,680
Taxes and licenses	**90,041**	100,198
Miscellaneous	**69,002**	63,955
Outside labor	**176,496**	168,491
Telephone	**51,411**	47,314
Advertising and marketing	**792,024**	435,959
Meals and entertainment	**68,379**	61,858
Internet and computer services	**67,956**	60,749
Samples	**60,938**	24,920
Rent	**115,382**	14,987
Uniforms	**38,250**	33,155
Dues and subscriptions	**57,648**	51,733
Postage and freight	**28,222**	13,161
Bank charges	**48,211**	44,528
Data processing	**18,034**	15,462
Loss on disposal of property and equipment	**10,185**	16,302
Safety	**5,487**	647
Impairment of intangible assets	**134,421**	865,453
Less applied production costs	**(2,550,816)**	(2,226,334)
Total selling, general and administrative expenses	**6,903,358**	6,510,644

(continued on next page)

Consolidated Statements of Operations (continued)

Year Ended March 31,	**2020**	2019
Research and development expenses	**97,658**	104,423
Operating income (loss)	**(320,396)**	177,314
Other income (expense):		
Loss on equity method investment (Note 7)	**(272,080)**	(3,165)
Interest expense	**(180,991)**	(102,848)
Other income (expense), net	**(3,897)**	4,450
Total other income (expense), net	**(456,968)**	(101,563)
Net income (loss) before income taxes	**(777,364)**	75,751
Income tax benefit (Note 14)	**170,703**	779,854
Net income (loss)	**$ (606,661)**	$ 855,605

See accompanying notes to consolidated financial statements.

U.S. Nutraceuticals, Inc. (d/b/a Valensa International) and Subsidiary

Consolidated Statements of Stockholder's Equity

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholder's Equity
	Shares	Amount			
Balance, October 1, 2018	1,000	$ 1,000	$ 19,571,464	$ (8,552,987)	$ 11,019,477
Net income (a)	–	–	–	252,836	252,836
Balance, March 31, 2019	1,000	1,000	19,571,464	(8,300,151)	11,272,313
Distributions to parent	**–**	**–**	**–**	**(300,000)**	**(300,000)**
Contribution from parent	**27**	**27**	**549,973**	**–**	**550,000**
Net loss	**–**	**–**	**–**	**(606,661)**	**(606,661)**
Balance, March 31, 2020	**1,027**	**$1,027**	**$20,121,437**	**$ (9,206,812)**	**$10,915,652**

See accompanying notes to consolidated financial statements.

(a) Represents net income for the period from October 1, 2018 through March 31, 2019 when the Company was taxed as a corporation for income tax purposes effective October 1, 2018 as further discussed in Note 1 and Note 2 – Income Taxes.

Statement of Members' Equity

	Total Members' Equity
Balance, March 31, 2018	$ 11,498,330
Distributions to Parent	(1,081,622)
Net income (a)	602,769
Balance, September 30, 2018	$ 11,019,477

See accompanying notes to consolidated financial statements.

(a) Represents net income for the period from April 1, 2018 through September 20, 2018 when the Company was taxed as a partnership for income tax purposes until October 1, 2018 as further discussed in Note 1 and Note 2 – Income Taxes.

U.S. Nutraceuticals, Inc. (d/b/a Valensa International) and Subsidiary

Consolidated Statements of Cash Flows

Year Ended March 31,	**2020**	2019
Cash flows from operating activities:		
Net income (loss)	**$ (606,661)**	$ 855,605
Adjustments to reconcile net income (loss) to net cash (used for operating activities:		
Depreciation and amortization	**681,695**	643,651
Loss on disposal of property and equipment	**10,185**	16,302
Impairment of intangible assets	**134,421**	865,453
Loss on write off of obsolete inventory	**92,695**	185,605
Loss on equity method investment	**272,080**	3,165
Deferred tax benefit	**(170,703)**	(779,854)
Changes in operating assets and liabilities:		
Accounts receivable	**(1,361,492)**	(1,121,991)
Inventories	**(3,401,128)**	(2,687,151)
Prepaid expenses and other current assets	**(629,305)**	31,558
Deposits	**(1,390)**	5,893
Accounts payable	**6,200**	(376,687)
Accrued expenses	**(264,050)**	493,013
Related party receivables/payables, net	**1,063,911**	451,917
Net cash used for operating activities	**(4,173,542)**	(1,413,521)
Cash flows from investing activities:		
Purchase of property and equipment	**(48,587)**	(147,472)
Purchase of intangible assets	**(28,080)**	(79,913)
Cash received in acquisition, net of cash paid	**539,089**	—
Net cash provided by (used for) investing activities	**462,422**	(227,385)
Cash flows from financing activities:		
Distributions to parent	**(300,000)**	(1,081,622)
Contribution from parent	**550,000**	—
Advances from (payments to) parent	**134,481**	(520,753)
Borrowings on line of credit	**10,830,000**	5,365,000
Repayments on line of credit	**(7,440,000)**	(2,615,000)
Net cash provided by financing activities	**3,774,481**	1,147,625
Net increase (decrease) in cash and cash equivalents	**63,361**	(493,281)
Cash and cash equivalents, beginning of year	**31,021**	524,302
Cash and cash equivalents, end of year	**$ 94,382**	$ 31,021
Supplemental disclosures of cash flow information:		
Interest paid	**$ 171,568**	$ 102,848

See accompanying notes to consolidated financial statements.

1. Nature of Organization and Operations

U.S. Nutraceuticals, Inc., formerly U.S. Nutraceuticals, LLC (the "Company") was formed on July 27, 1998 as a limited liability company organized under the laws of the State of Florida and E.I.D. Parry (India), Ltd. (the "Parent") is the majority member. Effective October 1, 2018, the Company was reorganized and incorporated under the laws of the State of Florida and changed its name to U.S. Nutraceuticals, Inc. The member interests of U.S. Nutraceuticals, LLC were converted into shares of common stock of U.S. Nutraceuticals, Inc. at par value.

The Company is doing business as Valensa International and is a science-based developer and producer of high-quality botanical sourced products, including nutraceutical supplements, functional foods, general nutrition, and functional cosmetic ingredients.

On September 30, 2019, the Company acquired the remaining 51% membership interest in LaBelle Botanic's, LLC ("LaBelle") requiring a change from the equity method to consolidation of LaBelle, which is now a wholly-owned subsidiary (see Note 7).

COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The Company has proactively taken all necessary steps to address the challenges related to COVID-19 from an employee, customer and community perspective. The Company is ensuring all employees follow the CDC and the state/county guidelines. The Company's manufacturing plant in Eustis, FL continues to operate at close to capacity as an 'essential' business and all employees are provided necessary personal protective equipment. In order to minimize footprint at the manufacturing site, the Company is encouraging administrative staff to work from home and increased sick paid leave to 14 days.

Although the Company cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have a material adverse effect on the Company's results of future operations, financial position, and liquidity in the next 12 months.

2. Summary of Significant Accounting Policies

Basis of Accounting and Principles of Consolidation

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All intercompany accounts and transactions between the Company and its wholly owned subsidiary have been eliminated in consolidation.

Business Combination

The consolidated financial statements reflect the acquisition of LaBelle as described in Note 6 under the acquistion method of accounting in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805, *Business Combinations* ("ASC 805"), in which assets acquired and liabilities assumed are recorded at estimated fair values as of the date of acquisition. Relevant accounting literature requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose to investors and other users of the consolidated financial statements all of the information necessary to evaluate and understand the nature and financial effect of the business combination. Goodwill is recorded in a business combination to the extent the purchase price exceeds the estimated fair value of the net tangible and intangible assets acquired. If the estimated fair value of the net tangible and intangible assets acquired is in excess of the purchase price, the difference results in a bargain purchase and the acquirer shall recognize the resulting gain in earnings on the acquisition date.

Revenue Recognition

Effective April 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, and its related amendments (collectively known as "ASC 606") using the modified retrospective transition approach applied to all contracts. Therefore, the reported results for the year ended March 31, 2020 reflect the application of ASC 606 while the reported results for the year ended March 31, 2019 were not adjusted and continue to be reported under the accounting guidance, ASC 605, *Revenue Recognition* ("ASC 605"), in effect for the prior periods. There was no impact of adopting ASC 606 to the consolidated financial statements, thus no adjustment to the opening balance of accumulated deficit was recorded.

The Company recognizes revenue from product sales at a point in time when control of the promised goods is transferred to the customer in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Control of the goods is transferred either upon shipment from the Company's warehouse or upon receipt by the customer depending on the shipping terms of the contract. The Company's shipping terms with its customers are primarily FOB shipping point.

There are several factors in determining that control transfers to the customer upon shipment of products which include that legal title transfers to the customer, present right to payment exists, and the customer has assumed the risks and rewards of ownership.

Tolling revenues represent extraction services provided to customers and are recognized at a point in time upon completion of the extraction work.

Sales (and similar) taxes that are imposed on sales and collected from customers are excluded from revenues.

Cash and Cash Equivalents

The Company considers all short term investments with an original maturity of three months or less, from date of purchase, to be cash equivalents.

Accounts Receivable

The Company sells its products on credit terms that the Company establishes for each customer. Trade receivables are recorded upon recognition of sales based upon the date the customer takes control of the product. The Company's determination of the allowance for doubtful accounts is based on an evaluation of the accounts receivable, past experience, current economic conditions and other risks inherent in the accounts receivable portfolio. Accounts are written off when they are determined to be uncollectible. As of March 31, 2020 and 2019, the Company has recorded an allowance for doubtful accounts of approximately $4,000.

Inventories

Inventories consist of raw materials, work in process and finished goods. Inventories are stated at the lower of cost (based on the weighted-average method) or net realizable value. Capitalized labor and overhead costs are absorbed into inventory production through an "applied production costs" account on the consolidated statements of operations. A reserve is recorded for any inventories deemed slow moving or obsolete.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are charged to expense as incurred. The carrying amount of accumulated depreciation of assets sold or retired are removed from the accounts in the year of disposal and any resulting gain or loss is included in results of operations.

Goodwill and Other Intangible Assets

Intangible assets consist of goodwill, patents, patents pending, regulatory permitting costs, trademarks and tradenames. Definite-lived intangibles are amortized using the straight-line method over the life of the intangible, ranging from 10 to 20 years. The Company's goodwill was recorded as a result of the Company's business combination of LaBelle in fiscal 2020.

Effective April 1, 2019, the Company adopted ASU 2014-18, *Accounting for Identifiable Intangible Assets in a Business Combination*, which allows for private companies to not recognize separately from goodwill certain assets arising from customer relationships and noncompetition agreements upon a business acquisition unless they are contract assets that are capable of being sold or licensed independently from other assets of a business. Eligible customer-related intangible assets would be subsumed into goodwill and the goodwill is amortized. ASU 2014-18 requires the adoption of ASU 2014-12, *Accounting for Goodwill*, which allows eligible private companies to amortize goodwill and apply a one-step impairment model. Accordingly, the excess of the fair value of consideration paid over fair value of net identifiable assets and liabilities of an acquired business ("goodwill") is amortized on a straight-line basis over 10 years.

The Company assesses the recoverability of its goodwill and indefinite lived intangible assets whenever events or changes in circumstances indicate that the carrying amount of the asset may be not recoverable. There was no impairment of goodwill during the year ended March 31, 2020. The Company recorded an impairment of its trademarks of $134,421 during the year ended March 31, 2020 as a result of a decision to discontinue selling the related trademarked products.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment, such as property and equipment and purchased definite-lived intangibles, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. There was no impairment of long-lived assets during the year ended March 31, 2020. The Company recorded an impairment on its patents and pending patents and clinical trial costs of $865,453 during the year ended March 31, 2019 as a result of a decision to discontinue selling products related to certain patents and unsuccessful clinical trials.

Advertising Costs

Advertising costs, included in selling, general and administrative expenses on the consolidated statements of operations, are expensed as incurred. The Company incurred approximately $123,000 and $49,000 in advertising expenses for the years ended March 31, 2020 and 2019, respectively.

Research and Development

Research and development costs to develop new products are charged to expense as incurred.

Income Taxes

The Company was taxed as a partnership until October 1, 2018 when the Company was reorganized as discussed in Note 1. The Company did not pay federal income taxes on its taxable income through September 30, 2018. Instead, the Members of the limited liability company were liable for individual federal income taxes on their respective share of the Company’s taxable income, in accordance with the Company’s former operating agreement. Accordingly, no provision for income taxes was included in these consolidated financial statements for the period from April 1, 2018 through September 30, 2018.

Effective October 1, 2018, income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes resulting from temporary differences. Such temporary differences result from differences in the carrying value of assets and liabilities for tax and financial reporting purposes. The deferred tax assets and liabilities represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company identifies and evaluates uncertain tax positions, if any, and recognizes the impact of uncertain tax positions for which there is a less than more-likely-than-not probability of the position being upheld when reviewed by the relevant taxing authority. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the balance sheet. The Company has not recognized a liability for uncertain tax positions. If there were an unrecognized tax benefit, the Company would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company's tax years subject to examination by the Internal Revenue Service generally remain open for three years from the date of filing.

On March 27, 2020 the Coronavirus Aid, Relief and Economics Security ("CARES") Act was enacted. The CARES Act was enacted to address the economic fallout of the COVID-19 outbreak on the economy. The CARES Act included benefits to corporate taxpayers including but not limited to allowing net operating losses to be carried back, increasing the 163(j) deductible interest limitation, and accelerating the refund of alternative minimum tax credits. Management is currently evaluating the effect, but at present, management does not anticipate the corporate tax relief from the CARES act will have a significant impact to the Company's consolidated financial statements as of the date of this report.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Company reports its financial assets and liabilities using a three-tier hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to adjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

ASC 820 describes the following three levels of inputs that may be used to measure fair value:

> *Level 1* – Valuation based on adjusted quoted prices in active markets for identical assets or liabilities.
>
> *Level 2* – Valuation based on quoted market prices for similar assets and liabilities in active markets.
>
> *Level 3* – Valuation based on unobservable inputs that are supported by little or no market activity, therefore requiring management's best estimate of what market participants would use as fair value.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management.

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values due to the short-term nature of these instruments. These financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and related party receivables and payables. The fair value of the Company's line of credit is estimated based on current rates that would be available for debt of similar terms which is not significantly different from its stated value.

The Company does not have any Level 1, 2 or 3 financial instruments.

Accounting Pronouncement Issued but Not Yet Adopted

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. For leases with a lease term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize a right-of-use asset or lease liability. A lessee making this accounting policy election would recognize lease expense over the term of the lease, generally in a straight-line pattern. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2022. Early adoption is permitted. In transition, a lessee and a lessor will recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients. These practical expedients relate to identifying and classifying leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. ASU 2018-11 was issued in June 2018 which permits entities to choose to initially apply ASU 2016-02 at the adoption date and recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. The ASU changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. Entities will be required to estimate credit losses over the entire contractual term of an instrument. The ASU includes financial assets recorded at amortized cost basis such as loan receivables, trade and certain other receivables as well as certain off-balance sheet credit exposures such as loan commitments and financial guarantees. The ASU does not apply to financial assets measured at fair value, and loans and receivables between entities under common control. The ASU is effective for fiscal years beginning after December 15, 2022. Early adoption may be selected for fiscal years beginning after December 15, 2018. An entity must apply the amendments in the ASU through a cumulative-effect adjustment to net assets as of the beginning of the first reporting period in which the guidance is effective except for certain exclusions. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

Reclassifications

Certain items have been reclassified in the 2019 financial statements to conform to the 2020 presentation. Such reclassifications had no impact on previously reported net income.

3. Financial Results, Liquidity and Going Concern

The Company had working capital of $5,698,297 and an accumulated deficit of $9,206,812 at March 31, 2020. During the year ended March 31, 2020, the Company incurred a net loss of $606,661 and used $4,173,542 of cash for operating activities. The Company was out of compliance with its tangible net worth covenant requirement as of March 31, 2020 and obtained a waiver from the bank as further discussed in Note 8. Based on the Company's projections for fiscal year 2021, as adjusted for uncertainty related to COVID-19, the Company has determined it is probable it will not meet its tangible net worth financial covenant as required by the bank at March 31, 2021. If the Company cannot meet their tangible net worth requirement at March 31, 2021 without further support from its Parent or another institution, this triggers a default under the line of credit making it due on demand. For that reason, the amount due under the line of credit has been reclassified as current obligations as of March 31, 2020. These conditions raise substantial doubt about the Company's ability to meet its financial obligations for 12 months from the date of issuance of these consolidated financial statements.

Management's plans to ensure it will meet the tangible net worth financial covenant at March 31, 2021 are to reduce its marketing and advertising expenditures and seek to obtain support from its Parent or another institution to cure any event of default. The Parent has committed to support the operating, investing and financing activities of the Company. The Company cannot make any assurances regarding the likelihood or certainty in being successful in meeting the tangible net worth financial covenant at March 31, 2021. For this reason, there is substantial doubt about the Company's ability to meet its financial obligations for 12 months from the date of issuance of these consolidated financial statements. Failure to meet the tangible net worth financial covenant will have a material adverse effect on the Company's liquidity, financial condition, and results of operations.

The consolidated financial statements as of March 31, 2020 are prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. They do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from uncertainty related to its ability to continue as a going concern.

4. Inventories

Inventories consist of the following:

March 31,	**2020**	2019
Raw materials	**$ 1,645,956**	$ 2,186,309
Work in process	**3,584,093**	2,659,093
Finished goods	**3,944,794**	2,603,144
Less: reserve for slow moving or obsolete inventory	**(139,419)**	(48,157)
	$ 9,035,424	$ 7,400,389

5. Property and Equipment

Property and equipment consist of the following:

March 31,	Estimated Useful Life	**2020**	2019
Land and improvements	0-20 years	**$ 234,143**	$ 163,143
Building and improvements	7-20 years	**4,863,881**	4,344,880
Machinery and equipment	5-12 years	**5,043,477**	4,933,448
Furniture and fixtures	3-10 years	**328,744**	365,690
Vehicles	5 years	**26,111**	26,111
		10,496,356	9,833,272
Less: accumulated depreciation		**(8,692,906)**	(8,332,982)
		$ 1,803,450	$ 1,500,290

Depreciation expense was $407,354 and $396,452 for the years ended March 31, 2020 and 2019, respectively.

6. Goodwill and Other Intangibles

Goodwill

At March 31, 2020, the Company had net goodwill of $629,009 which includes cost of $662,115 and accumulated amortization of $33,106. The Company recorded amortization of goodwill of $33,106 during the year ended March 31, 2020. Future amortization of goodwill is as follows as of March 31, 2020:

Year Ending March 31,	
2021	$ 66,212
2022	66,212
2023	66,212
2024	66,212
2025	66,212
Thereafter	297,949
Total	$ 629,009

Other intangible assets consist of the following:

March 31,	Estimated Useful Lives	**2020**	2019
Patents	10-20 years	**$ 2,170,258**	$ 2,170,258
Pending patents	—	**435,339**	426,671
Regulatory permitting costs	10-20 years	**142,302**	142,302
Trademarks	Indefinite	**371,914**	486,923
Tradename	6 years	**278,300**	—
		3,398,113	3,226,154
Less: accumulated amortization		**(1,524,540)**	(1,283,305)
		$ 1,873,573	$ 1,942,849

Amortization expense for other intangible assets was $241,235 and $247,199 for the years ended March 31, 2020 and 2019, respectively.

The Company will begin amortizing $435,339 in pending patent costs upon their approval by the associated regulatory agency. Future amortization expense on definite-lived intangibles are as follows:

Year Ending March 31,	
2021	$ 249,000
2022	227,000
2023	176,000
2024	164,000
2025	139,000
Thereafter	111,320
	$ 1,066,320

7. Business Acquisition of LaBelle

On September 30, 2019, the Company purchased the remaining 51% interest in LaBelle for $650,000 in cash, requiring a change from the equity method under U.S. GAAP to the consolidation of LaBelle. The remaining interest of LaBelle was acquired in order to have control over the supply chain and pricing and availability of its main raw material, saw palmetto berries. At the date of acquisition, the Company recorded a remeasurement loss related to its 49% equity interest in LaBelle of $179,530 which was based on the fair value of the 49% interest as determined by the discounted cash flow method. The acquisition effectively settled preexisting net receivables due from LaBelle.

The following is a summary of the consideration for the acquisition:

Consideration:	
Cash paid for 51% interest	**$ 650,000**
Settlement of net receivable from seller	**8,231,088**
Total consideration	**8,881,088**
Fair value of 49% equity interest at date of acquisition	**1,220,000**
	$10,101,088

The fair value of the net assets acquired are summarized below:

Assets acquired (liabilities assumed):	
Cash	**$ 1,189,089**
Receivables and other current assets	**326,921**
Inventory	**7,096,602**
Property and equipment	**672,112**
Tradename	**278,300**
Goodwill	**662,115**
Accounts payable and accrued expenses	**(57,562)**
Deferred tax liability	**(66,489)**
Net assets acquired	**$10,101,088**

The fair value of the tradename acquired was determined using the income approach relief-from-royalty method. The excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The accounting for this business combination has been completed. The Company expects goodwill to be deductible for income tax purposes.

The Company recognized a loss of $92,550 from its equity method investment in LaBelle for the period from April 1, 2019 through September 30, 2019. The Company recognized a loss of $3,165 from its equity method investment in LaBelle for the year ended March 31, 2019. The financial statements of LaBelle for the year ended March 31, 2019 were audited by other auditors whose report dated April 12, 2019, expressed an unmodified opinion on those financial statements.

Condensed financial information of LaBelle as of and for the year ended March 31, 2019 is as follows:

March 31,	2019
Assets	$ 2,874,629
Liabilities	1,951,864
Members' equity	929,765
Net income (loss)	(6,459)

8. Related Party Transactions

Related Party Receivables

Related party receivables consist of various advances due from the Company's Parent or entities related through common ownership with its Parent.

The balance of $781,077 at March 31, 2019 includes amounts due from LaBelle for inventory purchases.

Related party receivables do not have defined payment terms and are classified as current assets on the accompanying consolidated balance sheets.

Related Party Payables

Related party payables consist of various advances owed to its Parent or entities related through common ownership.

The balance of $1,487,302 at March 31, 2020 includes advances and other trade accounts payable to the Company's Parent of approximately $236,000 and amounts owed to Alimtec S.A., an entity under common ownership with the Parent for inventory purchases, of approximately $1,251,000.

The balance of $1,069,987 at March 31, 2019 includes advances and other trade accounts payable to the Company's Parent of $103,000, amounts owed to Alimtec S.A., an entity under common ownership with the Parent, for inventory purchases of approximately $965,000 and approximately $2,000 owed to employees.

No defined repayment terms exist on related party payables as they are considered normal trade liabilities of the Company for normal operational purposes and are classified as current liabilities on the accompanying consolidated balance sheets.

Consignment Agent Agreement

The Company entered into a Consignment Agent Agreement ("Agreement") with its Parent. Under the Agreement, the Company will act as the sales and distribution agent for sales of the Parent's Spirulina products within the United States of America and Canada. The effective date of the Agreement is October 1, 2009 and shall continue to be in full effect through September 30, 2020, unless otherwise terminated per terms of the Agreement.

The Company is reimbursed for certain clearing, warehousing and insurance costs associated with services performed under the Agreement. In addition, the Company is paid a 12% commission, on a monthly basis, on all net sales collected under the Agreement. The Company received approximately $332,000 and $352,000 in commission revenue under the Agreement for the years ended March 31, 2020 and 2019, respectively, which is recorded as other revenues in the accompanying consolidated statements of operations.

Other Related Party Transactions

For the year ended March 31, 2020, the Company purchased product from the Company's Parent, LaBelle prior to the acquisition of the 51% interest, and Alimtec S.A. of approximately $2,875,000, $1,532,005, and $2,188,000, respectively. Approximately 21% and 16%, respectively, of the Company's purchases for each of the year ended March 31, 2020 were from the Parent and Alimtec S.A.

For the year ended March 31, 2019, the Company purchased product from the Company's Parent, LaBelle, and Alimtec S.A. of approximately $519,194, $6,804,000 and $2,287,000, respectively. Approximately 14% and 10%, respectively, of the Company's purchases for each of the year ended March 31, 2019 were from the Parent and Alimtec S.A.

9. Line of Credit

In September 2017, the Company obtained a revolving line of credit with a bank for maximum borrowings of $4,000,000. In August 2019, the line of credit was renewed in connection with the acquisition of LaBelle and was increased to maximum borrowing of $10,000,000 and matures in July 2021. The line bears interest at the bank's prime rate less 1.18% (2.07% at March 31, 2020). Prior to the renewal of the line of credit, interest was at the bank's prime rate less 1.00% (4.50% at March 31, 2019). The loan is secured by substantially all the assets of the Company and three stand by letter of credits totaling $10,000,000 issued by State Bank of India for $6,000,000, $2,000,000 and $2,000,000, all of which mature on September 15, 2021. Amounts outstanding under the line of credit cannot exceed the aggregate value of the letters of credit. At March 31, 2020 and 2019, the Company had $6,140,000 and $2,750,000, respectively, outstanding on the line of credit.

The renewed line of credit requires compliance with certain financial covenants. The Company was out of compliance with the tangible net worth requirement as of March 31, 2020 and obtained a waiver from the bank.

10. Concentrations and Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist of cash and cash equivalents placed with federally insured financial institutions. Such accounts may at times exceed federally insured limits. Management believes the associated risk is minimized by placing such assets with quality financial institutions. The Company has not experienced any losses on such accounts.

The Company had one customer that accounted for approximately 26% and 20% of total revenues for the years ended March 31, 2020 and 2019, respectively. The Company had three customers that accounted for 28%, 14% and 12% of accounts receivable at March 31, 2020. The Company had four customers that accounted for 20%, 19%, 11%, and 10% of accounts receivable at March 31, 2019.

11. License Agreements

The Company has certain royalty commitments associated with the licensing of certain products. Royalty expense is generally based on a percentage of the underlying revenue. Royalty expense was approximately $10,000 and $68,000 for the years ended March 31, 2020 and 2019, respectively, and is included in royalties and external commissions' expense on the consolidated statements of operations.

12. Retirement Plans

Effective March 1, 2004, the Company adopted the U.S. Nutraceuticals Savings Plan ("Plan"). This Plan is a defined contribution plan, which includes a salary reduction feature. Employees are eligible to participate in the Plan based upon specific eligibility conditions set forth in the Plan document. The Company contributed matching funds equal to 100% of salary reduction contributions up to 3% of compensation, and 50% of salary reduction contributions for amounts greater than 3% of compensation for the employees electing to participate in the salary reduction program, up to a maximum of 5% of an employee's compensation. Matching contributions vest 100% immediately. For the years ended March 31, 2020 and 2019, the Company made approximately $80,000 and $64,000, respectively, in employer matching contributions which are included in employee benefits on the accompanying consolidated statements of operations.

13. Contingencies

The Company from time to time is involved in various legal actions arising in the normal course of business. Management, after reviewing with legal counsel all of these actions and proceedings, believes that the aggregate losses, if any, will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

14. Income Taxes

Income tax benefit consists of the following:

For the Year Ended March 31,	**2020**	2019
Deferred:		
Federal	**$ 143,642**	$ 656,390
State	**27,061**	123,464
Total income tax benefit	**$ 170,703**	$ 779,854

Deferred income taxes arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred tax assets are recorded to reflect deductible temporary differences and operating loss carry forwards while deferred tax liabilities are recorded to reflect taxable temporary differences.

Deferred tax asset consists of the following:

March 31,	**2020**	2019
Property and equipment	**$ 205,756**	$ 187,467
Intangible assets	**20,814**	28,319
Accounts receivable reserve	**942**	942
Inventory	**34,785**	12,015
Accrued salaries and wages	**217,948**	200,276
Accrued expenses	**91,773**	120,596
Patent pending reserve	**33,538**	—
Loss on LaBelle	**44,793**	—
UNICAP	**17,212**	—
Operating loss carryforward	**216,692**	230,239
	$ 884,253	$ 779,854

At March 31, 2020, the Company has a federal net operating loss carryforward of approximately $869,000 to be used against future taxable income indefinitely and a state net operating loss carryforward of approximately $461,000 which can be carried forward indefinitely.

15. Subsequent Events

The Company has evaluated events and transactions occurring subsequent to March 31, 2020 as of June 3, 2020, which is the date the consolidated financial statements were available to be issued. Subsequent events occurring after June 3, 2020 have not been evaluated by management. No material events have occurred since March 31, 2020 that require recognition or disclosure in the consolidated financial statements.