

Financial Statements

Sun Pharma Canada Inc.
(Formerly Ranbaxy Pharmaceuticals Canada Inc.)

March 31, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Sun Pharma Canada Inc.

Opinion

We have audited the financial statements of Sun Pharma Canada Inc. (the "Company"), which comprise the balance sheet as at March 31, 2020, and the statements of loss and retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2020, and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:



Independent Auditor's Report to the Shareholder of Sun Pharma Canada Inc. (continued)

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

SRCO Professional Corporation

Richmond Hill, Ontario
April 27, 2020

CHARTERED PROFESSIONAL ACCOUNTANTS
Authorized to practice public accounting by the
Chartered Professional Accountants of Ontario

SUN PHARMA CANADA INC.
(FORMERLY RANBAXY PHARMACEUTICALS CANADA INC.)

BALANCE SHEET

As at March 31, 2020

	2020	2019
	\$	\$
ASSETS		
CURRENT		
Cash	7,141,745	12,633,389
Accounts receivable - trade, <i>no allowance (Notes 6&8)</i>	6,409,061	2,734,015
Due from related company (<i>Note 6</i>)	1,360,990	—
Inventories (<i>Note 3</i>)	3,896,757	4,201,890
Government remittances receivable	61,505	101,529
	18,870,058	19,670,823
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT		
Accounts payable and accrued liabilities (<i>Note 6</i>)	14,940,407	14,775,629
Shareholder's Equity		
Share capital (<i>Note 4</i>)	2,250,100	2,250,100
Retained earnings	1,679,551	2,645,094
	3,929,651	4,895,194
	18,870,058	19,670,823

Contingencies (*Note 9*)

See accompanying notes

On behalf of the Board:

_____ Director

SUN PHARMA CANADA INC.
(FORMERLY RANBAXY PHARMACEUTICALS CANADA INC.)

**STATEMENT OF LOSS AND
RETAINED EARNINGS**

For the year ended March 31, 2020

	2020	2019
	\$	\$
REVENUE		
Product sales <i>(Note 6)</i>	24,801,618	40,766,945
Cost of sales <i>(Note 6)</i>	20,005,159	35,017,061
GROSS PROFIT	4,796,459	5,749,884
EXPENSES		
Selling, general and administrative <i>(Notes 5 and 6)</i>	5,952,987	6,416,340
Interest and bank charges	14,742	10,992
Interest income	(128,670)	(113,440)
Foreign exchange (gain) loss	(77,057)	63,241
Amortization	—	3,882
	5,762,002	6,381,015
LOSS BEFORE INCOME TAXES	(965,543)	(631,131)
INCOME TAXES		
Current <i>(Note 7)</i>	—	—
Future <i>(Note 7)</i>	—	—
	—	—
NET LOSS	(965,543)	(631,131)
RETAINED EARNINGS - BEGINNING OF YEAR	2,645,094	3,276,225
RETAINED EARNINGS - END OF YEAR	1,679,551	2,645,094

See accompanying notes

SUN PHARMA CANADA INC.
(FORMERLY RANBAXY PHARMACEUTICALS CANADA INC.)

STATEMENT OF CASH FLOWS

For the year ended March 31, 2020

	2020	2019
	\$	\$
OPERATING ACTIVITIES		
Net loss	(965,543)	(631,131)
Items not affecting cash:		
Amortization	—	3,882
	(965,543)	(627,249)
Changes in non-cash working capital balances related to operations:		
Accounts receivable	(3,675,046)	1,650,123
Government remittances receivable	40,024	111,843
Inventories	305,133	3,760,097
Prepaid expenses and deposits	—	63,796
Accounts payable and accrued liabilities	164,778	2,862,444
Cash flow (used in) provided by operating activities	(4,130,654)	7,821,054
INVESTING ACTIVITIES		
Due from related company	(1,360,990)	—
Cash flow used in investing activities	(1,360,990)	—
(DECREASE) INCREASE IN CASH	(5,491,644)	7,821,054
CASH - BEGINNING OF YEAR	12,633,389	4,812,335
CASH - END OF YEAR	7,141,745	12,633,389

See accompanying notes

SUN PHARMA CANADA INC.
(FORMERLY RANBAXY PHARMACEUTICALS CANADA INC.)

NOTES TO FINANCIAL STATEMENTS

March 31, 2020

1. DESCRIPTION OF BUSINESS

Ranbaxy Pharmaceuticals Canada Inc. was incorporated under the laws of the Province of Ontario on December 12, 2002. On September 14, 2018, Ranbaxy Pharmaceuticals Canada Inc. changed its name to Sun Pharma Canada Inc. (the “Company”). Its ultimate parent company is Sun Pharmaceutical Industries (the “Parent”). The Company's main activity is marketing and distribution of pharmaceutical products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian accounting standards for private enterprises and include the following significant accounting policies:

Cash

Cash includes cash on hand and balances held in a financial institution.

Revenue recognition

Revenue from the product sales is recognized when significant risk and rewards in respect to ownership of the products have been passed to the customer, and when the following criteria have been met:

- persuasive evidence of an arrangement exists;
- there are no significant obligations remaining;
- the price is fixed and determinable; and
- collectability is reasonably assured

Revenue from product sales is recognized net of provisions for estimated discounts, returns, rebates and chargebacks offered to wholesale customers.

Inventories

Inventories, comprising of finished goods, are measured at the lower of cost and net realizable value. Cost is determined on a moving average basis. The cost of inventories includes freight and any other directly attributable costs. Net realizable value is determined on a basis of estimated selling prices, less costs necessary to make the sale. When circumstances which previously caused inventories to be written down below cost no longer exist, the previous impairment is reversed.

SUN PHARMA CANADA INC.
(FORMERLY RANBAXY PHARMACEUTICALS CANADA INC.)

NOTES TO FINANCIAL STATEMENTS

March 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at cost less accumulated amortization. Property and equipment are amortized over their estimated useful lives at the following rate and method:

Office equipment	3-10 years	Straight-line
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Impairment of long-lived assets

Long-lived assets consist of property and equipment. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount of an asset, or group of assets, may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted future cash flows from its use and disposal. If the carrying amount is not recoverable, impairment is then measured as the amount by which the asset's carrying amount exceeds its fair value. Fair value is measured using prices for similar items. Any impairment is included in net loss for the year.

Income taxes

The Company accounts for income taxes using the future income taxes method. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

SUN PHARMA CANADA INC.
(FORMERLY RANBAXY PHARMACEUTICALS CANADA INC.)

NOTES TO FINANCIAL STATEMENTS

March 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

These financial statements have been presented in Canadian dollars, the Company's functional currency.

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities, which are denominated in foreign currencies, reflect the exchange rates at the balance sheet date. Gains and losses resulting from currency translation are included in the statement of loss.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises 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 year.

These estimates and assumptions are reviewed periodically, which include allowance for doubtful accounts, provisions for inventory obsolescence, valuation allowance for future tax benefits, impairment of financial assets, and accruals, and as adjustments become necessary, they are reported in net loss in the year in which they become known. Actual results may vary from the current estimates.

Financial instruments

The Company initially measures all its financial assets and liabilities at fair value, except for certain related party transactions that are measured at the carrying amount or exchange amount, as appropriate.

The Company subsequently measures all its financial assets and financial liabilities at cost or amortized cost.

Financial assets measured at cost or amortized cost includes cash, accounts receivable and due from related company.

Financial liabilities measured at cost or amortized cost includes accounts payable and accrued liabilities.

SUN PHARMA CANADA INC.
(FORMERLY RANBAXY PHARMACEUTICALS CANADA INC.)

NOTES TO FINANCIAL STATEMENTS

March 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial instruments

Financial assets measured at cost or amortized cost are tested for impairment when there are indicators of impairment. The amount of write-down is recognized in net loss. A previously recognized impairment loss may be reversed to the extent of improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net loss.

3. INVENTORIES

	2020	2019
	\$	\$
Finished goods	6,467,544	8,543,722
Inventory obsolescence	(2,570,787)	(4,341,832)
	3,896,757	4,201,890

The cost of inventories recognized as an expense and included in the cost of sales was \$20,005,159 (2019 - \$35,017,061).

4. SHARE CAPITAL

Share capital consists of the following:

	2020	2019
	\$	\$
Authorized:		
Unlimited Common shares		
Issued:		
2,250,100 Common shares	2,250,100	2,250,100

SUN PHARMA CANADA INC.
(FORMERLY RANBAXY PHARMACEUTICALS CANADA INC.)

NOTES TO FINANCIAL STATEMENTS

March 31, 2020

5. EMPLOYEE FUTURE BENEFITS

The Company participates in a registered savings plan covering substantially all eligible employees. The plan allows for employees to contribute up to 18% of their annual earnings to the plan subject to the statutory limits imposed by the tax authorities. The Company makes optional contributions of up to 3% of the annual earnings of the employees. The employees are fully vested immediately with their share of the Company's contributions.

Contributions expensed by the Company during the year were \$27,669 (2019 - \$31,679) and are included in selling, general and administrative expenses.

6. RELATED PARTY BALANCES AND TRANSACTIONS

The following is a summary of the Company's related party balances and transactions. They are considered to be related party transactions since the Parent has the ability to exercise significant influence through its ownership of shares and presence on the board of directors.

Included in accounts receivable is \$78,200 (2019 - \$nil) owing from the Parent Company and \$4,637,744 (2019 - \$3,224,979) owing from subsidiaries of the Parent.

Included in accounts payable is \$5,155,141 (2019 - \$9,530,158) owed to the Parent and \$8,458,013 (2019 - \$3,098,713) owed to a subsidiary of the Parent, respectively.

Included in cost of sales for the year are \$14,137,009 (2019 - \$20,128,713) of purchases from the Parent and \$155,802 (2019 - \$801,583) of purchases from a subsidiary of the Parent.

Included in sales for the year are \$19,746,379 (2019 - \$28,389,494) in sales to a subsidiary of the Parent.

Included in selling, general and administrative expenses for the current year are \$3,019,684 (2019 - \$1,139,779) in operational costs paid or payable to another subsidiary of the Parent.

These transactions were in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The amounts due from related company, as at March 31, 2020 is \$1,360,990 (2018 - \$nil) for reimbursement of expenses. This amount is unsecured and non-interest bearing with no specific terms of repayment.

SUN PHARMA CANADA INC.
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NOTES TO FINANCIAL STATEMENTS

March 31, 2020

7. INCOME TAXES

Future income taxes represent the future income tax benefits of temporary differences between tax and accounting bases of assets and liabilities consisting of:

	2020	2019
	\$	\$
Future income taxes - current		
Provisions	—	383,289
Future income taxes - non-current		
Excess of carrying value over tax basis of property and equipment	9,169	11,756
Non-capital losses carried forward	2,317,101	2,057,740
	2,326,270	2,069,496
Future income tax benefits	2,326,270	2,452,785
Valuation allowance	(2,326,270)	(2,452,785)
	—	—

The effective income tax rate as a percentage of taxable income before income taxes is 26.5% (2019 - 26.5%).

The Company has approximately \$8,743,781 (2019 - \$7,778,328) operating losses available to be carried forward to future years. The benefits of these losses will be recognized in the period in which realized due to uncertainty as to their realization. Accordingly, the Company has taken a full valuation allowance and has not recorded future tax asset as at March 31, 2020.

8. ECONOMIC DEPENDENCE

At March 31, 2020, two customers (2019 - two) accounted for approximately 83% (2019 - 82%) of accounts receivable and two customers (2019 - two) accounted for approximately 87% (2019 - 69%) of gross sales during the year then ended. One of the customers were a related party and resulted in 77% (2019 - 57%) of total sales. The other customer is a warehouse distributor who sells to the ultimate customers. Inventory purchases from related parties accounted for 71% (2019 - 61%) of the purchases for the year ended March 31, 2020. Approximately 92% (2019 - 91%) of accounts payable at year end are owing to the Parent company and their commonly controlled subsidiaries. The Company's operations extensively depend on purchases and sales from various related parties.

SUN PHARMA CANADA INC.
(FORMERLY RANBAXY PHARMACEUTICALS CANADA INC.)

NOTES TO FINANCIAL STATEMENTS

March 31, 2020

9. CONTINGENCIES

The Company, along with other related parties, has been named as defendant in separate product-related class action lawsuits. These lawsuits remain at an early stage, and as litigation is subject to many uncertainties, it is not possible to predict the ultimate outcome of these lawsuits or to estimate the amount of loss, if any. Therefore, no provision has been recognized in the financial statements.

10. FINANCIAL INSTRUMENTS

The Company is exposed to various risks through its financial instruments. The following analysis provides a measure of the Company's risk exposure and concentrations at the balance sheet date, March 31, 2020.

Credit risk

Credit risk is the risk that a counter party will fail to perform its obligations. The Company's main credit risks relate to its accounts receivable and cash balances. The Company provides credit to its clients in the normal course of its operations. Credit risk is minimized by customers limited to being large and reputed wholesalers and related parties. The details of related party balances are disclosed in Notes 6 and 8. The Company believes that there is no unusual exposure associated with the collection of these receivables. The Company performs regular credit assessments of its customers and limits credit extended when deemed necessary. The Company manages the credit risk from its cash balances by maintaining its accounts with credit worthy and highly reputable financial institutions.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company enters into purchase transactions denominated in Indian Rupees (INR) and United States Dollars (USD) currencies for which the related expense and accounts payable balances are subject to exchange rate fluctuations. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

SUN PHARMA CANADA INC.
(FORMERLY RANBAXY PHARMACEUTICALS CANADA INC.)

NOTES TO FINANCIAL STATEMENTS

March 31, 2020

10. FINANCIAL INSTRUMENTS (continued)

Currency risk (continued)

Cash and accounts payable held in United States dollars as at year ended are as follows:

	2020	2019
	\$	\$
Cash	1,437,956	704,666
Accounts Payable	687	—

Related expenses held in United States dollars as at the year ended are as follows:

	2020	2019
	\$	\$
Purchases	240,708	801,583

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to this risk mainly in respect of its accounts payable. The Company manages liquidity risk by maintaining sufficient cash on hand to settle obligations as they arise. Further, the parent continues to provide support to the Company, as and when required.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is not exposed to any significant interest rate risk.

11. SUBSEQUENT EVENTS

Due to the disruption of the COVID-19 crisis, the Company's business activities might be subject to certain level of impact. To the date of the issuance of these financial statements, the Company is still assessing the impact on its business, results of operations, financial position and cash flows, which will be accounted for when the reliable estimates will become available.