

Financial Statements

Ranbaxy Pharmaceuticals Canada Inc.

March 31, 2018



Ranbaxy Pharmaceuticals Canada Inc.

March 31, 2018

Table of contents

Independent Auditors' Report.....	1
Balance Sheet.....	2
Statement of Loss and Retained Earnings.....	3
Statement of Cash Flows.....	4
Notes to Financial Statements.....	5 - 13





SRCO Professional Corporation
Chartered Professional Accountants
Licensed Public Accountants
Park Place Corporate Centre
15 Wertheim Court, Suite 409
Richmond Hill, ON L4B 3H7
Tel: 905 882 9500 & 416 671 7292
Fax: 905 882 9580
Email: info@srco.ca
www.srco.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Ranbaxy Pharmaceuticals Canada Inc.

We have audited the accompanying financial statements of **Ranbaxy Pharmaceuticals Canada Inc.** (the "Company"), which comprise the balance sheet as at March 31, 2018, and the statements of loss and retained earnings, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 present fairly, in all material respects, the financial position of Ranbaxy Pharmaceuticals Canada Inc. as at March 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

SRCO PROFESSIONAL CORPORATION

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

Richmond Hill, Ontario
April 26, 2018

RANBAXY PHARMACEUTICALS CANADA INC.

BALANCE SHEET

As at March 31,

	2018	2017
	\$	\$
ASSETS		
CURRENT		
Cash	4,812,335	3,264,261
Accounts receivable - trade, <i>no allowance (Note 7)</i>	4,384,138	4,543,937
Inventories <i>(Note 3)</i>	7,961,987	10,788,948
Prepaid expenses and deposits	63,796	377,797
Government remittances receivable	213,372	566,029
	17,435,628	19,540,972
PROPERTY AND EQUIPMENT <i>(Note 4)</i>	3,882	17,668
	17,439,510	19,558,640
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT		
Accounts payable and accrued liabilities <i>(Note 7)</i>	11,913,185	12,708,734
Shareholder's Equity		
Share capital <i>(Note 5)</i>	2,250,100	2,250,100
Retained earnings	3,276,225	4,599,806
	5,526,325	6,849,906
	17,439,510	19,558,640

Contingencies *(Note 10)*

See accompanying notes

On behalf of the Board:

Director

RANBAXY PHARMACEUTICALS CANADA INC.

**STATEMENT OF LOSS AND
RETAINED EARNINGS**

Year ended March 31,

	2018	2017
	\$	\$
REVENUE		
Product sales	23,462,863	38,244,043
Cost of sales	17,027,593	29,950,152
GROSS PROFIT	6,435,270	8,293,891
EXPENSES		
Selling, general and administrative (<i>Notes 6 and 7</i>)	7,870,449	9,429,656
Interest and bank charges	5,821	16,409
Interest income	(85,692)	(48,271)
Foreign exchange loss	(45,513)	126,156
Amortization	13,786	23,516
	7,758,851	9,547,466
LOSS BEFORE INCOME TAXES	(1,323,581)	(1,253,575)
INCOME TAXES		
Current (<i>Note 8</i>)	—	—
Future (<i>Note 8</i>)	—	—
	—	—
NET LOSS	(1,323,581)	(1,253,575)
RETAINED EARNINGS - BEGINNING OF YEAR	4,599,806	5,853,381
RETAINED EARNINGS - END OF YEAR	3,276,225	4,599,806

See accompanying notes

RANBAXY PHARMACEUTICALS CANADA INC.

STATEMENT OF CASH FLOWS

Year ended March 31,

	2018	2017
	\$	\$
OPERATING ACTIVITIES		
Net loss	(1,323,581)	(1,253,575)
Items not affecting cash:		
Amortization	13,786	23,516
	(1,309,795)	(1,230,059)
Changes in non-cash working capital balances related to operations:		
Accounts receivable	159,799	3,660,643
Government remittances receivable	352,657	(74,788)
Inventories	2,826,961	2,784,361
Prepaid expenses and deposits	314,001	(222,358)
Accounts payable and accrued liabilities	(795,549)	(7,681,175)
Cash flow provided by (used in) operating activities	1,548,074	(2,763,376)
INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment	—	5,549
Cash flow provided by investing activities	—	5,549
INCREASE (DECREASE) IN CASH	1,548,074	(2,757,827)
CASH - BEGINNING OF YEAR	3,264,261	6,022,088
CASH - END OF YEAR	4,812,335	3,264,261

See accompanying notes

RANBAXY PHARMACEUTICALS CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

1. DESCRIPTION OF BUSINESS

Ranbaxy Pharmaceuticals Canada Inc. (the "Company") was incorporated under the laws of the Province of Ontario on December 12, 2002. 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.

RANBAXY PHARMACEUTICALS CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

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
------------------	------------	---------------

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.

RANBAXY PHARMACEUTICALS CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

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 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 estimated useful lives of property and equipment, allowance for doubtful accounts, provisions for inventory obsolescence, valuation allowance for future tax benefits 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 and accounts receivable.

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

RANBAXY PHARMACEUTICALS CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

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

	2018	2017
	\$	\$
Finished goods	11,123,346	19,118,325
Inventory obsolescence	(3,161,359)	(8,329,377)
	7,961,987	10,788,948

The cost of inventories recognized as an expense and included in the cost of sales was \$17,027,593 (2017 - \$29,950,152).

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
	\$	\$	\$	\$
Office equipment	481,585	(477,703)	3,882	17,668

RANBAXY PHARMACEUTICALS CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

5. SHARE CAPITAL

Share capital consists of the following:

	2018	2017
	\$	\$
Authorized:		
Unlimited Common shares		
Issued:		
2,250,100 Common shares	2,250,100	2,250,100

6. 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. After two years of service, the employees are fully vested with their share of the Company's contributions.

Contributions expensed by the Company during the year were \$32,661 (2017 - \$27,865) and are included in selling, general and administrative expenses.

7. 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 \$56,236 (2017 - \$ nil) owing from the Parent Company and \$544,546 (2017 - \$ nil) owing from a subsidiary of the Parent.

Included in accounts payable is \$1,709,554 (2017 - \$1,879,853) owed to the Parent and \$2,634,435 (2017 - \$1,983,637) owed to subsidiaries of the Parent, respectively.

Included in cost of sales for the year are \$8,795,376 (2017 - \$15,550,316) of purchases from the Parent and \$580,250 (2017 - \$1,482,553) of purchases from a subsidiary of the Parent.

RANBAXY PHARMACEUTICALS CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

7. RELATED PARTY TRANSACTIONS (continued)

Included in sales for the year are \$1,301,684 (2017 - \$ nil) in sample sales to a subsidiary of the Parent.

Included in selling, general and administrative expenses for the year are \$15,016 (2017 - \$753,321) in management and service fees paid to a subsidiary of the Parent.

Included in selling, general and administrative expenses for the current year are \$3,575,957 (2017 - \$3,019,647) 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 balances receivable and payable are unsecured, non-interest bearing and have no set term of repayment.

8. 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:

	2018	2017
	\$	\$
Future income taxes - current		
Provisions	732,160	732,160
Future income taxes - non-current		
Excess of carrying value over tax basis of property and equipment	14,244	15,555
Non-capital losses carried forward	1,544,476	1,199,567
	1,558,720	1,215,122
Future income tax benefits	2,290,880	1,947,282
Valuation allowance	(2,290,880)	(1,947,282)
	—	—

The effective income tax rate as a percentage of taxable income before income taxes is 26.5% (2017 - 26.5%).

RANBAXY PHARMACEUTICALS CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

8. INCOME TAXES (continued)

The Company has approximately \$5,828,211 (2017 - \$4,526,669) 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, 2018.

9. ECONOMIC DEPENDENCE

At March 31, 2018, three customers (2017 - three) account for approximately 76% (2017 - 89%) of accounts receivable and four customers (2017 - three) account for approximately 73% (2017 - 64%) of gross sales during the year then ended. Two of these companies are warehouse distributors who sell to the ultimate customers.

Inventory purchases from related parties accounted for 55% (2017 - 52%) of the purchases for the year ended March 31, 2018. Approximately 36% (2017 - 15%) of accounts payable at year end are owing to the Parent company and their commonly controlled subsidiaries. The Company's operations depend on purchases from various related parties.

10. CONTINGENCIES

The Company, along with other related parties, has been named as defendant in two 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.

11. 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, 2018:

RANBAXY PHARMACEUTICALS CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

11. FINANCIAL INSTRUMENTS (continued)

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. During the year ended March 31, 2018, four customers (2017 - three) accounted for 73% (2017 - 64%) of revenues from operations and three customers (2017 - three) accounted for 76% (2017 - 89%) of the accounts receivable as at that date. Credit risk is minimized by having large and stable customers. 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.

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

	2018	2017
	\$	\$
Cash	1,298,036	643,264
Accounts payable	1,780,397	1,308,358

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

	2018	2017
	\$	\$
Purchases	580,250	1,482,556
Management fees	15,016	753,532

RANBAXY PHARMACEUTICALS CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

11. FINANCIAL INSTRUMENTS (continued)

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 continue 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.