

Financial Statements

Ranbaxy Pharmaceuticals Canada Inc.

March 31, 2016



Ranbaxy Pharmaceuticals Canada Inc.

March 31, 2016

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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 AUDITOR'S 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, 2016, and the statements of income (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.

Auditor's 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 auditor's 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, 2016, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

The financial statements of Ranbaxy Pharmaceuticals Canada Inc. for the year ended March 31, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on April 15, 2015.

Richmond Hill, Ontario

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





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Chartered Professional Accountants
Licensed Public Accountants

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15 Wertheim Court, Suite 409
Richmond Hill, ON L4B 3H7

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April 15, 2016

Ranbaxy Pharmaceuticals Canada Inc.

BALANCE SHEET

As at March 31, 2016

	2016	2015
	\$	\$
ASSETS		
Current		
Cash	6,022,088	1,505,375
Short term investments (Note 3)	—	25,000
Accounts receivable - trade, net of allowance of \$2,851,948 (2015: \$1,936,193) (Note 8)	8,204,580	8,653,557
Inventories (Note 4)	13,573,309	19,559,304
Prepaid expenses and deposits	155,439	203,639
Government remittances receivable	491,241	600,122
Income taxes recoverable	—	540,000
	28,446,657	31,086,997
Property and equipment (Note 5)	46,733	102,887
	28,493,390	31,189,884
LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 8)	20,389,909	24,676,019
SHAREHOLDER'S EQUITY		
Share capital (Note 6)	2,250,100	2,250,100
Retained earnings	5,853,381	4,263,765
	8,103,481	6,513,865
	28,493,390	31,189,884

Contingencies (Note 11)

See accompanying notes

On behalf of the Board:

Director

Director

Ranbaxy Pharmaceuticals Canada Inc.

STATEMENT OF INCOME (LOSS) AND RETAINED EARNINGS

Year ended March 31, 2016

	2016	2015
	\$	\$
Revenue		
Sales	149,909,245	157,028,900
Customer rebates	(102,012,830)	(108,952,057)
Net sales	47,896,415	48,076,843
Cost of sales	33,521,428	39,321,130
Gross profit	14,374,987	8,755,713
Expenses		
Selling, general and administrative (<i>Note 8</i>)	12,500,869	13,739,296
Interest and bank charges	15,867	17,229
Interest income	(57,001)	(91,559)
Foreign exchange loss	269,482	784,311
Amortization	56,154	61,438
	12,785,371	14,510,715
Income (loss) before income tax	1,589,616	(5,755,002)
Recovery of income taxes		
Current (<i>Note 9</i>)	—	—
Future (<i>Note 9</i>)	—	530,058
	—	530,058
Net income (loss)	1,589,616	(6,285,060)
Retained earnings, beginning of year	4,263,765	10,548,825
Retained earnings, end of year	5,853,381	4,263,765

See accompanying notes

Ranbaxy Pharmaceuticals Canada Inc.

STATEMENT OF CASH FLOWS

Year ended March 31, 2016

	2016	2015
	\$	\$
OPERATING ACTIVITIES		
Net income (loss)	1,589,616	(6,285,060)
<i>Add (deduct) items not involving cash</i>		
Amortization	56,154	61,438
Future income taxes	—	530,058
	<u>1,645,770</u>	<u>(5,693,564)</u>
<i>Net change in non-cash working capital balances related to operations</i>		
Accounts and other receivables	582,858	625,850
Inventories	5,985,995	560,722
Prepaid expenses and deposits	48,200	291,594
Income taxes recoverable	540,000	2,551,461
Accounts payable and accrued liabilities	(4,286,110)	1,652,805
Net change in non-cash items related to operating activities	<u>4,516,713</u>	<u>(11,132)</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	—	(30,849)
Net cash used in investing activities	<u>—</u>	<u>(30,849)</u>
Net increase/(decrease) in cash during the year	4,516,713	(41,981)
Cash, beginning of year	1,505,375	1,547,356
Cash, end of year	<u>6,022,088</u>	<u>1,505,375</u>

See accompanying notes

Ranbaxy Pharmaceuticals Canada Inc.

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

1. DESCRIPTION OF BUSINESS

Ranbaxy Pharmaceuticals Canada Inc. (the "Company") was incorporated under the laws of the Province of Ontario on December 12, 2002. It is ultimately a wholly owned subsidiary of 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 and short term investments

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

Short term investments consist of investments with a maturity greater than 90 days.

Revenue recognition

Revenue from the sale of products 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

Allowances for sales discounts and estimates for charge-backs are recorded net of revenue as customer rebates.

Ranbaxy Pharmaceuticals Canada Inc.

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Property and equipment

Property and equipment are initially recorded at cost. Amortization is provided using the straight-line method at rates intended to amortize the cost of assets over their estimated useful lives.

	Method	Rate
Furniture and fixtures	straight-line	5-10 years
Office equipment	straight-line	3-10 years

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 income (loss) for the year.

Ranbaxy Pharmaceuticals Canada Inc.

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Foreign currency translation

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

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 on translation or settlement are included in the determination of net income (loss) for the current period.

Measurement uncertainty

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 reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful lives of property and equipment. Accounts payable and accrued liabilities include certain estimates.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in net loss in the year in which they become known. Actual results could differ from these estimates.

Ranbaxy Pharmaceuticals Canada Inc.

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

The Company initially measures all its financial assets and liabilities at fair value.

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, short term investments, and accounts receivable.

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

Impairment of financial instruments

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in net income. The previously recognized impairment loss may be reversed to the extent of the impairment, 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 income.

3. SHORT TERM INVESTMENTS

Short term investments consist of a Guaranteed Investment Certificate (GIC) which was redeemable on May 28, 2017. The Company redeemed the GIC during the year. The GIC carried an interest rate of 2% per annum.

4. INVENTORIES

	2016	2015
	\$	\$
Finished goods	19,288,147	27,899,041
Inventory obsolescence	(5,714,838)	(8,339,737)
	13,573,309	19,559,304

The cost of inventories recognized as an expense and included in the cost of sales was \$33,179,826 (2015 - \$38,454,134).

Ranbaxy Pharmaceuticals Canada Inc.

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
	\$	\$	\$	\$
Furniture and fixtures	310,144	(303,306)	6,838	33,682
Office equipment	517,078	(477,183)	39,895	69,205
	827,222	(780,489)	46,733	102,887

6. SHARE CAPITAL

Share capital consists of the following:

	2016	2015
	\$	\$
Authorized: unlimited common shares		
Issued and outstanding		
2,250,100 Common shares	2,250,100	2,250,100

7. 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 4.5% 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 \$77,734 (2015 - \$122,125).

Ranbaxy Pharmaceuticals Canada Inc.

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

8. RELATED PARTY TRANSACTIONS

Included in accounts receivable for the current year is \$398,406 (2015 - \$0) owing from the Parent Company.

Included in accounts payable for the current year is \$0 (2015 - \$2,295,828) owed to the Parent and \$7,727,007 (2015 - \$4,854,457) owed to a subsidiary of the Parent.

Included in cost of sales for the current year are \$13,065,755 (2015 - \$18,086,028) in purchases from the Parent and \$3,139,720 (2015 - \$3,126,257) from a subsidiary of the Parent.

Included in sales for the current year are \$18,138 (2015 - \$24,991) in sample sales to the Parent.

Included in selling, general and administrative expenses for the current year are \$1,309,276 (2015 - \$1,968,823) in management and service fees paid to a 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.

Ranbaxy Pharmaceuticals Canada Inc.

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

9. INCOME TAXES

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

	March 31, 2016 \$	March 31, 2015 \$
Future income taxes - current		
Reserves on accounts receivable not deductible for income taxes	755,766	513,091
Future income taxes - long term		
Excess of carrying value over tax basis of property and equipment	3,221	10,136
Carried forward losses	2,539,057	1,518,928
	2,542,278	1,529,064
Total	3,298,044	2,042,155
Valuation allowance	(3,298,044)	(2,042,155)
	—	—

The Company has approximately \$11,410,088 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, 2016.

10. ECONOMIC DEPENDENCE

At March 31, 2016, three customers (2015 - three) account for approximately 77% (2015 - 71%) of accounts receivable and three customers (2015 - three) account for approximately 68% (2015 - 70%) of gross sales during the period. Two of these companies are warehouse distributors who sell to the ultimate customers.

Ranbaxy Pharmaceuticals Canada Inc.

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

Inventory purchases from related parties accounted for 48% (2015 - 54%) of the purchases for the 12 month period ended March 31, 2016. Approximately 38% (2015 - 30%) of accounts payable at year end are owing to the parent company and commonly controlled subsidiaries. The Company's operations depend on purchases from the related party group.

11. 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 loss, if any, which may result. In the opinion of management, based on the advice and information provided by its legal counsel, final determination of these litigations will not materially affect the Company's financial position or results of operations.

12. 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, 2016:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The company's main credit risks relate to its accounts receivable and cash balance. The company provides credit to its clients in the normal course of its operations.

As at March 31, 2016, three customers (2015 - three) accounted for 70% (2015 - 70%) of revenues from operations and three customers (2015 - three) accounted for 71% (2015 - 80%) of the accounts receivable. 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.

In order to reduce credit risk from the cash balance, the Company ensures to place funds with a highly reputable financial institution.

Ranbaxy Pharmaceuticals Canada Inc.

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

12. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk

Foreign 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 in equivalent Canadian dollars are as follows:

	2016	2015
	\$	\$
Cash	1,152,467	732,981
Accounts payable	6,483,241	7,141,285

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.

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 exposed to interest rate risk primarily through its floating interest rate overdraft and business line of credit facility that it utilizes.

Your Directors have the pleasure in presenting the Financial Statements for the year ended March 31, 2016.

WORKING RESULTS

Year Ended March.31

	Canadian Dollars	
	2016	2015
	(12 months)	(12 months)
Net Sales	47,896,415	48,076,843
Net Loss before undernoted and income taxes	<u>1,377,135</u>	<u>(5,062,250)</u>
Other income (expenses)		
Foreign exchange (loss)	269,482	(784,311)
Other income	<u>(57,001)</u>	<u>(91,559)</u>
	<u>212,481</u>	<u>(692,752)</u>
Net Loss before income taxes	<u>1,589,616</u>	<u>(5,755,002)</u>
Income taxes		
Current	<u>(0)</u>	<u>(0)</u>
Future	<u>(0)</u>	<u>(530,058)</u>
	<u>(0)</u>	<u>(530,050)</u>
Net Loss for the year	<u>\$ 1,589,616</u>	<u>\$ (6,285,060)</u>
Retained earnings (deficit), beginning of year	\$ 4,263,765	\$ 10,548,825
Net Loss for the year	<u>1,589,616</u>	<u>(6,285,060)</u>
Retained earnings, end of year	<u>\$ 5,853,381</u>	<u>\$ 4,263,765</u>

Dividend

No dividends have been declared for the year.

Changes in Capital Structure

There were no changes to the Company's capital structure in 2016

Acknowledgement

The Directors commend the continued commitment and dedication of employees at all levels. The Directors also wish to acknowledge with thanks all other stakeholders for their valuable sustained support and encouragement and they look forward to receiving similar support and encouragement in the years ahead.

Ajay Vashisht

Director

24th May, 2016