

Financial Statements

Sun Pharma Canada Inc.

March 31, 2021

Sun Pharma Canada Inc.

March 31, 2021

Table of contents

INDEPENDENT AUDITOR'S REPORT.....	1-2
FINANCIAL STATEMENTS	
Balance Sheet.....	3
Statement of Operations and Retained Earnings.....	4
Statement of Cash Flows.....	5
Notes to Financial Statements.....	6 - 13



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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, 2021, and the statements of operations 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, 2021, 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.



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

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:

- 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

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

Richmond Hill, Ontario
April 28, 2021

SUN PHARMA CANADA INC.

BALANCE SHEET

As at March 31, 2021

	2021	2020
	\$	\$
ASSETS		
CURRENT		
Cash	5,581,342	7,141,745
Accounts receivable - trade, <i>no allowance (Notes 6 and 8)</i>	12,644,729	6,409,061
Due from related company (<i>Note 6</i>)	1,320,187	1,360,990
Inventories (<i>Note 3</i>)	6,047,318	3,896,757
Government remittances receivable	173,383	61,505
	25,766,959	18,870,058
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT		
Accounts payable and accrued liabilities (<i>Note 6</i>)	20,167,019	14,940,407
Shareholder's Equity		
Share capital (<i>Note 4</i>)	2,250,100	2,250,100
Retained earnings	3,349,840	1,679,551
	5,599,940	3,929,651
	25,766,959	18,870,058

Contingencies (*Note 9*)

See accompanying notes

On behalf of the Board:

Director

SUN PHARMA CANADA INC.
STATEMENT OF OPERATIONS AND
RETAINED EARNINGS

For the year ended March 31, 2021

	2021	2020
	\$	\$
REVENUE		
Product sales <i>(Note 6)</i>	42,109,128	24,801,618
Cost of sales <i>(Note 6)</i>	34,280,819	20,005,159
GROSS PROFIT	7,828,309	4,796,459
EXPENSES		
Selling, general and administrative <i>(Notes 5, 6 and 10)</i>	5,863,737	5,952,987
Interest and bank charges	19,872	14,742
Interest income	(18,389)	(128,670)
Foreign exchange loss (gain)	292,800	(77,057)
	6,158,020	5,762,002
INCOME (LOSS) BEFORE INCOME TAXES	1,670,289	(965,543)
INCOME TAXES		
Current <i>(Note 7)</i>	—	—
Future <i>(Note 7)</i>	—	—
	—	—
NET INCOME (LOSS)	1,670,289	(965,543)
RETAINED EARNINGS - BEGINNING OF YEAR	1,679,551	2,645,094
RETAINED EARNINGS - END OF YEAR	3,349,840	1,679,551

See accompanying notes

SUN PHARMA CANADA INC.
STATEMENT OF CASH FLOWS

For the year ended March 31, 2021

	2021	2020
	\$	\$
OPERATING ACTIVITIES		
Net income (loss)	1,670,289	(965,543)
Changes in non-cash working capital balances related to operations:		
Accounts receivable	(6,235,668)	(3,675,046)
Government remittances receivable	(111,878)	40,024
Inventories	(2,150,561)	305,133
Accounts payable and accrued liabilities	5,226,612	164,778
Cash flow used in operating activities	(1,601,206)	(4,130,654)
INVESTING ACTIVITIES		
Due from related company	40,803	(1,360,990)
Cash flow provided by (used in) investing activities	40,803	(1,360,990)
DECREASE IN CASH	(1,560,403)	(5,491,644)
CASH - BEGINNING OF YEAR	7,141,745	12,633,389
CASH - END OF YEAR	5,581,342	7,141,745

See accompanying notes

SUN PHARMA CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2021

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 the 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.

NOTES TO FINANCIAL STATEMENTS

March 31, 2021

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 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 operations.

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.

In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, which caused a major health crisis worldwide that affects the global economy and financial markets. Federal, provincial and municipal governments introduced numerous measures to protect the public. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence.

SUN PHARMA CANADA INC.
NOTES TO FINANCIAL STATEMENTS

March 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates (continued)

Given the outcome and time-frame to a recovery from the current pandemic is highly unpredictable, it is not practicable to estimate and disclose its financial effect on future operations at this time.

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.

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 income. 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 income.

Government assistance

Government assistance toward current expenses, including salaries, is recognized as a reduction of the corresponding expenses at the time they are incurred, provided there is reasonable assurance that the Company has complied and will continue to comply with all the conditions of the government assistance.

SUN PHARMA CANADA INC.
NOTES TO FINANCIAL STATEMENTS

March 31, 2021

3. INVENTORIES

	2021	2020
	\$	\$
Finished goods	8,445,337	6,467,544
Inventory obsolescence	(2,398,019)	(2,570,787)
	6,047,318	3,896,757

The cost of inventories recognized as an expense and included in the cost of sales was \$34,280,819 (2020 - \$20,005,159). The change in inventory obsolescence primarily represents reduction in provision during the year.

4. SHARE CAPITAL

Share capital consists of the following:

	2021	2020
	\$	\$
Authorized:		
Unlimited Common shares		
Issued:		
2,250,100 Common shares	2,250,100	2,250,100

SUN PHARMA CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2021

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 \$15,121 (2020 - \$27,669) 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. A party is considered to be related if 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 \$nil (2020- \$78,200) owing from the Parent and \$10,433,164 (2020 - \$4,637,744) owing from a subsidiary of the Parent.

Included in accounts payable is \$13,671,781 (2020 -\$5,155,141) owed to the Parent and \$5,066,360 (2020 - \$8,458,013) owed to subsidiaries of the Parent.

Included in cost of sales for the year are \$30,453,751 (2020 - \$14,137,009) of purchases from the Parent and \$727,982 (2020 - \$155,802) of purchases from subsidiaries of the Parent.

Included in sales for the year are \$36,113,126 (2020 - \$19,746,379) in sales to a subsidiary of the Parent.

Included in selling, general and administrative expenses for the current year are \$3,133,025 (2020 - \$3,019,684) 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, 2021 of \$1,320,187 (2020 - \$1,360,990) is for reimbursement of expenses and are held in United States dollars. This amount is unsecured and non-interest bearing with no specific terms of repayment.

SUN PHARMA CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2021

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:

	2021	2020
	\$	\$
Future income taxes - current		
Provisions	—	—
Future income taxes - non-current		
Excess of tax basis over carrying value of property and equipment	7,214	9,169
Non-capital losses carried forward	2,252,306	2,698,166
	2,259,520	2,707,335
Future income tax benefits	2,259,520	2,707,335
Valuation allowance	(2,259,520)	(2,707,335)
	—	—

The effective income tax rate as a percentage of taxable income before income taxes is 26.5% (2020 - 26.5%).

The Company has approximately \$8,499,268 (2020 - \$10,181,760) 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, 2021.

8. ECONOMIC DEPENDENCE

At March 31, 2021, two customers (2020 - two) accounted for approximately 92% (2020 - 83%) of accounts receivable and two customers (2020 - two) accounted for approximately 93% (2020 - 87%) of gross sales during the year then ended. One of the customers were a related party and represented 85% (2020 - 77%) of total sales. The other customer is a warehouse distributor who sells to the ultimate customers.

Inventory purchases from related parties accounted for 90% (2020 - 71%) of the purchases for the year ended March 31, 2021. Approximately 93% (2020 - 92%) 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.

NOTES TO FINANCIAL STATEMENTS

March 31, 2021

9. CONTINGENCIES

The Company, along with other related parties, was named as a 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. CANADA EMERGENCY WAGE SUBSIDY

During the year ended March 31, 2021, the Government of Canada announced the Canada Emergency Wage Subsidy (“CEWS”) for Canadian employers whose businesses were affected by the COVID-19 pandemic. The CEWS provides a subsidy towards eligible employees’ remuneration, subject to certain criteria. The Company received a subsidy during the year ended March 31, 2021 and \$417,326 as wage subsidy was recognized in the statement of operations as a reduction of the salaries and benefits expenses at the time they were incurred.

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, 2021.

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 United States Dollars (USD) for which the related expense and accounts payable balances are subject to exchange rate fluctuations.

SUN PHARMA CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2021

11. FINANCIAL INSTRUMENTS (continued)

Currency risk (continued)

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 ended are as follows:

	2021	2020
	\$	\$
Cash	950,177	1,437,956
Accounts Payable	225,702	687

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

	2021	2020
	\$	\$
Purchases	328,737	240,708

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.