

Financial Statements

Sun Pharma Canada Inc.

March 31, 2024



Sun Pharma Canada Inc.

March 31, 2024

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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, 2024, 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, 2024, 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.

Richmond Hill, Ontario
April 26, 2024

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

SUN PHARMA CANADA INC.

BALANCE SHEET

As at March 31, 2024

	2024	2023
	\$	\$
ASSETS		
CURRENT		
Cash	1,673,399	7,659,504
Accounts receivable - trade, <i>no allowance (Notes 6 and 8)</i>	7,635,639	11,408,491
Due from related company (<i>Note 6</i>)	2,557,583	6,147,389
Inventories (<i>Note 3</i>)	23,803,428	20,319,352
Prepaid expenses	1,137,747	503,199
Government remittances receivable	716,150	189,206
	37,523,946	46,227,141
FUTURE INCOME TAX ASSET	1,607,331	—
	39,131,277	46,227,141
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT		
Accounts payable and accrued liabilities (<i>Note 6</i>)	30,924,038	39,757,998
Shareholder's equity		
Share capital (<i>Note 4</i>)	2,250,100	2,250,100
Retained earnings	5,957,139	4,219,043
	8,207,239	6,469,143
	39,131,277	46,227,141

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, 2024

	2024	2023
	\$	\$
PRODUCT SALES <i>(Note 6)</i>	42,551,446	41,366,719
COST OF SALES <i>(Note 6)</i>	17,818,769	23,860,229
GROSS PROFIT	24,732,677	17,506,490
EXPENSES		
Selling, general and administrative <i>(Notes 5, 6 and 10)</i>	24,268,504	16,189,223
Interest and bank charges	37,264	42,810
Interest income	(196,007)	(56,891)
Foreign exchange loss	492,151	896,626
	24,601,912	17,071,768
INCOME BEFORE INCOME TAXES	130,765	434,722
INCOME TAXES		
Future <i>(Note 7)</i>	(1,607,331)	—
	(1,607,331)	—
NET INCOME	1,738,096	434,722
RETAINED EARNINGS - BEGINNING OF YEAR	4,219,043	3,784,321
RETAINED EARNINGS - END OF YEAR	5,957,139	4,219,043

See accompanying notes

SUN PHARMA CANADA INC.
STATEMENT OF CASH FLOWS

For the year ended March 31, 2024

	2024	2023
	\$	\$
OPERATING ACTIVITIES		
Net income	1,738,096	434,722
Items not affecting cash:		
Future income taxes	(1,607,331)	—
Inventory provision (recovery)	2,783,327	(165,555)
	2,914,092	269,167
Changes in non-cash working capital balances related to operations:		
Accounts receivable	3,772,852	(4,919,412)
Government remittances receivable	(526,944)	912,540
Inventories	(6,267,403)	(7,988,135)
Prepaid expenses	(634,548)	(463,199)
Accounts payable and accrued liabilities	(8,833,960)	19,270,170
Cash flow (used in) provided by operating activities	(9,575,911)	7,081,131
INVESTING ACTIVITIES		
Due from related company	3,589,806	(3,670,335)
Cash flow provided by (used in) investing activities	3,589,806	(3,670,335)
(DECREASE) INCREASE IN CASH	(5,986,105)	3,410,796
CASH - BEGINNING OF YEAR	7,659,504	4,248,708
CASH - END OF YEAR	1,673,399	7,659,504

See accompanying notes

SUN PHARMA CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2024

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 Ltd. (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, 2024

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 income in the year in which they become known. Actual results may vary from the current estimates.

SUN PHARMA CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of operations.

3. INVENTORIES

	2024	2023
	\$	\$
Finished goods	30,021,960	23,754,556
Inventory obsolescence	(6,218,532)	(3,435,204)
	23,803,428	20,319,352

The cost of inventories recognized as an expense and included in the cost of sales was \$17,067,410 (2023 - \$23,117,179).

SUN PHARMA CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2024

4. SHARE CAPITAL

Share capital consists of the following:

	2024	2023
	\$	\$
Authorized:		
Unlimited Common shares		
Issued:		
2,250,100 Common shares	2,250,100	2,250,100

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 \$161,262 (2023 - \$98,360) 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 (2023 - \$nil) owing from the Parent and \$2,271,176 (2023 - \$8,826,859) owing from subsidiaries of the Parent.

Included in accounts payable is \$4,473,835 (2023 - \$14,972,257) owed to the Parent and \$15,522,157 (2023 - \$17,686,662) owed to subsidiaries of the Parent.

The total purchases from the Parent was \$9,646,693 (2023 - \$19,303,181) and \$8,808,610 (2023 - \$8,894,845) of purchases from subsidiaries of the Parent.

Included in sales for the year are \$20,604,605 (2023 - \$25,297,592) in sales to a subsidiary of the Parent.

SUN PHARMA CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2024

6. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Included in selling, general and administrative expenses for the year are \$4,820,995 (2023 - \$2,501,622) 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, 2024 of \$2,557,583 (2023 - \$6,147,389) is for reimbursement of expenses and are held in United States dollars. This amount is unsecured and non-interest bearing and is repayable in accordance with the terms agreed to by the related parties.

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:

	2024	2023
	\$	\$
Future income taxes - current		
Provisions	—	—
Future income taxes - non-current		
Excess of tax basis over carrying value		
of property and equipment	3,610	7,618
Foreign business tax credit	8,369	—
Non-capital losses carried forward	1,852,826	2,017,708
	1,864,805	2,025,326
Future income tax benefits	1,864,805	2,025,326
Valuation allowance	(257,474)	(2,025,326)
	1,607,331	—

The effective income tax rate as a percentage of taxable income before income taxes is 26.5% (2023 - 26.5%). The Company has approximately \$6,991,798 (2023 - \$7,427,239) operating losses available to be carried forward to future years, for which \$6,020,196 was recognized as a future income tax asset.

SUN PHARMA CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2024

8. ECONOMIC DEPENDENCE

At March 31, 2024, three customers (2023 – one customer) accounted for approximately 70% (2023 – 77%) of accounts receivable and three customers (2023 – two) accounted for approximately 74% (2023 – 73%) of gross sales during the year then ended. One of the customers is a related party, by virtue of common ownership, and represented 48% (2023 – 61%) of total sales. The other customers are pharmaceutical corporations.

Inventory purchases from related parties accounted for 90% (2023 – 55%) of the purchases for the year ended March 31, 2024. Approximately 65% (2023 – 83%) 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.

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. 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, 2024.

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.

SUN PHARMA CANADA INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2024

10. FINANCIAL INSTRUMENTS (continued)

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.

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:

	2024	2023
	\$	\$
Cash	639,676	1,373,462
Due from related company	2,557,583	6,147,389
Accounts payable	3,582,857	9,435,180

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

	2024	2023
	\$	\$
Purchases	8,808,610	8,894,845

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.

SUN PHARMA CANADA INC.
NOTES TO FINANCIAL STATEMENTS

March 31, 2024

11. COMPARATIVE FIGURES

Certain figures for 2023 have been reclassified to conform to the presentation adopted in 2024.