Financial Statements
(In thousands of Canadian dollars)

LUPIN PHARMA CANADA LTD.

And Independent Auditors' Report thereon

Year ended March 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Lupin Pharma Canada Ltd.

Opinion

We have audited the financial statements of Lupin Pharma Canada Ltd. (the Entity), which comprise:

- the statement of financial position as at March 31, 2020
- the statement of comprehensive income for the year then ended
- the statement of deficit for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity 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 International Financial Reporting Standards (IFRS), 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Auditors' 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 auditors' 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 the 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 Entity's internal control.

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- 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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

May 19, 2020

LUPIN PHARMA CANADA LTD.

Statement of Financial Position
(In thousands of Canadian dollars)

March 31, 2020, with comparative information for 2019

	Note	2020	2019
Assets			
Current assets:			
Cash		$ 1,477	$ 1,457
Trade receivable	11	4,095	4,356
Due from related parties	11, 15	2,211	2,313
Inventories	4	15,266	16,655
Prepaid expenses and deposits		94	107
Total current assets		23,143	24,888
Non-current assets:			
Property and equipment	5	8	7
Right-of-use assets	6	213	–
Deferred tax assets	9	12	314
Total non-current assets		233	321
Total assets		$ 23,376	$ 25,209
Liabilities and Equity			
Current liabilities:			
Trade payable	11	$ 86	$ 716
Accrued liabilities	11	1,203	944
Income tax payable	11	97	–
Due to related parties	11, 15	18,866	20,667
Lease liabilities	11, 13	146	–
Total current liabilities		20,398	22,327
Non-current liabilities:			
Loan payable	15	–	1,001
Lease liabilities	11, 13	112	–
Total non-current liabilities		112	1,001
Total liabilities		20,510	23,328
Equity:			
Share capital	10	3,300	3,300
Deficit		(434)	(1,419)
Total equity		2,866	1,881
Total liabilities and equity		$ 23,376	$ 25,209

Subsequent event (note 16)

The accompanying notes 1-17 are an integral part of these financial statements.

LUPIN PHARMA CANADA LTD.

Statement of Comprehensive Income
(In thousands of Canadian dollars)

Year ended March 31, 2020, with comparative information for 2019

	Note	2020	2019
Revenue		$ 27,900	$ 20,528
Cost of goods sold	4, 15	22,910	16,484
Gross profit		4,990	4,044
Expenses:			
Selling and marketing	7	5,270	4,441
General and administrative	7, 15	4,597	4,402
Foreign exchange		29	76
		9,896	8,919
Other income	15	6,368	5,880
Income from operating activities		1,462	1,005
Finance costs for loan payable	15	(11)	(50)
Finance costs for lease liabilities	13	(10)	–
Income before taxes		1,441	955
Income tax expense	8	(415)	(281)
Net income and comprehensive income		$ 1,026	$ 674

Statement of Deficit
(In thousands of Canadian dollars)

Year ended March 31, 2020, with comparative information for 2019

	Note	2020	2019
Deficit, beginning of year		$ (1,419)	$ (2,093)
Adjustment on initial application of IFRS 16, net of tax	2(e)	(41)	–
Net income		1,026	674
Deficit, end of year		$ (434)	$ (1,419)

The accompanying notes 1-17 are an integral part of these financial statements.

LUPIN PHARMA CANADA LTD.

Statement of Cash Flows
(In thousands of Canadian dollars)

Year ended March 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operations:		
Net income	$ 1,026	$ 674
Items not involving cash:		
Depreciation of property and equipment	4	7
Depreciation of right-of-use assets	121	–
Income tax expense	415	281
	1,566	962
Change in non-cash operating working capital:		
Trade receivable	261	(1,837)
Due from related parties	102	645
Inventories	1,389	11,761
Prepaid expenses and deposits	12	(24)
Trade payable	(630)	342
Accrued liabilities	259	158
Due to related parties	(1,801)	(11,132)
	1,158	875
Investments:		
Purchase of property and equipment	(5)	–
Financing:		
Repayment of loan payable	(1,001)	(611)
Payment of lease liabilities	(132)	–
	(1,133)	(611)
Increase in cash	20	264
Cash, beginning of year	1,457	1,193
Cash, end of year	$ 1,477	$ 1,457

The accompanying notes 1-17 are an integral part of these financial statements.

Nature of operations:

Lupin Pharma Canada Ltd. (the "Company") was incorporated June 18, 2009. The Company is domiciled in Canada and the head office and registered address is 15 Wertheim Court, Suite 707, Richmond Hill, Ontario. As at March 31, 2020, the Company is a 99.99% subsidiary of Lupin Atlantis Holdings S.A, (the "Parent"), which is a 100% subsidiary of Lupin Limited (the "Ultimate Parent"). Its core business is to trade in pharmaceutical products, to provide marketing services and to register and/or license dossiers/products/brands in Canada.

1. Basis of preparation:

(a) Statement of compliance and basis of measurement:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements have been prepared under the historical cost convention.

The financial statements were authorized for issue by the Board of Directors on May 19, 2020.

(b) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the functional currency of the Company. All financial information is presented in Canadian dollars.

(c) Use of estimates and judgments:

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

1. Basis of preparation (continued):

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 2 - Leases;
- Note 3(f) - Recognition of deferred tax assets;
- Note 3(h) - Revenue recognition: estimate of expected returns;
- Note 11 - Trade receivables;
- Note 12 - Share-based payments.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 3(h) - Revenue recognition: estimate of expected returns;
- Note 11(a) - Measurement of ECL allowance for trade receivables;
- Note 14 - Recognition and measurement of provision and contingencies: key assumption about the likelihood and magnitude of an outflow of resources.

2. Changes in accounting policies:

The Company has adopted IFRS 16, Leases ("IFRS 16"), effective April 1, 2019.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in deficit at April 1, 2019. Accordingly, the comparative information presented for 2019 fiscal year is not restated - i.e. it is presented, as previously reported, under International Accounting Standard ("IAS") 17, Leases ("IAS 17"), and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

2. Changes in accounting policies (continued):

(a) Definition of a lease:

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under International Financial Reporting Interpretations Committee ("IFRIC") 4, Determining whether an Arrangement contains a Lease ("IFRIC 4"). The Company now assesses whether a contract is or contains a lease based on the definition of a lease per IFRS 16.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after April 1, 2019.

(b) As a lessee:

As a lessee, the Company leases office property. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most of these leases - i.e. these leases are on-balance sheet.

(c) Leases classified as operating leases under IAS 17:

Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at April 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application; or

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

(In thousands of Canadian dollars)

2. Changes in accounting policies (continued):

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognize right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

(d) As a lessor:

There was no significant impact to lessor accounting from adoption of IFRS 16.

(e) Impact on financial statements:

The impact of the adoption of IFRS 16 as at April 1, 2019 was as follows:

	April 1, 2019
Right-of-use assets - properties	$ 334
Lease liabilities	(390)
Retained earnings	(41)
Deferred tax asset	15

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at April 1, 2019. The weighted-average rate applied is 3.1%.

(In thousands of Canadian dollars)

2. Changes in accounting policies (continued):

Below is the reconciliation of the lease commitments disclosed as at March 31, 2019 to the lease liabilities recognized on April 1, 2019:

	April 1, 2019
Operating lease commitments at March 31, 2019	$ 412
Discounted using the incremental borrowing rate at April 1, 2019	(22)
Lease liabilities recognized at April 1, 2019	(390)

As at March 31, 2020, the Company recognized $334 of right-of-use assets and $390 of lease liabilities. In relation to these leases, the Company has recognized depreciation and interest costs. During the year, the Company recognized $121 of depreciation charges and $10 of interest expenses.

3. Significant accounting policies:

The principal accounting policies applied in the preparation of the financial statements are set out below:

(a) Foreign currency transactions:

Transactions in foreign currencies are comprised of purchases from affiliated companies. These transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates at that date. The resulting foreign currency gains or losses are recognized in profit or loss in the statement of comprehensive income. Non-monetary items are carried at historical cost.

3. Significant accounting policies (continued):

(b) Inventories:

Inventories are comprised of generic and branded pharmaceutical products and are stated at the lower of cost and net realizable value. Cost is determined using the first-in-first-out cost method and includes all costs incurred in bringing the products to their present location. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(c) Property and equipment:

(i) Recognition and measurement:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net in profit or loss.

(ii) Subsequent costs:

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in statement of comprehensive income as incurred.

3. Significant accounting policies (continued):

(iii) Depreciation:

Depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives using the straight-line method. The estimated useful lives for the current and comparative years are as follows:

Office equipment	2 - 3 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(d) Finance costs:

Finance costs comprise interest expense on related party borrowings, impairment losses recognized on financial assets and interest expense from lease liabilities measured at the present value of the lease payment to be made over the lease term under IFRS 16.

(e) Impairment of non-financial assets:

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment losses on non-financial assets recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued):

(f) Income taxes:

Income tax expense represents the sum of current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition of other assets and liabilities in a transaction (other than in a business combination) that affects neither the tax profit nor the accounting profit. Deferred tax is calculated at the tax rate that is expected to apply to the year when the asset is realized or the liability is settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued):

(g) Share capital:

Common shares are classified as equity if they are non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized within equity.

(h) Revenue:

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue using the five step model framework:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations of the contract; and
- Recognize revenue when (or as) the Company satisfies a performance obligation.

The Company derives revenue from the sale of generic and branded pharmaceutical products. The primary contracts to provide products and services to customers are purchase orders which provide the Company's performance obligations and transaction price.

For performance obligations satisfied at a point in time, revenue is recognized when the Company has a present right to payment, the customer has legal title to the product, physical possession of the product has transferred to the customer and the customer has the significant risks and rewards of ownership. Generally, the customer obtains control at the time products are delivered or services are rendered.

3. Significant accounting policies (continued):

Revenue from sale of products is recognized net of returns, product expiry claims, trade discounts, rebates and allowances. Estimated returns for non-saleable products from the customers are determined based on historical returns. No element of financing is deemed present as the sales are made with credit terms standard for the market.

(i) Financial assets and liabilities

(i) Classification and measurement of financial assets:

On initial recognition, a financial asset is classified and measured at: amortized cost; fair value through other comprehensive income ("FVOCI") - debt investment, FVOCI - equity investment; or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9, Financial Instruments, is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- Its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's financial assets are comprised of cash, accounts receivable and due from related parties and are recognized initially at fair value plus any directly attributable transaction costs.

Cash comprise of cash balances and callable deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash for the purpose of the statement of cash flows.

Accounts receivable do not include a significant financing component and are initially measured at the transaction price under IFRS 15, Revenue from Contracts with Customers.

3. Significant accounting policies (continued):

Cash, accounts receivable and due from related parties are subsequently measured at amortized cost using the effective interest method.

(ii) Classification and measurement of financial liabilities:

Financial liabilities at FVTPL:

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise.

Financial liabilities at amortized cost:

These financial liabilities are recognized initially at fair value, net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are carried at amortized cost using the effective interest rate method.

(iii) Derecognition of financial instruments:

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or when the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the assets. Any interest in transferred assets that are created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when the underlying contractual obligation is legally discharged, cancelled or expires.

(iv) Offsetting of financial instruments:

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. Significant accounting policies (continued):

(v) Impairment of financial assets:

The impairment model applies to financial assets measured at amortized cost, contract assets and FVOCI - debt investments, but not to investments in FVOCI - equity instruments.

The loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company has elected to measure loss allowances for trade receivables at an amount equal to lifetime ECLs.

The fair values of cash, accounts receivable, due from related parties, trade payable, accrued liabilities and due to related parties approximate their carrying amounts because of the short-term maturity of these financial instruments. The fair value of non-current portion of due to related parties (measured under Level 2 fair value hierarchy) approximates its carrying value as the debt bears interest at market rates.

(j) Related party transactions:

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control or significant influence. A transaction is considered a related party transaction when there is a transfer of resources or obligations between related parties.

3. Significant accounting policies (continued):

(k) New standards and interpretations not yet adopted:

The following standards, amendments and interpretations issued by the International Accounting Standards Board ("IASB") or Interpretations Committee have been assessed as having a possible effect on the Company in the future. The following standards and amendments are not yet effective and have not been applied in preparing these financial statements.

(i) Amendments to IAS 1, Presentation of Financial Statements ("IAS 1"), and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8"):

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. It was specified that the materiality assessment will need to take into account how primary users could reasonably be expected to be influenced in making economic decisions. The amendments state that, in assessing whether any information could reasonably be expected to influence decisions of the primary users, an entity must consider the characteristics of those users as well as its own circumstances. The amendments must be applied prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier adoption permitted.

(ii) Amendments to IFRS 3, Business Combinations ("IFRS 3"):

In October 2018, the IASB issued narrow-scope amendments to IFRS 3 to guide entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, provide guidance for entities to assess whether an acquired process is substantive, narrow the definitions of a business and outputs, and introduce an optional fair value concentration test. The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier adoption is permitted.

(In thousands of Canadian dollars)

3. Significant accounting policies (continued):

(iii) Amendments to IAS 1:

In January 2020, the IASB issued amendments to IAS 1 to clarify requirements for classifying liabilities as current or non-current. The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations to be considered for settlement of a liability. The amendments must be applied retrospectively for annual periods beginning on or after January 1, 2022. Earlier application is permitted.

4. Inventories:

	2020	2019
Pharmaceutical products	$ 15,266	$ 16,655
Cost of goods sold	22,910	16,484
Inventory write-downs	(372)	(33)

5. Property and equipment:

	Office equipment	Total
Cost		
Balance, March 31, 2018	$ 2,567	$ 2,567
Disposals	(1)	(1)
Balance, March 31, 2019	2,566	2,566
Additions	5	5
Balance, March 31, 2020	$ 2,571	$ 2,571
Accumulated depreciation		
Balance, March 31, 2018	$ 2,552	$ 2,552
Depreciation charge	7	7
Balance, March 31, 2019	2,559	2,559
Depreciation charge	4	4
Balance, March 31, 2020	$ 2,563	$ 2,563
Carrying amounts		
At March 31, 2019	$ 7	$ 7
At March 31, 2020	8	8

(In thousands of Canadian dollars)

6. Right-of-use assets:

	Properties	Total
Cost		
Balance, March 31, 2019	$ –	$ –
Adoption of IFRS 16	606	606
Balance, March 31, 2020	$ 606	$ 606
Accumulated depreciation		
Balance, March 31, 2019	$ –	$ –
Adoption of IFRS 16	272	272
Charge for the year	121	121
Balance, March 31, 2020	$ 393	$ 393
Carrying amounts		
At March 31, 2020	$ 213	$ 213

7. Expenses:

The following is a breakdown of the personnel and general and administrative expenses:

	2020	2019
Personnel expenses	$ 4,955	$ 4,178
Marketing and advertising	2,465	1,787
Professional and consulting	865	1,183
Distribution	321	247
Travel	286	312
Depreciation	125	7
Insurance	97	107
Management fees	97	242
Occupancy	28	133
Other	628	647
	$ 9,867	$ 8,843

(In thousands of Canadian dollars)

8. Income tax expense:

		2020		2019
Deferred tax expense:				
Origination and reversal of temporary differences	$	318	$	281
Current tax expense		97		–
Total income tax expense	$	415	$	281

Income taxes differs from the amount that would have been computed by applying the combined Canadian federal and provincial statutory income tax rate of 26.54% for the year ended March 31, 2020 (2019 - 26.56%) to income before income taxes.

The reason for the differences are as follows:

		2020		2019
Income before income taxes	$	1,441	$	955
Expected tax expense at the combined Canadian federal and provincial statutory income tax rate of 26.54% (2019 - 26.56%)	$	382	$	254
Increase in income taxes resulting from:				
Permanent differences		33		27
Actual income tax expense	$	415	$	281

9. Deferred tax assets and liabilities:

Deferred tax assets are attributable to the following:

					2020							2019
		Assets		Liabilities		Net		Assets		Liabilities		Net
Non capital losses carry forwards	$	–	$	–	$	–	$	311	$	–	$	311
Accounts receivable		15		–		15		–		–		–
Property and equipment		1		–		1		1		–		1
Right-of-use assets		–		(4)		(4)		–		–		–
Tax benefit not recognized		–		–		–		2		–		2
Deferred tax assets	$	16	$	(4)	$	12	$	314	$	–	$	314

(In thousands of Canadian dollars)

10. Share capital:

As at March 31, 2020, the Company's authorized share capital is comprised of unlimited common shares with no par value. The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the shareholders.

Prior to November 14, 2016, Lupin Holdings B.V. ("LHBV") held 330,000,000 shares (representing 99.99% shareholding) and the Parent held 100 shares (representing 0.01% shareholding) in the Company. On that date, as part of a strategic internal restructuring exercise, LHBV transferred its 99.99% shareholdings in the Company to the Parent for consideration of U.S. $3,729. After this transaction, the Parent holds 330,000,100 shares (representing 100% shareholding) in the Company.

	Amount	Number of shares
Balance, March 31, 2019 and 2020	$ 3,300	330,000,100

11. Financial risk management:

The Company's exposure to risks from its use of financial instruments and the Company's risk management framework are as follows:

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management also considers the demographics and geography of the Company's customer base, as these factors may have an influence on credit risk. Accounts receivable are past due when a customer fails to make a payment when contractually due. The Company specifically identifies customers with past due balances over credit terms and provides for these accounts where appropriate.

(In thousands of Canadian dollars)

11. Financial risk management (continued):

During the year ended March 31, 2020, approximately 83% (2019 - 83%) of the Company's revenue is attributable to sales transactions with four customers.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

	2020	2019
Trade receivable	$ 4,095	$ 4,356
Due from related parties	2,211	2,313

The carrying amounts of accounts receivable represent the maximum credit exposure. The Company maintains an allowance for expected credit losses taking into account past experience of collecting payments as well as observable changes in and forecasts of future economic conditions that correlate with default on receivables. As at March 31, 2020, the allowance for credit losses is nil (2019 - nil).

The aging of accounts receivables and due from related parties at the reporting date is as follows:

	Current	31 - 60 days	61 - 90 days	91+ days	Total
March 31, 2020	$ 5,255	$ 902	$ 1	$ 148	$ 6,306
March 31, 2019	6,527	9	7	126	6,669

(b) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due without incurring unacceptable losses or risking damage to the Company's reputation. The Company aims to maintain a sufficient level of its cash to ensure liquidity to meet liabilities as they come due. The Company's approach consists primarily of monitoring the level of expected cash inflows on accounts receivable, together with expected cash outflows on trade payable and debt, as well as monitoring expenses.

(In thousands of Canadian dollars)

11. Financial risk management (continued):

The following are the contractual maturities of financial liabilities by contractual maturity date.

	Carrying amount		
	2020	2021	Thereafter
Trade payable	$ 716	$ 86	$ –
Accrued liabilities	944	1,203	–
Income tax payable	–	97	–
Due to related parties	20,667	18,866	–
Lease liabilities	–	146	112
	$ 22,327	$ 20,398	$ 112

(c) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Foreign currency risk refers to the risk that the value of financial instruments or cash flows associated with the instruments will fluctuate due to changes in foreign exchange rates. The Company is exposed to currency risk on purchases that are denominated in U.S. dollars. If the exchange rates had been 100 basis points (1¢) higher or lower during the year ended March 31, 2020, with all other variables held constant, total comprehensive income would have increased or decreased by $2, respectively (2019 - $6).

The Company's exposure to U.S. dollar currency risk is as follows:

	2020	2019
Trade payable	$ 1	$ 42
Accrued liabilities	11	8
Due to related parties	194	1,053
	$ 206	$ 1,103

11. Financial risk management (continued):

(d) Capital management:

Management defines capital as the Company's equity. The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business, including future capital expenditures and working capital to sustain growth of operations. In order to achieve this objective, the Company recognizes the need to increase its capital base by issuing common shares or other equity based financial instruments.

Management continually monitors its capital in relation to its business risks, including its liabilities. Assessment of capital needs are done with the benefit of a review of net working capital, assets relative to liabilities among other measures. There were no changes in the Company's approach to capital management during the year.

12. Share-based payments:

The Ultimate Parent implemented Lupin Subsidiary Companies Employees Stock Option Plan 2005, Lupin Subsidiary Companies Employees Stock Option Plan 2011 and Lupin Subsidiary Companies Employees Stock Option Plan 2014 in earlier years; as approved by the Shareholders of the Ultimate Parent and the Remuneration/Compensation/Nomination and Remuneration Committee of the Board of Directors of the Ultimate Parent. The charge is borne by the Ultimate Parent and no charge had been allocated to the Company until April 1, 2015.

The Ultimate Parent issues stock options on its shares (publicly traded on the Indian stock market) to the Vice-President and General Manager of the Company based on their performance. The Company doesn't have any obligation to settle the award and classifies the share-based payments as equity-settled. Under the recharge arrangement with the Ultimate Parent, the Company recognizes an expense with corresponding payables to the Ultimate Parent for the grant date fair value of the award over the vesting period which ranges from one to five years for the services received from its employees. The Ultimate Parent calculates the fair value of each stock option grant using the Black-Scholes option pricing model at the grant date which takes stock price, volatility, risk-free rate, exercise price, dividend yield and other factors into consideration.

(In thousands of Canadian dollars)

12. Share-based payments (continued):

The stock option transactions for the years ended March 31, 2020 and 2019 are summarized as follows:

	2020	2019
Outstanding, beginning of year	10,610	16,500
Granted	1,430	2,860
Vested	(6,464)	(8,750)
Outstanding, end of year	5,576	10,610

The expense for year ended March 31, 2020 of $34 (2019 - $47) is recognized through an intercompany charge from the Ultimate Parent, which is included in selling and marketing expense.

13. Lease liabilities:

As at March 31, 2020, the Company leases 2 offices, in Richmond Hill, Ontario and Montreal, Quebec, for which leases expire on December 31, 2021 and January 31, 2022, respectively. The change in lease liabilities is as follows:

	2020	2019
Balance at beginning of year	$ –	$ –
Changes from operating cash flows:		
Finance costs paid on lease liability	(10)	–
Changes from financing cash flows:		
Payment of lease liabilities	(132)	–
Other changes:		
Lease liabilities recognized on April 1, 2019 per IFRS 16	390	–
Finance costs for lease liabilities	10	–
Balance at end of year	258	–
Current	146	–
Non-current	$ 112	$ –

Non-cancellable operation lease payments are as follows:

	2020	2019
Less than 1 year	$ 146	$ 147
Between 1 and 5 years	112	265
	$ 258	$ 412

(In thousands of Canadian dollars)

14. Contingencies:

The Company's business includes entering into numerous legal contracts with clients, customers, employees, contractors, suppliers and vendors. In the normal course of business, disputes arise around these legal agreements.

15. Related parties:

(a) Transactions with related parties:

	2020	2019
Income		
Other income:		
Ultimate Parent	$ 105	$ 102
Parent	6,263	5,778
Expenses		
Cost of goods sold:		
Parent	12,908	2,834
Ultimate Parent	8,634	1,904
Management fees:		
Lupin GmbH	97	103
Lupin Inc.	207	139
Interest expense:		
Lupin Holdings B.V.	11	50

Income earned from related parties is comprised of gross income for reimbursement of marketing and other related expenses by the Parent and the Ultimate Parent.

The Company purchases pharmaceutical products and medical devices from its Parent and pharmaceutical products from the Ultimate Parent.

Lupin GmbH is wholly owned subsidiary of the Parent and provides administrative services to the Company.

(In thousands of Canadian dollars)

15. Related parties (continued):

(b) Balances due to/from related parties:

	2020	2019
Current assets		
Due from related parties:		
Ultimate Parent	$ 217	$ 180
Parent	1,994	2,133
Lupin GmbH	18	–
Current liabilities		
Due to related parties:		
Parent	15,140	18,936
Ultimate Parent	3,530	1,535
Lupin Pharmaceuticals, Inc.	19	2
Lupin GmbH	–	32
Lupin Inc.	195	156
Loan payable:		
Lupin Holdings B.V.	–	1,001

(c) Other related party transactions:

Key management personnel compensation:

Key management personnel includes all employees at the Company in a director level position. Key management personnel compensation for the year ended March 31, 2020 was $1,779 (2019 - $2,159).

16. Subsequent event:

The recent outbreak of the coronavirus, or COVID-19, which has been declared by the World Health Organization to be a pandemic, has spread across the globe and is impacting worldwide economic activity. A public health pandemic, including COVID-19, poses the risk that the Company and its employees, contractors, suppliers, and other partners may be prevented from conducting business activities for an indefinite period of time, including due to shutdowns that may be requested or mandated by governmental authorities.

While it is not possible at this time to estimate the impact that COVID-19 could have on the Company, the continued spread of COVID-19 and the measures taken by the governments of countries affected could disrupt the supply chain and the manufacture or shipment of product inventories and adversely impact the Company's business, financial condition or results of operations. The COVID-19 outbreak and mitigation measures may also have an adverse impact on global economic conditions which could have an adverse effect on the Company's business and financial condition. The extent to which the COVID-19 outbreak impacts the Company's results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the virus and the actions to contain its impact. As of the date of these financial statements, the outbreak has not had a material impact on the Company's results. The Company and its employees have transitioned to working remotely and steps are being taken to establish digital sales channels. Furthermore, the Company has sufficient liquidity to meet all operating requirements for the foreseeable future.

17. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.