

RANBAXY PHARMACEUTICALS CANADA INC.

Directors Report

Your Directors have the pleasure in presenting the Financial Statements for the year ended December 31, 2010.

WORKING RESULTS Year Ended December 31	Canadian Dollars	
	2010	2009
Net Sales	62,558,891	72,657,640
Net income before undernoted and income taxes	<u>2,548,582</u>	<u>4,986,574</u>
Other income (expenses)		
Foreign exchange gain (loss)	84,638	302,511
Other income	<u>35,625</u>	<u>92,162</u>
	<u>120,263</u>	<u>394,673</u>
Net income before income taxes	<u>2,668,845</u>	<u>5,381,247</u>
Income taxes		
Current	1,162,390	2,055,487
Future	<u>(243,419)</u>	<u>(300,023)</u>
	<u>918,971</u>	<u>1,755,464</u>
Net income for the year	\$ <u>1,749,874</u>	\$ <u>3,625,783</u>
Retained earnings (deficit), beginning of year	\$ 10,627,862	\$ 7,002,079
Net income for the year	<u>1,749,874</u>	<u>3,625,783</u>
Retained earnings, end of year	\$ <u>12,377,736</u>	\$ <u>10,627,862</u>

WORKING RESULTS**IN INR**

Year Ended December 31	2010	2009
Net Sales	2,780,395,156	3,229,228,444
Net income before undernoted and income taxes	113,270,311	221,625,511
Other income (expenses)		
Foreign exchange gain (loss)	3,761,689	13,444,933
Other income	1,583,333	4,096,089
	5,345,022	17,541,022
Net income before income taxes	118,615,333	239,166,533
Income taxes		
Current	51,661,778	91,354,978
Future	(10,818,622)	(13,334,356)
	40,843,156	78,020,622
Net income for the year	<u>77,772,178</u>	<u>161,145,911</u>
Retained earnings (deficit), beginning of year	476,585,740	313,994,574
Net income for the year	77,772,178	161,145,911
Retained earnings, end of year	<u>555,055,426</u>	<u>476,585,740</u>

Dividend

No dividends have been declared for the year.

Changes in Capital Structure

There were no changes to the Company's capital structure in 2010.

Directors

The Board constitutes of: Venkat Krishnan, Regional Director, America's; Ajay Vashisht, Sr. Director finance Canada ; Paul Drake General Manager RPCI ; John Wright, Ranjit Kohli.

Acknowledgement

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

Sd/-
Ajay Vashisht
Director

Sd/-
Paul Drake
Director

Dated : March 21st, 2011

RANBAXY PHARMACEUTICALS CANADA INC.

Year ended December 31, 2010

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Ranbaxy Pharmaceuticals Canada Inc.

We have audited the accompanying financial statements of Ranbaxy Pharmaceuticals Canada Inc., which comprise the balance sheet as at December 31, 2010, the statements of operations and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ranbaxy Pharmaceuticals Canada Inc. as at December 31, 2010, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Sd/-

March 21, 2011

Toronto, Canada

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KPMG Canada provides services to KPMG LLP

RANBAXY PHARMACEUTICALS CANADA INC.

Balance Sheet

December 31, 2010, with comparative figures for 2009

	2,010	2,009	2,010	2,009
Assets				
Current assets:			IN INR	In INR
Cash and cash equivalents	1,867,899	7,251,318	83,762,287	325,171,211
Accounts receivable	8328311	12087581	373,466,861	542,043,991
Loans to employees (note 2)	566	7,611	25,381	341,300
Due from Related parties (note 7)	506,106	438049	22,695,336	19,643,453
Other receivables	1656327	578123	74,274,753	25,924,798
Inventories (note 3)	16,898,425	13,560,180	757,776,906	608,079,821
Prepaid expenses	33,500	87,626	1,502,242	3,929,417
Customer Advance	2,916,910	582,000	130,803,139	26,098,655
Income tax recoverable	1,693,579	633,298	75,945,247	28,399,013
Future income taxes (note 5)	714,363	472,750	32,034,215	21,199,552
	<u>34,615,986</u>	<u>35,698,536</u>	<u>1,552,286,368</u>	<u>1,600,831,211</u>
Property, plant and equipment (note 4)	235,493	185,212	10,560,224	8,305,471
	<u>34,851,479</u>	<u>35,883,748</u>	<u>1,562,846,592</u>	<u>1,609,136,682</u>
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities	20,218,815	22,999,152	906,673,318	1,031,352,108
Future income taxes (note 5)	4,828	6,634	216,502	297,489
Shareholder's equity:				
Capital stock (note 8)	2,250,100	2,250,100	100,901,345	100,901,345
Retained earnings	12,377,736	10,627,862	555,055,426	476,585,740
	<u>14,627,836</u>	<u>12,877,962</u>	<u>655,956,771</u>	<u>577,487,085</u>
Commitments (note 13)				
	<u>34,851,479</u>	<u>35,883,748</u>	<u>1,562,846,592</u>	<u>1,609,136,682</u>

See accompanying notes to financial statements.

On behalf of the Board:

SD/-

Director

RANBAXY PHARMACEUTICALS CANADA INC.

Statement of Operations and Retained Earnings

Year ended December 31, 2010, with comparative figures for 2009

	2,010	2,009	2,010	2,009
			IN INR	In INR
Sales	216,543,574	202,651,537	9,624,158,844	9,006,734,978
Customer rebates	153,984,683	129,993,897	6,843,763,689	5,777,506,533
Net sales	<u>62,558,891</u>	<u>72,657,640</u>	<u>2,780,395,156</u>	<u>3,229,228,444</u>
Cost of sales	<u>44,733,818</u>	<u>50,916,085</u>	<u>1,988,169,689</u>	<u>2,262,937,111</u>
Gross profit	17,825,073	21,741,555	792,225,467	966,291,333
Expenses:				
Selling, general and administrative	15,297,451	16,641,355	679,886,711	739,615,778
Loss on sale of property, plant and equipment	6,384	-	283,733	-
Depreciation	66,651	109,235	2,962,267	4,854,889
Interest	6,005	4,540	266,889	201,778
Interest income	(35,625)	(92,312)	(1,583,333)	(4,102,756)
Foreign exchange gain	(84,638)	(302,511)	(3,761,689)	(13,444,933)
Other income	(100,000)	-	(4,444,444)	-
	<u>15,156,228</u>	<u>16,360,307</u>	<u>673,610,133</u>	<u>727,124,756</u>
Income before income taxes	2,668,845	5,381,248	118,615,333	239,166,578
Income taxes (recovery) (note 5):			-	-
Current	1,162,390	2,055,488	51,661,778	91,355,022
Future	(243,419)	(300,023)	(10,818,622)	(13,334,356)
	<u>918,971</u>	<u>1,755,465</u>	<u>40,843,156</u>	<u>78,020,667</u>
Net income	1,749,874	3,625,783	77,772,178	161,145,911
Retained earnings, beginning of year	10,627,862	7,002,079	472,349,422	311,203,511
Retained earnings, end of year	<u>12,377,736</u>	<u>10,627,862</u>	<u>550,121,600</u>	<u>472,349,422</u>

See accompanying notes to financial statements.

RANBAXY PHARMACEUTICALS CANADA INC.

Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009

	2010	2,009	2,010	2,009
			IN INR	In INR
Cash provided by (used in):				
Operating activities:				
Net income	\$1,749,874	3,625,783	78,469,686	162,591,166
Items not involving cash:				
Depreciation	66,651	109,235	2,988,834	4,898,430
Loss (gain) on sale of property, plant and equipment	6,384	(150)	286,278	(6,726)
Future income taxes	(243,419)	(300,023)	(10,915,650)	(13,453,946)
	1,579,490	3,434,845	70,829,148	154,028,924
Change in non-cash operating working capital:				
Accounts receivable	3,759,270	(3,684,764)	168,577,130	(165,236,054)
Loans to employees	7,045	6,587	315,919	295,381
from/to related parties	(68,057)	(4,517,369)	(3,051,883)	(202,572,601)
Other receivables	(1,078,204)	(319,471)	(48,349,955)	(14,326,054)
Inventories	(3,338,245)	(4,986,090)	(149,697,085)	(223,591,480)
Prepaid expenses and customer advances	(2,280,784)	(636,126)	(102,277,309)	(28,525,830)
Income taxes recoverable	(1,060,281)	(586,774)	(47,546,233)	(26,312,735)
Accounts payable and accrued liabilities	(2,780,337)	13,710,922	(124,678,789)	614,839,552
	(5,260,103)	2,421,760	(235,879,058)	108,599,103
Investing activities:				
Additions to property, plant and equipment	(128,316)	(13,402)	(5,754,081)	(600,987)
Proceeds on sale of property, plant and equipment	5,000	150	224,215	6,726
	(123,316)	(13,252)	(5,529,865)	(594,260)
Increase (decrease) in cash and cash equivalents	(5,383,419)	2,408,508	(241,408,924)	108,004,843
Cash and cash equivalents, beginning of year	7,251,318	4,842,810	325,171,211	217,166,368
Cash and cash equivalents, end of year	\$1,867,899	7,251,318	83,762,287	325,171,211
Supplemental cash flow information:				
Interest received	\$35,424	91,622	1,588,520	4,108,610
Income taxes paid	2,220,000	2,720,000	99,551,570	121,973,094

See accompanying notes to financial statements.

RANBAXY PHARMACEUTICALS CANADA INC.

Notes to Financial Statements

Year ended December 31, 2010

The Company was incorporated under the laws of the province of Ontario on December 12, 2002. It is ultimately a wholly owned subsidiary of Ranbaxy Laboratories Limited (the "Parent"). The Company's main activity is marketing and distribution of pharmaceutical products.

1. Significant accounting policies:

(a) Cash and cash equivalents:

The Company considers cash on hand and balances with banks, net of overdrafts, and highly liquid temporary money market instruments with original maturity dates of 90 days or less as cash or cash equivalents. Bank borrowings are considered to be financing activities.

(b) Revenue recognition:

Revenue from the sales of products is recognized when the significant risks and rewards in respect to ownership of the products have been passed to the customer, and when the following criteria are met:

persuasive evidence of an arrangement exists;
the price to the buyer is fixed and determinable; and
collectability of sales price is reasonably assured.

Allowances for sales discounts and estimates for charge backs are recorded as a reduction of revenue.

(c) Inventories:

Inventories are measured at the lower of cost and net realizable value. Cost is determined on a moving average basis. 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 exists, the previous impairment is reversed.

RANBAXY PHARMACEUTICALS CANADA INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Significant accounting policies (continued):

(d) Property, plant and equipment:

Property, plant and equipment are recorded at cost less accumulated depreciation.

Depreciation is provided on a straight-line basis over their estimated useful lives as follows:

Office equipment	3 -10 years
Furniture and fixtures	5 -10 years
Production equipment	5 -10 years

(e) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment subject to depreciation, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability is measured by comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the fair value of the asset.

(f) Use of estimates:

The preparation of financial statements 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 revenue and expenses during the year. Actual results could differ from those estimates.

(g) Translation of foreign currencies:

Monetary items denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

RANBAXY PHARMACEUTICALS CANADA INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

Significant accounting policies (continued):

5. Income taxes:

The Company uses the asset and liability method for determining income taxes. Under this method, future tax assets and liabilities are determined according to differences between their respective carrying amounts and tax basis. Future tax assets and liabilities are measured based on enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which these temporary differences are expected to reverse. Adjustments to these balances are recognized in income as they occur. The amount recognized for future income tax assets is limited to the amount that is more likely than not to be realized.

The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that one or all of the future tax assets will not be realized.

(i) Financial instruments:

In accordance with the Accounting Standards Board's decision to exempt non-publicly accountable entities from the measurement and disclosure requirements with respect to financial instruments contained within The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments - Recognition and Measurement, Section 3862, Financial Instruments - Disclosures, Section 3863, Financial Instruments - Presentation, and Section 3865, Hedges, the Company has elected not to adopt these standards in its financial statements.

2. Loans to employees:

	2,010	2,009	2,010	2,009
Loans provided to employees for relocation expenses and to purchase vehicles, unsecured, bearing interest in the range of 0% to 4%	566	7,611	IN INR	IN INR
			25,381	341,300

RANBAXY PHARMACEUTICALS CANADA INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

3	Inventories:		2,010	2,009	2,010	2,009
					IN INR	IN INR
	Finished goods	19,888,406	14,486,364	891,856,771	649,612,735	
	Less provision for	2,989,981	926,184	134,079,865	41,532,915	
		16,898,425	13,560,180	757,776,906	608,079,821	

The amount of inventory recognized as an expense during the year was \$54,688,939 [IN INR 24,652,841,733 (2009 - \$50,284,240[IN INR 2,234,855,111])].

The total amount of write-downs of inventory recognized as an expense (cost of sales) during the year was \$657 [IN INR 29,200] (2009 - \$2,531,959 [IN INR 112,531,511]). There was no reversal of any write-downs during the year.

4. Property, plant and equipment:

	Cost	Accumulated depreciation	Net book value	2,010 IN INR	2,009 IN INR
Office equipment	447,178	425,888	21,290		12,322
Furniture and fixtures	285,894	118,579	167,315		95,819
Production equipment	128,607	81,719	46,888		77,071
	861,679	626,186	235,493		185,212
				2,010 IN INR	2,009 IN INR

	Cost	Accumulated depreciation	Net book value	2,010 IN INR	2,009 IN INR
Office equipment	20,052,825	425,888	21,290		12,322
Furniture and fixtures	285,894	118,579	167,315		95,819
Production equipment	128,607	81,719	46,888		77,071
	861,679	626,186	235,493		185,212

RANBAXY PHARMACEUTICALS CANADA INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

5 . Income taxes:

Income tax expense differs from the amounts that would be obtained by applying the combined federal and provincial statutory income tax rate of 31% (2009 - 33.0%) to income before income taxes. The difference results from the following:

	2,010	2,009	2,010 IN INR	2,009 IN INR
Income before income taxes	2,668,845	5,381,248	1,196,791,480	2,413,115,695
Increase (decrease) in income taxes resulting from:				
Expected income tax expense	827,342	1,775,812	371,005,381	796,328,251
Permanent difference	19,245	19,030	8,630,045	8,533,632
Change in tax rates	43,354	30,609	19,441,256	13,726,009
Excess of accounting depreciation over tax depreciation	27,891	-	12,507,175	-
	1,139	(69,986)	510,762	(31,383,857)
	918,971	1,755,465	412,094,619	787,204,036

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

	2,010	2,009	2,010 IN INR	2,009 IN INR
Future income taxes - current:				
Reserves on accounts receivable not deductible for income taxes	714,363	472,750	714,363	211,995,516
Future tax liability - long term:				
Excess of carrying value over tax basis of property, plant and equipment	4,828	6,634	2,165,022	2,974,888

6. Bank Indebtness:

The Company has an operating line of credit of \$2,000,000[In INR , of which nil (2009 - nil) was utilized as of December 31, 2010. The line of credit bears interest at bank prime plus 0.50% and is secured by a guarantee by the Company's shareholder.

RANBAXY PHARMACEUTICALS CANADA INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

7. Related party balances and transactions:

	2,010	2,009	2,010	2,009
			IN INR	IN INR
Amount due to Ranbaxy Pharmaceuticals Inc., a subsidiary of Parent	(438,836)	(2,199,953)	(19,678,744)	(98,652,601)
Amount due from Ranbaxy Laboratories Limited	944,942	2,638,002	42,374,081	118,296,054
	506,106	438,049	22,695,336	19,643,453

Amounts due to related parties are unsecured, repayable on demand and are non-interest bearing. During the year, the Company had the following transactions with related parties:

	Year .		2010	
	Purchases	Management fees	Purchases	Management fees
Ranbaxy Pharmaceuticals Inc.	3,601,220	840,811	160,054,222	37,369,378
Ranbaxy Laboratories Limited	7,075,617	-	314,471,867	-

During 2009, the Company had the following transactions with related parties:

	Year 2009		IN INR	IN INR
	Purchases	Management fees		
Ranbaxy Pharmaceuticals Inc.	\$3,347,759	680,710	150,123,722	30,525,112
Ranbaxy Laboratories Limited	6,159,852	-	276,226,547	-

These transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

8. Capital Stock :

	2,010	2,009	2,010	2,009
			IN INR	IN INR
Authorized:				
Unlimited common shares				
Issued:				
2,250,100 common shares	2,250,100	2,250,100	100,901,345	100,901,345

RANBAXY PHARMACEUTICALS CANADA INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

9. Economic dependence:

Approximately 58% (2009 - 71%) of sales for the year are to two customers.

10. Capital management:

The Company is a wholly owned subsidiary and manages its capital to maintain sufficient capital resources for operations and the requirements of its parent company. The capital structure of the Company consists of cash, issued share capital and retained earnings. The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the prior year.

11. Financial instruments:

(a) Credit risk:

The Company is subject to credit risk through trade receivables. Credit risk is minimized by dealing with large stable customers. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. The Company maintains provisions for potential credit losses and any such losses to date have been within management's expectations.

(b) Foreign currency risk:

The Company operates internationally, giving rise to exposure to market risks from changes in foreign currency exchange rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

(c) Fair values of financial instruments:

The estimated fair values of cash and cash equivalents, accounts receivable, loans to employees, other receivables, accounts payable and accrued liabilities and due from related parties approximates carrying values due to the relatively short-term nature of these financial instruments.

RANBAXY PHARMACEUTICALS CANADA INC.

Notes to Financial Statements (continued)

Year ended December 31, 2010

12. Employees other benefits:

The Company participates in a registered savings plan covering substantially all eligible employees. The plan allows for employees to contribute up to 18% of their annual earnings to the plan subject to the statutory limits imposed by the tax authorities. The Company makes optional contributions of up to 4.5% of the annual earnings of the employees. After two years of service, the employees are fully vested with their share of the Company's contribution.

Contributions expensed by the Company for the year amounted to \$77,178 (2009 - \$79,160).

13. Commitments:

(a) The Company has entered into an agreement to lease its premises until 2015. Minimum payments, exclusive of occupancy costs, in aggregate and for each of the next five years are as follows:

		In INR
2011	\$226,000	10,134,529
2012	236,000	10,582,960
	247,000	11,076,233
	258,000	11,569,507
	269,000	12,062,780
	\$1,236,000	55,426,009

(b) Under an agreement for sales and business development, the Company is obligated to make certain payments, computed under a specified formula, for the next three years, from 2011 to 2013. The minimum quarterly payment for all products is \$100,000.

14. Comparative figures:

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

Note : Conversion rate against Indian Rupee for the year 2010 and 2009 are :

- i) **Items relating to Profit and loss account at Average rate: 1 Canadian Dollar. = 0.0225**
- ii) **Items relating to Balance Sheet at Closing rate : 1 Canadian Dollar. = 0,0223**