Consolidated Financial Statements

HLS Therapeutics Inc.

For the Years Ended December 31, 2017 and 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **HLS Therapeutics Inc.**

We have audited the accompanying consolidated financial statements of **HLS Therapeutics Inc.**, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of net loss, comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **HLS Therapeutics Inc.** as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 28, 2018

HLS THERAPEUTICS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in thousands of U.S. dollars]

	Notes	As at December 31, 2017	As at December 31, 2016
ASSETS			
Current			
Cash and cash equivalents		36,219	37,763
Accounts receivable	5	25,846	14,038
Inventories		1,354	1,200
Foreign currency forward contract	9	—	199
Prepaid expenses and other current assets		1,617	872
Total current assets		65,036	54,072
Property, plant and equipment	6	441	410
Intangible assets	7	312,659	327,983
Restricted cash		5,555	955
Deferred tax asset	12	955	1,208
Total assets		384,646	384,628
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		12,596	8,950
Provisions	8	6,976	7,234
Other financial liabilities	9	14,160	10,078
Income taxes payable		870	306
Total current liabilities		34,602	26,568
Other financial liabilities	9	158,114	173,265
Deferred tax liability	12	11,548	9,231
Total liabilities		204,264	209,064
Shareholders' equity			
Share capital	10	192,743	192,743
Contributed surplus	10	12,330	11,967
Accumulated other comprehensive income (loss)		5,941	(4,611)
Deficit		(30,632)	(24,535)
Total shareholders' equity		180,382	175,564
Total liabilities and shareholders' equity		384,646	384,628

Commitments and guarantees 20

The accompanying notes are an integral part of these consolidated financial statements

On behalf of the Board:

(signed) "William Wells" *(signed) "J. Spencer Lanthier"*

William Wells
Director

J. Spencer Lanthier
Director

HLS THERAPEUTICS INC.

CONSOLIDATED STATEMENTS OF NET LOSS

[in thousands of U.S. dollars, except per share amounts]

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
Revenues	14	75,082	54,031
Expenses			
Cost of product sales		4,136	1,891
Selling and marketing	15	3,551	3,201
Medical, regulatory and patient support	15	3,875	3,740
General and administrative	15	7,639	6,663
Stock-based compensation	10	363	294
Amortization and depreciation	6, 7	32,233	26,722
Operating income		23,285	11,520
Acquisition and transaction costs	16	166	4,057
Finance and related costs, net	9, 17	24,264	23,882
Loss before income taxes		(1,145)	(16,419)
Income tax expense (recovery)	12	4,952	(1,526)
Net loss for the year		(6,097)	(14,893)
Net loss per share:			
Basic and diluted	10	$(0.24)	$(0.60)

The accompanying notes are an integral part of these consolidated financial statements

HLS THERAPEUTICS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

[in thousands of U.S. dollars]

	Year ended December 31, 2017	Year ended December 31, 2016
Net loss for the year	(6,097)	(14,893)
Item that may be reclassified subsequently to net loss		
Unrealized foreign currency translation adjustment	10,552	(4,611)
Comprehensive income (loss) for the year	4,455	(19,504)

The accompanying notes are an integral part of these consolidated financial statements

HLS THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
[in thousands of U.S. dollars]

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, December 31, 2015		192,743	11,673	—	(9,642)	194,774
Stock-based compensation	10	—	294	—	—	294
Net loss for the year		—	—	—	(14,893)	(14,893)
Unrealized foreign currency translation adjustment		—	—	(4,611)	—	(4,611)
Balance, December 31, 2016		192,743	11,967	(4,611)	(24,535)	175,564
Stock-based compensation	10	—	363	—	—	363
Net loss for the year		—	—	—	(6,097)	(6,097)
Unrealized foreign currency translation adjustment		—	—	10,552	—	10,552
Balance, December 31, 2017		192,743	12,330	5,941	(30,632)	180,382

The accompanying notes are an integral part of these consolidated financial statements

HLS THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
[in thousands of U.S. dollars]

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
OPERATING ACTIVITIES			
Net loss for the year		(6,097)	(14,893)
Add (deduct) items not involving cash			
Stock-based compensation		363	294
Amortization and depreciation		32,233	26,722
Accreted interest		6,770	5,509
Fair value adjustment on financial assets and liabilities		770	667
Deferred income taxes	12	1,570	(3,806)
Net change in non-cash working capital balances	18	(8,443)	7,265
Cash provided by operating activities		27,166	21,758
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(179)	(318)
Acquisitions	4, 9	(10,354)	(19,375)
Cash used in investing activities		(10,533)	(19,693)
FINANCING ACTIVITIES			
Repayment of senior secured term loan	9	(13,132)	(20,596)
Increase in restricted cash		(4,600)	(955)
Lender royalty payment	9	(478)	(187)
Cash used in financing activities		(18,210)	(21,738)
Net decrease in cash and cash equivalents during the year		(1,577)	(19,673)
Foreign exchange		33	324
Cash and cash equivalents, beginning of year		37,763	57,112
Cash and cash equivalents, end of year		36,219	37,763

The accompanying notes are an integral part of these consolidated financial statements

1. CORPORATE INFORMATION

HLS Therapeutics Inc. ("HLS" or the "Company") is a specialty pharmaceutical company, which acquires and commercializes pharmaceutical products for the North American markets.

The Company was incorporated as Heritage Life Sciences Inc. on June 5, 2014 under the *Business Corporations Act* (British Columbia). On December 18, 2014, the Company amended its articles to change its name to HLS Therapeutics Inc. As a result of the amalgamation described in note 21, on March 12, 2018, the Company continued under the *Business Corporations Act* (Ontario).

The registered office, head office and principal address of the Company is located at 10 Carlson Court, Suite 410, Toronto, Ontario, M9W 6L2.

These consolidated financial statements were authorized for issuance by the Board of Directors on March 28, 2018.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. The Company's presentation currency is the United States dollar. All values are rounded to the nearest thousand ($000), except per share information or where otherwise indicated.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiaries as at December 31, 2017. These subsidiaries are: Heritage Life Sciences (Barbados) Inc.; Heritage R&D (Barbados) Ltd.; and HLS Therapeutics (USA), Inc.

Subsidiaries are entities over which the Company is exposed, or has rights, to variable returns from its involvement in the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. The Company controls 100% of the voting rights for all its subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

All intercompany balances, revenues and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full upon consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity. Any investment retained is recognized at fair value, while any resulting gain or loss is recognized in income or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Company acquires a business, it assesses the assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date.

Foreign currency translation

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity generates and expends cash. A foreign currency is any currency other than an entity's functional currency. Each entity in the Company's consolidated group determines its own functional currency, and items included in the consolidated financial statements of each entity are measured using that functional currency. The Company has determined that the functional currency of each entity in the consolidated group is the United States dollar, except that as of April 1, 2016, the functional currency of the Canadian distribution activities is determined to be the Canadian dollar.

Foreign currency transactions are initially recorded at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate at the reporting date. All differences are recorded in the consolidated statements of net loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

On consolidation, for entities where the functional currency is not the United States dollar, the assets and liabilities are translated into United States dollars at the rate of exchange prevailing at the reporting date, and their statements of income or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation purposes are recognized in other comprehensive income loss.

Cash and cash equivalents

Cash and cash equivalents include business savings accounts and short-term, highly liquid investments that are readily convertible to known amounts of cash, with maturities at the date of acquisition or purchase of ninety days or less, and that are not subject to significant risk of changes in value. Restricted cash is used to collateralize letters of credit and performance bonds which have been issued in equivalent notional amounts. As at December 31, 2017 and 2016, there were no cash equivalents.

Inventories

Inventories primarily consist of finished goods. Inventories are valued at the lower of cost based on weighted average price and net realizable value. Net realizable value is the estimated selling price less applicable selling expenses. If the carrying value exceeds the net realizable value, a write-down is recognized. Reversals of previous write-downs to net realizable value are required when there is a subsequent increase in the net realizable value of the inventories.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is recorded as follows:

Computer equipment	Straight-line over three years
Furniture and fixtures	Straight-line over five years
Leasehold improvements	Straight-line over the lease term

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is recorded as follows:

Product rights	Straight-line over 15 years
Marketing rights	Straight-line over 4.5 years

Milestone payments associated with the acquisition of intangible assets are capitalized to the cost of the intangible asset when it is determined that the milestones have a high likelihood of being attained.

Intangible assets that have not yet reached commercial stage are not amortized.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Warrants

Broker warrants issued in relation to equity financings are considered a form of compensation for services rendered and are classified as a component of equity. They are measured at the fair value of the services received on the date of issue and are not revalued subsequent to issuance.

Lender warrants issued in relation to debt financings that have a net settlement provision are classified as a liability. They are remeasured to fair value at each reporting date, with gains and losses on remeasurement included in the consolidated statements of net loss.

Lender warrants issued in relation to debt financings that do not have a net settlement provision are classified as a component of equity. They are measured at their fair value on the date of issue and are not revalued subsequent to issuance. Warrants are reclassified to share capital when they are exercised.

Provisions

Provisions are recognized when present (legal or constructive) obligations as a result of a past event are expected to lead to a probable outflow of economic resources and amounts can be estimated reliably. Provisions are measured at management's best estimate of the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

Chargebacks and rebates are estimated based on historical experience, relevant statutes with respect to government pricing programs, and contractual sales terms.

Provisions for returns are estimated based on historical return levels.

The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered remote, no liability has been recognized.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Financial instruments at fair value through profit or loss

A financial asset or liability is classified in this category if it is a derivative or if it is acquired principally for the purpose of selling or repurchasing in the near term. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of net loss. Gains and losses arising from changes in fair value are presented in the consolidated statements of net loss in the period in which they arise.

Financial instruments at fair value through profit or loss as at December 31, 2017 and 2016 comprise lender warrants and foreign currency forward contracts.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

Loans and receivables as at December 31, 2017 and 2016 comprise trade accounts receivable and other accounts receivable.

Financial liabilities at amortized cost

Financial liabilities at amortized cost are initially recognized at the amount required to be paid, less transaction costs, and when material, a discount to reduce the payables to fair value. Subsequently, these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Financial liabilities at amortized cost as at December 31, 2017 and 2016 comprise accounts payable, purchase consideration, the senior secured term loan and the lender royalty.

All financial assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2	Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For financial assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of financial assets and liabilities on the basis of the nature, characteristics and risks of the financial asset or liability and the level of the fair value hierarchy, as explained above.

Revenue recognition

Revenue is recognized in the consolidated statements of net loss when goods or services are supplied or made available to external customers against orders received and when both title and risk of loss have passed.

Revenue represents the amount receivable after the deduction of discounts, allowances given, provisions for chargebacks, other price adjustments and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns include consideration of factors such as contractual terms and historical trends.

Royalty revenue is recognized on an accrual basis when collection is reasonably assured.

Stock-based compensation

The Company has a stock option plan and a performance share unit (“PSU”) plan as described in note 10 that allow for the issuance of stock options and PSUs to employees, directors, officers, and others as determined by the Board of Directors. Each option and PSU installment is treated as a separate grant with graded-vesting features. Forfeitures are estimated at the time of grant and revised if actual forfeitures are likely to differ from previous estimates.

Over the vesting period of the option and PSU grants, the fair value is recognized as compensation expense, and a related credit is recorded as contributed surplus. Contributed surplus is reduced as options are exercised through a credit to share capital. The consideration paid by option holders is credited to share capital when the options are exercised.

Options granted to parties other than employees, directors and officers are measured at their fair value on the date goods or services are received. The fair value of the goods and services received is determined indirectly by reference to the fair value of the instrument granted, unless the fair value of the goods and services received is reliably determinable.

Finance and related costs

Finance and related costs include interest expense on long-term liabilities, interest income on cash balances, realized and unrealized foreign exchange gains and losses, and fair value adjustments on financial assets and liabilities.

Interest expense on long-term liabilities is recognized using the effective interest rate method.

Impairment of long-lived assets

The Company reviews long-lived assets such as property, plant and equipment and intangible assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Intangible assets not currently being amortized or with indefinite lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows or cash-generating units ("CGUs"). An impairment loss is recognized for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the relevant asset or CGU), as determined by management.

Any impairment losses are recognized immediately in the consolidated statements of net loss. Non-financial assets, other than goodwill, that suffer an impairment are reviewed for possible reversal of the impairment at each subsequent reporting date.

Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

Leases

Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Income taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of net loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income (loss) or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

Accounting standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9, *Financial Instruments* ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Company plans to adopt the new standard on the required effective date and, other than the possibility of additional disclosures, does not expect any material impact on its consolidated financial statements from this standard.

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company is continuing to assess the impact of IFRS 15. The new revenue standard requires the Company to estimate variable consideration and include in revenue amounts for which it is probable that a significant revenue reversal will not occur. For revenues derived from product sales, the Company already makes these estimates in its revenue recognition model. The new revenue standard also requires that royalty revenues are to be recognized at the later of (1) when the sale occurs or (2) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied). This is consistent with the Company's current practice, which is to recognize royalty revenue when the sale occurs. As a result, the Company does not expect that adopting this standard will have a material effect on its consolidated financial statements.

IFRS 16, *Leases* ("IFRS 16")

IFRS 16 was issued in January 2016 and eliminates the distinction between operating and financing leases for lessees. IFRS 16 applies a single model for all leases, with certain exemptions, that requires recognition of lease-related assets and liabilities and the related interest and depreciation expense in the financial statements. Lessor accounting is substantially unchanged. IFRS 16 will be effective from January 1, 2019 with limited early application permitted. The Company is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

3. SIGNIFICANT ESTIMATES, JUDGMENTS AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these estimates, judgments and assumptions could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected in future periods.

Revenue recognition

Gross revenue is reduced by rebates, discounts, allowances and product returns given or expected to be given. These arrangements with purchasing organizations are dependent upon the submission of claims after the initial recognition of the revenue. Accruals are made at the time of sale for the estimated rebates, discounts or allowances payable or returns to be made, based on available market information and historical experience. Because the amounts are estimated, they may not fully reflect the final outcome and the amounts are subject to change. Inputs into calculation of the accruals include contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third-party analyses, market research data and internally generated information. Future events could cause the assumptions on which the accruals are based to change and could affect the future results.

Amortization of long-lived assets

The amortization expense relating to long-lived assets, which include property, plant and equipment and product rights, is determined using estimates relating to the useful economic lives of the related assets.

Impairment of long-lived assets

The Company tests the recoverability of its long-lived assets when events or circumstances indicate that the carrying values may not be recoverable. When such a test is performed management must make certain estimates regarding the Company's cash flow projections that include assumptions about growth rates and other future events. Changes in certain assumptions could result in an impairment loss being charged in future periods.

Income taxes

Tax regulations and legislation and the interpretations thereof in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred tax assets are recognized to the extent that it is probable that the deductible temporary differences will be recoverable in future periods. The recoverability assessment involves a significant amount of estimation including an evaluation of when the temporary differences will reverse, an analysis of the amount of future taxable income, the availability of cash flow to offset the tax assets when the reversal occurs and the application of tax laws. To the extent that the assumptions used in the recoverability assessment change, there may be a significant impact on the consolidated financial statements of future periods.

Fair value of stock-based compensation

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for stock-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility, yield, and forfeiture rates and making assumptions about them.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position, which include lender and broker warrants and a foreign currency forward contract, cannot be derived from active markets, the fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible. Where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4. ASSET ACQUISITIONS

Trinomia®

On November 20, 2017, the Company entered into an exclusive agreement with Ferrer Internacional SA ("Ferrer") for the rights to distribute and commercialize Trinomia® capsules in Canada. Trinomia® has been approved for use outside of Canada for the secondary prevention of cardiovascular events but is not approved for use in Canada. The Company paid Cdn$200 on signing with further obligations of up to an aggregate of Cdn$31,075 contingent upon achieving regulatory and sales-based milestones. The Company will also pay a royalty on the net sales of Trinomia® in Canada. Ferrer is obligated to supply finished product to the Company under negotiated supply terms.

The transaction has been accounted for as an asset purchase. The Company has capitalized $208 to distribution rights in respect of this transaction.

Vascepa®

Effective September 25, 2017, the Company entered into an exclusive agreement with Amarin Corporation plc ("Amarin") to register, commercialize and distribute Vascepa® capsules in

(all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted)

Canada. Vascepa® capsules are a single-molecule prescription product for the treatment of cardiovascular disease. Vascepa® is not approved for use in Canada, and the Company anticipates submitting an application to Canadian regulatory authorities to seek approval to commercialize Vascepa® in Canada.

Under the agreement, the Company will be responsible for regulatory and commercialization activities and associated costs. In addition to an initial payment of $5,000 (of which $2,500 is not due until March 2018), terms of the agreement include regulatory and sales-based milestone payments of up to an additional $60,000, the timing and achievability of which cannot be determined at this time. Amarin is also entitled to a tiered double-digit royalty on net sales of Vascepa® in Canada. Amarin is obligated to supply finished product to the Company under negotiated supply terms.

The transaction has been accounted for as an asset purchase. The Company has capitalized $5,346 to distribution rights in respect of this transaction.

Absorica®

Effective July 1, 2016, the Company acquired the United States marketing rights to Absorica® from Galephar Pharmaceuticals Research Inc. ("Galephar") for $56,400 and contingent consideration as described in note 20. In addition to an initial payment of $17,550 on closing, purchase price consideration of $38,850 is to be paid during the period from July 2016 through 2020 and will consist of fixed quarterly and semi-annual payments. The Company has a right, exercisable any time after the second anniversary of the effective date of the transaction, to require Galephar to re-acquire at a price of $100 the rights acquired by the Company from Galephar in the original transaction.

The transaction has been accounted for as an asset purchase. The purchase price for the Absorica® acquisition consists of:

Cash	17,550
Present value of deferred payments (note 9)	30,563
	48,113

Absorica® is an established commercial stage dermatology product in the United States market. There are no changes to the distribution and marketing responsibilities of the existing commercial partners as a result of the Company's acquisition of the marketing rights.

5. ACCOUNTS RECEIVABLE

	December 31, 2017	December 31, 2016
Trade accounts receivable	13,671	9,562
Royalty receivable	8,699	3,250
Other receivables	3,476	1,226
	25,846	14,038

(all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted)

6. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment	Furniture and equipment	Leasehold improvements	Total
Cost				
As at December 31, 2015	61	96	36	193
Additions	191	100	27	318
As at December 31, 2016	252	196	63	511
Additions	21	158	—	179
As at December 31, 2017	273	354	63	690
Depreciation				
As at December 31, 2015	7	4	1	12
Depreciation	39	29	21	89
As at December 31, 2016	46	33	22	101
Depreciation	80	44	24	148
As at December 31, 2017	126	77	46	249
Net book value				
As at December 31, 2016	206	163	41	410
As at December 31, 2017	147	277	17	441

7. INTANGIBLE ASSETS

	Product rights	Distribution rights	Marketing rights	Total
Cost				
As at December 31, 2015	320,355	—	—	320,355
Additions	—	—	48,113	48,113
Foreign exchange	(6,042)	—	—	(6,042)
As at December 31, 2016	314,313	—	48,113	362,426
Additions	—	5,554	—	5,554
Foreign exchange	12,771	31	—	12,802
As at December 31, 2017	327,084	5,585	48,113	380,782
Amortization				
As at December 31, 2015	8,299	—	—	8,299
Amortization	21,287	—	5,346	26,633
Foreign exchange	(489)	—	—	(489)
As at December 31, 2016	29,097	—	5,346	34,443
Amortization	21,393	—	10,692	32,085
Foreign exchange	1,595	—	—	1,595
As December 31, 2017	52,085	—	16,038	68,123
Net book value				
As at December 31, 2016	285,216	—	42,767	327,983
As at December 31, 2017	274,999	5,585	32,075	312,659

The product rights have 12 ½ years remaining in their amortization period and the marketing rights have three years remaining in their amortization period. Distribution rights are not currently being amortized as the associated products are not yet approved for use in Canada.

(all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted)

8. PROVISIONS

	Chargebacks and rebates	Returns	Total
As at December 31, 2015	2,052	676	2,728
Charges	8,882	1,255	10,137
Utilization	(5,618)	(13)	(5,631)
As at December 31, 2016	5,316	1,918	7,234
Charges	8,444	1,224	9,668
Utilization	(9,573)	(353)	(9,926)
As at December 31, 2017	4,187	2,789	6,976

9. OTHER FINANCIAL LIABILITIES

	December 31, 2017	**December 31, 2016**
Current		
Lender warrants	2,875	3,380
Foreign currency forward contract	991	—
Purchase consideration	10,294	6,698
	14,160	10,078
Non-current		
Foreign currency forward contract	85	—
Senior secured term loan	136,706	146,044
Lender royalty	3,507	3,680
Purchase consideration	17,816	23,541
	158,114	173,265
	172,274	183,343

Lender warrants

On August 11, 2015, the Company issued lender warrants to the lenders under the senior secured term loan. These lender warrants give the lenders the right to acquire 1,164,000 common shares at an exercise price of $11 per share until August 11, 2020. The terms of the lender warrants include a net settlement provision and thus are presented as a liability. On April 1, 2016, an additional 100,008 lender warrants were issued as a result of anti-dilution provisions triggered by the issuance of 1,999,997 common shares on April 1, 2016 for no consideration. The exercise price of the total 1,264,008 lender warrants was reduced to $10.13 per share.

The fair value of the 1,164,000 lender warrants at issuance was determined to be $3,946, which amount was accounted for as a reduction to the carrying amount of the senior secured term loan. As at December 31, 2017, the total fair value of the 1,264,008 lender warrants was determined to be $2,875 and the Company recorded income of $505 in fiscal 2017 (2016 – $391) related to the revaluation of the lender warrants. Fair value at issuance and at subsequent remeasurement dates was determined using the Black-Scholes option pricing model with a volatility assumption of 42%.

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Fair value as at December 31, 2015	3,771
Change in fair value	(391)
Fair value as at December 31, 2016	3,380
Change in fair value	(505)
Fair value as at December 31, 2017	2,875

As a result of the amalgamation described in note 21, an additional 32,000 lender warrants were issued on March 9, 2018 for no consideration and the term of the 1,296,008 lender warrants was extended to August 11, 2021.

Foreign currency forward contract

In August 2015, the Company entered an agreement with a bank to sell Cdn$42,930 to the bank at the specified Canadian to U.S. forward rate of $1.3120 on various settlement dates through June 2017. As at December 31, 2017, no further obligation remained on this agreement.

In May 2017, the Company entered an agreement with a bank to sell Cdn$18,000 to the bank at the specified Canadian to U.S. forward rate of $1.3700 on various settlement dates through July 2018, unless the spot rate on a settlement date is between $1.3197 and $1.3700 in which case the Company is relieved of its obligation for that settlement date. In November 2017, this agreement was extended to March 2019. In each month from August 2018 to March 2019, the Company will sell to the bank at the specified Canadian to U.S. forward rate of $1.2672 either Cdn$1,500 or Cdn$2,000, depending on whether the spot rate on the settlement date is above or below $1.2672.

These contracts are not designated as a hedge for accounting purposes and are measured at fair value at each reporting date. Fair value is determined using prices referenced by the counterparty to the contract, taking into account the credit quality of the counterparty.

The Company recognized a realized loss of $317 and an unrealized loss of $1,275 for the year ended December 31, 2017 in respect of these foreign currency forward contracts (2016 – realized gain of $130 and unrealized loss of $1,058). Both the realized and unrealized loss are included in finance and related costs in the consolidated statement of net loss.

The maturities of the foreign currency forward contract as at December 31, 2017 are as follows:

	Forward rate	Cdn$	Fair value
Current portion			
January to July	1.3700	10,500	863
August to December	1.2672	7,500 to 10,000	128
			991
Non-current portion	1.2672	4,500 to 6,000	85
			1,076

Senior secured term loan

On August 11, 2015, the Company entered into a senior secured term loan with a syndicate of private lenders. The aggregate principal amount of the initial term loan was $185,000. The Company may request to be provided with incremental loans, for a maximum additional loan amount of $150,000. The maturity date is August 11, 2021. Interest on the loan accrues at a rate per annum equal to the sum of (i) 9.0% plus (ii) the higher of (a) the LIBOR rate for the applicable interest period and (b) 1.0%.

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Under the terms of the senior secured term loan, the lenders have security over substantially all of the assets of the Company. At the discretion of the lenders, the Company may be required to make quarterly principal repayments based on the operating cash flows received in the previous quarter. As of August 11, 2017, the Company may make additional principal repayments subject to a repayment premium.

Under the terms of the senior secured term loan, the Company is required to comply with financial covenants related to the maintenance of minimum revenue, liquidity and leverage ratios, and to place a maximum on capital expenditures. Throughout the year ended December 31, 2017, the Company was in compliance with the financial covenants.

The fair value of lender warrants issued and transaction costs associated with the senior secured term loan have been included as a reduction to the carrying amount of the liability and will be amortized through interest expense using the effective interest rate method.

Proceeds	185,000
Unamortized discount	(22,069)
Carrying amount as at December 31, 2015	162,931
Repayment	(20,596)
Accreted interest	3,709
Carrying amount as at December 31, 2016	146,044
Repayment	(13,132)
Accreted interest	3,794
Carrying amount as at December 31, 2017	136,706

The terms of the senior secured term loan include an interest rate floor and a prepayment option, both of which are considered to be embedded derivatives. Management has determined that the interest rate floor is closely related to the contract and therefore bifurcation of the fair value of the interest rate floor is not required. Management has determined that the fair value of the prepayment option is not significant and thus has not accounted for it separately.

Lender royalty

On August 11, 2015, the Company entered into a royalty agreement with an investor who was both a member of the lending syndicate and a participant in the private placement. This agreement entitles the investor to receive a royalty on net sales for a period of up to 14 years commencing in August 2016.

The Company ascribed a fair value of $3,481 to this agreement, which amount was accounted for as a proportionate reduction to (i) the carrying amount of the senior secured term loan; and (ii) the proceeds of the private placement. Fair value was determined by using a discounted cash flow methodology.

(all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted)

Carrying amount as at December 31, 2015	3,568
Payment	(187)
Accreted interest	299
Carrying amount as at December 31, 2016	3,680
Payment	(478)
Accreted interest	305
Carrying amount as at December 31, 2017	3,507

Purchase consideration

As part of the consideration for the acquisition of Absorica®, the Company is obligated to make fixed quarterly and semi-annual payments of approximately $38,850 during the period from July 2016 through 2020. This obligation has been recorded at the present value of deferred payments using a discount rate of 10%. Interest expense on this obligation amounted to $2,671 for the year ended December 31, 2017.

As part of the consideration for the acquisition of the Vascepa® rights, the Company is obligated to make a further non-refundable upfront payment of $2,500 due in March 2018.

Fair value on initial recognition	30,563
Payment	(1,825)
Accreted interest	1,501
Carrying amount as at December 31, 2016	30,239
Addition	2,500
Payment	(7,300)
Accreted interest	2,671
Carrying amount as at December 31, 2017	28,110
Less current portion	10,294
Non-current portion	17,816

10. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common and preferred shares.

Under the terms of the private placements completed on August 11, 2015, as a liquidity event had not occurred prior to March 31, 2016, the holders of the 20,000,000 common shares issued on August 11, 2015 had the right to acquire, for no additional consideration, 0.10 of one common share for each common share held. Consequently, on April 1, 2016, an additional 1,999,997 common shares were issued for no consideration.

The issued and outstanding common shares as at December 31, 2017 are as follows:

	#	**$**
Balance as at December 31, 2015	23,278,000	192,743
Common shares issued on April 1, 2016	1,999,997	—
Balance as at December 31, 2016 and 2017	25,277,997	192,743

(all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted)

Performance share units

The Company issued 1,040,000 PSUs to members of senior management. Each PSU entitles the holder to receive one common share if the terms and conditions of the PSU plan are met. These terms include share price targets to be achieved prior to expiry on the fifth anniversary of the date of grant on June 25, 2020. Management has determined that the fair value of this grant on the issuance date is not significant, and thus has recorded no expense in respect of these PSUs.

Stock option plan

Under the Company's Stock Option Plan (the "Plan"), the Company may grant options to purchase common shares to eligible officers, directors and employees of, or consultants to, the Company. The number of common shares that the Company is authorized to issue under the Plan is 2,328,000. All options granted are for terms not to exceed 10 years from the grant date. Options granted under the Plan vest over four years from the date of grant, with the exception of certain options granted to senior management, which vested immediately upon grant.

A summary of the changes to the stock options outstanding is presented as follows:

	Number of options (#)	Weighted average exercise price per share ($)
Outstanding as at December 31, 2015	1,163,998	10.00
Granted	64,377	10.00
Outstanding as at December 31, 2016	1,228,375	10.00
Granted	71,100	10.00
Outstanding as at December 31, 2017	1,299,475	10.00

As at December 31, 2017, the options outstanding and exercisable consist of the following:

	Options outstanding		Options exercisable	
Exercise price ($)	Number outstanding (#)	Weighted average remaining contractual life (years)	Number outstanding (#)	Weighted average exercise price ($)
10.00	1,299,475	7.8	1,104,709	10.00

The fair value of each option granted since inception of the Plan was estimated on the date of the grant using the Black-Scholes option pricing model. The estimated fair value of the options is amortized to income over the options' vesting period on a straight-line basis. In fiscal 2017, the Company has recorded stock-based compensation expense of $363 (2016 – $294). This charge has been credited to contributed surplus. Unrecognized stock-based compensation expense as at December 31, 2017 related to the Plan was $474.

Warrants

On August 11, 2015, the Company issued broker warrants to the agents involved in the brokered subscription receipt and common share financings as a component of their compensation. The exercise of these broker warrants would have resulted in the issuance of 1,080,000 common shares. Broker warrants to acquire 900,000 common shares at a price of $10 per share expired on July 2, 2017. Broker warrants to acquire 180,000 common shares at a price of $10 per share expired on August 11, 2017. As at December 31, 2017, no broker warrants remain outstanding.

(all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted)

Also on August 11, 2015, the Company issued additional lender warrants to a member of the lending syndicate. These lender warrants give the lender the right to acquire 1,164,000 common shares at an exercise price of $0.01 per share if the share price hits certain targets prior to their expiry on August 11, 2020. On April 1, 2016, an additional 99,844 lender warrants were issued because of anti-dilution provisions triggered by the issuance of 1,999,997 common shares on April 1, 2016 for no consideration. The exercise price of the total 1,263,844 additional lender warrants was reduced to $0.009 per share.

The additional lender warrants are exercisable as follows:

Number of additional lender warrants (#)	Share price target ($)	Expiry date
315,961	12.50	August 11, 2020
315,961	15.00	August 11, 2020
315,961	17.50	August 11, 2020
315,961	20.00	August 11, 2020
1,263,844		

Dividends

The holders of common shares are entitled to receive such dividends as the Board of Directors determines to declare on a share-for-share basis, as and when any such dividends are declared or paid.

Notwithstanding the above, under the terms of the senior secured term loan, the Company is prohibited from declaring or paying dividends, except for intercompany dividends.

No dividends were declared or paid in fiscal 2017 or 2016.

Loss per share

Basic loss per share is calculated by dividing net loss for the year by the weighted average number of common shares outstanding during the year.

Diluted loss per share is calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all dilutive potential securities into common shares.

The following is a reconciliation of the numerator and denominator used for the computation of the basic and diluted loss per share amounts:

	Year ended December 31, 2017	**Year ended December 31, 2016**
Net loss for the year	(6,097)	(14,893)
Weighted average number of common shares outstanding – basic	25,277,997	24,775,266
Effect of dilutive securities	—	—
Weighted average number of common shares outstanding – diluted	25,277,997	24,775,266

(all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted)

The calculation of diluted loss per share in fiscal 2017 excludes 5,397,349 (2016 – 6,272,086) weighted average number of common shares issuable upon the exercise of lender and broker warrants and options because the effect of their issuance would be anti-dilutive.

11. CAPITAL MANAGEMENT

The Company's capital management objectives are to maintain financial flexibility to pursue its acquisitive strategy of creating a portfolio of commercial-stage pharmaceutical products consisting of established brands and promotional stage products in selected therapeutic areas. The Company defines capital as the aggregate of non-current financial liabilities and shareholders' equity.

Managed capital is set out in the following table:

	December 31, 2017	December 31, 2016
Non-current financial liabilities	158,114	173,265
Shareholders' equity	180,382	175,564
	338,496	348,829

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Company may elect to issue or repay long-term debt, issue shares, repurchase shares, pay dividends (where permitted) or undertake any other activity as deemed appropriate under specific circumstances.

The Company is not subject to any externally imposed capital requirements, other than a prohibition under the senior secured term loan from paying dividends, and there has been no change in the Company's capital management approach during the year.

12. INCOME TAXES

The significant components of the Company's income tax expense (recovery) are as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Current income tax	3,382	2,280
Deferred income tax resulting from temporary differences	1,570	(3,806)
	4,952	(1,526)

(all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted)

The difference between the amount of the income tax expense (recovery) and the amount computed by multiplying loss before income taxes by the statutory Canadian, United States, and Barbados income tax rates is reconciled as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Loss before income taxes	(1,145)	(16,419)
Tax recovery at Canadian corporate tax rate of 26.7%	(306)	(4,384)
Expenses not deductible for tax purposes	4,668	909
Income subject to tax in foreign jurisdictions	75	1,949
Change in tax rates	515	—
	4,952	(1,526)

A reconciliation of net deferred tax liability is as follows:

	December 31, 2017	December 31, 2016
Balance, beginning of year	8,023	12,655
Tax expense (recovery) recognized in consolidated statements of net loss	1,570	(3,806)
Foreign exchange	1,000	(826)
Balance, end of year	10,593	8,023

The significant components of the Company's net deferred tax liability is as follows:

	December 31, 2017	December 31, 2016
Tax differences related to product rights	14,032	14,597
Unused tax loss carryforwards	(2,643)	(5,542)
Tax benefit of share issue costs	(1,181)	(1,772)
Tax treatment of warrants	1,846	2,114
Tax treatment of foreign currency forward contract	(287)	53
Tax treatment of accruals and provisions	(955)	(1,208)
Other timing differences	(219)	(219)
	10,593	8,023

The net deferred tax liability is reflected in the consolidated statements of financial position as follows:

	December 31, 2017	December 31, 2016
Deferred tax asset	(955)	(1,208)
Deferred tax liability	11,548	9,231
	10,593	8,023

As at December 31, 2017, the Company had approximately $9,900 (2016 – $21,000) of non-capital loss carryforwards available in Canada, which expire between the years 2034 and 2037.

The Company has taxable temporary differences associated with its investments in its subsidiaries. No deferred income tax liabilities have been provided with respect to such temporary differences as the Company is able to control the timing of the reversal and such reversal is not probable in the foreseeable future.

(all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted)

In October 2017, the Barbados government announced that it will review certain of its current tax regimes. The Company understands that details of a new regime are likely to be made public during 2018 and will assess any potential implications to the Company as announcements are made.

In December 2017, the U.S. government enacted new tax legislation effective January 1, 2018. This legislation makes broad and complex changes to the U.S. tax code and accordingly it will take time to assess and interpret the changes. Based on a preliminary understanding of the impact of the new legislation, the Company recorded a charge of $515 in the tax provision for the year ended December 31, 2017.

13. FINANCIAL INSTRUMENTS

The following tables set out the classification of financial and non-financial assets and liabilities:

As at December 31, 2017	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Non-financial	Total carrying amount
Cash and cash equivalents	36,219	—	—	—	36,219
Accounts receivable	—	25,846	—	—	25,846
Restricted cash	5,555	—	—	—	5,555
Other non-financial assets	—	—	—	317,026	317,026
Total assets	41,774	25,846	—	317,026	384,646
Accounts payable and accrued liabilities	—	—	12,596	—	12,596
Provisions	—	—	—	6,976	6,976
Other financial liabilities	3,951	—	168,323	—	172,274
Other non-financial liabilities	—	—	—	12,418	12,418
Total liabilities	3,951	—	180,919	19,394	204,264

Fair values

The carrying amounts of the Company's current receivables and payables are a reasonable approximation of their fair values due to the short-term nature of these instruments.

The fair values of all other financial instruments carried within the Company's consolidated financial statements are not materially different from their carrying amounts.

The following table presents information related to the Company's financial assets and liabilities measured at fair value on a recurring basis and the level within the fair value guidance hierarchy in which the fair value measurements fall as at December 31, 2017:

Description	Level 1	Level 2	Level 3
Foreign currency forward contract	—	(1,076)	—
Lender warrants	—	—	(2,875)
	—	(1,076)	(2,875)

(all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted)

In fiscal 2017, the Company recorded an expense of $1,275 (2016 – $1,058) related to the change in fair value of the foreign currency forward contract (note 9) and income of $505 (2016 – $391) related to the change in the fair value of the lender warrants (note 9).

There have been no transfers into and out of Level 3 for any of the years presented.

Credit risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The requirement for impairment is analyzed at each reporting date on an individual basis for major clients.

For the year ended December 31, 2017, two customers accounted for 28% and 13%, respectively, of gross product sales, and one licensee accounted for all the royalty revenue.

As at December 31, 2017, one customer accounted for 15% of the outstanding trade accounts receivable balance, and one licensee accounted for all the royalty receivable.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and the foreign currency forward contract, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

The Company monitors its risk to a shortage of funds by monitoring its working capital and the maturity dates of existing debt.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank balances, operating cash flow, working capital management and loans.

The table below summarizes the maturity profile of the Company's financial liabilities as at December 31, 2017 based on contractual undiscounted payments.

	On demand	Less than one year	One to five years	Greater than five years	Total
Accounts payable and accrued liabilities	—	12,596	—	—	12,596
Purchase consideration	—	10,800	21,425	—	32,225
Senior secured term loan	—	—	151,272	—	151,272
Lender royalty	—	499	1,950	3,080	5,529
	—	23,895	174,647	3,080	201,622

In addition to the contractual payments in the table above, the Company will also pay interest on its senior secured term loan. Assuming no change in interest rates and original principal balance, the annual interest expense would be approximately $18,750 over the term of the loan.

The Company may also be required to pay contingent consideration related to the acquisition of intangible assets, as discussed in notes 4 and 20.

(all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted)

Other risks

The Company is exposed to interest rate risk on its senior secured term loan. An assumed 1% increase in the interest rate charged on the senior secured term loan would result in a $1,619 increase in interest expense for the year ended December 31, 2017.

The Company is exposed to foreign exchange risk through its Canadian dollar denominated cash balances and cash flows generated though its business in the Canadian market. In fiscal 2017, the Company recorded a foreign exchange gain of $35 (2016 – loss of $159) related to balances denominated in foreign currencies. An assumed 1% increase in the value of the Canadian dollar relative to the United States dollar would result in an additional $163 in net income for the year ended December 31, 2017.

As described in note 9, the Company has entered into foreign currency forward contracts to manage its exposure to fluctuations in value between the Canadian dollar and the United States dollar.

14. SEGMENTED INFORMATION

The Company is composed of a single reportable segment.

Revenues are generated from the following sources:

	Year ended December 31, 2017	**Year ended December 31, 2016**
Product sales	47,438	46,295
Royalties	27,644	7,736
	75,082	54,031

Revenues are generated from the following geographic sources, by location of customer:

	Year ended December 31, 2017	**Year ended December 31, 2016**
Canada	28,637	27,595
United States	46,445	26,436
	75,082	54,031

The Company has operations in Canada, Barbados and the United States. Assets and liabilities by geographic location are set forth in the following table:

	Canada	Barbados	United States	**December 31, 2017**
Current assets	23,939	26,704	14,393	65,036
Non-current assets	172,050	146,537	1,023	319,610
Total assets	195,989	173,241	15,416	384,646
Current liabilities	16,102	10,856	7,644	34,602
Non-current liabilities	151,846	17,816	—	169,662
Total liabilities	167,948	28,672	7,644	204,264

(all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted)

15. EMPLOYEE BENEFITS

	Year ended December 31, 2017	Year ended December 31, 2016
Selling and marketing	1,298	877
Medical, regulatory and patient support	886	615
General and administrative	5,529	4,198
	7,713	5,690

16. ACQUISITION AND TRANSACTION COSTS

	Year ended December 31, 2017	Year ended December 31, 2016
Legal and professional fees	166	3,497
Other fees	—	560
	166	4,057

17. FINANCE AND RELATED COSTS, NET

	Year ended December 31, 2017	Year ended December 31, 2016
Interest on senior secured term loan	16,585	17,882
Accreted interest	6,770	5,509
Total interest expense	23,355	23,391
Interest income	(143)	(205)
Foreign exchange loss (gain)	(35)	159
Realized loss (gain) on foreign currency forward contract	317	(130)
Fair value adjustment on financial assets and liabilities	770	667
	24,264	23,882

18. CONSOLIDATED STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances consists of the following:

	Year ended December 31, 2017	Year ended December 31, 2016
Accounts receivable	(10,981)	(2,463)
Inventories	(142)	(1,088)
Prepaid expenses and other current assets	(677)	(571)
Accounts payable and accrued liabilities	3,051	7,045
Provisions	(258)	4,506
Income taxes payable	564	140
Other	—	(304)
	(8,443)	7,265

(all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted)

Interest of $16,412 (2016 – $17,882) was paid during the year ended December 31, 2017. Income taxes of $2,818 (2016 – $2,140) were paid during the year ended December 31, 2017.

19. RELATED PARTY DISCLOSURES

The following table sets out the compensation of the Company's key management personnel, defined as the four founders of the Company:

	Year ended December 31, 2017	Year ended December 31, 2016
Short-term employee benefits	2,621	1,748

20. COMMITMENTS AND GUARANTEES

Lease commitments

The Company leases its premises under operating leases in Canada, Barbados and the United States. The leases typically run for periods up to three years. The following table sets forth the Company's obligations under operating leases:

	Minimum lease payments
2018	277
Thereafter	59
	336

The Company incurred rent expense of $307 in fiscal 2017 (2016 – $308).

Contingent consideration

Pursuant to the acquisition of the Trinomia® rights described in note 4, the Company has contingent obligations for regulatory and sales-based milestones of up to an additional Cdn$31,075, the timing and achievability of which cannot be determined at this time.

Pursuant to the acquisition of the Vascepa® rights described in note 4, the Company has contingent obligations for regulatory and sales-based milestone payments of up to an additional $60,000, the timing and achievability of which cannot be determined at this time.

Pursuant to the acquisition of the Absorica® marketing rights described in note 4, the Company has contingent obligations for milestone payments up to a total of $2,000 between 2018 and 2020 and further purchase consideration payable between 2021 and 2032 dependent on market conditions in those years.

Guarantees

All directors and officers of the Company, and each of the Company's various subsidiaries, are indemnified by the Company for various items including, but not limited to, all costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future lawsuits or actions.

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts, license agreements, information technology agreements and various product, service, data hosting and network access agreements. These indemnification arrangements may require the Company to compensate counterparties for losses incurred by the counterparties as a result of breaches in representations, covenants and warranties provided by the Company or as a result of litigation or other third-party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction.

21. SUBSEQUENT EVENTS

Amalgamation

On December 21, 2017, the Company announced the execution of a definitive agreement providing for the amalgamation the Company and Automodular Corporation ("AMD") by way of a plan of arrangement (the "Arrangement") in accordance with Section 183 of the *Business Corporations Act* (Ontario). Pursuant to the Arrangement, the Company and AMD will amalgamate to form a new entity named HLS Therapeutics Inc. ("new HLS"), operating in the life sciences industry. The completion of the Arrangement will result in a reverse takeover of AMD as defined in the policies of the TSX Venture Exchange (the "Exchange"). Completion of the Arrangement is subject to, among other things, the approval of the Exchange and approval from AMD and Company shareholders.

A joint information circular was filed with the Exchange on February 8, 2018 and is available on SEDAR.

On March 8, 2018, the Company and AMD announced that shareholders of both companies had voted in favor of the Arrangement and that the Ontario Superior Court of Justice (Commercial List) had granted a final order with respect to the Arrangement. The Arrangement was completed on March 12, 2018, and new HLS common shares commenced trading on the Exchange on March 14, 2018.

Under the arrangement, AMD shareholders received, for each AMD share, one preferred share of the new HLS and 0.165834 new HLS common share, and HLS shareholders received, for each HLS share, one new HLS common share. The former shareholders of HLS hold approximately 92% of the outstanding common shares of new HLS. As a result, HLS is considered the acquiring company for accounting purposes.

HLS preferred shares were issued to former AMD shareholders to allow them to receive their pro rata share of any proceeds from the completion or settlement of AMD's existing litigation and any residual funds that are in excess of AMD's commitment to deliver Cdn$25,000 to HLS on closing of the Arrangement. On February 20, 2018, AMD announced that it had reached a settlement related to the litigation. The settlement proceeds were then received by AMD on March 8, 2018 and such funds, along with the residual funds, are being held in escrow.