MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2018

HLS Therapeutics Inc. ("**HLS**" or the "**Company**") was formed on March 12, 2018 by the amalgamation of HLS Therapeutics Inc. ("**former HLS**") and Automodular Corporation ("**AMD**"). The following management's discussion and analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of HLS for the year ended December 31, 2018. References to "HLS" and the "Company" in this MD&A also refer to former HLS, as the context requires.

This discussion is presented as of March 20, 2019 and is current to that date unless otherwise stated.

The financial information presented in this MD&A is derived from the above noted financial statements prepared in accordance with International Financial Reporting Standards ("**IFRS**"), with the exception of the Selected Quarterly Information. All amounts are in thousands of United States ("U.S.") dollars unless otherwise stated.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "potential" and similar expressions are intended to identify forward-looking statements or information. More particularly and without limitation, this MD&A contains forward-looking statements and information concerning: statements with respect to HLS's pursuit of additional product and pipeline opportunities in certain therapeutic markets; withdrawal of the competing Absorica product in the U.S. market; and HLS's anticipated cash needs and its need for additional financing.

The forward-looking statements and information included in this MD&A are based on certain key expectations and assumptions made by HLS and although HLS believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because HLS can give no assurance that they will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. Factors and risks which could cause actual results or events to differ materially from those expressed in its forward-looking statements are discussed in HLS's materials filed with the Canadian securities regulatory authorities from time to time, including, without limitation, the Company's Annual Information Form dated October 26, 2018, which has been filed on SEDAR and can be accessed at www.sedar.com.

The forward-looking statements and information contained in this MD&A are made as of the date hereof and HLS undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

CAUTIONARY NOTE REGARDING NON-IFRS MEASURES

This MD&A refers to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of HLS's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of HLS's financial information reported under IFRS. HLS uses non-IFRS measures to provide investors with supplemental measures of its operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. HLS also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. HLS's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess HLS's ability to meet its future debt service, capital expenditure and working capital requirements.

In particular, management uses Adjusted EBITDA as a measure of HLS's performance. To reconcile net loss for the year with Adjusted EBITDA, each of (i) "stock-based compensation", (ii) "amortization and depreciation", (iii) "acquisition and transaction costs", (iv) "finance and related costs", and (v) "provision for (recovery of) income taxes" appearing in the Selected Consolidated Financial Information presented below are added to net loss for the period to determine Adjusted EBITDA. Adjusted EBITDA does not have any standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other companies. Adjusted EBITDA should not be considered in isolation or as a substitute for net income (loss) prepared in accordance with IFRS as issued by the IASB.

	Year ended December 31,	
	2018	**2017**
Net loss for the year	(24,806)	(6,097)
Stock-based compensation	1,062	363
Amortization and depreciation	32,395	32,233
Acquisition and transaction costs	891	166
Finance and related costs	35,551	24,264
Income tax expense (recovery)	(3,997)	4,952
Adjusted EBITDA	41,096	55,881

OVERVIEW

HLS is a Canadian-based North American-focused specialty pharmaceutical company focused on acquiring (either through acquisitions, in-licensing or similar arrangements) and commercializing clinically differentiated pharmaceutical products in the specialty central nervous system and cardiovascular ("CV") markets. As at December 31, 2018, HLS's lead product is Clozaril® (an atypical antipsychotic indicated in the management of symptoms of treatment-resistant schizophrenia) for the Canadian and U.S. markets. HLS also holds the U.S. marketing rights to Absorica® (a commercial stage dermatology product) which, in effect, provides HLS with income based on U.S. sales of Absorica by a third party.

In 2017, the Company entered into a license agreement with Amarin Corporation plc ("Amarin") to register, commercialize and distribute Vascepa® capsules in Canada. On September 24, 2018, Amarin announced that its REDUCE-IT™ Cardiovascular Outcomes Study of Vascepa® capsules met its primary endpoint, demonstrating an approximately 25% relative risk reduction, to a high degree of statistical significance ($p<0.001$), in the primary endpoint composite of the first occurrence of major adverse CV

events ("MACE"), including CV death, nonfatal myocardial infarction, nonfatal stroke, coronary revascularization, or unstable angina requiring hospitalization. On November 10, 2018, Amarin presented more granular results of the REDUCE-IT Cardiovascular Outcomes Study in which Vascepa, taken as an add-on to a statin in a population presenting a residual cardiovascular risk, demonstrated a 20% reduction in cardiovascular death, a 31% reduction in heart attacks and a 28% reduction in strokes among other results when compared to a placebo add-on to a statin.

Also, in 2017, the Company entered into a license agreement to commercialize and distribute in Canada a second product related to the treatment of cardiovascular disease contingent on achieving certain regulatory milestones.

HLS intends to pursue additional product and pipeline opportunities in the central nervous system and cardiovascular therapeutic markets, and potentially in other therapeutic areas, through targeted business development efforts.

AMALGAMATION AND LISTING

On March 12, 2018, the Company completed a plan of arrangement (the "Arrangement") to amalgamate with AMD in accordance with Section 183 of the *Business Corporations Act* (Ontario). Pursuant to the Arrangement, the Company and AMD amalgamated to form a new entity named HLS Therapeutics Inc., operating in the life sciences industry. The completion of the Arrangement resulted in a reverse takeover of AMD as defined in the policies of the TSX Venture Exchange (the "TSX-V"). New HLS common shares commenced trading on the TSX-V on March 14, 2018. On February 7, 2019, the Company completed its graduation to the Toronto Stock Exchange ("TSX") and the common shares began trading on the TSX under the symbol "HLS." In connection with the Company's graduation to the TSX, the common shares were voluntarily delisted from the TSX-V on February 7, 2019.

Under the Arrangement, AMD shareholders received, for each AMD share, one preferred share of new HLS and 0.165834 common share of new HLS, and HLS shareholders received, for each HLS share, one new HLS common share. At the completion of the Arrangement, former shareholders of HLS held 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 proceeds from the settlement of AMD's pre-existing litigation and any residual funds that were in excess of AMD's commitment to deliver C$25.0 million to HLS on closing of the Arrangement. Prior to closing the Arrangement, AMD announced that it had reached a settlement related to the litigation. The balance being held in escrow as at December 31, 2018 comprises the settlement proceeds that were received by AMD on March 8, 2018, residual funds and working capital items, less disbursements related to the escrow account and the C$5.7 million partial redemption of preferred shares on May 9, 2018.

KEY PERFORMANCE INDICATORS

HLS measures the success of its strategies using several key performance indicators. These include Revenue, and Adjusted EBITDA, as described above. HLS believes these are important measures as they allow the company to evaluate its operating performance and identify financial and business trends relating to its financial condition and results of operations.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	Year ended December 31,	
	2018	**2017**
Revenue	61,415	75,082
Expenses		
Cost of product sales	2,595	4,136
Selling and marketing	4,323	3,551
Medical, regulatory and patient support	4,437	3,875
General and administrative	8,964	7,639
Adjusted EBITDA [(1)]	41,096	55,881
Stock-based compensation	1,062	363
Amortization and depreciation	32,395	32,233
Operating income	7,639	23,285
Acquisition and transaction costs	891	166
Finance and related costs, net	35,551	24,264
Loss before income taxes	(28,803)	(1,145)
Income tax expense (recovery)	(3,997)	4,952
Net loss for the year	(24,806)	(6,097)
Net loss per share:		
Basic and diluted	$(0.92)	$(0.24)

	As at December 31, 2018	**As at December 31, 2017**
Cash and cash equivalents	10,930	36,219
Total assets	306,425	384,646
Total long-term debt and financial liabilities	104,459	158,114
Total shareholders' equity	158,489	180,382

[(1)] See "Cautionary Note Regarding Non-IFRS Measures" section of this MD&A.

RESULTS OF OPERATIONS

The following section provides management's analysis of operating results, including key performance indicators.

Revenue

	Year ended December 31,	
	2018	2017
Product sales		
Canada	29,726	28,637
United States	20,097	18,801
	49,823	47,438
Royalty revenue	11,592	27,644
	61,415	75,082

In the Canadian market, where Clozaril is actively promoted and supported by a team of HLS employees, product sales in fiscal 2018 increased by 3.7% in Canadian dollar terms. As a result of fluctuations in exchange rates, Canadian Clozaril product sales increased by 3.8% for 2018 when translated to U.S. dollars.

In fiscal 2018, Clozaril continued to experience modest volume declines in the U.S. market, mitigated by a nominal price increase. Product sales in the U.S. market increased by 6.9% in fiscal 2018, as lower than previously estimated expired product returns and greater sales deduction efficiency were offset by lower authorized generic supplies.

Royalty revenues in fiscal 2017 benefited from competitive disruptions and the positive impact of a promotional campaign undertaken by the distributor of Absorica in the U.S., which ran from early 2017 through November 2017. Due to temporarily much higher sales levels in 2017, trade inventory levels had expanded by the end of the promotional period, resulting in a period of trade inventory destocking in the first quarter of 2018. This destocking resulted in lower revenues to the distributor and thus lower royalties to the Company in the first quarter of fiscal 2018 before returning to levels more consistent with the pre-2017 period for the balance of 2018.

Operating expenses

	Year ended December 31,	
	2018	2017
Cost of product sales	2,595	4,136
Selling and marketing	4,323	3,551
Medical, regulatory and patient support	4,437	3,875
General and administrative	8,964	7,639
	20,319	19,201

Cost of product sales decreased in 2018 in-line with reduced authorized generic supplies and improved manufacturing costs as a result of the completion of the manufacturing transition for the US market.

The year-over-year increase in other operating expenses was driven primarily by the addition of public company costs, including the development of the HLS team to support the Company's growth plans, an increase in patient support and regulatory compliance costs in the U.S. after a short-term decrease in cost a year earlier, and the costs associated with initial work to develop commercial plans for potential new cardiovascular product launches.

Adjusted EBITDA [(1)]

	Year ended December 31, 2018	2017
Adjusted EBITDA [(1)]	41,096	55,881

[(1)] See "Cautionary Note Regarding Non-IFRS Measures" section of this MD&A.

The year-over-year decrease in Adjusted EBITDA is due to lower royalty revenue from Absorica and additional operating costs related to the expansion of the business partially offset by the decrease in the cost of product sales and the increase in Clozaril product sales.

Stock-based compensation

Stock-based compensation relates to the Company's Performance Share Unit plan and Stock Option plan.

Amortization and depreciation

Amortization and depreciation is almost entirely related to the intangibles acquired in the Clozaril and Absorica acquisitions.

Finance and related costs, net

Finance and related costs consist primarily of interest on the senior secured term loans provided under the original 2015 senior secured loan and the new 2018 senior secured term loan, a debt refinancing loss, accreted interest related to debt issuance costs and long-term purchase consideration, and fair value adjustments related to financial instruments.

Interest on the senior secured term loan decreased from $16.6 million in fiscal 2017 to $12.2 million in fiscal 2018. The reduction in interest is primarily due to the refinancing of the Company's debt in August 2018. The Company's current debt structure has both a lower principal amount outstanding and a lower interest rate than its original debt facility.

To achieve the lower principal balance and lower interest rate, the Company incurred debt refinancing costs of $19.0 million in the third quarter of fiscal 2018. The components of this charge are set out in the following table:

Expensing of deferred debt costs	12,150
Debt repayment premium	4,137
Lender royalty settlement	2,585
Other fees	79
	18,951

FOURTH QUARTER 2018

Typically, product sales in fourth quarter are higher than all other quarters due to seasonal customer inventory dynamics, usually accompanied by a corresponding decrease in product sales in the first quarter of the following year.

Canadian Clozaril product sales increased 10% in Canadian dollars for the period, or by 6.1% when translated to U.S. dollars. For the US market, increased seasonal demand moderated volume declines and product sales benefited from lower than previously estimated expired product returns and increased efficiency in distribution programs under Company management.

Royalty revenues for the fourth quarter of fiscal 2018 were $3.7 million, reflecting the return to lower sales levels compared with the $8.7 million in royalties in the fourth quarter of fiscal 2017, at the peak of the temporary disruption.

Adjusted EBITDA decreased by 28% from $15.5 million to $11.2 million primarily as a result of the decrease in royalty revenues.

LIQUIDITY AND CAPITAL RESOURCES

Capital structure

The Company's stated strategy is to acquire rights to late stage, post-clinical and commercial stage branded pharmaceutical products for the North American market. This includes acquisition or in-licensing of soon-to-be fileable or promotional stage branded pharmaceutical products in selected therapeutic areas and the acquisition of select established pharmaceutical products that meet certain financial criteria. This may occur through direct rights acquisitions or through the acquisition of specialty pharmaceutical companies. To execute this strategy, the Company may need to access the additional capacity under its senior secured term loan facility or seek other sources of financing.

Original senior secured term loan

The Company financed its initial acquisitions through a portion of the net proceeds of each of (i) a subscription receipt financing of $170.0 million, (ii) a common share financing of $30.0 million, and (iii) a senior secured term facility of $185.0 million.

With a maturity date of August 11, 2021, interest on the original senior secured term loan accrued at a rate per annum equal to the sum of (i) 9.0% plus (ii) the higher of (a) the London Inter-bank Offered Rate ("LIBOR") for the applicable interest period and (b) 1.0%.

On August 15, 2018, the Company entered into a new senior secured term loan with a syndicate of bank lenders, and the principal balance of the original senior secured term loan was repaid in full.

Concurrent with the repayment of the original senior secured term loan, the Company extinguished its royalty obligation to a member of the original lending syndicate for a settlement of $6.0 million to be paid in cash, of which $1.0 million remains to be paid as at December 31, 2018.

New senior secured term loan

On August 15, 2018, the Company entered into a new senior secured term loan with a syndicate of bank lenders co-led by JPMorgan Chase Bank, N.A. and Silicon Valley Bank. The principal amount of the new senior secured term loan was $100.0 million. In addition, there is a $25.0 million revolving facility that is undrawn at December 31, 2018. The Company may also request to be provided with incremental loans, for a maximum additional loan amount of $100.0 million to support acquisitions and other growth

opportunities. The maturity date is August 15, 2023. Interest on the new senior secured term loan accrues at a rate per annum equal to the sum of LIBOR plus a range of 2.75% to 3.25% depending on the leverage ratio of the Company at the time.

Under the terms of the new senior secured term loan, the lenders have security over substantially all the assets of the Company.

The Company will be required to repay principal starting at 5% of the principal amount in the first full year and increasing to 10% in the fifth year of the term. The Company may also be required to make additional payments from surplus cash flows or the Company could choose to repay some or all of the amount outstanding at any time during the term.

Under the terms of the senior secured term loan, the Company is required to comply with financial covenants related to the maintenance of liquidity and coverage ratios. Throughout the period ended December 31, 2018, the Company was in compliance with the financial covenants.

The terms of the new senior secured term loan permit the Company, under certain conditions, to pay a dividend.

As at December 31, 2018, the principal debt balance outstanding under the new senior secured term facility was $98.75 million.

Equity

In connection with the amalgamation noted above, the Company issued 2,151,900 common shares in March 2018 for net proceeds of $18.7 million.

On May 9, 2018, the Company announced that the Exchange had approved the Company's Notice of Intention to Make a Normal Course Issuer Bid under which the Company may, if considered advisable, purchase for cancellation, from time to time over the next 12 months, up to an aggregate of 1,371,495 of its issued and outstanding common shares, being 5% of the issued and outstanding common shares as of May 7, 2018. During the period ended December 31, 2018, the Company purchased for cancellation 134,600 common shares at an average price of C$9.01 per common share.

On August 15, 2018, the Company's Board of Directors established a dividend policy providing for the payment of quarterly dividends of C$0.05 per common share.

On August 15, 2018, the Company's Board of Directors declared an initial dividend of C$0.05 per outstanding common share to be paid on December 14, 2018 to shareholders of record as of October 24, 2018. On November 14, 2018, the Company's Board of Directors declared a dividend of C$0.05 per outstanding common share to be paid on March 15, 2019, to shareholders of record as of January 31, 2019. On March 20, 2019, the Company's Board of Directors declared a dividend of C$0.05 per outstanding common share to be paid on June 14, 2019, to shareholders of record as of April 30, 2019.

Cash flow

Cash flow from operating activities was $32.7 million for fiscal 2018 compared with $27.2 million in the fiscal 2017, despite the reduction in Absorica royalties received in 2018 compared with 2017. Continued stable cash-flows from the Clozaril business, the reduction in interest expense following the August 2018 refinancing, and lower non-cash working capital at year-end contributed to stronger operating cash flows in fiscal 2018.

Investing activities for the current year relate to ongoing quarterly payments associated with the acquisition of the Absorica marketing rights in July 2016 as well as the second half of the up-front payment

and first milestone payment associated with the acquisition of the Vascepa distribution rights. The prior year period includes quarterly payments associated with the Absorica acquisition and the initial half of the Vascepa up-front payment.

Financing activities in fiscal 2018 include the issuance of common shares as a result of the amalgamation noted above and cash flows associated with the refinancing of the Company's senior secured term loan.

Financial position

As at December 31, 2018, the Company has cash of $10.9 million and a working capital deficit of $6.7 million following the use of surplus cash to reduce borrowing. The Company believes that its cash balances and cash flow from operations will be sufficient to fund its operating activities for the ensuing twelve-month period, particularly considering a significant reduction in interest expense expected because of the lower borrowing cost under the new senior secured term loan and the reduced principal outstanding. In addition, the currently undrawn revolver facility is available to the Company if needed.

Accounts receivable decreased from the year before due to the collection of the fourth quarter 2017 Absorica royalty. Other financial liabilities decreased due to the refinancing of the Company's senior secured term loan, as well as the payment of Absorica purchase consideration.

On May 9, 2018, the Company redeemed 9,321,491 of the Company's outstanding preferred shares at a price of C$0.61149 per preferred share, for a total redemption payment of C$5.7 million. This resulted in a reduction to the escrow funds balance and a corresponding reduction to the preferred share liability balance.

RELATED PARTY TRANSACTIONS

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

	Year ended December 31,	
	2018	**2017**
Short-term employee benefits	2,375	2,621
Stock-based compensation	324	—

COMMITMENTS

The Company has the following undiscounted contractual obligations at December 31, 2018:

	On demand	Less than one year	One to five years	Greater than five years	Total
Accounts payable and accrued liabilities	—	12,405	—	—	12,405
Purchase consideration	—	9,300	12,125	—	21,425
Senior secured term loan	—	5,000	93,750	—	98,750
Lender royalty	—	1,000	—	—	1,000
	—	27,705	105,875	—	133,580

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 $5.5 million over the term of the loan.

For a description of these obligations, see note 12 of the audited consolidated financial statements for the year ended December 31, 2018.

The Company may also be required to pay contingent consideration related to the acquisition of intangible assets, as described in note 23 to the audited consolidated financial statements for the year ended December 31, 2018.

OFF-BALANCE SHEET ARRANGEMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

The Company has entered foreign currency forward contracts to manage its exposure to fluctuations in value between the Canadian dollar and the United States dollar. As at December 31, 2018, the fair value of the remaining outstanding transactions was $0.8 million, which is recognized as an asset on the balance sheet. The Company recognized a realized loss of $0.3 million and an unrealized gain of $1.8 million for the year ended December 31, 2018 in respect of these foreign currency forward contracts. Both the realized loss and unrealized gain are included in finance and related costs in the consolidated statement of net loss.

The Company has not entered into any off-balance sheet arrangements.

SELECTED QUARTERLY INFORMATION (UNAUDITED)

	2018 Q1	2018 Q2	2018 Q3	2018 Q4
Product sales				
Canada	6,759	7,772	7,130	8,065
United States	4,872	4,732	5,584	4,909
	11,631	12,504	12,714	12,974
Royalty revenue	1,535	3,801	2,569	3,687
Revenues	13,166	16,305	15,283	16,661
Adjusted EBITDA [(1)]	8,592	11,039	10,274	11,191
Net income (loss)	(4,876)	(563)	(19,736)	369

	2017 Q1	2017 Q2	2017 Q3	2017 Q4
Product sales				
Canada	6,335	7,428	7,274	7,600
United States	4,289	4,600	5,835	4,077
	10,624	12,028	13,109	11,677
Royalty revenue	4,929	6,833	7,184	8,698
Revenues	15,553	18,861	20,293	20,375
Adjusted EBITDA [(1)]	11,548	14,601	14,271	15,461
Net loss	(3,032)	(734)	(1,910)	(421)

[(1)] See "Cautionary Note Regarding Non-IFRS Measures" section of this MD&A.

For much of 2017, Absorica royalties benefited from temporary disruption in the market and a successful marketing program that has since ended.

In the third quarter of fiscal 2018, the Company incurred debt refinancing costs of $19.0 million in connection with the repayment of its original senior secured term loan.

OUTSTANDING SHARE DATA

As at the date of this discussion, the Company had: 27,295,297 common shares outstanding; 3,654,736 preferred shares outstanding; 1,928,985 stock options outstanding (resulting in a maximum issuance of 1,928,985 common shares); 2,559,852 warrants outstanding (resulting in a maximum issuance of 2,559,852 common shares); and 260,000 equity-settled performance share units outstanding (resulting in a maximum issuance of 260,000 common shares).

RISK MANAGEMENT

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has the overall responsibility for the oversight of these risks and reviews the Company's policies on an ongoing basis to ensure that these risks are appropriately managed, including through the use of financial instruments where appropriate. Further discussion of the management of such risks is included in note 15 to the audited consolidated financial Statements.

For a discussion of the risks and uncertainties facing the Company, please see the Company's Annual Information Form ("AIF") dated October 26, 2018 filed on SEDAR. There have been no material changes in the risks or uncertainties facing the Company since the date of the AIF.

SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

A description of the Company's significant accounting policies is included in note 2 of the Company's audited consolidated financial statements for the year ended December 31, 2018 and are unchanged as of the date of this MD&A, except for the adoption of IFRS 16, *Leases* discussed blow.

The Company adopted IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers* on January 1, 2018.

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 and provisions 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 and provisions 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. The remaining

returns eligibility period is used to update the estimated provision for expired product returns on a lot by lot basis. 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 and marketing 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 either: (i) when events or circumstances indicate that the carrying values may not be recoverable, or (ii) annually in the case of long-lived assets not yet brought into use. 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. The Company measures the cost of cash-settled transactions by reference to the fair value of the associated liability at each reporting date. 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.

FUTURE ACCOUNTING CHANGES

The Company intends to adopt this standard when it becomes effective.

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 has reviewed its lease portfolio and will adopt IFRS 16 on January 1, 2019, using the modified retrospective method by recognizing the right-of-use asset at a value equal to the lease liability, adjusted for prepaid or accrued lease payments, at the date of transition. Based on the Company's preliminary assessment, the adoption of IFRS 16 will not result in a material increase in the Company's assets and liabilities.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Annual Information Form, can be found in SEDAR at www.sedar.com.