Consolidated Financial Statements

# HLS Therapeutics Inc.

For the Years Ended December 31, 2018 and 2017

## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the consolidated financial statements of HLS Therapeutics Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of net loss, consolidated statements of comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Martin Lundie.

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada

March 20, 2019

**HLS THERAPEUTICS INC.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

[in thousands of U.S. dollars]

| | Notes | As at December 31, 2018 | As at December 31, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash and cash equivalents | | 10,930 | 36,219 |
| Accounts receivable | 6 | 17,509 | 25,846 |
| Inventories | | 1,505 | 1,354 |
| Foreign currency forward contract | 7 | 755 | — |
| Prepaid expenses and other current assets | | 919 | 1,617 |
| Total current assets | | 31,618 | 65,036 |
| Property, plant and equipment | 8 | 363 | 441 |
| Intangible assets | 9 | 271,153 | 312,659 |
| Restricted assets | 10 | 2,290 | 5,555 |
| Deferred tax asset | 15 | 1,001 | 955 |
| Total assets | | 306,425 | 384,646 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | | 12,405 | 12,596 |
| Provisions | 11 | 6,574 | 6,976 |
| Debt and other financial liabilities | 12 | 18,920 | 14,160 |
| Income taxes payable | 15 | 369 | 870 |
| Total current liabilities | | 38,268 | 34,602 |
| Debt and other financial liabilities | 12 | 104,459 | 158,114 |
| Deferred tax liability | 15 | 5,209 | 11,548 |
| Total liabilities | | 147,936 | 204,264 |
| **Shareholders' equity** | | | |
| Share capital | 13 | 210,360 | 192,743 |
| Contributed surplus | 13 | 12,973 | 12,330 |
| Accumulated other comprehensive income (loss) | | (7,455) | 5,941 |
| Deficit | | (57,389) | (30,632) |
| Total shareholders' equity | | 158,489 | 180,382 |
| Total liabilities and shareholders' equity | | 306,425 | 384,646 |
| Commitments and guarantees | 23 | | |

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

**On behalf of the Board:**

*(signed) "William Wells"*
**William Wells**
Director

*(signed) "J. Spencer Lanthier"*
**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, 2018 | Year ended December 31, 2017 |
|---|---|---|---|
| **Revenues** | 17 | 61,415 | 75,082 |
| **Expenses** | | | |
| Cost of product sales | | 2,595 | 4,136 |
| Selling and marketing | 18 | 4,323 | 3,551 |
| Medical, regulatory and patient support | 18 | 4,437 | 3,875 |
| General and administrative | 18 | 8,964 | 7,639 |
| Stock-based compensation | 13 | 1,062 | 363 |
| Amortization and depreciation | 8, 9 | 32,395 | 32,233 |
| Operating income | | 7,639 | 23,285 |
| Acquisition and transaction costs | 19 | 891 | 166 |
| Finance and related costs, net | 12, 20 | 35,551 | 24,264 |
| Loss before income taxes | | (28,803) | (1,145) |
| Income tax expense (recovery) | 15 | (3,997) | 4,952 |
| **Net loss for the year** | | (24,806) | (6,097) |
| **Net loss per share:** | | | |
| Basic and diluted | 13 | $(0.92) | $(0.24) |

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, 2018 | Year ended December 31, 2017 |
|---|---|---|
| **Net loss for the year** | (24,806) | (6,097) |
| Item that may be reclassified subsequently to net loss | | |
| Unrealized foreign currency translation adjustment | (13,396) | 10,552 |
| **Comprehensive income (loss) for the year** | (38,202) | 4,455 |

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, 2016** | | 192,743 | 11,967 | (4,611) | (24,535) | 175,564 |
| Stock option expense | 13 | — | 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 |
| Common shares issued | 13 | 19,905 | — | — | — | 19,905 |
| Share issuance costs | 13 | (1,252) | — | — | — | (1,252) |
| Shares repurchased | 13 | (1,036) | — | — | 112 | (924) |
| Stock option expense | 13 | — | 643 | — | — | 643 |
| Net loss for the year | | — | — | — | (24,806) | (24,806) |
| Dividends declared | 13 | — | — | — | (2,063) | (2,063) |
| Unrealized foreign currency translation adjustment | | — | — | (13,396) | — | (13,396) |
| **Balance, December 31, 2018** | | 210,360 | 12,973 | (7,455) | (57,389) | 158,489 |

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, 2018 | Year ended December 31, 2017 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net loss for the year | | (24,806) | (6,097) |
| Adjustments to reconcile net loss to cash provided by operating activities | | | |
| Stock option expense | | 643 | 363 |
| Amortization and depreciation | | 32,395 | 32,233 |
| Debt refinancing costs | 20 | 18,951 | — |
| Accreted interest | 12, 20 | 4,895 | 6,770 |
| Fair value adjustment on financial assets and liabilities | | (775) | 770 |
| Listing expense | 4 | 435 | — |
| Deferred income taxes | 15 | (5,446) | 1,570 |
| Net change in non-cash working capital balances related to operations | 21 | 6,455 | (8,443) |
| **Cash provided by operating activities** | | 32,747 | 27,166 |
| **INVESTING ACTIVITIES** | | | |
| Additions to property, plant and equipment | 8 | (99) | (179) |
| Acquisitions | 5, 12 | (13,800) | (9,800) |
| Other additions to intangible assets | | (682) | (554) |
| **Cash used in investing activities** | | (14,581) | (10,533) |
| **FINANCING ACTIVITIES** | | | |
| Common shares issued | 13 | 19,470 | — |
| Common share issuance costs | | (1,699) | — |
| Common shares repurchased | | (924) | — |
| Dividends paid | 13 | (1,047) | — |
| Repayment of original senior secured term loan | 12 | (151,271) | (13,132) |
| Drawdown of new senior secured term loan | 12 | 100,000 | — |
| Repayment of new senior secured term loan | 12 | (1,250) | — |
| Cash portion of debt refinancing costs | | (11,453) | — |
| Decrease (increase) in restricted cash | 10 | 5,555 | (4,600) |
| Lender royalty payment | 12 | (237) | (478) |
| **Cash used in financing activities** | | (42,856) | (18,210) |
| Net decrease in cash and cash equivalents during the year | | (24,690) | (1,577) |
| Foreign exchange on cash and cash equivalents | | (599) | 33 |
| Cash and cash equivalents, beginning of year | | 36,219 | 37,763 |
| Cash and cash equivalents, end of year | | 10,930 | 36,219 |

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 4, on March 12, 2018, the Company continued under the Business Corporations Act (Ontario). The Company's common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol HLS.

The registered office, head office and principal address of the Company is located at 10 Carlson Court, Suite 701, Toronto, Ontario, M9W 6L2.

These consolidated financial statements were authorized for issuance by the Board of Directors on March 20, 2019.

## 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 dollar amounts 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, 2018. 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 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, cash equivalents and restricted cash

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.

As at December 31, 2018 and 2017, there were no cash equivalents.

Restricted cash was used to collateralize letters of credit and performance bonds, which had been issued in equivalent notional amounts.

### 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 and are tested for impairment annually.

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:

Financial instruments carried 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 in this category are the lender warrants, preferred shares and foreign currency forward contracts.

Financial instruments carried at amortized cost

Financial instruments in this category are recorded initially at fair value and adjusted for directly attributable transaction costs and, when material, a discount to reduce the payables to fair value. Financial instruments in this category are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate accretion is included in finance and related costs, net in the consolidated statements of loss.

Financial instruments in this category include cash and cash equivalents, restricted assets, trade and other accounts receivable, accounts payable and accrued liabilities, 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.

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.

Revenue recognition

Revenue is recognized in the consolidated statements of net loss to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties.

In the case of product sales, the determination of the fair value of consideration received or receivable includes a deduction for 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 two performance share unit ("PSU") plans as described in note 13 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, debt refinancing costs, 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.

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 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 adopted in the year

IFRS 9, Financial Instruments ("IFRS 9")

The Company has adopted IFRS 9 on a modified retroactive basis in accordance with the transitional provisions of IFRS 9. Results for reporting periods beginning after January 1, 2018 are presented under IFRS 9, while prior reporting period amounts have not been restated.

IFRS 9 introduces new requirements for classifying and measuring financial instruments, the recognition of expected credit losses, and hedge accounting. The adoption of IFRS 9 had no impact on the Company's financial position or results of operations, and the Company's financial assets and financial liabilities continue to be measured on the same basis as was previously applied under IAS 39, Financial Instruments: Recognition and Measurement.

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

The Company has adopted IFRS 15 effective January 1, 2018, on a modified retrospective basis in accordance with the transitional provisions of IFRS 15. Results for reporting periods beginning after January 1, 2018 are presented under IFRS 15, while prior reporting period amounts have not been restated and continue to be reported under IAS 18, Revenue.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and outlines two approaches to recognizing revenue: at a point in time or over time. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. 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 Company has adopted the new standard using the modified retrospective application method with no restatement of comparative information. The adoption did not have an impact on the Company's financial position or results of operations.

Accounting standard issued but not yet effective

The Company intends to adopt the following 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 impact on the Company's consolidated financial statements.

## 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 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 eligibility period for expired product returns is used to update the estimated provision for 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.

## 4. AMALGAMATION

On March 12, 2018, the Company completed a plan of arrangement (the "Arrangement") with Automodular Corporation ("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. ("new HLS"), 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 ("TSX-V"). New HLS common shares commenced trading on the TSX-V on March 14, 2018.

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 was 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$25,000 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 settlement proceeds were then received by AMD on March 8, 2018,

and such funds, along with the residual funds and less any preferred share redemptions, are being held in escrow as at December 31, 2018.

The following table represents the fair value of the share-based consideration provided and net assets acquired in the Arrangement:

| | |
|---|---|
| Consideration provided | |
| Fair value of 2,151,900 common shares at $9.25 per share | 19,905 |
| | |
| Net assets acquired | |
| Net assets of AMD | 26,581 |
| Less escrow funds (notes 10 and 12) | 7,111 |
| Closing cash amount | 19,470 |
| | |
| Listing expense | 435 |

## 5. ASSET ACQUISITIONS

### 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 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 initial payments amounting to $7,500, terms of the agreement include regulatory and sales-based milestone payments of up to an additional $57,500, 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. To date, the Company has capitalized $7,705 to distribution rights in respect of this agreement.

This asset was not amortized in fiscal 2018.

### 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 C$200 on signing with further obligations of up to an aggregate of C$30,675 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 $483 to distribution rights in respect of this agreement.

This asset was not amortized in fiscal 2018.

## 6. ACCOUNTS RECEIVABLE

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Trade accounts receivable | 11,876 | 13,671 |
| Royalty receivable | 3,687 | 8,699 |
| Other receivables | 1,946 | 3,476 |
| | 17,509 | 25,846 |

## 7. FOREIGN CURRENCY FORWARD CONTRACT

The Company has entered into an agreement with a bank to sell Canadian dollars to the bank at specified Canadian to United States forward rates. In each month from January 2019 to August 2019, the Company will sell to the bank either C$1,500 or C$2,000, depending on whether the spot rate on the settlement date is above or below a certain threshold.

This contract is not designated as a hedge for accounting purposes and is 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. As at December 31, 2018, the fair value of these contracts is an asset of $755 (2017 – liability of $1,076).

The Company recognized a realized loss of $314 and an unrealized gain of $1,831 for fiscal 2018 in respect of this foreign currency forward contract (2017 – realized loss of $317 and unrealized loss of $1,275). Both the realized loss and unrealized gain are included in finance and related costs in the consolidated statements of net loss.

The maturities of the foreign currency forward contract as at December 31, 2018 are as follows:

| | Forward rate | C$ | Fair value |
|---|---|---|---|
| January 2019 to March 2019 | 1.2672 | 4,500 to 6,000 | 250 |
| April 2019 to August 2019 | 1.2445 | 7,500 to 10,000 | 505 |
| | | | 755 |

## 8. PROPERTY, PLANT AND EQUIPMENT

| | Computer equipment | Furniture and equipment | Leasehold improvements | Total |
|---|---|---|---|---|
| Cost | | | | |
| As at December 31, 2016 | 252 | 196 | 63 | 511 |
| Additions | 21 | 158 | — | 179 |
| As at December 31, 2017 | 273 | 354 | 63 | 690 |
| Additions | 38 | 45 | 16 | 99 |
| As at December 31, 2018 | 311 | 399 | 79 | 789 |
| | | | | |
| Depreciation | | | | |
| As at December 31, 2016 | 46 | 33 | 22 | 101 |
| Depreciation | 80 | 44 | 24 | 148 |
| As at December 31, 2017 | 126 | 77 | 46 | 249 |
| Depreciation | 72 | 88 | 17 | 177 |
| As at December 31, 2018 | 198 | 165 | 63 | 426 |
| | | | | |
| Net book value | | | | |
| As at December 31, 2017 | 147 | 277 | 17 | 441 |
| As at December 31, 2018 | 113 | 234 | 16 | 363 |

## 9. INTANGIBLE ASSETS

| | Product rights | Distribution rights | Marketing rights | Total |
|---|---|---|---|---|
| Cost | | | | |
| 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 |
| Additions | — | 3,182 | 500 | 3,682 |
| Foreign exchange | (15,470) | (579) | — | (16,049) |
| As at December 31, 2018 | 311,614 | 8,188 | 48,613 | 368,415 |
| | | | | |
| Amortization | | | | |
| 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 at December 31, 2017 | 52,085 | — | 16,038 | 68,123 |
| Amortization | 21,390 | — | 10,828 | 32,218 |
| Foreign exchange | (3,079) | — | — | (3,079) |
| As December 31, 2018 | 70,396 | — | 26,866 | 97,262 |
| | | | | |
| Net book value | | | | |
| As at December 31, 2017 | 274,999 | 5,585 | 32,075 | 312,659 |
| As at December 31, 2018 | 241,218 | 8,188 | 21,747 | 271,153 |

The product rights have 11 ½ years remaining in their amortization period and the marketing rights have two 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.

The Company performed an annual impairment test on intangible assets not yet brought into use and determined that the recoverable amount exceeded the carrying value by a significant margin. Reasonable changes in key assumptions would not cause the recoverable amount to be less than the carrying value.

## 10. RESTRICTED ASSETS

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Escrow funds | 2,290 | — |
| Restricted cash for collateral | — | 5,555 |
| | 2,290 | 5,555 |

As described in note 4, escrow funds represent the net assets of AMD in excess of AMD's commitment to deliver C$25,000 to HLS on closing of the Arrangement. The escrow funds consist of cash as well as other legacy working capital items. The payment of expenses related to escrow activity will be funded by the escrow funds. The holders of the preferred shares are only entitled to distributions from the escrow funds.

Restricted cash was used to collateralize letters of credit and performance bonds.

## 11. PROVISIONS

| | Chargebacks and rebates | Returns | Total |
|---|---|---|---|
| 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 |
| Charges | 4,839 | (353) | 4,486 |
| Utilization | (4,415) | (473) | (4,888) |
| As at December 31, 2018 | 4,611 | 1,963 | 6,574 |

## 12. DEBT AND OTHER FINANCIAL LIABILITIES

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Current | | |
| Senior secured term loan | 5,000 | — |
| Lender warrants | 3,931 | 2,875 |
| Lender royalty | 1,000 | — |
| Foreign currency forward contract | — | 991 |
| Purchase consideration | 8,989 | 10,294 |
| | 18,920 | 14,160 |
| Non-current | | |
| Foreign currency forward contract | — | 85 |
| Senior secured term loan | 91,707 | 136,706 |
| Lender royalty | — | 3,507 |
| Purchase consideration | 10,462 | 17,816 |
| Preferred shares | 2,290 | — |
| | 104,459 | 158,114 |
| | 123,379 | 172,274 |

Lender warrants

On August 11, 2015, the Company issued lender warrants to the lenders under the original 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. On April 1, 2016, an additional 100,008 lender warrants were issued and the exercise price of all the lender warrants was reduced to $10.13 per share. As a result of the amalgamation described in note 4, the term of the lender warrants was extended to August 11, 2021 and an additional 32,000 lender warrants were issued for no consideration.

The terms of the lender warrants include a net settlement provision and thus are presented as a liability.

As at December 31, 2018, the total fair value of the 1,296,008 lender warrants was determined to be $3,931 and the Company recorded an expense of $1,056 in fiscal 2018 (2017 – income of $505) 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%.

| | |
|---|---|
| Fair value as at December 31, 2016 | 3,380 |
| Change in fair value | (505) |
| Fair value as at December 31, 2017 | 2,875 |
| Change in fair value | 1,056 |
| Fair value as at December 31, 2018 | 3,931 |

Senior secured term loan

Original senior secured term loan

On August 11, 2015, the Company entered into a senior secured term loan with a syndicate of private lenders for an aggregate principal amount of $185,000. With a maturity date of August 11, 2021, interest on the 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.

This transaction resulted in the Company recording a $18,951 debt refinancing loss in the third quarter of fiscal 2018. The components of this charge include the write-off of previously deferred debt costs, a debt repayment premium, and an expense related to the settlement of the lender royalty (note 20).

| | |
|---|---|
| Carrying amount as at December 31, 2017 | 136,706 |
| Repayment of original senior secured term loan | (151,271) |
| Expensing of deferred debt costs | 12,150 |
| Accreted interest | 2,415 |
| Carrying amount 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 is $100,000. In addition, there is a $25,000 revolving facility, available under similar terms, 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 $100,000 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. As at 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.

Transaction costs associated with the new 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.

| | |
|---|---|
| Drawdown of new senior secured term loan | 100,000 |
| Repayment of new senior secured term loan | (1,250) |
| New debt issue costs | (2,237) |
| Accreted interest | 194 |
| Carrying amount as at December 31, 2018 | 96,707 |
| Less current portion | 5,000 |
| Non-current portion as at December 31, 2018 | 91,707 |

### 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.

Concurrent with the repayment of the original senior secured term loan on August 15, 2018, the Company extinguished its royalty obligation for a settlement of $6,000 to be paid in cash, of which $1,000 was unpaid as at December 31, 2018.

| | |
|---|---|
| Carrying amount as at December 31, 2016 | 3,680 |
| Royalty payments | (478) |
| Accreted interest | 305 |
| Carrying amount as at December 31, 2017 | 3,507 |
| Royalty payments | (237) |
| Accreted interest | 145 |
| Settlement expense | 2,585 |
| Settlement payments | (5,000) |
| Carrying amount as at December 31, 2018 | 1,000 |

### Purchase consideration

As part of the consideration for the acquisition of Absorica®, the Company is obligated to make fixed quarterly and semi-annual payments aggregating 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%. Payments of $8,800 were made in fiscal 2018. Interest expense on this obligation amounted to $2,141 for the year ended December 31, 2018 (2017 – $2,671).

As part of the consideration for the acquisition of the Vascepa® rights in fiscal 2017, the Company made the final non-refundable upfront payment of $2,500 and a regulatory milestone payment of $2,500 in fiscal 2018.

| | |
|---|---|
| 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 |
| Addition | 3,000 |
| Payment | (13,800) |
| Accreted interest | 2,141 |
| Carrying amount as at December 31, 2018 | 19,451 |
| Less current portion | 8,989 |
| Non-current portion | 10,462 |

Preferred shares

Under the Arrangement described in note 4, the Company issued 12,976,227 preferred shares to the former shareholders of AMD.

As a condition to closing the Arrangement, the parties to the Arrangement entered into a claims administration and escrow agreement, the purpose of which is to establish the administration of the escrow funds, the funding of AMD litigation and any other AMD legacy matters. Escrow funds on closing of the Arrangement were defined to include AMD cash in excess of the closing cash amount (defined to be C$25,000), as well as the receivables and payables of AMD at the date of closing. The escrow funds are intended to redeem the preferred shares, and as a result, the preferred shares are presented as a liability.

The preferred shares are not entitled to receive any dividends and have no voting rights. The preferred shares are measured at fair value, which is estimated to be the net balance of the escrow funds.

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$5,700.

| | |
|---|---|
| Issued on amalgamation | 7,111 |
| Redemption | (4,345) |
| Other escrow fund activity | (235) |
| Foreign exchange | (241) |
| Fair value as at December 31, 2018 | 2,290 |

## 13. SHARE CAPITAL

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

### Issued and outstanding

The issued and outstanding common shares as at December 31, 2018 are as follows:

| | # | $ |
|---|---|---|
| Balance as at December 31, 2016 and 2017 | 25,277,997 | 192,743 |
| Common shares issued on amalgamation | 2,151,900 | 18,653 |
| Common shares repurchased | (134,600) | (1,036) |
| Balance as at December 31, 2018 | 27,295,297 | 210,360 |

### Warrants

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 and 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 | | |

### 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 10% of the issued and outstanding common shares. 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 in fiscal 2015, 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, 2016 | 1,228,375 | 10.00 |
| Granted | 71,100 | 10.00 |
| Outstanding as at December 31, 2017 | 1,299,475 | 10.00 |
| Granted | 629,510 | 6.57 |
| Outstanding as at December 31, 2018 | 1,928,985 | 8.88 |

As at December 31, 2018, the options outstanding and exercisable consist of the following:

| | Options outstanding | | Options exercisable | |
|---|---|---|---|---|
| Exercise price ($) | Number outstanding (#) | Weighted average remaining contractual life (years) | Number outstanding (#) | Weighted average exercise price ($) |
| 6.12 | 538,515 | 6.6 | — | — |
| 9.25 | 90,995 | 9.2 | — | — |
| 10.00 | 1,299,475 | 6.8 | 1,176,268 | 10.00 |
| | 1,928,985 | 6.9 | 1,176,268 | 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. Significant assumptions used in determining the fair value of options granted in fiscal 2018 are a volatility rate of between 43% and 48% (2017 – between 43% and 48%), and an expected option life of between four and eight years (2017 – between five and eight years). The estimated fair value of the options is amortized to income over the options' vesting period on a straight-line basis. In fiscal 2018, the Company has recorded stock-based compensation expense of $643 (2017 – $363) in respect of options. This charge has been credited to contributed surplus. Unrecognized stock-based compensation expense as at December 31, 2018 related to the Plan was $1,431.

Founder performance share units ("Founder PSUs")

In fiscal 2015, the Company issued 1,040,000 Founder PSUs to the Company's four founders. Each Founder PSU entitles the holder to receive one common share if the terms and conditions of the Founder 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 determined that the fair value of this grant on the issuance date was not significant, and thus recorded no expense in respect of these Founder PSUs.

In May 2018, the Founder PSU plan was amended such that 780,000 of the Founder PSUs will be settled for their cash value, provided the existing terms and conditions of the Founder PSU plan are met. Management determined that the fair value of the amended Founder PSUs on the date of amendment and at December 31, 2018 was not significant, and thus has recorded no expense or liability in respect of the amended Founder PSUs.

Performance share units ("PSUs")

On August 17, 2018, the Company issued 600,000 PSUs to selected employees of the Company. Each PSU entitles the holder to receive a cash payout 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 third anniversary of the date of grant on August 17, 2021, provided that, on or before the vesting date, the Company is listed on an exchange that permits price-based vesting.

The fair value of the PSUs was determined using a risk-neutral Monte Carlo simulation and is accounted for as a liability. In fiscal 2018, the Company has recorded stock-based compensation expense of $419 in respect of PSUs, which is recorded as a liability as at December 31, 2018.

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.

No dividends were paid prior to fiscal 2018.

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, which was paid on December 14, 2018 to shareholders of record as of October 25, 2018.

On November 14, 2018, the Company's Board of Directors declared a dividend of C$0.05 per outstanding common share, which was 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.

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, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Net loss for the year | (24,806) | (6,097) |
| Weighted average number of common shares outstanding – basic | 26,952,523 | 25,277,997 |
| Effect of dilutive securities | — | — |
| Weighted average number of common shares outstanding – diluted | 26,952,523 | 25,277,997 |

The calculation of diluted loss per share in fiscal 2018 excludes 4,687,398 (2017 – 5,397,349) 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.

Normal course issuer bid

On May 9, 2018, the Company announced that the TSX-V 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 year ended December 31, 2018, the Company purchased for cancellation 134,600 common shares at an average price of C$9.01 per common share. The weighted average carrying value of the shares repurchased exceeded the total cash consideration paid by $112, which was credited to deficit.

## 14. 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 debt and other financial liabilities and shareholders' equity.

Managed capital is set out in the following table:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Non-current debt and other financial liabilities | 104,459 | 158,114 |
| Shareholders' equity | 158,489 | 180,382 |
| | 262,948 | 338,496 |

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 restrictions in the senior secured term loan limiting the payment of dividends, and there has been no change in the Company's capital management approach during the year.

## 15. INCOME TAXES

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

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Current income tax | 1,449 | 3,382 |
| Deferred income tax resulting from temporary differences | (5,446) | 1,570 |
| | (3,997) | 4,952 |

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, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Loss before income taxes | (28,803) | (1,145) |
| Tax recovery at Canadian corporate tax rate of 26.7% | (7,690) | (306) |
| Expenses not deductible for tax purposes | 955 | 4,668 |
| Income subject to tax in foreign jurisdictions | 2,738 | 75 |
| Change in tax rates | — | 515 |
| | (3,997) | 4,952 |

A reconciliation of net deferred tax liability is as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Balance, beginning of year | 10,593 | 8,023 |
| Tax benefit of share issuance costs | (447) | — |
| Tax expense (recovery) recognized in consolidated statements of net loss | (5,446) | 1,570 |
| Foreign exchange | (492) | 1,000 |
| Balance, end of year | 4,208 | 10,593 |

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

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Tax differences related to product rights | 11,626 | 14,032 |
| Unused tax loss carryforwards | (5,594) | (2,643) |
| Tax benefit of share issue costs | (911) | (1,181) |
| Tax treatment of warrants | 89 | 1,846 |
| Tax treatment of foreign currency forward contract | 202 | (287) |
| Tax treatment of accruals and provisions | (1,001) | (955) |
| Other timing differences | (203) | (219) |
| | 4,208 | 10,593 |

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

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Deferred tax asset | (1,001) | (955) |
| Deferred tax liability | 5,209 | 11,548 |
| | 4,208 | 10,593 |

As at December 31, 2018, the Company had approximately $21,000 (2017 – $9,900) of non-capital loss carryforwards available in Canada, which expire between the years 2034 and 2038.

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.

## 16. FINANCIAL INSTRUMENTS

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

| As at December 31, 2018 | Fair value through profit or loss | Loans and receivables | Other financial liabilities | Non-financial | Total carrying amount |
|---|---|---|---|---|---|
| Cash and cash equivalents | 10,930 | — | — | — | 10,930 |
| Accounts receivable | — | 17,509 | — | — | 17,509 |
| Foreign currency forward contract | 755 | — | — | — | 755 |
| Other non-financial assets | — | — | — | 277,231 | 277,231 |
| Total assets | 11,685 | 17,509 | — | 277,231 | 306,425 |
| | | | | | |
| Accounts payable and accrued liabilities | — | — | 12,405 | — | 12,405 |
| Provisions | — | — | — | 6,574 | 6,574 |
| Debt and other financial liabilities | 6,221 | — | 117,158 | — | 123,379 |
| Other non-financial liabilities | — | — | — | 5,578 | 5,578 |
| Total liabilities | 6,221 | — | 129,563 | 12,152 | 147,936 |

| 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 assets | 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 |
| Debt and 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, 2018:

| Description | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Foreign currency forward contract | — | 755 | — |
| PSUs | — | — | (409) |
| Lender warrants | — | — | (3,931) |
| | — | 755 | (4,340) |

In fiscal 2018, the Company recorded income of $1,831 (2017 – expense of $1,275) related to the change in fair value of the foreign currency forward contract (note 7) and an expense of $1,056 (2017 – income of $505) related to the change in the fair value of the lender warrants (note 12).

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 has not been significant. The requirement for impairment is analyzed at each reporting date on an individual basis for major clients.

For the year ended December 31, 2018, two customers accounted for 26% and 13%, respectively, of gross product sales, and one licensee accounted for all the royalty revenue.

As at December 31, 2018, one customer accounted for 19% 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, 2018 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 | — | 12,405 | — | — | 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 $5,450 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 5 and 23.

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 loans would have resulted in a $1,297 increase in interest expense for the year ended December 31, 2018 (2017 —- $1,619).

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 2018, the Company recorded a foreign exchange loss of $307 (2017 – gain of $35) 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 not result in a material change in net income for the years ended December 31, 2018 and 2017.

As described in note 7, 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.

## 17. SEGMENTED INFORMATION

The Company is composed of a single reportable segment.

Revenues are generated from the following sources:

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Product sales | 49,823 | 47,438 |
| Royalties | 11,592 | 27,644 |
| | 61,415 | 75,082 |

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

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Canada | 29,726 | 28,637 |
| United States | 31,689 | 46,445 |
| | 61,415 | 75,082 |

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, 2018 |
|---|---|---|---|---|
| Current assets | 18,524 | 6,449 | 6,645 | 31,618 |
| Non-current assets | 146,706 | 127,094 | 1,007 | 274,807 |
| Total assets | 165,230 | 133,543 | 7,652 | 306,425 |
| Current liabilities | 19,976 | 11,224 | 7,068 | 38,268 |
| Non-current liabilities | 99,206 | 10,462 | — | 109,668 |
| Total liabilities | 119,182 | 21,686 | 7,068 | 147,936 |

| | 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 |

## 18. EMPLOYEE BENEFITS

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Selling and marketing | 1,634 | 1,298 |
| Medical, regulatory and patient support | 975 | 886 |
| General and administrative | 6,180 | 5,529 |
| | 8,789 | 7,713 |

## 19. ACQUISITION AND TRANSACTION COSTS

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Legal and professional fees | 456 | 166 |
| Listing expense (note 4) | 435 | — |
| | 891 | 166 |

## 20. FINANCE AND RELATED COSTS, NET

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Interest on senior secured term loan | 12,215 | 16,585 |
| Accreted interest | 4,895 | 6,770 |
| Total interest expense | 17,110 | 23,355 |
| Debt refinancing costs | 18,951 | — |
| Interest income | (356) | (143) |
| Foreign exchange loss (gain) | 307 | (35) |
| Realized loss on foreign currency forward contract | 314 | 317 |
| Fair value adjustment on financial assets and liabilities | (775) | 770 |
| | 35,551 | 24,264 |

Debt refinancing costs are composed of the following:

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

## 21. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Accounts receivable | 7,288 | (10,981) |
| Inventories | (236) | (142) |
| Prepaid expenses and other current assets | 624 | (677) |
| Accounts payable and accrued liabilities | (318) | 3,051 |
| Provisions | (402) | (258) |
| Income taxes payable | (501) | 564 |
| | 6,455 | (8,443) |

Interest of $12,346 (2017 – $16,412) was paid during the year ended December 31, 2018. Income taxes of $1,950 (2017 – $2,818) were paid during the year ended December 31, 2018.

## 22. RELATED PARTY DISCLOSURES

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

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

## 23. 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 |
|---|---|
| 2019 | 336 |
| 2020 | 287 |
| 2021 | 258 |
| 2022 | 118 |
| 2023 | 82 |
| | 1,081 |

The Company incurred rent expense of $309 in fiscal 2018 (2017 – $307).

### Contingent consideration

Pursuant to the acquisition of the Trinomia® rights described in note 5, the Company has contingent obligations for regulatory and sales-based milestones of up to an additional C$30,675, the timing and achievability of which cannot be determined at this time.

Pursuant to the acquisition of the Vascepa® rights described in note 5, the Company has contingent obligations for regulatory and sales-based milestone payments of up to an additional $57,500, the timing and achievability of which cannot be determined at this time.

Pursuant to the acquisition of the Absorica® marketing rights described in note 5, the Company has contingent obligations for milestone payments up to a total of $1,500 between 2019 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.

## 24. SUBSEQUENT EVENTS

Graduation to Toronto Stock Exchange

On February 7, 2019, HLS completed its graduation to the TSX and the common shares began trading on the TSX under the symbol "HLS". In connection with HLS's graduation to the TSX, the common shares were voluntarily delisted from the TSX-V on February 7, 2019.

In-license arrangement

On March 14, 2019, HLS announced that it had in-licensed the exclusive Canadian rights for the Athelas One device from Athelas Inc. ("Athelas"). The Athelas One is an FDA-cleared capillary point-of-care medical device that is designed to help enhance and simplify the mandatory safety blood monitoring process for patients that are prescribed Clozaril. HLS has the exclusive rights to the device in the field of schizophrenia in Canada. Following its filing in January, the device was accepted for review by Health Canada on March 13, 2019. Conditional on its approval in Canada, HLS will introduce the device as part of the current Clozaril Support and Assistance Network (CSAN®) under the name "CSAN® Pronto™". Athelas will earn performance-based fees and commercial milestones contingent on commercial success.