BioSyent Inc.

Audited Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

Expressed in Canadian Dollars

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of BioSyent Inc.:

Management is responsible for the preparation and presentation of the accompanying audited consolidated financial statements, including significant accounting judgments and estimates in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board and for ensuring that all information in this annual report is consistent with the financial statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required. The consolidated financial statements for the years ended December 31, 2016 and 2015 are compliant with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

In discharging its responsibilities for the integrity and fairness of the audited consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and the Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board and Audit Committee are also responsible for recommending the appointment of the Company's external auditors. The Board of Directors has approved the information contained in the accompanying consolidated financial statements.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access, and meet periodically and separately with the Board, Audit Committee and management to discuss their audit findings.

Alfred D'Souza

Vice-President and Chief Financial Officer,
BioSyent Inc.

March 14, 2017

Independent Auditors' Report

To the Shareholders of BioSyent Inc.:

We have audited the accompanying consolidated financial statements of BioSyent Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements, in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2016 and December 31, 2015 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

March 14, 2017
Toronto, Ontario

Chartered Professional Accountants
Licensed Public Accountants

MNP

BIOSYENT INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

AS AT		**December 31, 2016**		**December 31, 2015**
ASSETS				
Trade receivables	**$**	**1,924,949**	$	1,341,668
Other receivables		**16,228**		43,610
Inventory *(Note 5)*		**1,560,050**		1,744,936
Prepaid expenses and deposits		**269,704**		297,791
Derivative assets *(Note 6)*		**32,025**		34,569
Short term investments *(Note 7)*		**683,200**		5,322,859
Cash and cash equivalents *(Note 7)*		**13,056,086**		4,392,617
CURRENT ASSETS		**17,542,242**		13,178,050
Equipment *(Note 8)*		**291,331**		230,255
Intangible assets *(Note 9)*		**1,277,235**		1,079,488
Deferred tax asset (*Note 18*)		**137,375**		120,208
TOTAL NON CURRENT ASSETS		**1,705,941**		1,429,951
TOTAL ASSETS	**$**	**19,248,183**	$	14,608,001
LIABILITIES AND SHAREHOLDERS' EQUITY				
Accounts payable and accrued liabilities	**$**	**2,129,081**	$	1,975,804
Income tax payable (*Note 18*)		**229,145**		380,461
CURRENT LIABILITIES		**2,358,226**		2,356,265
Deferred tax liability (*Note 18*)		**163,241**		100,254
TOTAL NON CURRENT LIABILITIES		**163,241**		100,254
Share capital *(Note 10)*		**7,299,872**		7,174,916
Contributed surplus		**594,261**		420,176
Cumulative translation adjustment		**24,409**		57,721
Retained earnings		**8,808,174**		4,498,669
TOTAL SHAREHOLDERS' EQUITY		**16,726,716**		12,151,482
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**19,248,183**	$	14,608,001

Contingencies *(Note 13)*
Commitments *(Note 14)*
Related Party Transactions (*Note 15*)
Subsequent Event (*Note 20*)

APPROVED ON BEHALF OF THE BOARD

Mr. René Goehrum
DIRECTOR
March 14, 2017

Peter Lockhard

Mr. Peter Lockhard
DIRECTOR

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

BIOSYENT INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in Canadian Dollars)

For the Years ended December 31,		2016		2015
Net Revenues	**$**	**17,922,270**	$	15,388,196
Cost of Goods Sold *(Note 5)*		**3,795,833**		3,278,442
Selling, General & Administration *(Note 12)*		**8,309,158**		7,025,987
New Business & Development Costs		**63,841**		26,378
Finance Income		**(116,417)**		(108,615)
Total Expenses		**12,052,415**		10,222,192
Net Income Before Income Taxes		**5,869,855**		5,166,004
Current income tax *(Note 18)*		**1,514,530**		1,271,063
Deferred tax expense *(Note 18)*		**45,820**		130,052
Net Income After Income Taxes		**4,309,505**		3,764,889
Other Comprehensive Income				
Currency translation gains (losses)		**(33,312)**		44,235
Total Comprehensive Income for the Year	**$**	**4,276,193**	$	3,809,124
Basic earnings per share *(Note 11)*	**$**	**0.30**	$	0.27
Diluted earnings per share *(Note 11)*	**$**	**0.30**	$	0.26

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

BIOSYENT INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

For the years ended December 31,	2016	2015
OPERATING ACTIVITIES		
Net income for the year	$ 4,309,505	$ 3,764,889
Items not affecting cash:		
Depreciation - equipment	80,925	55,437
Amortization - intangible assets	65,716	5,966
Share-based payments	235,477	163,566
Derivative asset	2,544	108,058
Current Income tax	1,514,530	1,271,063
Deferred tax	45,820	130,052
Cash paid for taxes	(1,665,846)	(1,358,563)
Net change in non-cash working capital items:		
Trade and other receivables	(555,899)	(744,587)
Inventory	184,886	(473,026)
Prepaid expenses and deposits	28,087	(94,259)
Accounts payable and accrued liabilities	153,277	(17,676)
Cash provided by operating activities	**4,399,022**	**2,810,920**
INVESTING ACTIVITIES		
Additions to equipment	(142,001)	(128,785)
Additions to intangible assets	(263,463)	(1,018,734)
(Increase) Decrease in short term investments	4,639,659	(4,322,890)
Cash (used in) provided by investing activities	**4,234,195**	**(5,470,409)**
FINANCING ACTIVITIES		
Proceeds from stock options exercised	63,564	18,700
Cash provided by financing activities	**63,564**	**18,700**
Effect of foreign currency translation adjustment	**(33,312)**	**44,235**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**8,663,469**	**(2,596,554)**
Cash and cash equivalents, beginning of year	4,392,617	6,989,171
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 13,056,086**	**$ 4,392,617**
SUPPLEMENTARY DISCLOSURE:		
NET CHANGE IN CASH AND SHORT TERM INVESTMENTS		
Cash and short term investments, beginning of year	$ 9,715,476	$ 7,989,140
Increase (decrease) in short term investments	(4,639,659)	4,322,890
Increase (decrease) in cash and cash equivalents	8,663,469	(2,596,554)
CASH AND SHORT TERM INVESTMENTS - END OF YEAR	**$ 13,739,286**	**$ 9,715,476**
INTEREST RECEIVED DURING THE YEAR	**$ 137,961**	**$ 91,623**

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

BIOSYENT INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Share Capital	Contributed Surplus	Cumulative Currency Translation Adjustment	Retained Earnings	Total Shareholders' Equity
Balance December 31, 2015	$7,174,916	$ 420,176	$ 57,721	$ 4,498,669	$ 12,151,482
Comprehensive Income for the year	-	-	(33,312)	4,309,505	4,276,193
Effect of Share-based payments: Options granted / vested	-	235,477	-	-	235,477
Effect of Share-based payments: Options exercised	124,956	(61,392)	-	-	63,564
Balance as of December 31, 2016	$7,299,872	$ 594,261	$ 24,409	$ 8,808,174	$ 16,726,716

	Share Capital	Contributed Surplus	Cumulative Currency Translation Adjustment	Retained Earnings	Total Shareholders' Equity
Balance December 31, 2014	$7,137,844	$ 274,982	$ 13,486	$ 733,780	$ 8,160,092
Comprehensive Income for the year	-	-	44,235	3,764,889	3,809,124
Effect of Share-based payments: Options granted / vested	-	163,566	-	-	163,566
Effect of Share-based payments: Options exercised	37,072	(18,372)	-	-	18,700
Balance as of December 31, 2015	$7,174,916	$ 420,176	$ 57,721	$ 4,498,669	$ 12,151,482

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

1. General Information

BioSyent Inc. ("**BioSyent**" or the "**Company**"), is a publicly traded specialty pharmaceutical company which, through its wholly-owned subsidiaries, BioSyent Pharma Inc. ("**BioSyent Pharma**") and BioSyent Pharma International Inc., acquires or in-licences and further develops pharmaceutical and other healthcare products for sale in Canada and certain international markets. Hedley Technologies Ltd., a wholly-owned subsidiary of BioSyent, operates the Company's legacy business marketing biologically and health friendly non-chemical insecticides ("**Legacy Business**"). BioSyent's issued and outstanding common shares (the "**Common Shares**") are listed for trading on the TSX Venture Exchange under the symbol "RX".

The accompanying consolidated financial statements (the "**Financial Statements**") of BioSyent include the accounts of BioSyent Inc. and its four wholly-owned subsidiaries: BioSyent Pharma Inc., BioSyent Pharma International Inc., Hedley Technologies Ltd., and Hedley Technologies (USA) Inc. (formerly HTI Agritech (USA) Inc.) ("**Hedley USA**").

The Company changed its name from "Hedley Technologies Inc." to "BioSyent Inc." on June 13, 2006 to reflect the Company's forward focus on the pharmaceutical market. BioSyent Pharma was incorporated on April 6, 2006 under the *Canada Business Corporations Act* and commenced operations in 2006. Hedley Technologies Ltd. was incorporated on January 30, 1996 in the province of British Columbia, Canada. Hedley USA was incorporated on May 13, 1994 in the state of Washington, USA. BioSyent Pharma International Inc. was incorporated on April 18, 2016 in Barbados. Biosyent's principal place of business is located at 170 Attwell Drive, Suite 520, Toronto, Ontario, Canada M9W 5Z5.

These consolidated financial statements were approved by the Board of Directors on March 14, 2017.

2. Basis of Presentation

The principal accounting policies adopted in the preparation of these Financial Statements on a historical cost basis, with the exception of those financial assets and liabilities at fair value through profit or loss (FVTPL), are set out below. The policies have been consistently applied to all the years presented.

Statement of Compliance

These consolidated financial statements for the years ended December 31, 2016 and 2015 have been prepared and are in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of Consolidation

All inter-company transactions have been eliminated in these Financial Statements.

Functional and Presentation Currency

The presentation currency of these Financial Statements is the Canadian dollar. ("**CAD**") The functional currency of the Company and two of its subsidiaries, BioSyent Pharma and Hedley Technologies is the Canadian dollar. The functional currency of Hedley USA and BioSyent Pharma International Inc. is the U.S. dollar ("**USD**").

All financial information has been rounded to the nearest dollar except when otherwise indicated.

3. Use of Estimates and Accounting Judgments by Management

The preparation of these Financial Statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. On an ongoing basis, management evaluates its judgments, estimates and assumptions using historical experience and various other factors it believes to be reasonable under the given circumstances. In the future, actual experience may differ from these estimates and assumptions.

Judgments

a) Recoverability of asset carrying values

The Company assesses its equipment and intangible assets for impairment if there are events or changes in circumstances that indicate that carrying values may not be recoverable at each statement of financial position date. Such indicators include changes in the Company's business plans, changes in the market and evidence of physical damage.

Determination as to whether and how much an asset is impaired involves management's judgment on highly uncertain matters such as future selling and purchasing prices, the effects of inflation on operating expenses, discount rates, and economics of different pharmaceutical or medical products.

b) Impairment of trade and other receivables

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, financial condition of the customer, and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful debts is established based on specific situations and overall industry conditions.

c) Income taxes

The Company is subject to income tax assessment in multiple jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken in the ordinary course of business for which the ultimate tax determination is uncertain.

The Company recognizes liabilities based on the Company's current understanding of tax laws as applied to the Company's circumstances. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of these Financial Statements. Additionally, estimating income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income before such deductions expire. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

Estimates

The most significant estimates made by management include the following:

a) Depreciation

Depreciation of the Company's equipment involves estimates of future useful lives and residual values. These estimates may change as more experience is obtained or as general market conditions change, thereby impacting the value of the Company's equipment.

b) Share-based payments

Issuances and grants of share options are valued using the fair value method. Management uses the Black-Scholes option pricing model to estimate the fair value of share options determined at grant date for options granted to employees. Significant assumptions affecting the valuation of options include the term allowed for option exercise, a volatility factor relating to the Company's historical share price, dividend yield, forfeiture rate and risk-free interest rate.

c) Inventory

Management has estimated the value of inventory based upon its assessment of the net realizable value less selling costs. All slow moving merchandise has been allowed for by management.

4. Summary of Significant Accounting Policies

Revenue Recognition

Revenue resulting from the sale of goods to resellers or final customers is measured at the agreed upon consideration received or receivable, net of estimated returns and discounts, rebates and after eliminating intercompany sales. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the sale of goods is recognized when all of the following criteria are met:

- The risks and rewards of ownership, including managerial involvement, have transferred to the buyer;
- The amount of revenue can be measured reliably;
- The receipt of economic benefits is probable; and
- The costs incurred or to be incurred can be measured reliably.

Financial Instruments

All financial assets and financial liabilities, in respect of financial instruments, are recognized on the Company's statements of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are incremental and are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities measured at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

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

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The classification of financial instruments dictates how these assets and liabilities are measured subsequently in the Company's consolidated financial statements.

Impairment of Financial Assets

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss has occurred on an unquoted or not actively traded equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and is recognized in profit or loss for the period. Reversals of impairment losses on assets carried at cost are not permitted.

For financial assets carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

Objective evidence of impairment of financial assets carried at amortized cost exists if the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable the counterparty will enter into bankruptcy or a financial reorganization.

Impairment of Non-Financial Assets

Equipment and intangible assets are reviewed for impairment at the end of each reporting period for events or circumstances that indicate that the carrying value of an asset may not be recoverable. In such cases where an indicator of impairment exists, the recoverable amount of the asset is estimated to determine whether there is an impairment loss. The recoverable amount of an asset is first tested on an individual basis.

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available market data less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. These calculations require the use of estimates and forecasts of future cash flows. Qualitative factors, including market presence and trends, strength of customer relationships, strength of local management, strength of debt and capital markets, and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. A change in any of the significant assumptions or estimates used to evaluate non-financial assets could result in a material change to the results of operations.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value, by reference to the reliability of the inputs used to estimate the fair values.

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's forward contract derivatives and dual currency deposits are measured at fair value through profit or loss using Level 2 inputs. The Company's cash and cash equivalents are measured at fair value through profit or loss using Level 1 inputs. There were no transfers between Levels 1 or 2 during the year.

Equipment

Equipment is recorded at historic cost less accumulated depreciation. The cost of equipment is its purchase cost, together with any directly attributable costs relating to the acquisition. The Company records depreciation of equipment at the following rates and methods based on the asset's estimated useful economic lives:

Furniture and fixtures	20%	declining balance method
Equipment	20%	declining balance method
Computer equipment	30%	declining balance method
Computer software	30%	declining balance method

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within the statements of comprehensive income.

Cash and Cash Equivalents and Short Term Investments

Cash and cash equivalents includes cash held at financial institutions and highly liquid investments with the ability to be converted into cash within 90 days or less.
Short term investments are comprised of deposits with Chartered Canadian banks with maturities of more than 90 days. These investments are held in Canadian dollars or in foreign currencies and are interest bearing.

Inventory

Inventory is measured on a first in first out basis at the lower of cost and net realizable value. When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

Intangible Assets

Intangible assets with definite useful lives consist of new product dossier and filing costs, which represent professional fees incurred for the filing of patents and the registration of trademarks for product marketing and manufacturing purposes, product licenses and rights, which represent contractual milestone payments and professional fees incurred in acquiring product distribution rights, and trademarks. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial reporting period. Intangible assets with definite useful lives will be amortized on a straight-line basis over their estimated useful lives. Patent and trademark registration and maintenance fees paid are amortized over the period covered by the registration fee period, ranging between 5 and 20 years unless the economic life is shorter. Product licenses and rights are amortized over the term of the underlying agreement commencing upon the launch of the product.

Development Costs

Research costs are expensed as incurred. Development costs are also expensed unless they meet specific criteria related to technical, market and financial feasibility, in which case they are deferred and amortized to operations using the straight-line method over the economic life of the product from the date of completion of the project.

Foreign Currency Translation

Items included in the consolidated financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in net income.

Assets and liabilities of entities with functional currencies other than Canadian dollars are translated at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the year. The resulting translation adjustments are included in cumulative translation adjustment in shareholders' equity. Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are included in cumulative translation adjustment account, as part of other comprehensive income.

Taxation

Tax expense comprises current and deferred tax. Tax is recognized in the statements of comprehensive income except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current Tax:

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Tax:

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising from investments in subsidiaries that are not expected to reverse in the foreseeable future.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Share-Based Payments

The Company has an equity-settled share based payments plan which is described in Note 10(d). Any consideration paid by employees upon the exercise of any stock options increases share capital. The Company does not repurchase stock options from option holders.

Compensation costs attributable to all stock options granted to employees are measured at fair value, using the Black-Scholes option pricing model, at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

Options granted to non-employees are measured at the fair value of the goods and services received or to be received.

Earnings per Share

Basic earnings per share is computed by dividing the net income after taxes by the weighted average number of common shares outstanding during the year. Diluted earnings per share information is calculated assuming the deemed exercise of all in-the-money stock options and that all deemed proceeds to the Company are used to repurchase the Company's stock at the average market price during the period. No adjustment to diluted earnings per share is made if the result of this calculation is anti-dilutive.

Financial Instruments at Fair Value Through Profit or Loss (FVTPL)

Financial instruments are classified as FVTPL when they are held for trading. A financial instrument is held for trading if it was acquired for the purpose of selling in the near term. Derivative financial instruments that are not designated and effective as hedging instruments are classified as FVTPL. Financial instruments classified as FVTPL are stated at fair value with any changes in fair value recognized in earnings for the period. Financial assets in this category include cash and cash equivalents, short-term investments, dual currency deposits and derivatives. The Company may enter into derivative financial instruments to manage exposure to foreign exchange fluctuations and to improve the returns on its cash assets. These instruments are non-hedge derivative instruments.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Financial assets in this category include trade receivables and other receivables.

Other Financial Liabilities

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired. Financial liabilities in this category include accounts payable and accrued liabilities.

Recent Accounting Pronouncements

Certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not yet been adopted by the Company. Management anticipates that all of the relevant pronouncements will be adopted by the Company for the first period following the effective date of the pronouncement.

(Expressed in Canadian Dollars)

IFRS 9 *Financial Instruments:*

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is in the process of evaluating the impact of this new standard, but does not anticipate any material impact to its financial statements.

IFRS 15 *Revenue from Contracts with Customers*:

The IASB has issued IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contract with customers. This standard is effective for annual periods beginning on or after January 1, 2018, and permits early adoption. The Company will not be early adopting IFRS 15. The Company has elected to adopt IFRS 15 using the modified retrospective approach. Under this approach the Company will recognize transitional adjustments in retained earnings on the date of initial application (January 1, 2018), without restating comparatives. The application of IFRS 15 may affect the timing of revenue recognition relating to variable consideration resulting from sales returns, rebates and discounts. The Company expects to report more detailed information in its 2017 financial statements.

IFRS 16 *Leases:*

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Company is in the process of evaluating the impact of this new standard.

5. Inventory

Inventory is comprised of the following:

	December 31, 2016	December 31, 2015
Raw and Packaging Materials	**$704,060**	$512,414
Finished Goods	**855,990**	1,232,522
Total	**$1,560,050**	$1,744,936

Cost of Goods Sold consists of the following:

	December 31, 2016	December 31, 2015
Raw and Packaging Materials and Finished Goods	**$3,682,872**	$3,189,909
Freight	**112,961**	86,130
Royalties	**-**	2,403
Total	**$3,795,833**	$3,278,442

6. Financial Instruments and Financial Risk Management

Fair Value Measurement

Fair Value Estimation of Financial Instruments

The Company's carrying value of cash and cash equivalents, short term investments, derivative assets, trade and other receivables, accounts payable and accrued liabilities approximate their fair values due to the immediate or short term maturity of these instruments.

Risks

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including foreign exchange risk, interest rate risk, and credit risk) and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. Risk management is carried out under the policies described below. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated with the approved policies.

- Forward Contracts:

The Company periodically enters into foreign exchange forward contracts to manage its foreign exchange risk on contracts denominated in U.S. dollars and Euros with financial institutions with investment grade credit ratings. Such contracts are classified as derivative financial instruments and measured at fair value through profit and loss. As at December 31, 2016, the Company entered into forward contracts to purchase a total of USD 2,250,000 (December 31, 2015 – USD 1,800,000).

The contracts give the Company the right to buy a total of USD 900,000 at an exchange rate expressed in CAD per USD of 1.2500 which will be settled on various dates from the date hereof to July 2017. The Company’s right to buy USD on the respective settlement dates is subject to the spot exchange rates on the settlement dates being below a rate of 1.3520 CAD per USD and above a rate of 1.2500 CAD per USD. The Company had additional contracts to buy a total of USD 1,350,000 at 1.2500 CAD per USD which will be settled on various dates from the date hereof to July 2017. The Company’s right to buy USD on the respective settlement dates is subject to the spot exchange rates on the settlement dates being below a rate of 1.2400 CAD per USD.

As at December 31, 2016, the Company also entered into a forward contract to sell USD 1,500,000 at an exchange rate of 1.3390 CAD per USD which will be settled in January 2017.

(Expressed in Canadian Dollars)

The fair value of forward exchange contracts is estimated based on quoted values from financial institutions.

The Company's forward contracts resulted in a derivative asset of $32,025 for the year ended December 31, 2016 (2015 – $34,569).

The following table illustrates the Company's investment in forward contracts that are measured at fair value through profit and loss ("**FVTPL**"):

December 31, 2016	Level 1	Level 2	Level 3
Forward Contracts	-	32,025	-

December 31, 2015	Level 1	Level 2	Level 3
Forward Contracts	-	34,569	-

- Dual Currency Deposits:

The Company also invests in dual currency deposits ("**DCD**"). A DCD is a CAD or foreign currency denominated transaction that provides an enhanced guaranteed interest payment at maturity. However, the original denominated currency is converted to another specified currency at a specified exchange rate depending on whether the spot rate on the maturity date is above or below a specified fixed exchange rate. The fair value of DCDs is estimated based on quoted values from financial institutions.

The following table illustrates the Company's investment in DCDs measured at fair value through profit and loss:

December 31, 2016	Level 1	Level 2	Level 3
DCDs	-	nil	-

December 31, 2015	Level 1	Level 2	Level 3
DCDs	-	4,850,359	-

At December 31, 2016, the company had nil DCDs.

At December 31, 2015, the Company had the following CAD denominated DCDs that were convertible into USD.

Type of Financial Instrument	Spot Rate on Transaction Date	Principal (CAD)	Net Fair Value (CAD)	Guaranteed Interest Rate	Maturity Date	Fixed Maturity Conversion Rate
	December 31, 2015					
DCD	1.3019	1,000,000	1,006,507	2.66%	January 20, 2016	1.2600
DCD	1.2982	250,000	251,708	2.79%	January 21, 2016	1.2650

The Company had also invested in the following CAD and Euro ("**EUR**") denominated DCDs at December 31, 2015:

Type of Financial Instrument	Spot Rate on Transaction Date	Principal (CAD / EUR)	Net Fair Value (CAD)	Guaranteed Interest Rate	Maturity Date	Fixed Maturity Conversion Rate
	December 31, 2015					
DCD	1.4257	1,100,000 CAD	1,111,457	4.85%	February 23, 2016	1.4000
DCD	1.4120	500,000 EUR	722,066	5.00%	February 29, 2016	1.4300
DCD	1.4120	450,000 EUR	650,198	5.50%	February 25, 2016	1.4300
DCD	1.4217	1,100,000 CAD	1,108,423	4.20%	March 9, 2016	1.4000

The Company has included in selling, general and administration expenses, net gains of nil (2015 – net gains of $41,859) relating to the change in fair value in the DCD contracts, which relates primarily to the guaranteed accrued interest, which is included in the fair value disclosed above.

➢ Foreign Exchange Risk:

The Company currently earns revenue in Canadian dollars, U.S. dollars and Euros and incurs costs in Canadian dollars, U.S. dollars and Euros. Management monitors the foreign currency net liability position on a periodic basis throughout the course of the year and adjusts the total net monetary liability balance accordingly. When it is appropriate to de-risk future foreign exchange transactions, the Company will reduce its exposure by booking foreign exchange forward cover transactions.

The following tables present foreign exchange sensitivity analyses for the assets and liabilities of the Company denominated in foreign currencies:

Foreign Exchange Sensitivity Analysis - USD

	December 31, 2016	December 31, 2015
Description of Asset/(Liability)	**USD**	USD
Cash and cash equivalents	**1,592,413**	44,182
Less		
Accounts payable	**(625,927)**	(510,695)
Net Total	**966,486**	(466,513)
Foreign Exchange Rate CAD per USD at the end of the year	**1.3427**	1.3840

At December 31, 2016, if the U.S. dollar had been stronger or weaker by 1% against the Canadian dollar with all other variables held constant, comprehensive income would have been $9,538 higher or lower on an after tax basis (December 31, 2015 - $4,746 lower or higher).

(Expressed in Canadian Dollars)

Foreign Exchange Sensitivity Analysis - EUR

	December 31, 2016	December 31, 2015
Description of Asset/(Liability)	**EUR**	EUR
Cash and cash equivalents	**254,198**	235,329
Trade receivables	**63,600**	-
Short term investments		950,000
Less		
Accounts payable	**(64,727)**	(30,790)
Net Total	**253,071**	1,154,539

Foreign Exchange Rate CAD per EUR at the end of the year	**1.4169**	1.5029

At December 31, 2016, if the Euro had been stronger or weaker by 1% against the Canadian dollar with all other variables held constant, comprehensive income would have been $2,636 higher or lower on an after tax basis (December 31, 2015 - $12,753 higher or lower).

- Interest Rate Risk:

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in interest rates. Some of the Company's cash and cash equivalents as at the date of the Company's Statement of Financial Position are invested in redeemable guaranteed investment certificates (each, a "**GIC**"), which earn interest at fixed rates during their tenure. The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rates of interest when these GICs are renewed may have an impact on the Company's profit for the year.

- Credit Risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents, short term investments, trade and other receivables. The carrying amount of financial assets represents maximum credit exposure. As the Company invests some of its cash in redeemable GICs its credit risk on this account is negligible.

The majority of the Company's current customers are large corporations. These customers have been dealing with the Company for several years and have never defaulted in settling their liabilities to the Company. Amounts past due are receivable from large corporations and as such, based on historical experience, the Company does not consider such amounts to be impaired

(Expressed in Canadian Dollars)

Trade Receivables

Description	**December 31, 2016**	December 31, 2015
Current	**$ 1,541,247**	$ 1,184,688
Past due 1-30 days	**289,271**	155,491
Past due 31-60 days	**90,150**	1,489
Over 60 days	**4,281**	3,100
Less allowance for doubtful accounts	**-**	(3,100)
Closing Balance	**$ 1,924,949**	$ 1,341,668
Maximum Credit Risk	**1,924,949**	1,341,668

One customer represents 31% of trade receivables (December 31, 2015: 43%) while another customer represents 36% of trade receivables (December 31, 2015: 27%). There have been no past defaults by either of these customers. Cash and cash equivalents and short term investments are maintained with Canadian financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal credit risk.

➢ Liquidity Risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is actively involved in the review and approval of planned expenditures. All contractual maturities of accounts payable and accrued liabilities are due within one year. The Company has no other liabilities.

The Company generates sufficient cash from operating activities to fund its operations and fulfill its obligations as they become due. The Company has credit facilities available with Royal Bank of Canada totalling $2,559,000, including a revolving demand credit facility of $1,500,000 which it has not drawn down as at the date hereof.

There were no changes to the Company's exposure to liquidity risk, credit risk, or interest rate risk or to its approach to managing these risks during the year ended December 31, 2016.

7. Cash and Cash Equivalents and Short Term Investments

Cash and Cash Equivalents and Short Term Investments comprise of the following:

	December 31, 2016	December 31, 2015
Cash	**$13,056,086**	$3,187,617
Redeemable GICs	**-**	1,205,000
Cash and cash equivalents	**13,056,086**	4,392,617
Short term investments	**683,200**	5,322,859
Total Cash and Short Term Investments	**$13,739,286**	$9,715,476

(Expressed in Canadian Dollars)

8. Equipment

	Furniture and Fixtures	Equipment	Computer Equipment	Computer Software	Total
COST:					
December 31, 2014	$ 55,480	$ 23,002	$ 58,348	$ 147,945	$ 284,774
2015 Additions	48,669	14,064	17,630	48,422	128,785
December 31, 2015	$ 104,149	$ 37,066	$ 75,978	$ 196,367	$ 413,559
2016 Additions			106,185	35,816	142,001
December 31, 2016	**$ 104,149**	**$ 37,066**	**$ 182,163**	**$ 232,183**	**$ 555,560**
ACCUMULATED DEPRECIATION:					
December 31, 2014	$ (21,257)	$ (9,652)	$ (33,449)	$ (63,508)	$ (127,867)
Changes in 2015	(11,711)	(4,076)	(10,114)	(29,536)	(55,437)
December 31, 2015	$ (32,968)	$ (13,726)	$ (43,565)	$ (93,045)	$ (183,304)
Changes in 2016	(14,236)	(4,667)	(25,652)	(36,370)	(80,925)
December 31, 2016	**$ (47,204)**	**$ (18,393)**	**$ (69,217)**	**$ (129,415)**	**$ (264,229)**
CARRYING AMOUNT					
December 31, 2014	$ 34,222	$ 13,350	$ 24,898	$ 84,437	$ 156,907
December 31, 2015	$ 71,180	$ 23,340	$ 32,413	$ 103,322	$ 230,255
December 31, 2016	**$ 56,945**	**$ 18,673**	**$ 112,946**	**$ 102,768**	**$ 291,331**

(Expressed in Canadian Dollars)

9. Intangible Assets

Intangible assets consist of new product development costs, product licenses and distribution rights as well as the costs to file patents, trademarks and applications for new product licenses issued by government regulatory bodies.

	New Product Dossier and Filing Costs	Product Licenses and Rights	New Product Development	Trademarks	Total
COST:					
December 31, 2014	$ 66,720	-	-	-	$ 66,720
2015 Additions	173,044	803,199	36,041	6,450	1,018,734
December 31, 2015	$ 239,764	$ 803,199	$ 36,041	$ 6,450	$ 1,085,454
2016 Additions	123,120	89,821	19,481	31,041	263,463
December 31, 2016	**$ 362,884**	**$ 893,020**	**$ 55,522**	**$ 37,491**	**$ 1,348,917**
ACCUMULATED AMORTIZATION:					
December 31, 2014	-	-	-	-	-
Changes in 2015	(5,966)	-	-	-	(5,966)
December 31, 2015	$ (5,966)	$ -	$ -	$ -	$ (5,966)
Changes in 2016	(7,148)	(58,568)			(65,716)
December 31, 2016	**$ (13,114)**	**$ (58,568)**	**$ -**	**$ -**	**$ (71,682)**
CARRYING AMOUNT					
December 31, 2014	$ 66,720	$ -	$ -	$ -	$ 66,720
December 31, 2015	$ 233,798	$ 803,199	$ 36,041	$ 6,450	$ 1,079,488
December 31, 2016	**$ 349,770**	**$ 834,452**	**$ 55,522**	**$ 37,491**	**$ 1,277,235**

Cumulatively, the Company has incurred product dossier and filing costs of $362,884 (December 31, 2015 – $239,764) to date on eight products, two of which, Aguettant System® Atropine and Phenylephrine pre-filled syringes, have been approved and launched. The filing costs incurred in respect of these products are being amortized on a straight-line basis over their estimated useful lives of 5 years based on marketability. The other six products, with a combined carrying amount of $297,578, have not yet been launched to the market and as such, no amortization has yet been recorded.

On May 25, 2016, the Company entered into a Distribution Agreement with a European partner to acquire the exclusive Canadian rights to use the trademarks of two cardiovascular pharmaceutical products as well as an exclusive, royalty-free, non-transferable, non-assignable license to import, promote and sell these products in Canada. The Company has incurred product dossier and filing costs of $20,986 related to these products, which have not yet been launched to the Canadian market.

On November 7, 2016, the Company entered into a License and Supply Agreement with a European partner to acquire the exclusive Canadian rights to use the product registration documentation of a women's health pharmaceutical product and a license to sell, market and distribute this product in Canada. In addition to an initial EUR 20,000 (CAD 28,338) license fee upon signing this agreement, the Company is committed to certain annual license fee payments to its European partner contingent upon the future sales of the product (see *Note 13*).

(Expressed in Canadian Dollars)

The Company has also incurred product dossier and filing costs of $14,951 related to this product, which has not yet been launched to the Canadian market.

On August 18, 2015, the Company entered into a Distribution and Supply Agreement with Photocure ASA (the "**Distribution and Supply Agreement**") to acquire the exclusive rights to market, promote, distribute and sell the Cysview® product in Canada including an exclusive right to use the Cysview® trademark and a license to use the patents associated with the product in Canada. To December 31, 2016, the Company has incurred costs totalling $859,400 related to the acquisition and commercialization of Cysview® in Canada. These costs are being amortized on a straight-line basis over the 11 year term of the agreement.

In addition to the upfront payment made by the Company to Photocure ASA, certain future payments are also required by the Company under the Distribution and Supply Agreement contingent on the achievement of specific milestones (see *Note 13*). These milestone payments will be recognized as an increase to product licenses and rights when the specific milestones are achieved.

The Company has incurred new product development costs consisting of labour, laboratory and professional fees totalling $55,522 (December 31, 2015 - $36,041) relating to the development of a new product. The Company will commence amortization of these costs upon the completion of development.

The Company has incurred trademark costs of $37,491 (December 31, 2015 - $6,449) relating to registration application costs in various jurisdictions. The Company will commence amortization of these costs upon the granting of such trademarks.

10. Share Capital

a) Authorized

The authorized share capital of the Company consists of 100,000,000 common shares without par value and 25,000,000 preferred shares without par value. The holders of the preferred shares as a class shall not be entitled to receive notice of, to attend or to vote at any meeting of the shareholders of the Company.

b) Issued and outstanding common shares

	Shares	Amount
Balance December 31, 2014	13,851,195	$ 7,137,844
Options exercised	170,000	37,072
Balance December 31, 2015	14,021,195	$ 7,174,916
Options exercised	379,892	124,956
Balance December 31, 2016	**14,401,087**	**$ 7,299,872**

During the year ended December 31, 2016, 379,892 shares were issued against options exercised (2015 – 170,000). Upon the exercise of these stock options, $61,392 (2015 - $18,372) in fair value has been transferred from contributed surplus to share capital.

c) There are nil preferred shares outstanding as of December 31, 2016 (December 31, 2015 – nil).

(Expressed in Canadian Dollars)

d) Share-Based Payments

On March 11, 2014 the Board approved an incentive stock option plan (the "**SOP**") which was adopted by the shareholders of the Company on June 13, 2014 and re-approved on May 26, 2016. The purpose of the SOP is to assist the Company in attracting, retaining and motivating directors, officers, employees and other persons who provide ongoing services to the Company and its affiliates and to closely align the personal interests of such participants with those of the Company's shareholders, by providing them with the opportunity to acquire common shares of the Company, and thereby a proprietary interest in the Company and its subsidiaries, through the exercise of share purchase options.

On February 3, 2015, 23,876 options were granted by the Company to various employees and Directors under the SOP. Certain of these options shall fully vest on December 31, 2018 and certain of these options shall vest in annual increments over three years to December 31, 2018. The fair value of these options granted at an exercise price of $10.97 per option, has been determined using the Black-Scholes option pricing model using the following assumptions:

Share price at the date of grant	$10.97
Risk-free interest rate	1.30%
Dividend yield	0%
Volatility factor of expected market price of Company's shares	158.60%
Average expected option life (years)	10.00
Weighted-average grant date fair value of options granted	$10.85
Forfeiture rate	0%

On August 18, 2015, the Company granted 7,396 options to an employee. The options can be exercised at a price of $6.85 per option until August 18, 2025. One-third of these options shall vest at each anniversary date over three years. The fair value of these options has been determined using the Black-Scholes option pricing model using the following assumptions:

Share price at the date of grant	$6.85
Risk-free interest rate	1.31%
Dividend yield	0%
Volatility factor of expected market price of Company's shares	156.16%
Average expected option life (years)	10.00
Weighted-average grant date fair value of options granted	$6.76
Forfeiture rate	0.05%

(Expressed in Canadian Dollars)

On February 12, 2016, 45,273 options were granted by the Company to various employees and Directors under the SOP. An additional 1,114 options were granted to new employees during the period. Certain of these options shall fully vest on February 12, 2019 and certain of these options shall vest in annual increments over three years to February 12, 2019. The fair value of these options granted at an exercise price of $6.20 per option, has been determined using the Black-Scholes option pricing model using the following assumptions:

Share price at the date of grant	$6.20
Risk-free interest rate	1.01%
Dividend yield	0%
Volatility factor of expected market price of Company's shares	152.40%
Average expected option life (years)	10.00
Weighted-average grant date fair value of options granted	$6.11
Forfeiture rate	0.15%

During the year ended December 31, 2016, the Company recorded share-based payment expense of $235,477 (2015 - $163,566) relating to option grants to employees, directors and officers, which are included in Selling, General and Administration expenses in the consolidated statements of comprehensive income.

As at December 31, 2016, there were 211,138 (December 31, 2015 – 546,884) options outstanding, as shown below:

	December 31, 2016		December 31, 2015	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding, beginning of year	**546,884**	**$1.16**	689,486	$0.54
Granted	**46,387**	**$6.20**	31,272	$10.00
Cancelled or Forfeited	**(2,241)**	**$8.74**	(3,874)	$9.01
Exercised	**(379,892)**	**$0.17**	(170,000)	$0.11
Outstanding, end of period	**211,138**	**$3.97**	546,884	$1.16

Of the total number of options outstanding as of December 31, 2016, 134,456 options have vested and are exercisable by the option holders (December 31, 2015 – 501,155).

These exercisable options have a weighted average exercisable price of $2.04 (December 31, 2015 - $0.47). The weighted-average remaining contractual life of the 211,138 (December 31, 2015 – 546,884) options outstanding is 4.03 years (December 31, 2015 – 1.28 years) and the range of exercise prices for these options is $0.57 - $10.97 (December 31, 2015 - $0.10 - $10.97). The weighted average share price on the date of exercise of the options exercised during the year ended December 31, 2016 was $6.48 (December 31, 2015 - $7.18).

(Expressed in Canadian Dollars)

11. Earnings per Share

The following table reconciles the numerator and denominator for the calculation of basic and diluted earnings per share:

	Year ended December 31,	
	2016	**2015**
Numerator		
Net income attributable to common shareholders	**$ 4,309,505**	$ 3,764,889
Denominator		
Basic		
Weighted average number of shares outstanding	**14,366,114**	13,872,523
Effect of Dilutive Securities adjusted for exercised options	**138,917**	565,174
Diluted		
Weighted average number of shares outstanding	**14,505,031**	14,437,697
Basic earnings per share	**$ 0.30**	$ 0.27
Diluted earnings per share	**$ 0.30**	$ 0.26

(Expressed in Canadian Dollars)

12. Expenses by Nature

The expenses on the Financial Statements have been grouped by function to focus reader attention on the macro movements in cost from period to period while giving the reader an option to see the detail of expenses according to their nature, which are included below.

		Year ended December 31,	
		2016	**2015**
Cost of Goods Sold	$	**3,795,833**	3,278,442
Selling and Marketing	$	**4,820,537**	4,029,626
Advertising, Promotion and Selling Costs		**2,272,930**	2,188,344
Employee Costs		**2,280,204**	1,605,576
Share-based Payments		**41,088**	18,891
Logistics, Quality Control & Regulatory		**226,315**	216,815
General and Administration	$	**3,488,621**	2,996,361
Professional Fees		**121,465**	84,281
Corporate Expenses		**637,019**	747,221
Depreciation and Amortization		**146,641**	61,403
Employee Costs		**2,189,099**	1,826,131
Share-based Payments		**194,389**	144,675
Others		**185,839**	125,262
Foreign Exchange		**14,169**	7,388
New Business & Development Costs	$	**63,841**	26,378
Finance Income	$	**(116,417)**	(108,615)

The major functions include Cost of Goods Sold, Selling and Marketing, General and Administration, New Business and Development and Finance Costs / (Income). The nature of expenses covered by each function is broadly outlined below with the caveat that the descriptions provided are indicative and should not to be construed as being comprehensive:

- Cost of Goods Sold: Includes expenses related to purchase of products, change in inventory, variable freight and royalty cost on sales
- Selling and Marketing: Includes all expenses related to selling, marketing, sales and marketing personnel compensation and distribution expenses
- General and Administration: Includes expenses associated with running the day to day operations of the business
- New Business and Development: Includes expenses related but not limited to acquiring new drugs, scientific consulting and regulatory fees.
- Finance Costs / (Income): Includes interest charges and income.

(Expressed in Canadian Dollars)

13. Contingencies

Litigations

From time to time the Company may be exposed to claims and legal actions in the normal course of business. As at December 31, 2016, the Company was not aware of any litigation or threatened claims either outstanding or pending.

Cysview® Distribution and Supply Agreement

Under the terms of the August 18, 2015 Distribution and Supply Agreement between the Company and Photocure ASA in respect of the Cysview® product (see *Note 9*), milestone payments averaging $220,438 (USD 168,055) per year for three consecutive years are potentially required to be made by the Company to Photocure ASA between December 31, 2020 and December 31, 2022 dependent upon the achievement of certain events. The Company will record these amounts as the events occur.

Women's Health Products License and Supply Agreement

Under the terms of the November 7, 2016 License and Supply Agreement between the Company and its European partner in respect of a women's health pharmaceutical product (see *Note 9*), the Company will make annual license fee payments to its European partner in each of the first four years of the Agreement equal to 1% of the Company's net sales of the product in Canada.

14. Commitments

Office Lease

The Company's minimum future rental payments and operating costs are approximately as follows:

Fiscal 2017	$ 181,434
Fiscal 2018	$ 15,120

Purchase Commitments

In the normal course of business, the Company has minimum purchase commitments with certain of its suppliers.

15. Related Party Transactions

Key Management Personnel Compensation

The table below summarizes compensation for key management personnel of the Company for the years ended December 31, 2016 and 2015.

	Year ended December 31	
	2016	**2015**
Number of Key Management Personnel	**5**	4
Salary and Bonus	**$1,044,916**	$734,250
Share-Based Payments	**$119,134**	$66,960

(Expressed in Canadian Dollars)

Transactions with Other Key Management Personnel and Directors

During the year ended December 31, 2016, the Company paid total fees to its directors in the amount of $58,500 (2015 - $37,200) and share-based payments of $36,224 (2015 - $29,664).

Additionally, the Company incurred a remuneration expense of $21,500 for professional services rendered by one of its directors for the year ended December 31, 2016 (2015 - $18,000). These related party transactions have occurred in the normal course of operations.

Share Loan Arrangement

On December 8, 2016, the Board of Directors approved a Share Loan Arrangement under which the Company would offer short-term, one-time loans, up to $600,000 in aggregate, to certain key management personnel for the purpose of their purchase of the Company's common shares at prevailing market prices through the facilities of the TSX Venture Exchange. All common shares purchased through the Share Loan Arrangement would be pledged as security against the loans.

The Company's Compensation and Human Resources Committee oversees this Share Loan Arrangement on behalf of the Board of Directors.

In 2016, nil loans were advanced to key management personnel and nil common shares were purchased by key management personnel under the Share Loan Arrangement.

16. Capital Disclosures

For capital management purposes, the Company defines capital as its shareholders' equity that includes share capital, contributed surplus, cumulative translation adjustment and retained earnings. The amounts included in the Company's capital for the relevant period are as follows:

December 31, 2016	$16,726,716
December 31, 2015	$12,151,482

The Company's principal objectives in managing capital are:

- to ensure that it will continue to operate as a going concern;
- to be flexible in order to take advantage of contract and growth opportunities that are expected to provide satisfactory returns to its shareholders;
- to maintain a strong capital base so as to maintain clients, investors, creditors and market confidence; and
- to provide an adequate rate of return to its shareholders.

The Company manages and adjusts its capital structure in light of changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue debt or new shares. Financing decisions are generally made on a specific transaction basis and depend on such things as the Company's needs, capital markets and economic conditions at the time of the transaction. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable, given the size of the Company.

The Company does not have any externally imposed capital compliance requirements at December 31, 2016. There were no changes in the Company's approach to capital management during the year.

(Expressed in Canadian Dollars)

17. Credit Facilities

The Company has credit facilities available with Royal Bank of Canada totalling $2,559,000, including a revolving demand credit facility of $1,500,000 which has not been utilized as of December 31, 2016. This credit facility bears interest at a variable rate of Royal Bank prime plus 0.75% and has been secured with a General Security Agreement constituting a first ranking security interest of the Bank in the Company's property. The Company is subject to maintaining certain financial covenants if the demand credit facility is drawn upon.

18. Taxes

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements.

Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income.

The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. The operations in Canada, Barbados and the United States are subject to income tax at average rates of 2.50% - 35.0% (2015 – 26.5% - 35.0%).

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2015 - 26.5%) to the effective tax rate is as follows:

	2016	2015
Net Income before tax	$5,869,855	$5,166,004
Combined statutory income tax rate	26.50%	26.50%
Expected income tax expense at current rate	$1,555,512	$1,368,991
Foreign tax differential	(2,510)	8,546
Change in exchange rates	4,570	(25,140)
Non-deductible expenses	79,198	55,562
Non-taxable portion of the capital gain	(29,150)	-
Tax rate changes and other adjustments	(47,270)	(6,844)
Change in deferred tax assets not recognized	-	-
Provision for tax	$1,560,350	$1,401,115

Current income tax expense	$1,514,530	$1,271,063
Deferred tax expense	45,820	130,052
	$1,560,350	$1,401,115

(Expressed in Canadian Dollars)

Deferred Tax Balances

The balance in the statement of financial position comprises:

	2016	**2015**
Net operating losses carried forward	$127,246	$120,208
Equipment and other	10,129	-
Deferred tax assets	$137,375	$120,208
Equipment and other	$(163,241)	$(100,254)
Deferred tax liability	$(163,241)	$(100,254)

The potential benefit of the carry-forward net operating losses in the United States have been recognized in these financial statements as it is probable that sufficient future tax profit will allow the deferred tax assets to be recovered.

There are United States net operating losses which will expire as follows:

Expiry	**United States (in CAD)**
2018	75,986
2019	76,480
2021	12,043
2022	53,039
2023	34,192
2024	81,043
2026	30,580
2031	197
	$ 363,560

19. Segment Reporting

A segment is a component of the Company:

i) that engages in business activities from which it may earn revenue and incur expenses;
ii) whose operating results are reviewed by the board of directors; and
iii) for which discrete financial information available.

Though the Company has a legacy business in biologically and health friendly insecticides, management of the Company is primarily focused on growing the pharmaceutical business and does not account for administrative overhead separately for the insecticide business. Consequently, the Company recognizes one business segment for all of its operations.

(Expressed in Canadian Dollars)

The revenue breakdown by business is provided below:

a) for both the pharmaceutical and insecticide business; and
b) for both Canadian and international jurisdictions

Revenue by Business

	Year ended December 31,	
	2016	**2015**
Canada		
Pharma Business	**$15,113,621**	$13,270,838
Insecticide Business	**1,156,385**	837,381
Total Canada	**$16,270,006**	$14,108,219
International Jurisdictions		
Pharma Business	**$1,549,538**	$1,142,035
Insecticide Business	**102,726**	137,942
Total International Jurisdictions	**$1,652,264**	$1,279,977
Total Revenue	**$17,922,270**	$15,388,196

Non-Current Assets consist of equipment, intangible assets and deferred tax asset. As indicated in the table below, Non-Current Assets are located in Canada and foreign jurisdictions.

Non-Current Assets	**December 31, 2016**	**December 31, 2015**
Canada	$1,578,695	$1,309,743
Foreign Jurisdictions	$ 127,246	$ 120,208

20. Subsequent Event

Employee Share Purchase Plan

On January 1, 2017, the Company introduced an Employee Share Purchase Plan (“ESPP”). Under the ESPP, eligible BioSyent employees, including certain key management personnel, are permitted to contribute up to a maximum of 10 per cent of their gross salary to purchase the Company’s common shares in the open market through the facilities of the TSX Venture Exchange. The contributions are matched by the Company up to a maximum of 2.5 per cent of the applicable employee’s gross base salary.

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