BioSyent Inc.

Audited Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

Expressed in Canadian Dollars

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BioSyent

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 for BioSyent Inc. (the "**Company**"), including significant accounting judgments and estimates in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. 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, 2018 and 2017 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. 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.

Robert J. March

Vice-President and Chief Financial Officer, BioSyent Inc.

March 19, 2019

Independent Auditor's Report

To the Shareholders of BioSyent Inc.:

Opinion

We have audited the consolidated financial statements of BioSyent Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017 and the consolidated statements of comprehensive income, changes in shareholders' equity and 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 Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits 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 Company in accordance with the ethical requirements that are relevant to our audits 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:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits 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 on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company'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 Company'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 Company 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 Company 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 audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

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 Pierrette Dosanjh.

MNP LLP

Toronto, Ontario
March 19, 2019

Chartered Professional Accountants
Licensed Public Accountants

BioSyent Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

AS AT	December 31, 2018	December 31, 2017
ASSETS		
Trade and other receivables *(Note 5)*	$2,115,293	$2,236,695
Inventory *(Note 6)*	1,483,392	908,825
Prepaid expenses and deposits	300,821	147,326
Income tax recoverable *(Note 21)*	-	71,924
Derivative asset *(Note 7)*	27,344	-
Short term investments *(Note 8)*	7,592,332	6,686,484
Cash and cash equivalents *(Note 9)*	16,832,769	12,651,951
CURRENT ASSETS	28,351,951	22,703,205
Equipment *(Note 10)*	271,785	290,926
Intangible assets *(Note 11)*	1,942,682	1,670,210
Loans receivable *(Note 12)*	576,929	393,860
Deferred tax asset *(Note 21)*	45,144	46,647
TOTAL NON CURRENT ASSETS	2,836,540	2,401,643
TOTAL ASSETS	$31,188,491	$25,104,848
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	$2,779,672	$2,539,132
Contract liability *(Note 3)*	112,353	-
Derivative liability *(Note 7)*	-	76,462
Income tax payable *(Note 21)*	321,752	-
CURRENT LIABILITIES	3,213,777	2,615,594
Deferred tax liabilty *(Note 21)*	369,052	276,327
TOTAL NON CURRENT LIABILITIES	369,052	276,327
Share capital *(Note 13)*	7,654,993	7,518,403
Contributed surplus	976,957	679,169
Cumulative translation adjustment	(14,734)	904
Retained earnings *(Note 3)*	18,988,446	14,014,451
Total Equity	27,605,662	22,212,927
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$31,188,491	$25,104,848

Contingencies *(Note 16)*
Commitments *(Note 17)*
Related party transactions *(Note 18)*
Subsequent event *(Note 23)*

APPROVED ON BEHALF OF THE BOARD

Mr. René Goehrum
DIRECTOR
March 19, 2019

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,	2018	2017
Net revenues from contracts with customers *(Notes 3, 22)*	$21,527,028	$20,762,755
Cost of goods sold *(Note 6)*	4,952,864	4,788,085
Gross profit	16,574,164	15,974,670
Selling, general and administration expenses *(Note 14)*	9,672,147	9,515,168
New business development costs	107,457	79,877
Finance income (Notes 14)	(752,246)	(470,539)
NET INCOME BEFORE TAXES	7,546,806	6,850,164
Current income tax *(Note 21)*	1,747,192	1,440,073
Deferred tax *(Note 21)*	94,228	203,814
NET INCOME AFTER TAXES	5,705,386	5,206,277
OTHER COMPREHENSIVE INCOME		
Currency translation losses	(15,638)	(23,505)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$5,689,748	$5,182,772
Basic earnings per share *(Note 15)*	$0.39	$0.36
Diluted earnings per share *(Note 15)*	$0.39	$0.36

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,	2018	2017
OPERATING ACTIVITIES		
Net income after taxes	$5,705,386	$5,206,277
Items not affecting cash:		
Depreciation - equipment *(Note 10)*	87,296	91,563
Amortization - intangible assets *(Note 11)*	97,990	97,990
Share-based payments *(Note 13)*	390,388	192,581
Impairment loss on intangible assets *(Note 11)*	65,408	58,352
Change in derivative asset/liability	(103,806)	108,487
Current Income tax *(Note 21)*	1,747,192	1,440,073
Deferred tax *(Note 21)*	94,228	203,814
Cash paid for taxes	(1,354,299)	(1,741,141)
Net change in non-cash working capital items:		
Trade and other receivables	121,402	(295,518)
Inventory	(574,567)	651,225
Prepaid expenses and deposits	(153,495)	122,378
Accounts payable and accrued liabilities	108,869	410,050
Contract liability	54,606	-
Cash provided by operating activities	6,286,598	6,546,131
INVESTING ACTIVITIES		
Additions to equipment *(Note 10)*	(68,155)	(91,158)
Additions to intangible assets *(Note 11)*	(435,870)	(549,317)
Increase in short term investments	(905,848)	(6,003,284)
Loan advances	(175,000)	(393,860)
Cash used in investing activities	(1,584,873)	(7,037,619)
FINANCING ACTIVITIES		
Proceeds from stock options exercised	100,924	110,858
Repurchase of common shares – NCIB	(606,193)	-
Cash (used in) provided by financing activities	(505,269)	110,858
Effect of foreign currency translation adjustment	(15,638)	(23,505)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,180,818	(404,135)
Cash and cash equivalents, beginning of year	12,651,951	13,056,086
CASH AND CASH EQUIVALENTS – END OF YEAR	$16,832,769	$12,651,951
SUPPLEMENTARY DISCLOSURE:		
NET CHANGE IN CASH AND SHORT TERM INVESTMENTS		
Cash and short term investments, beginning of year	$19,338,435	$13,739,286
Increase in short term investments	905,848	6,003,284
Increase in cash and cash equivalents	4,180,818	(404,135)
CASH AND SHORT TERM INVESTMENTS – END OF YEAR	$24,425,101	$19,338,435
INTEREST RECEIVED DURING THE YEAR	$288,996	$77,149

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 as of January 1, 2018	$ 7,518,403	$ 679,169	$ 904	$ 14,014,451	$ 22,212,927
Cumulative effect of adopting IFRS 15 *(Note 3)*				(42,444)	(42,444)
Balance as of January 1, 2018 (as restated)	$ 7,518,403	$ 679,169	$ 904	$ 13,972,007	$ 22,170,483
Comprehensive Income for the year	-	-	(15,638)	5,705,386	5,689,748
Common shares repurchased under Normal Course Issuer Bid *(Note 13)*	(56,934)	-	-	(688,947)	(745,881)
Effect of Share-based payments: Options granted / vested *(Note 13)*	-	390,388	-	-	390,388
Effect of Share-based payments: Options exercised *(Note 13)*	193,524	(92,600)	-	-	100,924
Balance as of December 31, 2018	$ 7,654,993	$ 976,957	$ (14,734)	$ 18,988,446	$ 27,605,662

	Share Capital	Contributed Surplus	Cumulative Currency Translation Adjustment	Retained Earnings	Total Shareholders' Equity
Balance as of January 1, 2017	$ 7,299,872	$ 594,261	$ 24,409	$ 8,808,174	$ 16,726,716
Comprehensive Income for the year	-	-	(23,505)	5,206,277	5,182,772
Effect of Share-based payments: Options granted / vested *(Note 13)*	-	192,581	-	-	192,581
Effect of Share-based payments: Options exercised *(Note 13)*	218,531	(107,673)	-	-	110,858
Balance as of December 31, 2017	$ 7,518,403	$ 679,169	$ 904	$ 14,014,451	$22,212,927

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 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. 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 Financial Statements were approved by the Board of Directors on March 19, 2019.

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, 2018 and 2017 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 Ltd., 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 where otherwise indicated.

3. Summary of Significant Accounting Policies

Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9 *Financial instruments*, which replaced the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The Company applied the new standard retrospectively and, in accordance with the transitional provisions, comparative figures have not been restated. The adoption of IFRS 9 did not have a material impact on the Company's Financial Statements.

IFRS 9 includes guidance on the classification and measurement of financial instruments and introduces a new expected credit loss ("ECL") model for calculating impairment on financial assets as well as new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). Financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

As a result of adopting this standard, certain of the Company's financial assets previously classified in the loans and receivables category under IAS 39, specifically, the Company's trade receivables, other receivables, and loans receivable, are now classified in the amortized cost category under IFRS 9. Additionally, the Company's accounts payable and accrued liabilities, previously classified as other financial liabilities under IAS 39, are now classified in the amortized cost category under IFRS 9. Derivative assets and liabilities and forward contracts continue to be classified under FVTPL under IFRS 9. These new classification categories do not impact the measurement basis for the Company's financial assets and liabilities. There were no adjustments to the carrying amounts of these financial instruments as a result of the adoption of IFRS 9.

There was also no impact on the Company's credit risk assessments as a result of adopting IFRS 9 and the ECL model for calculating impairment on financial assets, given the nature of the Company's financial assets, customer base, and history of incurring minimal credit losses.

The following financial instruments accounting policy is applicable from January 1, 2018:

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.

Financial Instruments Measured 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 sale 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 certain short-term investments 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.

Financial Assets Measured at Amortized Cost

Financial assets measured at amortized cost 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, these financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Financial assets in this category include cash and cash equivalents, short-term investments, trade receivables, other receivables, and loans receivable.

Loans receivable consist of full recourse loans issued to employees, as described in Note 12. As the loans are full recourse, they are not recorded as share-based payments, but instead as loans, which fall within the scope of IFRS 9 *Financial Instruments*.

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.

The Company recognizes expected credit losses for trade receivables based on the simplified approach under IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Trade receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

For financial assets carried at amortized cost (loans receivable), the Company recognizes loss allowances for ECLs on its financial assets measured at amortized cost. ECLs are a probability-weighted estimate of credit losses. The Company applies a three-stage approach to measure ECLs. The Company measures loss allowance at an amount equal to 12 months of expected losses for performing loans receivable if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1) and at an amount equal to lifetime expected losses on loans receivable that have experienced a significant increase in credit risk since origination (Stage 2) and at an amount equal to lifetime expected losses which are credit impaired (Stage 3).

The Company considers a significant increase in credit risk to have occurred if contractual payments are more than 30 days past due and considers the loans receivable to be in default if they are 90 days past due. A significant increase in credit risk or default may have also occurred if there are other qualitative factors (including forward looking information) to consider; such as borrower specific information (i.e. change in credit assessment). Such factors include consideration relating to whether 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.

Financial Liabilities Measured at Amortized Cost

Financial liabilities measured at amortized cost 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.

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 foreign exchange contract derivatives 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.

Revenue Recognition

Effective January 1, 2018, the Company adopted 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 contracts with customers.

IFRS 15 introduces a 5-step revenue recognition model based on the principle that an entity should recognize revenue as performance obligations are satisfied based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company has elected to apply IFRS 15 using the modified retrospective approach only to contracts that were not completed contracts as of the date of initial application (January 1, 2018). Under this approach, the Company has recognized the cumulative effect of adopting IFRS 15 in opening retained earnings on the date of initial application, without restating comparative figures.

The application of IFRS 15 affects the Company's determination of the transaction price in Step 3 of the revenue recognition model and the amount of revenue the Company recognizes due to the variable consideration element arising in certain of its contracts with customers. Promised consideration from a customer can vary due to discounts, rebates, refunds, credits, price concessions, incentives, or similar items.

Where the consideration promised in a contract with a customer includes a variable amount, IFRS 15 requires that an entity estimate the amount of consideration to which it ultimately expects to be entitled in exchange for transferring the promised goods or services to a customer.

As a result of applying these requirements of IFRS 15 as of the date of initial application, the Company recognized the following adjustments to its consolidated statement of financial position as of January 1, 2018:

As at January 1, 2018

Line Item	Impact upon adoption of IFRS 15 ($)
Increase in contract liability	92,597
Decrease in accounts payable and accrued liabilities	(34,850)
Decrease in income taxes payable	(15,303)
Decrease in retained earnings	(42,444)

No other line items on the statement of financial position were affected as at January 1, 2018 as a result of the adoption of IFRS 15. As a result of variable consideration arising from volume rebates, product returns, and retail coupons for certain contracts with customers in respect of the Company's pharmaceutical products, the cumulative amount of net revenues previously recognized in the Company's Canadian Pharmaceutical Business under IAS 18 *Revenue* to January 1, 2018 would be reduced by $57,747 and the amount of net income after tax previously recognized would be reduced by $42,444. The Company's opening retained earnings was reduced by $42,444 as of January 1, 2018 to reflect the net transition impact. Certain amounts previously included in accounts payable were reclassified to contract liabilities.

As at December 31, 2018, the following line items of the Company's consolidated statement of financial position were affected due to the adoption of IFRS 15 versus amounts which would have been recognized under IAS 18 *Revenue*. These line items were impacted due to the accounting of variable consideration:

As at December 31, 2018

Line Item	Impact of adoption of IFRS 15 ($)
Increase in contract liability	112,353
Decrease in accounts payable and accrued liabilities	(21,574)
Decrease in income taxes payable	(24,056)
Decrease in retained earnings	(66,723)

No other line items on the consolidated statement of financial position were affected as at December 31, 2018 by the adoption of IFRS 15.

For the year ended December 31, 2018, the following line items of the Company's consolidated statement of comprehensive income were affected due to the adoption of IFRS 15 versus amounts which would have been recognized under IAS 18 *Revenue*:

For the year ended December 31, 2018

Line Item	Impact of adoption of IFRS 15 ($)
Decrease in net revenues	(302,639)
Decrease in selling, general and administration expenses	211,860
Decrease in income tax expense	24,056
Decrease in net income after tax	66,723

No other line items on the consolidated statements of comprehensive income, consolidated statements of cash flows or consolidated statements of changes in shareholders' equity were affected for the year ended December 31, 2018 by the adoption of IFRS 15.

The amount of unfulfilled sales orders for the year ended December 31, 2018 was $71,400. While certain contracts may require advance payments, the contract term never exceeds twelve months. The transaction price is therefore not adjusted for the effects of a significant financing component.

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.

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 of their acquisition date.

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 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. The Company's only product license is being amortized over an 11 year term.

Development Costs

Research costs are expensed as incurred. Development costs are also expensed unless the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale
- its intention to complete the intangible asset and use or sell it
- its ability to use or sell the intangible asset
- how the intangible asset will generate probably future economic benefits
- the availability of resources to complete the asset; and
- the ability to measure reliability the expenditure during development

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 period. 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 net investments in a foreign operation 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 equity-settled share based payment plans, including an Incentive Stock Option Plan and Employee Share Purchase Plan which are described in Note 13. 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.

Repurchase of Shares under Normal Course Issuer Bid ("NCIB")

Repurchases by the Company of its own common shares under a NCIB are accounted for in accordance with IAS 32, *Financial Instruments: Presentation*. Upon reacquiring shares under a NCIB, the Company deducts from equity the purchase price of these shares and any costs to acquire such shares. Any such shares held by the Company are considered treasury shares until they are cancelled.

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 year. No adjustment to diluted earnings per share is made if the result of this calculation is anti-dilutive.

Accounting Pronouncements Issued but not yet Effective

Certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective and have not yet been adopted by the Company and could have an impact on future periods. 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.

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 date of initial application of IFRS 16 is January 1, 2019. The Company has elected to adopt IFRS 16 using the modified retrospective approach. Under this approach, the Company will not restate its comparative figures but will recognize the cumulative effect of adopting IFRS 16 as an adjustment to opening retained earnings at the beginning of the 2019 fiscal year.

The Company leases its head office building. The Company's current office lease extends to August 31, 2019. The Company entered into a lease for new office space subsequent to the reporting period in January 2019 (see Notes 17 and 23). The non-cancellable period of this new office lease is 10 years.

On transition to IFRS 16, the Company will elect to apply the practical expedient to grandfather the assessment of which transactions are leases and apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 *Leases* will not be reassessed for whether a lease exists. The Company will elect to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company will also account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. Accordingly, the Company does not expect significant adjustments to opening retained earnings at the beginning of the 2019 fiscal year.

IFRIC 23, *Uncertainty over Income Tax Treatments:*

In June 2017, the IASB issued the International Financial Reporting Interpretations Committee Interpretation 23 ("IFRIC 23") which clarifies application of the recognition and measurement requirement in IAS 12, *Income Taxes*. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by a tax authority. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. The Company will apply IFRIC 23 from its effective date. The Company is currently evaluating the impact of applying IFRIC 23 to its consolidated financial statements.

4. 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 in accordance with IFRS 9.

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. 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. Amortization of intangible assets

The amortization of the Company's intangible assets involves estimates of their useful lives. Such estimates may change as more experience is obtained or as general market conditions change, thereby impacting the value of the Company's intangible assets.

c. 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.

d. 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.

e. Determination of transaction price

As a result of the Company's adoption of IFRS 15 *Revenue from contracts with customers*, on January 1, 2018, and the existence of elements of variable consideration in the Company's contracts with customers arising rising from returns, discounts, rebates and other price incentives, the Company is required to estimate the amount of variable consideration from the customer to which it ultimately expects to be entitled and to adjust the transaction price and amount of revenue recognized accordingly.

The Company estimates the extent of future product returns, retail coupon redemptions, discounts and volume rebates to be awarded to customers based on historical, current and forecast information available, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

5. Trade and other receivables

Trade and other receivables are summarized as follows:

	December 31, 2018	December 31, 2017
Trade accounts receivable	$2,039,151	$2,184,311
Other receivables	76,142	52,384
Total trade and other receivables	$2,115,293	$2,236,695

6. Inventory

Inventory is comprised of the following:

	December 31, 2018	December 31, 2017
Raw and Packaging Materials	$309,626	$256,927
Finished Goods	1,173,766	651,898
Total	$1,483,392	$908,825

During the year ended December 31, 2017, the Company wrote-down unsaleable inventory of $96,245 on expiry. No such write-downs were recorded during the current year ended December 31, 2018.

Cost of Goods Sold consists of the following:

	December 31, 2018	December 31, 2017
Raw and Packaging Materials and Finished Goods	$4,748,175	$4,646,886
Freight	204,689	141,199
Total	$4,952,864	$4,788,085

7. Financial Instruments and Financial Risk Management

Fair Value Measurement

Fair Value Estimation of Financial Instruments

The carrying value of the Company's cash and cash equivalents, short term investments, derivative assets and liabilities, trade and other receivables, loans receivable, and accounts payable and accrued liabilities approximate their fair values.

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 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, 2018, the Company entered into forward contracts to purchase up to a total of USD 2,270,000 and USD 3,405,000 (December 31, 2017 – USD 3,750,000 and USD 5,625,000) at exchange rates expressed in CAD per USD ranging from 1.2500 to 1.2600 which will be settled on various dates from January 2019 to November 2019. The Company's right to buy USD 2,270,000 on the respective settlement dates is subject to the spot exchange rates on the settlement dates being below rates ranging from 1.3450 to 1.3500 CAD per USD. The Company's right to buy USD 3,405,000 on the respective settlement dates is subject to the spot exchange rates on the settlement dates being below rates ranging from 1.2200 to 1.2500 CAD per USD.

The fair value of forward exchange contracts is estimated based on quoted values from financial institutions. The Company's foreign exchange forward contracts resulted in a derivative asset of $27,344 as at December 31, 2018 (derivative liability of $76,462 December 31, 2017).

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

December 31, 2018	Level 1	Level 2	Level 3
Forward Contracts	-	$ 27,344	-

December 31, 2017	Level 1	Level 2	Level 3
Forward Contracts	-	($ 76,462)	-

- **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, 2018	Level 1	Level 2	Level 3
DCDs	-	$1,507,542	-

December 31, 2017	Level 1	Level 2	Level 3
DCDs	-	$Nil	-

At December 31, 2018, 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
DCD	1.3566	$1,500,000	$1,507,542	3.83%	March 25, 2019	1.3300

At December 31, 2017, the Company had nil DCDs.

The fair value of dual currency deposits is estimated based on quoted values from financial institutions. The Company has included in selling, general and administration expenses, net gains of $7,542 (2017 – $nil) 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 an ongoing basis during the year and adjusts the total net monetary liability balance accordingly. When it is appropriate to de-risk future foreign exchange transactions, the Company uses DCDs and forward contracts to manage foreign exchange transaction exposure.

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, 2018	December 31, 2017
Description of Asset/(Liability)	USD	USD
Cash and cash equivalents	418,338	282,677
Trade receivables	79,577	64,160
Less: Accounts payable	(609,106)	(577,680)
Net Total	(111,191)	(230,843)
Foreign Exchange Rate CAD per USD at the end of the year	1.3642	1.2545

At December 31, 2018, if the U.S. dollar had been stronger or weaker by 10% against the Canadian dollar with all other variables held constant, comprehensive income would have been $11,149 lower or higher on an after tax basis, respectively (December 31, 2017 – $21,285 lower or higher, respectively).

Foreign Exchange Sensitivity Analysis – EUR

	December 31, 2018	December 31, 2017
Description of Asset/(Liability)	EUR	EUR
Cash and cash equivalents	505,166	656,645
Trade receivables	243,905	203,332
Less: Accounts payable	(211,734)	(41,900)
Net Total	537,337	818,077
Foreign Exchange Rate CAD per EUR at the end of the year	1.5613	1.5052

At December 31, 2018, if the Euro had been stronger or weaker by 10% against the Canadian dollar with all other variables held constant, comprehensive income would have been $61,663 higher or lower on an after tax basis, respectively (December 31, 2017 – $90,506 higher or lower, respectively).

➢ **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 Consolidated Statements of Financial Position are invested in redeemable guaranteed investment certificates (each, a "**GIC**"), which earn interest at fixed rates during their tenure. The Company's short term investments consist of non-redeemable GICs which also earn interest at fixed rates during their tenure. These GICs all have terms of one year or less.

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 Finance Income 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, and loans receivable. The carrying amount of financial assets represents maximum credit exposure. As the Company invests in GICs with Canadian Chartered Banks, its credit risk on this account is negligible. The Company's loans receivable (Note 12) are full recourse and secured by a pledge of common shares of the Company purchased by the Borrowers, who are key management personnel. Based on these factors, the Company considers the credit risk associated with these loans receivable to be low. There are no factors at year end to indicate a significant increase in credit risk has occurred and there are no defaults on the loans receivable.

The majority of the Company's current customers are corporations with whom the Company has transacted for several years. None of these customers have defaulted in settling their liabilities to the Company. Based on its historical experience and customer base, the Company does not consider past due trade receivables to be impaired as of December 31, 2018.

Trade Receivables

Description	December 31, 2018	December 31, 2017
Current	$1,386,339	$1,942,162
Past due 1-30 days	570,614	167,622
Past due 31-60 days	47,108	3,328
Over 60 days	35,090	71,199
Less allowance for doubtful accounts	-	-
Closing Balance	$2,039,151	$2,184,311
Maximum Credit Risk	$2,039,151	$2,184,311

As of December 31, 2018, one customer represents 39% of trade receivables (December 31, 2017 - 15%) while another customer represents 27% of trade receivables (December 31, 2017 - 45%), and a third customer represents 2% of trade receivables (December 31, 2017 – 13%). There have been no past defaults by any of these three customers.

During the year, the Company recognized a bad debt expense of $67,462 related to a single trade receivable from a former customer outside of Canada, not included with the significant customers noted above, which was deemed to be uncollectible. This bad debt expense has been included in general and administration expenses in the Statement of Comprehensive Income.

Cash, cash equivalents and short term investments are maintained with Canadian financial institutions and the wholly-owned subsidiaries of these 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 totaling $3,090,000, including a revolving demand credit facility of $1,500,000 which it has not drawn down as at the date hereof, a foreign exchange facility of $1,500,000, and credit card facilities totaling $90,000.

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, 2018.

8. Short Term Investments

Short term investments consist of the following:

	December 31, 2018	December 31, 2017
Non-redeemable GICs	$6,084,790	$6,686,484
Dual Currency Deposits	1,507,542	-
Total short term investments	$7,592,332	$6,686,484

9. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	December 31, 2018	December 31, 2017
Cash on deposit in banks	$9,227,774	$9,151,951
Redeemable GICs	7,604,995	3,500,000
Total cash and cash equivalents	$16,832,769	$12,651,951

10. Equipment

	Furniture and Fixtures	Equipment	Computer Equipment	Computer Software	Total
COST:					
December 31, 2016	$104,149	$37,066	$182,163	$232,183	$555,561
2017 Additions	-	38,962	27,095	25,101	91,158
December 31, 2017	$104,149	$76,028	$209,258	$257,284	$646,719
2018 Additions	-	13,000	21,967	33,188	68,155
December 31, 2018	**$104,149**	**$89,028**	**$231,225**	**$290,472**	**$714,874**
ACCUMULATED DEPRECIATION:					
December 31, 2016	$(47,204)	$(18,393)	$(69,217)	$(129,416)	$(264,230)
Changes in 2017	(11,388)	(7,630)	(37,949)	(34,596)	(91,563)
December 31, 2017	$(58,592)	$(26,023)	$(107,166)	$(164,012)	$(355,793)
Changes in 2018	(9,111)	(11,301)	(33,923)	(32,961)	(87,296)
December 31, 2018	**$(67,703)**	**$(37,324)**	**$(141,089)**	**$(196,973)**	**$(443,089)**
CARRYING AMOUNT					
December 31, 2016	$56,945	$18,673	$112,946	$102,767	$291,331
December 31, 2017	$45,557	$50,005	$102,092	$93,272	$290,926
December 31, 2018	**$36,446**	**$51,704**	**$90,136**	**$93,499**	**$271,785**

11. 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 and Patents	Trade Certifications	Total
COST:						
December 31, 2016	$362,884	$893,020	$55,522	$37,491	$-	$1,348,917
2017 Additions	499,642	-	4,465	45,210	-	549,317
December 31, 2017	$862,526	$893,020	$59,987	$82,701	$-	$1,898,234
2018 Additions	420,231	-	9,078	2,625	3,936	435,870
December 31, 2018	**$1,282,757**	**$893,020**	**$69,065**	**$85,326**	**$3,936**	**$2,334,104**
ACCUMULATED AMORTIZATION:						
December 31, 2016	$(13,114)	$(58,568)	$-	$-	$-	$(71,682)
Changes in 2017	(13,964)	(79,742)	-	(4,284)	-	(97,990)
December 31, 2017	$(27,078)	$(138,310)	$-	$(4,284)	$-	$(169,672)
Changes in 2018	(13,964)	(79,742)	-	(4,284)	-	(97,990)
December 31, 2018	**$(41,042)**	**$(218,052)**	**$-**	**$(8,568)**	**$-**	**$(267,662)**
ACCUMULATED IMPAIRMENT LOSSES:						
December 31, 2016	$-	$-	$-	$-	$-	$-
Changes in 2017	(58,352)	-	-	-	-	(58,352)
December 31, 2017	$(58,352)	$-	$-	$-	$-	$(58,352)
Changes in 2018	(65,408)	-	-	-	-	(65,408)
December 31, 2018	**$(123,760)**	**$-**	**$-**	**$-**	**$-**	**$(123,760)**
CARRYING AMOUNT						
December 31, 2016	$349,770	$834,452	$55,522	$37,491	$-	$1,277,235
December 31, 2017	$777,096	$754,710	$59,987	$78,417	$-	$1,670,210
December 31, 2018	**$1,117,955**	**$674,968**	**$69,065**	**$76,758**	**$3,936**	**$1,942,682**

New Product Dossier and Filing Costs

Cumulatively, the Company has incurred product dossier and filing costs of $1,282,757 (December 31, 2017 – $862,526) to date on several products, two of which, Aguettant System® Atropine and Phenylephrine pre-filled syringes, have been approved by Health Canada and launched to the market. The filing costs incurred in respect of these launched products are being amortized on a straight-line basis over their estimated finite useful lives of 5 years based on marketability. For the year ended December 31, 2018, $13,964 of amortization expense (2017 - $13,964) has been included in selling, general and administration expenses in the Company's Consolidated Statements of Comprehensive Income in respect of these assets (*see Note 14*).

During the year, the Company abandoned further work related to certain products and recognized an impairment loss of $65,408 (2017 - $58,352) on these assets which is included in the Company's Selling, General and Administration expenses in the Company's consolidated statements of comprehensive income for the year (*see Note 14*).

Product Licenses and Rights

Cumulatively, the Company has incurred costs related to the acquisition of product licenses and rights totaling $893,020 to December 31, 2018 (December 31, 2017 – $893,020).

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. The Company incurred costs totaling $859,400 (December 31, 2017 - $859,400) related to the acquisition and commercialization of Cysview®, which was launched in the Canadian market in November 2015. This asset has a finite life and is being amortized on a straight-line basis over the 11 year term of the agreement. For the year ended December 31, 2018, $79,742 of amortization expense (2017 - $79,742) has been included in Selling, general and administration expenses in the Company's consolidated statements of comprehensive income in respect of this asset (*see Note 14*).

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 16*).

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 $422,028 related to these products, which have not 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 16*).

New Product Development

The Company has incurred cumulative new product development costs consisting of labour, laboratory and professional fees to date totaling $69,065 (December 31, 2017 - $59,987) relating to the development of a new product. The Company will commence amortization of these costs upon the completion of development.

Trademarks and Patents

The Company has incurred cumulative trademark and patent application and filing costs of $85,326 (December 31, 2017 - $82,701) relating to product registration application costs in various jurisdictions. These assets have finite lives and are being amortized on a straight-line basis over the terms of the respective trademarks and patents (ranging from 7 to 15 years). For the year ended December 31, 2018, $4,284 of amortization expense (2017 - $4,284) has been included in Selling, general and administration expenses in the Company's consolidated statements of comprehensive income in respect of these assets (*see Note 14*).

Trade Certifications

The Company incurred legal and other costs in obtaining certain international trade certifications and permits totaling $3,936. This asset will be amortized over its 5 year estimated economic life.

12. Loans Receivable

On December 8, 2016, the Board of Directors approved a Management Share Loan Program ("MSLP") under which the Company offered one-time, secured loans to certain management personnel employed by the Company (each a "Borrower") up to a maximum of fifty percent of each Borrower's base annual salary for the sole purpose of their purchase of the Company's issued and outstanding common shares at prevailing market prices through the facilities of the TSX Venture Exchange.

	Loans Receivable ($)
Balance, December 31, 2016	-
Loan Advances	391,500
Accrued Interest	2,360
Balance, December 31, 2017	393,860
Loan Advances	175,000
Accrued Interest	8,069
Balance, December 31, 2018	**576,929**

The Company advanced loan proceeds totaling $391,500 on May 26, 2017, and a further $175,000 on December 11, 2018, in accordance with the terms of the MSLP for the purchase of the Company's common shares by the Borrowers.

Each MSLP participant's loan (collectively, the "MSLP Participant Loans") bears interest at a rate of 1% - 2% per annum and is secured by a pledge of the common shares purchased under the MSLP by the Borrowers. Interest receivable of $8,069 was accrued on the loans for the year ended December 31, 2018 (December 31, 2017 - $2,360) and has been included in Finance income on the Company's Consolidated Statements of Comprehensive Income.

The MSLP Participant Loans are repayable by the Borrowers upon any sale of pledged shares by the Borrower in proportion to the then outstanding loan principal balance plus accrued interest. The remaining MSLP Participant Loan principal plus accrued interest must be fully repaid by the Borrowers no later than five years from the date the loan proceeds were advanced (the "Maturity Date"), specifically, May 26, 2022 for loans advanced on May 26, 2017 and December 11, 2023 for loans advanced on December 11, 2018.

If a Borrower ceases to be employed by the Company prior to the end of the five-year Maturity Date, all outstanding loan obligations shall become due and payable on the 30th day following the date of termination. In addition, in the event of a default by the Borrower of the terms of the loan, the loan obligations will become due and payable immediately.

As the loans are full recourse loans, they have not been accounted for as stock-based compensation, but as financial instruments within the scope of IFRS 9, *Financial Instruments.*

13. 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

	Number of Common Shares	Amount
Balance, Outstanding Shares, December 31, 2016	14,401,087	$7,299,872
Options exercised	108,008	218,531
Balance, Outstanding Shares, December 31, 2017	14,509,095	$7,518,403
Options exercised (c)	21,588	193,524
Shares repurchased under NCIB and cancelled (d)	(72,100)	(46,283)
Balance, Outstanding Shares, December 31, 2018	**14,458,583**	**$7,665,644**
Shares repurchased under NCIB and held in Treasury at December 31, 2018 (d)	(20,068)	(10,651)
Balance, Excluding Treasury Shares, December 31, 2018	**14,438,515**	**$7,654,993**

c. Options exercised

During the year ended December 31, 2018, 21,588 common shares were issued against options exercised (2017 – 108,008) for total proceeds of $100,924 (2017 - $110,858). Upon the exercise of these options, $92,600 in fair value has been transferred from contributed surplus to share capital (2017 - $107,673).

d. Normal Course Issuer Bid (NCIB)

Pursuant to the policies of the TSX Venture Exchange, the Company may be permitted from time to time to repurchase its own common shares for cancellation under a NCIB. The policies of the TSX Venture Exchange permit an issuer, upon the approval of the TSX Venture Exchange, to purchase by normal market purchases up to 2% of a class of its own shares in a given 30-day period up to a maximum in a 12 month period of the greater of 5% of the outstanding shares or 10% of the Public Float, as such term is defined in the policies of the TSX Venture Exchange.

On December 4, 2018, the Company announced that the TSX Venture Exchange had accepted its Notice of Intention to Make a NCIB, pursuant to which the Company would be permitted to purchase up to 950,000 of its own common shares for cancellation over a 12-month period commencing on December 10, 2018 and ending on December 9, 2019. Purchases of shares by the Company under the NCIB are made through the facilities of the TSX Venture Exchange or alternative Canadian trading systems at the market price of the shares at the time of acquisition.

During the period from the commencement of the NCIB on December 10, 2018 to the reporting date, December 31, 2018, the Company repurchased 92,168 common shares for an aggregate price of $736,944 and incurred costs of $8,937 related to the repurchase of these shares. 72,100 of these repurchased shares were cancelled as of December 31, 2018 with the remaining 20,068 shares held in Treasury pending cancellation. These 20,068 shares were cancelled subsequent to the reporting date. The Company's retained earnings were reduced by $688,947 upon the repurchase of these shares, representing the excess of the aggregate repurchase price and the reduction in share capital of $56,934.

e. There are nil preferred shares outstanding as of December 31, 2018 (December 31, 2017 – $nil).

f. Share-Based Payments

Incentive Stock Option Plan

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 29, 2018. 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 March 15, 2017, options totaling 31,227 were granted by the Company to various employees and directors under the SOP. Certain of these options shall vest in annual increments over four years to March 15, 2021 and certain of these options shall vest in semi-annual increments over 18 months to September 15, 2018. The fair value of these options granted with an exercise price of $7.35 per option, has been determined using the Black-Scholes option pricing model using the following assumptions:

Share price at the date of grant	$7.35
Risk-free interest rate	1.81%
Dividend yield	0%
Volatility factor of expected market price of Company's shares	148.45%
Average expected option life (years)	10.00
Weighted-average grant date fair value of options granted	$7.22
Forfeiture rate	0.18%

On August 15, 2017, options totaling 5,921 were granted by the Company to a member of senior management under the SOP. One-fourth of these options shall vest at each anniversary date over four years to August 16, 2021. The fair value of these options granted with an exercise price of $8.60 per option, has been determined using the Black-Scholes option pricing model using the following assumptions:

Share price at the date of grant	$8.60
Risk-free interest rate	1.85%
Dividend yield	0%
Volatility factor of expected market price of Company's shares	147.44%
Average expected option life (years)	10.00
Weighted-average grant date fair value of options granted	$8.45
Forfeiture rate	0.53%

On January 8, 2018, options totaling 35,567 were granted by the Company to senior management, officers, directors and an advisor to the Company under the SOP. Certain of these options shall vest in annual increments over four years to January 8, 2022 and certain of these options shall vest in semi-annual increments over 18 months to July 8, 2019. The fair value of these options granted with an exercise price of $9.60 per option, has been determined using the Black-Scholes option pricing model using the following assumptions:

Share price at the date of grant	$9.60
Risk-free interest rate	2.07%
Dividend yield	0%
Volatility factor of expected market price of Company's shares	144.92%
Average expected option life (years)	8.02
Weighted-average grant date fair value of options granted	$9.25
Forfeiture rate	2.13%

On May 29, 2018, options totaling 3,120 were granted by the Company to a Director of the Company under the SOP. These options shall vest in semi-annual increments over 18 months to November 29, 2019. The fair value of these options granted with an exercise price of $9.94 per option, has been determined using the Black-Scholes option pricing model using the following assumptions:

Share price at the date of grant	$9.94
Risk-free interest rate	2.40%
Dividend yield	0%
Volatility factor of expected market price of Company's shares	139.34%
Average expected option life (years)	9.03
Weighted-average grant date fair value of options granted	$9.62
Forfeiture rate	2.13%

On September 10, 2018, options totaling 11,313 were granted by the Company to certain employees of the Company under the SOP. One-fourth of these options shall vest at each anniversary date over four years to September 10, 2022. The fair value of these options granted with an exercise price of $9.60 per option, has been determined using the Black-Scholes option pricing model using the following assumptions:

Share price at the date of grant	$9.60
Risk-free interest rate	2.28%
Dividend yield	0%
Volatility factor of expected market price of Company's shares	134.73%
Average expected option life (years)	8.71
Weighted-average grant date fair value of options granted	$9.19
Forfeiture rate	2.00%

The volatility factor used by the Company is based on its historical share prices.

During the year ended December 31, 2018, the Company recorded net share-based payment expense of $390,388 (2017 - $192,581) relating to option grants to employees, directors, officers and advisors under the SOP, which are included in Selling, general and administration expenses in the consolidated statements of comprehensive income.

As at December 31, 2018, there were 144,624 options outstanding (December 31, 2017 – 128,411), as shown below:

	December 31, 2018		December 31, 2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	128,411	$7.20	211,138	$3.97
Granted	50,000	$9.62	37,148	$7.55
Expired or forfeited	(12,199)	$8.53	(11,867)	$7.06
Exercised	(21,588)	$4.68	(108,008)	$1.03
Outstanding, end of period	144,624	$8.30	128,411	$7.20

Of the total number of options outstanding as of December 31, 2018, options totaling 59,673 have vested and are exercisable by the option holders (December 31, 2017 – 42,244). These exercisable options have a weighted average exercise price of $8.55 (December 31, 2017 - $6.53).

The weighted-average remaining contractual life of the 144,624 (December 31, 2017 – 128,411) options outstanding is 7.74 years (December 31, 2017 – 7.04 years) and the range of exercise prices for these options is $4.45 - $10.97 (December 31, 2017- $4.45 - $10.97).

During the year ended December 31, 2018, options totaling 21,588 were exercised (2017 – 108,008). The weighted average share price on the date of exercise of the options exercised during the year ended December 31, 2018 was $9.56 (2017 - $7.74).

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 base 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 percent of the applicable employee's gross base salary.

During the year ended December 31, 2018, the Company recorded share-based payment expense of $70,734 (2017 - $68,947) relating to the Company's contributions to the ESPP for the purchase of common shares on behalf of participating employees. This expense is included in Selling, general and administration expenses in the consolidated statements of comprehensive income.

14. 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,	
	2018	2017
Cost of goods sold	$4,952,864	$4,788,085
Selling and marketing	$5,264,814	$5,309,333
Advertising, Promotion and Selling Costs	2,570,313	2,494,158
Employee Costs	2,356,490	2,493,506
Logistics, Quality Control & Regulatory	281,613	270,748
Share-based Payments	56,398	50,921
General and administration	$4,407,333	$4,205,835
Employee Costs	2,620,988	2,396,348
Corporate Expenses	772,705	827,075
Share-based Payments	404,724	210,607
Depreciation and Amortization	185,286	189,553
Professional Fees	180,406	170,414
Information Technology	117,652	96,448
Insurance	86,284	81,552
Bad Debts	67,462	-
Impairment Losses: Intangible Assets	65,408	58,352
Medical Affairs	16,699	18,798
Net Foreign Exchange (Gains) Losses	(110,281)	60,443
Inventory write-downs	-	96,245
New business development costs	$107,457	$79,877
Finance income	$ (752,246)	$ (470,539)
Foreign Exchange Gains - Investing	(426,143)	(341,799)
Interest Income	(326,103)	(128,740)

The major functions include cost of goods sold, selling and marketing, general and administration, new business development and finance 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 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 development: Includes expenses related but not limited to acquiring new drugs, scientific consulting and regulatory fees.
- Finance income: includes interest income and foreign exchange gains from investing.

15. 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,	
	2018	2017
Numerator		
Net income attributable to common shareholders	$5,705,386	$5,206,277
Denominator		
Basic		
Weighted average number of shares outstanding	14,511,993	14,463,098
Effect of dilutive securities adjusted for exercised options	23,225	131,846
Diluted		
Weighted average number of shares outstanding	14,535,218	14,594,944
Basic earnings per share	$0.39	$0.36
Diluted earnings per share	$0.39	$0.36

16. 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, 2018, 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 11), milestone payments averaging $229,261 (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 11), 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.

17. Commitments

Office Leases

The Company has entered into two office lease agreements: One lease agreement extends to August 31, 2019 and the other lease agreement, executed subsequent to the reporting period (see *Note 23*), commences on September 1, 2019 and extends to August 31, 2029.

The Company's minimum future rental payments and occupancy costs for the next five fiscal years under these two lease agreements, are approximately as follows:

Fiscal Year	Annual Rent and Occupancy Cost
2019	$249,063
2020	$357,897
2021	$357,897
2022	$359,631
2023	$363,100
Beyond Next 5 Fiscal Years	$2,140,442

Purchase Commitments

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

18. Related Party Transactions

Key Management Personnel Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and/or its subsidiaries, directly or indirectly.

The table below summarizes compensation for key management personnel of the Company for the years ended December 31, 2018 and 2017:

	Year ended December 31	
	2018	2017
Number of Key Management Personnel	8	6
Salary, Benefits, and Bonus	$1,355,164	$1,233,892
Share-Based Payments	$237,978	$159,885

During the year ended December 31, 2018, the Company recorded share-based payment expense of $237,978 (2017 – $159,885) related to the vesting of options granted to key management personnel under the SOP as well as the Company's contributions to the ESPP for the purchase of common shares on behalf of participating key management personnel. The Company also advanced loans to certain key management personnel under the MSLP (see *Note 12*).

Transactions with Directors

During the year ended December 31, 2018, the Company paid total fees to its directors in the amount of $109,200 (2017 – $88,200) and share-based payments of $108,990 (2017 – $27,379).

19. 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 years are as follows:

December 31, 2018	$27,605,662
December 31, 2017	$22,212,927

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, 2018. There were no changes in the Company's approach to capital management during the year.

20. Credit Facilities

The Company has credit facilities available with Royal Bank of Canada totaling $3,090,000, including a revolving demand credit facility of $1,500,000, which has not been utilized as of December 31, 2018, a foreign exchange facility of $1,500,000, and credit card facilities totaling $90,000. The revolving demand 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.

21. Taxes

The Company computes an income tax provision in each of the jurisdictions in which it operates. 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 are subject to income tax rates of 26.5% (2017 – 26.5%) in the Canadian jurisdiction, 21.0% (2017 – 35.0%) in the U.S. jurisdiction, and 2.5% (2017 – 2.5%) in the Barbados jurisdiction.

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2017 - 26.5%) to the effective tax rate is as follows:

	2018	2017
Net Income before tax	$7,546,806	$6,850,164
Combined statutory income tax rate	26.50%	26.50%
Expected income tax expense at current rate	$1,999,904	$1,815,293
Foreign tax differential	(173,734)	(225,808)
Change in exchange rates	22,599	31,098
Non-deductible expenses	118,106	69,211
Non-taxable portion of capital gains	(74,952)	(45,288)
Tax rate changes and other adjustments	(50,503)	(619)
Provision for tax	$1,841,420	$1,643,887
Current income tax expense	$1,747,192	$1,440,073
Deferred tax expense	94,228	203,814
	$1,841,420	$1,643,887
Current income tax payable (recoverable)	$321,752	($71,924)

Deferred Tax Balances

The balance in the statement of financial position comprises:

	2018	2017
Net operating losses carried forward	$45,144	$46,647
Deferred tax assets	$45,144	46,647
Equipment and intangibles	$(369,052)	$(276,327)
Deferred tax liability	$(369,052)	$(276,327)

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) ($)
2019	500
2021	12,236
2022	53,889
2023	34,739
2024	82,340
2026	31,070
2031	200
	214,974

22. 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.

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,	
	2018	2017
Canada		
Pharmaceutical Business	$18,541,645	$16,856,703
Insecticide Business	674,877	1,298,870
Total Canada	$19,216,522	$18,155,573
International Jurisdictions		
Pharmaceutical Business - Middle East	$2,209,323	$2,476,902
Insecticide Business - United States	101,183	130,280
Total International Jurisdictions	$2,310,506	$2,607,182
Total Revenue	$21,527,028	$20,762,755

The Company's three major customers accounted for 42%, 23%, and 20%, respectively, of total revenues for the year ended December 31, 2018 (2017 – 36%, 21%, and 18%, respectively).

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

Non-Current Assets	December 31, 2018	December 31, 2017
Canada	$ 2,739,369	$ 2,317,387
United States	$ 45,144	$ 46,647
Barbados	$ 52,027	$ 37,609

23. Subsequent event

Subsequent to the reporting date, in January 2019, the Company entered into a lease for new office space which commences on September 1, 2019 and extends to August 31, 2029. The Company's minimum future rental payments and occupancy costs commitments under this new lease are summarized in Note 17.

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Peter D. Lockhard (Lead Director)
Ontario, Canada

Stephen Wilton
Ontario, Canada

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