BioSyent Inc.

Audited Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

March 20, 2018

Expressed in Canadian Dollars

Corporate Office
Suite 520
170 Attwell Drive
Toronto, Ontario, M9W 5Z5
Canada
Telephone 905.206.0013
Facsimile 905.206.1413
Email: info@biosyent.com
Web: www.biosyent.com

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 and for ensuring that all information in this annual report is consistent with the financial statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required. The consolidated financial statements for the years ended December 31, 2017 and 2016 are compliant with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

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

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

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

Alfred D'Souza

Vice-President and Chief Financial Officer, BioSyent Inc.

March 20, 2018

Independent Auditors' Report

To the Shareholders of BioSyent Inc.:

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

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

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

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

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

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

MNP LLP

Toronto, Ontario
March 20, 2018

Chartered Professional Accountants
Licensed Public Accountants

MNP

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

AS AT	December 31, 2017	December 31, 2016
ASSETS		
Trade and other receivables *(Note 5)*	$2,236,695	$1,941,177
Inventory *(Note 6)*	908,825	1,560,050
Prepaid expenses and deposits	147,326	269,704
Income tax recoverable *(Note 21)*	71,924	-
Derivative asset *(Note 7)*	-	32,025
Short term investments *(Note 8)*	6,686,484	683,200
Cash and cash equivalents *(Note 9)*	12,651,951	13,056,086
CURRENT ASSETS	22,703,205	17,542,242
Equipment *(Note 10)*	290,926	291,331
Intangible assets *(Note 11)*	1,670,210	1,277,235
Loans receivable *(Note 12)*	393,860	-
Deferred tax asset *(Note 21)*	46,647	137,375
TOTAL NON CURRENT ASSETS	2,401,643	1,705,941
TOTAL ASSETS	$25,104,848	$19,248,183
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	$2,539,132	$2,129,081
Derivative liability *(Note 7)*	76,462	-
Income tax payable *(Note 21)*	-	229,145
CURRENT LIABILITIES	2,615,594	2,358,226
Deferred tax liabilty *(Note 21)*	276,327	163,241
TOTAL NON CURRENT LIABILITIES	276,327	163,241
Share capital *(Note 13)*	7,518,403	7,299,872
Contributed surplus	679,169	594,261
Cumulative translation adjustment	904	24,409
Retained earnings	14,014,451	8,808,174
Total Equity	22,212,927	16,726,716
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$25,104,848	$19,248,183

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

APPROVED ON BEHALF OF THE BOARD

Mr. René Goehrum	Mr. Peter Lockhard
DIRECTOR	**DIRECTOR**

March 20, 2018
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,	2017	2016
Net Revenues	$20,762,755	$17,922,270
Cost of Goods Sold *(Note 6)*	4,788,085	3,795,833
Selling, General & Administration *(Note 15)*	9,515,168	8,309,158
New Business & Development Costs	79,877	63,841
Finance Income *(Note 15)*	(470,539)	(116,417)
Total Expenses	13,912,591	12,052,415
Net Income Before Income Taxes	6,850,164	5,869,855
Current income tax *(Note 21)*	1,440,073	1,514,530
Deferred tax *(Note 21)*	203,814	45,820
Net Income After Income Taxes	5,206,277	4,309,505
Other Comprehensive Income		
Currency translation gains (losses)	(23,505)	(33,312)
Total Comprehensive Income for the Period	$5,182,772	$4,276,193
Basic earnings per share *(Note 14)*	$0.36	$0.30
Diluted earnings per share *(Note 14)*	$0.36	$0.30

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,	2017	2016
OPERATING ACTIVITIES		
Net income after income taxes for the year	$5,206,277	$4,309,505
Items not affecting cash:		
Depreciation - equipment *(Note 10)*	91,563	80,925
Amortization – intangible assets *(Note 11)*	97,990	65,716
Share-based payments *(Note 13)*	192,581	235,477
Impairment loss on intangible assets *(Note 11)*	58,352	-
Derivative asset/liability	108,487	2,544
Current income tax	1,440,073	1,514,530
Deferred tax	203,814	45,820
Cash paid for taxes	(1,741,141)	(1,665,846)
Net change in non-cash working capital items:		
Trade and other receivables	(295,518)	(555,899)
Inventory	651,225	184,886
Prepaid expenses and deposits	122,378	28,087
Accounts payable and accrued liabilities	410,050	153,277
Cash provided by operating activities	6,546,131	4,399,022
INVESTING ACTIVITIES		
Additions to equipment *(Note 10)*	(91,158)	(142,001)
Additions to intangible assets *(Note 11)*	(549,317)	(263,463)
(Increase) Decrease in short term investments	(6,003,284)	4,639,659
Loans receivable	(393,860)	-
Cash (used in) provided by investing activities	(7,037,619)	4,234,195
FINANCING ACTIVITIES		
Proceeds from stock options exercised	110,858	63,564
Cash provided by investing activities	110,858	63,564
Effect of foreign currency translation adjustment	(23,505)	(33,312)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(404,135)	8,663,469
Cash and cash equivalents, beginning of year	13,056,086	4,392,617
CASH AND CASH EQUIVALENTS – END OF YEAR	$12,651,951	$13,056,086
SUPPLEMENTARY DISCLOSURE:		
NET CHANGE IN CASH AND SHORT TERM INVESTMENTS		
Cash and short term investments, beginning of year	$13,739,286	$9,715,476
Increase (decrease) in short term investments	6,003,284	(4,639,659)
Increase (decrease) in cash and cash equivalents	(404,135)	8,663,469
CASH AND SHORT TERM INVESTMENTS – END OF YEAR	$19,338,435	$13,739,286
INTEREST RECEIVED DURING THE YEAR	$77,149	$137,961

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 at December 31, 2016	$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 at December 31, 2017	$7,518,403	$ 679,169	$ 904	$ 14,014,451	$22,212,927

	Share Capital	Contributed Surplus	Cumulative Currency Translation Adjustment	Retained Earnings	Total Shareholders' Equity
Balance as at December 31, 2015	$7,174,916	$ 420,176	$ 57,721	$ 4,498,669	$12,151,482
Comprehensive Income for the year	-	-	(33,312)	4,309,505	4,276,193
Effect of Share-based payments: Options granted / vested *(Note 13)*	-	235,477	-	-	235,477
Effect of Share-based payments: Options exercised *(Note 13)*	124,956	(61,392)	-	-	63,564
Balance as at December 31, 2016	$7,299,872	$ 594,261	$ 24,409	$ 8,808,174	$16,726,716

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

1. General Information

BioSyent Inc. (“**BioSyent**” or the “**Company**”), is a publicly traded specialty pharmaceutical company which, through its wholly-owned subsidiaries, BioSyent Pharma Inc. (“**BioSyent Pharma**”) and BioSyent Pharma International Inc., acquires or in-licences and further develops pharmaceutical and other healthcare products for sale in Canada and certain international markets. Hedley Technologies Ltd., a wholly-owned subsidiary of BioSyent, operates the Company’s legacy business marketing biologically and health friendly non-chemical insecticides. 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 20, 2018.

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, 2017 and 2016 have been prepared and are in compliance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”).

Basis of Consolidation

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

Functional and Presentation Currency

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

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

3. Use of Estimates and Accounting Judgments by Management

There have been no material revisions to the nature and amount of changes in estimates of amounts reported in the Company’s consolidated financial statements for the year ended December 31, 2017.

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

Judgments

a. Recoverability of asset carrying values

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

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

b. Impairment of trade and other receivables

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

c. Income taxes

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

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

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

Estimates

The most significant estimates made by management include the following:

a. Depreciation

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

b. Share-based payments

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

c. Inventory

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

4. Summary of Significant Accounting Policies

Revenue Recognition

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

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

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

Financial Instruments

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

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

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

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

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

Impairment of Financial Assets

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

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

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

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

Impairment of Non-Financial Assets

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

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

Fair Value Measurement

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

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

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

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

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

Equipment

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

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

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

Cash and Cash Equivalents and Short Term Investments

Cash and cash equivalents includes cash held at financial institutions and highly liquid investments with the ability to be converted into cash within 90 days or less 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.

Development Costs

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

Foreign Currency Translation

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

Assets and liabilities of entities with functional currencies other than Canadian dollars are translated at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the 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 permanent in nature are included in cumulative translation adjustment account, as part of other comprehensive income.

Taxation

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

Current Tax:

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

Deferred Tax:

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

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

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

Share-Based Payments

The Company has equity-settled share based payment plans, including an Incentive Stock Option Plan and Employee Share Purchase Plan which are described in Note 13(d). Any consideration paid by employees upon the exercise of any stock options increases share capital. The Company does not repurchase stock options from option holders.

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

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

Earnings per Share

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

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

Financial instruments are classified as FVTPL when they are held for trading. A financial instrument is held for trading if it was acquired for the purpose of 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 cash and cash equivalents, 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.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Financial assets in this category include trade receivables, 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 IAS 39, *Financial Instruments: Recognition and Measurement*.

Other Financial Liabilities

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

Recent Accounting Pronouncements

Certain new standards, amendments and interpretations to existing standards have been published 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 9 *Financial Instruments*:

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not anticipate any change in the recognition, measurement or classification of its financial assets and liabilities as a result of adopting this standard. The Company also does not anticipate any impact on its credit risk assessments as a result of adopting this standard, given the nature of its financial assets, customer base, and history of incurring very minimal credit losses.

IFRS 15 *Revenue from Contracts with Customers:*

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

The application of IFRS 15 will affect the amount and timing of revenue recognized by the Company in respect of certain revenue transactions due to the variable consideration element arising in certain of its contracts with customers as a result of:

- Cash discounts to wholesaler customers;
- Rebates to hospital buying groups;
- Volume rebates on certain product sales;
- Returns for lost, damaged, or expired goods
- The issuance of retail coupons for certain of the Company's pharmaceutical products; and
- Point of sale rebates in certain retail stores.

The Company will estimate the amount of variable consideration subject to the reversal constraint as required by IFRS 15 and revenue related to this variable consideration will be recognized when the performance obligations are met. The Company will also separately recognize a refund liability when it receives consideration from a customer and expects to refund any portion of that consideration to the customer. These changes will affect the Canadian Pharmaceutical Business in which several contracts with customers have a variable consideration component. Based on the assessment performed thus far, the Company does not expect that these changes will have a material impact on the recognition and measurement of revenue compared to current practice.

IFRS 16 *Leases:*

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions

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

5. Trade and other receivables

Trade and other receivables are summarized as follows:

	December 31, 2017	December 31, 2016
Trade accounts receivable	$2,184,311	$1,924,949
Other receivables	52,384	16,228
Total trade and other receivables	$2,236,695	$1,941,177

6. Inventory

Inventory is comprised of the following:

	December 31, 2017	December 31, 2016
Raw and Packaging Materials	$256,927	$704,060
Finished Goods	651,898	855,990
Total	$908,825	$1,560,050

During the year, the Company wrote-down unsaleable inventory of $96,245 on expiry (2016 - $Nil).

Cost of Goods Sold consists of the following:

Cost of Goods Sold consists of the following:	December 31, 2017	December 31, 2016
Raw and Packaging Materials and Finished Goods	$4,646,886	$3,682,872
Freight	141,199	112,961
Total	$4,788,085	$3,795,833

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 due to the immediate or short term maturity of these instruments.

Risks

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

➢ **Forward Contracts:**

The Company periodically enters into foreign exchange forward contracts to manage its foreign exchange risk on contracts denominated in U.S. dollars 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, 2017, the Company entered into forward contracts to purchase up to a total of USD 3,750,000 to USD 5,625,000 (December 31, 2016 – USD 900,000 to USD 1,350,000) at exchange rates expressed in CAD per USD ranging from 1.2400 to 1.2530 which will be settled on various dates from April 2018 to December 2018. The Company's right to buy USD 3,750,000 on the respective settlement dates is subject to the spot exchange rates on the settlement dates being below rates ranging from 1.3500 to 1.3600 CAD per USD. The Company's right to buy USD 5,625,000 on the respective settlement dates is subject to the spot exchange rates on the settlement dates being below rates ranging from 1.2300 to 1.2450 CAD per USD.

The fair value of forward exchange contracts is estimated based on quoted values from financial institutions. The Company's forward contracts resulted in a derivative liability of $76,462 as at December 31, 2017 (December 31, 2016 – derivative asset of $32,025).

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

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

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

➢ **Foreign Exchange Risk:**

The Company currently earns revenue in Canadian dollars, U.S. dollars and Euros and incurs costs in Canadian dollars, U.S. dollars and Euros. Management monitors the foreign currency net liability position on a periodic basis throughout the course of the period and adjusts the total net monetary liability balance accordingly.

When it is appropriate to de-risk future foreign exchange transactions, the Company will reduce its exposure by booking foreign exchange forward cover transactions.

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

Foreign Exchange Sensitivity Analysis – USD

	December 31, 2017	December 31,2016
Description of Asset/(Liability)	USD	USD
Cash and cash equivalents	282,677	1,592,413
Trade receivables	64,160	-
Less: Accounts payable	(577,680)	(625,927)
Net Total	(230,843)	966,486
Foreign Exchange Rate CAD per USD at the end of the year	1.2545	1.3427

At December 31, 2017, if the U.S. dollar had been stronger or weaker by 1% against the Canadian dollar with all other variables held constant, comprehensive income would have been $2,129 lower or higher on an after tax basis, respectively (December 31, 2016 – $9,538 higher or lower, respectively).

Foreign Exchange Sensitivity Analysis – EUR

	December 31, 2017	December 31, 2016
Description of Asset/(Liability)	EUR	EUR
Cash and cash equivalents	656,645	254,198
Short term investments	-	63,600
Trade receivables	203,332	-
Less: Accounts payable	(41,900)	(64,727)
Net Total	818,077	253,071
Foreign Exchange Rate CAD per EUR at the end of the year	1.5052	1.4169

At December 31, 2017, if the Euro had been stronger or weaker by 1% against the Canadian dollar with all other variables held constant, comprehensive income would have been $9,051 higher or lower on an after tax basis, respectively (December 31, 2016 – $2,636 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 Statement of Financial Position are invested in redeemable guaranteed investment certificates (each, a "**GIC**"), which earn interest at fixed rates during their tenure. The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rates of interest when these GICs are renewed may have an impact on the Company's profit for the year.

➢ **Credit Risk:**

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

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

Trade Receivables

Description	December 31, 2017	December 31, 2016
Current	$1,942,162	$1,541,247
Past due 1-30 days	167,622	289,271
Past due 31-60 days	3,328	90,150
Over 60 days	71,199	4,281
Less allowance for doubtful accounts	-	-
Closing Balance	$2,184,311	$1,924,949
Maximum Credit Risk	2,184,311	1,924,949

One customer represents 15% of trade receivables (December 31, 2016 – 31%) while another customer represents 45% of trade receivables (December 31, 2016 – 36%), and a third customer represents 13% of trade receivables (December 31, 2016 – 16%). There have been no past defaults by either of these customers.

Cash, cash equivalents and short term investments are maintained with Canadian financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal credit risk.

➢ **Liquidity Risk:**

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

The Company generates sufficient cash from operating activities to fund its operations and fulfill its obligations as they become due. The Company has credit facilities available with Royal Bank of Canada totalling $2,560,000, 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 $1,000,000, and credit card facilities totalling $60,000.

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, 2017.

8. Short Term Investments

Short term investments consist of the following:

	December 31, 2017	December 31, 2016
GICs	$6,686,484	$683,200
Total short term investments	$6,686,484	$683,200

9. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	December 31, 2017	December 31, 2016
Cash on deposit in banks	$9,151,951	$13,056,086
Redeemable GICs	3,500,000	-
Total cash and cash equivalents	$12,651,951	$13,056,086

10. Equipment

	Furniture and Fixtures	Equipment	Computer Equipment	Computer Software	Total
COST:					
December 31, 2015	$104,149	$37,066	$75,978	$196,367	$413,560
2016 Additions	-	-	106,185	35,816	142,001
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**
ACCUMULATED DEPRECIATION:					
December 31, 2015	$(32,968)	$(13,726)	$(43,565)	$(93,046)	$(183,305)
Changes in 2016	(14,236)	(4,667)	(25,652)	(36,370)	(80,925)
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)**
CARRYING AMOUNT					
December 31, 2015	$71,181	$23,340	$32,413	$103,321	$230,255
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**

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	Total
COST:					
December 31, 2015	$239,764	$803,199	$36,041	$6,450	$1,085,454
2016 Additions	123,120	89,821	19,481	31,041	263,463
December 31, 2016	$362,884	$893,020	$55,522	$37,491	$1,348,917
2017 Additions	499,642	-	4,465	45,210	549,317
December 31, 2017	**$862,526**	**$893,020**	**$59,987**	**$82,701**	**$1,898,234**
ACCUMULATED AMORTIZATION:					
December 31, 2015	$(5,966)	$-	$-	$-	$(5,966)
Changes in 2016	(7,148)	(58,568)	-	-	(65,716)
December 31, 2016	$(13,114)	$(58,568)	$-	$-	$(71,682)
Changes in 2017	(13,964)	(79,742)	-	(4,284)	(97,990)
December 31, 2017	**$(27,078)**	**$(138,310)**	**$-**	**$(4,284)**	**$(169,672)**
ACCUMULATED IMPAIRMENT LOSSES:					
December 31, 2015	$-	$-	$-	$-	$-
Changes in 2016					
December 31, 2016	$-	$-	$-	$-	$-
Changes in 2017	(58,352)	-	-	-	(58,352)
December 31, 2017	**$(58,352)**	**$-**	**$-**	**$-**	**$(58,352)**
CARRYING AMOUNT					
December 31, 2015	$233,798	$803,199	$36,041	$6,450	$1,079,488
December 31, 2016	$349,770	$834,452	$55,522	$37,491	$1,277,235
December 31, 2017	**$777,096**	**$754,710**	**$59,987**	**$78,417**	**$1,670,210**

New Product Dossier and Filing Costs

Cumulatively, the Company has incurred product dossier and filing costs of $862,526 (December 31, 2016 – $362,884) to date on eight 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 products are being amortized on a straight-line basis over their estimated finite useful lives of 5 years based on marketability. $13,964 of amortization expense (2016 – $7,148) 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 15*).

During the year, the Company decided to suspend further regulatory work on a third urgent care product for use in the Aguettant System® due to the significant level of further investment which would be required to obtain regulatory approval for this product. As such, the Company incurred a one-time impairment loss on this asset of $58,352 during the year, representing dossier and filing costs incurred to date on this product. This impairment loss is included in Selling, General and Administration expenses in the Company's consolidated statements of comprehensive income (*see Note 15*).

Product Licenses and Rights

Cumulatively, the Company has incurred costs related to the acquisition of product licenses and rights totalling $893,020 to December 31, 2017 (December 31, 2016 – $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 totalling $859,400 (December 31, 2016 – $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. $79,742 of amortization expense (2016 – $58,568) 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 15*).

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*). These milestone payments will be recognized as an increase to product licenses and rights when the specific milestones are achieved.

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*).

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.

New Product Development

The Company has incurred cumulative new product development costs consisting of labour, laboratory and professional fees to date totalling $59,987 (December 31, 2016 – $55,522) 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 $82,701 (December 31, 2016 – $37,491) 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). $4,284 of amortization expense (2016 – $Nil) 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 15*).

12. Loans Receivable

On December 8, 2016, the Board of Directors approved a Management Share Loan Program ("MSLP") under which the Company would offer 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.

On May 26, 2017, the Company advanced loan proceeds totalling $391,500 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% per annum and is secured by a pledge of the common shares purchased under the MSLP by the Borrowers. Interest receivable of $2,360 was accrued on the loans between May 26, 2017 and December 31, 2017.

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 May 26, 2022 (the "Maturity Date").

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 IAS 39, *Financial Instruments: Recognition and Measurement*.

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

	Shares	Amount
Balance December 31, 2015	14,021,195	$7,174,916
Options exercised	379,892	124,956
Balance December 31, 2016	14,401,087	$7,299,872
Options exercised	108,008	$218,531
Balance December 31, 2017	**14,509,095**	**$7,518,403**

During the year ended December 31, 2017, 108,008 common shares were issued against options exercised (2016 – 379,892). Upon the exercise of these stock options, $107,673 (2016 – $61,392) in fair value has been transferred from contributed surplus to share capital.

c. There are nil preferred shares outstanding as of December 31, 2017 (December 31, 2016 – nil).

d. 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 24, 2017. The purpose of the SOP is to assist the Company in attracting, retaining and motivating directors, officers, employees and other persons who provide ongoing services to the Company and its affiliates and to closely align the personal interests of such participants with those of the Company's shareholders, by providing them with the opportunity to acquire common shares of the Company, and thereby a proprietary interest in the Company and its subsidiaries, through the exercise of share purchase options.

On February 12, 2016, 45,273 options were granted by the Company to various employees and Directors under the SOP. An additional 1,114 options were granted to new employees during the 2017 fiscal year. Certain of these options shall fully vest on February 12, 2019 and certain of these options shall vest in annual increments over three years to February 12, 2019. The fair value of these options granted at an exercise price of $6.20 per option, has been determined using the Black-Scholes option pricing model using the following assumptions:

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

On March 15, 2017, 31,227 options 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, 5,921 options 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%

During the year ended December 31, 2017, the Company recorded net share-based payment expense of $192,581 (2016 – $235,477) relating to option grants to employees, directors and officers under the SOP, which are included in Selling, General and Administration expenses in the consolidated statements of comprehensive income.

As at December 31, 2017, there were 128,411 options outstanding (December 31, 2016 – 211,138), as shown below:

	December 31, 2017		December 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	211,138	$3.97	546,884	$1.16
Granted	37,148	$7.55	46,387	$6.20
Expired or forfeited	(11,867)	$7.06	(2,241)	$8.74
Exercised	(108,008)	$1.03	(379,892)	$0.17
Outstanding, end of period	128,411	$7.20	211,138	$3.97

Of the total number of options outstanding as of December 31, 2017, 42,244 options have vested and are exercisable by the option holders (December 31, 2016 – 134,456).

These exercisable options have a weighted average exercisable price of $6.53 (December 31, 2016 – $2.04). The weighted-average remaining contractual life of the 128,411 (December 31, 2016 – 211,138) options outstanding is 7.04 years (December 31, 2016 – 4.03 years) and the range of exercise prices for these options is $4.45 – $10.97 (December 31, 2016 – $0.57 – $10.97).

The average share price on the date of exercise of the options exercised during the year ended December 31, 2017 was $7.74 (2016 – $6.48).

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 per cent of the applicable employee's gross base salary.

During the year ended December 31, 2017, the Company recorded share-based payment expense of $68,947 (2016 – $nil) 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. 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,	
	2017	2016
Numerator		
Net income attributable to common shareholders	$5,206,277	$4,309,505
Denominator		
Basic		
Weighted average number of shares outstanding	14,463,098	14,366,114
Effect of Dilutive Securities adjusted for exercised options	131,846	138,917
Diluted		
Weighted average number of shares outstanding	14,594,944	14,505,031
Basic earnings per share	$0.36	$0.30
Diluted earnings per share	$0.36	$0.30

15. 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,	
	2017	2016
Cost of Goods Sold	$4,788,085	$3,795,833
Selling and Marketing	$5,309,333	$4,820,537
Advertising, Promotion and Selling Costs	2,494,158	2,272,930
Employee Costs	2,493,506	2,280,204
Share-based Payments	50,921	41,088
Logistics, Quality Control & Regulatory	270,748	226,315
General and Administration	$4,205,835	$3,488,621
Professional Fees	170,414	121,465
Corporate Expenses	827,075	637,019
Inventory write-downs	96,245	-
Depreciation and Amortization	189,553	146,641
Employee Costs	2,396,348	2,189,099
Share-based Payments	210,607	194,389
Information Technology	96,448	79,033
Insurance	81,552	72,495
Medical Affairs	18,798	34,311
Impairment Losses: Intangible Assets	58,352	-
Net Foreign Exchange Losses	60,443	14,169
New Business & Development Costs	$79,877	$63,841
Finance Income	$ (470,539)	$ (116,417)
Interest Income	(128,740)	(116,417)
Realized Foreign Exchange Gains – Investing	(341,799)	-

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

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

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, 2017 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 $210,825 (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 Lease

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

Fiscal 2018	$ 188,484
Fiscal 2019	$ 15,707

Purchase Commitments

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

18. Related Party Transactions

Key Management Personnel Compensation

The table below summarizes compensation for key management personnel of the Company for the years ended December 31, 2017 and 2016:

	Year ended December 31	
	2017	2016
Number of Key Management Personnel	6	5
Salary and Bonus	$1,233,892	$1,044,916
Share-Based Payments	$159,885	$119,134

During the year ended December 31, 2017, the Company recorded share-based payment expense of $138,460 (2016 – $119,134) related to the vesting of options granted to key management personnel under the SOP. The Company recorded additional share-based payment expense of $21,425 (2016 – $nil) relating to the Company's contributions to the ESPP for the purchase of common shares on behalf of participating key management personnel.

Transactions with Directors

During the year ended December 31, 2017, the Company paid total fees to its directors in the amount of $88,200 (2016 – $58,500) and share-based payments of $27,379 (2016 – $36,224).

Additionally, the Company incurred a remuneration expense of $18,000 for professional services rendered by one of its directors for the year ended December 31, 2017 (2016 – $21,500). These related party transactions have occurred in the normal course of operations.

Management Share Loan Plan ("MSLP")

During the year ended December 31, 2017, a total of $391,500 of loan proceeds were advanced to management personnel by the Company for the purpose of their purchase of the Company's issued and outstanding common shares in the open market through the facilities of the TSX Venture Exchange.

Each MSLP participant's loan bears interest at a rate of 1% per annum and is secured by a pledge of the common shares purchased under the MSLP by the Borrowers. The MSLP Participant Loans are repayable by the Borrowers upon any sale of pledged shares in proportion to the then outstanding loan principal balance plus accrued interest. The entire MSLP Participant Loan principal plus accrued interest must be fully repaid by the Borrowers no later than May 26, 2022 (the "Maturity Date") (*see Note 12*).

During the year, aggregate interest of $2,360 was accrued on the outstanding loan principal balances receivable from MSLP participants.

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 period are as follows:

December 31, 2017	$22,212,927
December 31, 2016	$16,726,716

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, 2017. 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 totalling $2,560,000, including a revolving demand credit facility of $1,500,000 which has not been utilized as of December 31, 2017, a foreign exchange facility of $1,000,000, and credit card facilities totalling $60,000. 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. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements.

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

The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. The operations are subject to income tax rates of 26.5% (2016 – 26.5%) in the Canadian jurisdiction, 35.0% (2016 – 35.0%) in the U.S. jurisdiction, and 2.5% (2016 – 2.5%) in the Barbados jurisdiction.

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2016 – 26.5%) to the effective tax rate is as follows:

	2017	2016
Net Income before tax	$6,850,164	$5,869,855
Combined statutory income tax rate	26.50%	26.50%
Expected income tax expense at current rate	$1,815,293	$1,555,512
Foreign tax differential	(225,808)	(2,510)
Change in exchange rates	31,098	4,570
Non-deductible expenses	69,211	79,198
Non-taxable portion of capital gains	(45,288)	(29,150)
Tax rate changes and other adjustments	(619)	(47,270)
Change in deferred tax assets not recognized	-	-
Provision for tax	$1,643,887	$1,560,350
Current income tax expense	$1,440,073	$1,514,530
Deferred tax expense	203,814	45,820
	$1,643,887	$1,560,350

Deferred Tax Balances

The balance in the statement of financial position comprises:

	2017	2016
Net operating losses carried forward	$46,647	$127,246
Equipment	-	10,129
Deferred tax assets	$46,647	$137,375
Equipment and intangibles	$(276,327)	$(163,241)
Deferred tax liability	$(276,327)	$(163,241)

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	24,899
2021	11,252
2022	49,555
2023	31,946
2024	75,719
2026	28,571
2031	184
	$ 222,126

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

	Year ended December 31,	
	2017	2016
Canada		
Pharmaceutical Business	$16,856,703	$15,113,621
Insecticide Business	1,298,870	1,156,385
Total Canada	$18,155,573	$16,270,006
International Jurisdictions		
Pharmaceutical Business – Middle East	$2,476,902	$1,549,538
Insecticide Business – United States	130,280	102,726
Total International Jurisdictions	$2,607,182	$1,652,264
Total Revenue	$20,762,755	$17,922,270

The Company's three major customers accounted for 36%, 21%, and 18%, respectively, of total revenues for the year ended December 31, 2017 (2016 – 35%, 21%, and 24%, respectively).

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

Non-Current Assets	December 31, 2017	December 31, 2016
Canada	$2,317,387	$1,578,695
United States	$ 46,647	$ 127,246
Barbados	$ 37,609	-

23. Subsequent Event

On January 8, 2018, the Company's Board of Directors approved a resolution granting a total of 35,567 stock options to senior management, officers, Directors, and advisors of the Company. Each of the options entitles the optionee to purchase one common share of the Company at an exercise price of $9.60. The options are exercisable for a period of ten years from the date of grant.

Corporate Information

Head Office

Suite 520,
170 Attwell Drive,
Toronto, Ontario, M9W 5Z5 Canada

Telephone	905.206.0013
Facsimile	905.206.1413
Email	info@biosyent.com
Website	www.biosyent.com

Board of Directors

Larry Andrews,
Mississauga, Ontario, Canada

Sara Elford,
Shawnigan Lake, British Columbia, Canada

René C. Goehrum (Chair)
Toronto, Ontario, Canada

Peter D. Lockhard
Toronto, Ontario, Canada

Paul Montador
Vernon, British Columbia, Canada

Stephen Wilton
Unionville, Ontario, Canada

Officers

René C. Goehrum
Chairman, President and
Chief Executive Officer

Alfred D'Souza
Vice-President and
Chief Financial Officer

Registrar and Transfer Agent

Computershare Trust Company Canada
100 University Avenue,
Toronto, Ontario, M5J 2Y1
Canada

Auditors

MNP LLP
Toronto, Ontario, Canada

BDO Barbados
St. Michael, Barbados

Solicitors

Wildeboer Dellelce LLP
Toronto, Ontario, Canada

Caravel Law
Toronto, Ontario, Canada

Harridyal Sodha & Associates
St. Michael, Barbados

Banks

Royal Bank of Canada
Toronto, Ontario, Canada

Canadian Imperial Bank of Commerce
Toronto, Ontario, Canada

City National Bank
Los Angeles, California, USA

Stock Listing

TSX Venture Exchange
Trading symbol: RX

Registered Office

Suite 520,
170 Attwell Drive,
Toronto, Ontario, M9W 5Z5 Canada