Consolidated Financial Statements of

ADVANZ PHARMA Corp.

December 31, 2018 and 2017

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Independent auditor's report

To the Shareholders of ADVANZ PHARMA Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ADVANZ PHARMA Corp. and its subsidiaries, (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of income (loss) for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity (deficit) for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 14, 2019

ADVANZ PHARMA Corp.

Consolidated Balance Sheets

(Stated in thousands of U.S. Dollars, except where otherwise stated)

As at	Dec 31, 2018	Dec 31, 2017
Assets		
Current		
Cash and cash equivalents	224,438	327,030
Restricted cash (Note 5)	3,265	—
Accounts receivable (Note 6)	115,092	146,028
Inventory (Note 7)	73,930	76,716
Prepaid expenses	9,393	6,415
Income taxes recoverable (Note 12)	2,018	872
Other current assets	16,001	10,547
	444,137	567,608
Intangible assets (Note 8)	1,146,692	1,503,878
Goodwill (Note 9)	232,784	244,957
Fixed assets	2,550	3,426
Deferred income tax assets (Note 12)	4,781	2,466
Total Assets	1,830,944	2,322,335
Liabilities		
Current		
Trade payables, accrued liabilities and interest payable (Note 10)	105,640	201,913
Provisions (Note 11)	25,877	34,096
Income taxes payable (Note 12)	48,375	50,311
Current portion of long-term debt (Note 14)	21,089	3,688,418
Current portion of purchase consideration payable (Note 20)	—	1,835
Cross currency swap liability (Note 13)	—	114,431
	200,981	4,091,004
Long-term debt (Note 14)	1,328,074	—
Purchase consideration payable (Note 20)	—	6,549
Deferred income tax liabilities (Note 12)	104,377	135,119
Other liabilities	848	176
Total Liabilities	1,634,280	4,232,848
Shareholders' Equity (Deficit)		
Share capital (Note 15)	1,915,000	1,283,083
Contributed surplus	55,278	52,757
Accumulated other comprehensive loss	(289,309)	(294,745)
Deficit	(1,484,305)	(2,951,608)
Total Shareholders' Equity (Deficit)	196,664	(1,910,513)
Total Liabilities and Shareholders' Equity (Deficit)	1,830,944	2,322,335

Commitments and Contingencies (Note 18)

Approved and authorized for issue by the Board of Directors on March 11, 2019.

"Randy Benson"	**"Graeme Duncan"**
Director (Signed)	Director (Signed)

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

ADVANZ PHARMA Corp.

Consolidated Statements of Income (Loss)

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

	For the year ended	
	Dec 31, 2018	**Dec 31, 2017**
Revenue (Note 11)	536,986	626,169
Cost of sales (Notes 7 & 24)	175,889	190,632
Gross profit	361,097	435,537
Operating expenses (Note 24)		
General and administrative	44,220	50,690
Selling and marketing	36,875	38,266
Research and development	29,708	31,482
Restructuring related, acquisition and other (Note 24)	100,972	46,778
Share-based compensation (Note 17)	2,537	8,711
Amortization of intangible assets (Note 8)	250,382	226,425
Impairments (Notes 8 & 9)	57,560	1,194,765
Depreciation expense	1,720	1,962
Fair value (gain) loss	425	1,406
Total operating expenses	524,399	1,600,485
Operating income (loss) for the year	(163,302)	(1,164,948)
Other income and expense		
Interest and accretion expense (Note 14)	257,655	506,794
Interest income	(2,229)	(61,302)
Fair value (gain) loss on derivative financial instruments (Note 13)	—	109,580
Gain on debt and purchase consideration settlement (Notes 10, 14 & 20)	(1,931,828)	(21,188)
Foreign exchange (gain) loss	6,100	1,551
Unrealized foreign exchange (gain) loss (Note 13)	38,257	(72,891)
Income (loss) for the year before tax	1,468,743	(1,627,492)
Income taxes (Note 12)		
Current	16,980	18,491
Deferred	(15,540)	(55,248)
Net income (loss) for the year	1,467,303	(1,590,735)
Earnings (loss) per share (Note 16) (adjusted for Share Consolidation, Note 2)		
Basic earnings (loss) per share	93.69	(9,328.57)
Diluted earnings (loss) per share	93.69	(9,328.57)

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

ADVANZ PHARMA Corp.

Consolidated Statements of Comprehensive Income (Loss)

(Stated in thousands of U.S. Dollars, except where otherwise stated)

	For the year ended	
	Dec 31, 2018	**Dec 31, 2017**
Net income (loss) for the year	1,467,303	(1,590,735)
Other comprehensive income (loss), net of tax		
Amounts that will be reclassified to net income (loss)		
Cumulative translation adjustment	(23,932)	97,714
Net investment hedge of GBP denominated loans (net of taxes of $1,945 (2017 - $(8,126))	29,368	(50,196)
Derivative financial instruments (net of taxes) (Note 13)	—	1,561
Other comprehensive income (loss) for the year, net of tax	5,436	49,079
Total comprehensive income (loss) for the year	1,472,739	(1,541,656)

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

ADVANZ PHARMA Corp.

Consolidated Statements of Changes in Equity (Deficit)

(Stated in thousands of U.S. Dollars, except where otherwise stated)

	Share Capital					
	Number of Shares	Amount	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings/ (Deficit)	Total Shareholders' Equity/ (Deficit)
Balances, January 1, 2017	51,089,556	1,277,175	49,949	(343,824)	(1,360,873)	(377,573)
Exercise / vesting of share based compensation	193,345	5,908	(5,908)	—	—	—
Share based compensation expense (Note 17)	—	—	8,716	—	—	8,716
Net loss for the year	—	—	—	—	(1,590,735)	(1,590,735)
Net investment hedge of GBP denominated loans (net of taxes of ($8,126))	—	—	—	(50,196)	—	(50,196)
Cross currency derivative financial instruments (net of taxes) (Note 13)	—	—	—	1,561	—	1,561
Cumulative translation adjustment	—	—	—	97,714	—	97,714
Balances, December 31, 2017	51,282,901	1,283,083	52,757	(294,745)	(2,951,608)	(1,910,513)
Consolidation of common shares (300:1) and re-designation as limited voting shares (Note 15)	(51,112,868)	—	—	—	—	—
Issuance of shares (Note 15)	48,742,558	631,897	—	—	—	631,897
Exercise / vesting of share based compensation	899	20	(20)	—	—	—
Share based compensation expense (Note 17)	—	—	2,541	—	—	2,541
Net income for the year	—	—	—	—	1,467,303	1,467,303
Net investment hedge of GBP denominated loans (net of taxes of $1,945)	—	—	—	29,368	—	29,368
Cumulative translation adjustment	—	—	—	(23,932)	—	(23,932)
Balances, December 31, 2018	48,913,490	1,915,000	55,278	(289,309)	(1,484,305)	196,664

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

ADVANZ PHARMA Corp.

Consolidated Statements of Cash Flows

(Stated in thousands of U.S. Dollars, except where otherwise stated)

	For the year ended	
	Dec 31, 2018	**Dec 31, 2017**
Cash flows from (used in) operating activities		
Net income (loss) for the year	1,467,303	(1,590,735)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Interest and accretion expense (Notes 14)	257,655	506,794
Interest income	(2,229)	(61,302)
Depreciation and amortization (Note 8)	252,102	228,387
Share based compensation expense (Note 17)	2,537	8,711
Non-cash inventory fair value adjustments (Note 7)	—	311
Fair value (gain) loss	425	1,406
Impairments (Notes 8 & 9)	57,560	1,194,765
Income tax expense (recovery) (Note 12)	1,440	(36,757)
Fair value (gain) loss on derivative financial instruments (Note 13)	—	109,580
Gain on debt and purchase consideration settlement (Notes 10, 14 & 20)	(1,931,828)	(21,188)
Unrealized foreign exchange (gain) loss (Note 13)	38,257	(72,891)
Purchase consideration paid (Note 20)	—	(10,348)
Income taxes paid	(18,796)	(23,116)
Income tax refunds	87	4,933
Increase in restricted cash (Note 5)	(3,265)	—
Other non-cash items	(929)	2,169
Changes in non-cash working capital (Note 25)	21,299	42,440
Net cash flows from operating activities	141,618	283,159
Cash flows from (used in) investing activities		
Purchase of fixed assets and development costs (Note 8)	(4,137)	(2,469)
Proceeds from sale of assets	943	1,108
Interest earned	1,220	824
Net cash flows used in investing activities	(1,974)	(537)
Cash flows from (used in) financing activities		
Repayment of long-term debt prior to Recapitalization Transaction (Note 14)	(22,267)	(57,279)
Repayment of long-term debt and cross currency swap liability as part of Recapitalization Transaction (Notes 2 & 14)	(604,910)	—
Repayment of long-term debt subsequent to Recapitalization Transaction (Note 14)	(5,248)	—
Proceeds from issuance of shares (Note 15)	587,311	—
Equity issuance costs paid (Note 15)	(44,197)	—
Purchase consideration paid (Note 20)	(1,500)	(97,420)
Interest paid (Notes 13 & 14)	(113,494)	(294,297)
Interest paid subsequent to Recapitalization Transaction (Note 14)	(20,370)	—
Interest received (Note 13)	—	76,616
Net cash flows used in financing activities	(224,675)	(372,380)
Net change in cash and cash equivalents	(85,031)	(89,758)
Effects of exchange rate changes on cash and cash equivalents	(17,561)	18,871
Cash and cash equivalents, beginning of year	327,030	397,917
Cash and cash equivalents, end of year	224,438	327,030

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

1. Description of Business and General Information

ADVANZ PHARMA Corp. (formerly known as Concordia International Corp.) (the "**Company**", "**ADVANZ PHARMA**", and together with its subsidiaries, the "**Group**") is an international specialty pharmaceutical company, owning or licensing, through its subsidiaries, a diversified portfolio of branded and generic prescription products. The Group has two reportable segments, which consist of ADVANZ PHARMA International and ADVANZ PHARMA North America, as well as a corporate cost centre. Refer to Note 22 for a further description on the Group's segments. On November 29, 2018, the shareholders of the Company approved a name change of the Company from "Concordia International Corp." to "ADVANZ PHARMA Corp.". The name change took effect on December 3, 2018.

The Group's business does not experience a significant amount of seasonal variation in demand.

The Company's shares are listed for trading on the Toronto Stock Exchange ("**TSX**") under the symbol "ADVZ" and "ADVZ.U" and were listed for trading on the NASDAQ Global Select Market® under the symbol "CXRX". Effective July 30, 2018, the Company's shares are no longer listed for trading on the NASDAQ Global Select Market.

Effective July 1, 2018, the registered and head office of the Company is located at 5770 Hurontario Street, Suite 310, Mississauga, Ontario, L5R 3G5.

These consolidated financial statements include trademarks that are protected under applicable intellectual property laws and are the property of ADVANZ PHARMA or its affiliates or its licensors. Solely for convenience, the trademarks of ADVANZ PHARMA, its affiliates and/or its licensors referred to in these financial statements may appear with or without the ® or ^{TM} symbol, but such references or the absence thereof are not intended to indicate, in any way, that the Company or its affiliates or licensors will not assert, to the fullest extent under applicable law, their respective rights to these trademarks. Any other trademarks used in these consolidated financial statements are the property of their respective owners.

2. Recapitalization Transaction

In 2017, the Company announced as part of its long-term strategy an objective to realign its capital structure, which included an intention to significantly reduce the Company's existing secured and unsecured debt obligations. On October 20, 2017, as part of the Company's efforts to realign its capital structure, the Company and one of its wholly-owned direct subsidiaries commenced a court proceeding (the "**CBCA Proceedings**") under the *Canada Business Corporations Act* (the "**CBCA**"). The CBCA is a Canadian corporate statute that includes provisions that allow Canadian corporations to restructure certain debt obligations, and is not a bankruptcy or insolvency statute. In connection with the CBCA Proceedings, the Group's Currency Swaps (defined below), which the Group entered into in August and November of 2016, and the revolving commitments under its credit agreement were terminated.

On May 2, 2018, the Company announced a proposed transaction to realign its capital structure (the "**Recapitalization Transaction**") that included, among other things, a new equity capital raise of $586.5 million, and reduction of the Company's total outstanding debt by approximately $2.4 billion. In addition, as part of the Recapitalization Transaction, the Company confirmed the amount payable as a result of the termination of the Group's cross currency swap agreements ("**Currency Swaps**") of $114,431.

The plan of arrangement under the CBCA pursuant to which the Recapitalization Transaction was implemented (as amended, the "**CBCA Plan**") was approved by secured and unsecured debtholders and shareholders of the Company at the debtholders' and shareholders' meetings held on June 19, 2018. On June 26, 2018, the Company obtained a final court order (the "**Final Order**") from the Ontario Superior Court of Justice (Commercial List) (the "**Court**") approving the CBCA Plan.

In connection with the Recapitalization Transaction, the Company continued from the *Business Corporations Act* (Ontario) to the *Canada Business Corporations Act* on June 22, 2018.

On September 6, 2018, the Recapitalization Transaction was implemented by the Company.

The Recapitalization Transaction included, among other things, the following key elements:

(a) the Group's total debt was reduced by approximately $2.4 billion;
(b) $586.5 million in equity, excluding $44 million of fees, was invested pursuant to a private placement (the "**Private Placement**") by certain parties that executed the subscription agreement with ADVANZ PHARMA, dated May 1, 2018, in exchange for new limited voting shares (refer to Note 15 for details of the limited voting shares) of ADVANZ PHARMA representing in the aggregate approximately 87.69% of the outstanding limited voting shares of ADVANZ PHARMA upon implementation of the Recapitalization Transaction, but prior to the issuance of the limited voting shares issued in connection with the Management Co-Invest (defined in Note 15);
(c) the Company's secured debt (the "**Secured Debt**"), including the Cross Currency Swap Liability (defined in Note 13) (together, the "**Exchanged Secured Debt**") in the aggregate principal amount of approximately $2.1 billion, plus accrued and unpaid interest was repaid with (i) cash in the amount of approximately $19 million equal to outstanding accrued and unpaid non-compound interest (calculated at contractual non-default rates) in respect of the Exchanged Secured Debt, (ii) cash in the amount of approximately $605 million (taking into account early consent cash consideration for holders of Exchanged Secured Debt entitled to early consent cash consideration under the CBCA Plan), and (iii) approximately $1.36 billion of new secured debt (the "**New Secured Debt**") comprised of new senior secured term loans (approximately $1.06 billion, denominated in U.S. dollars and European Euros) and new senior secured notes (approximately $300 million, denominated in U.S. dollars). Refer to Note 14 for a description of the New Secured Debt;
(d) the Company's unsecured debt (the "**Unsecured Debt**") in the aggregate principal amount of approximately $1.6 billion, plus accrued and unpaid interest, was repaid with new limited voting shares of ADVANZ PHARMA representing in the aggregate approximately 11.96% of the outstanding limited voting shares of ADVANZ PHARMA upon implementation of the Recapitalization Transaction (taking into account early consent shares for holders of Unsecured Debt entitled to early consent consideration under the CBCA Plan), but prior to the issuance of the limited voting shares issued in connection with the Management Co-Invest (defined in Note 15);

(e) the Company's existing common shareholders retained their common shares, subject to a 1-for-300 common share consolidation (the "**Share Consolidation**") and a re-designation of such shares as limited voting shares pursuant to the CBCA Plan, representing approximately 0.35% of the outstanding limited voting shares of ADVANZ PHARMA upon implementation of the Recapitalization Transaction, but prior to the issuance of the limited voting shares issued in connection with the Management Co-Invest (defined in Note 15);
(f) all other equity interests in ADVANZ PHARMA, including all options, warrants, rights or similar instruments, were cancelled pursuant to the CBCA Plan, and all equity claims, other than the Company's existing equity class action claims (the "**Existing Equity Class Action Claims**"), were released pursuant to the CBCA Plan and the Final Order, provided that any recovery in respect of such Existing Equity Class Action Claims was limited pursuant to the CBCA Plan and the Final Order to recovery from any applicable insurance policies maintained by the Company, subject to certain exceptions;
(g) any and all (i) defaults resulting from the CBCA Proceedings, and (ii) third party change-of-control provisions that may have otherwise been triggered by the Recapitalization Transaction, have been permanently waived pursuant to the CBCA Plan and the Final Order;
(h) obligations to customers, suppliers and employees (other than the cancellation of certain equity interests, described above) were not affected by the Recapitalization Transaction; and
(i) pursuant to the CBCA Plan, certain amendments were made to the Company's articles to, among other things, amend ADVANZ PHARMA's authorized capital and provisions attaching to its shares, and the Company's existing by-laws were repealed and a new general by-law of ADVANZ PHARMA was adopted and approved.

The Share Consolidation completed as part of the Recapitalization Transaction reduced the number of issued and outstanding ADVANZ PHARMA common shares to 170,932 (prior to taking into account the issuance of the limited voting shares pursuant to the Recapitalization Transaction and the Management Co-Invest (defined in Note 15)). Together with the new limited voting shares issued pursuant to the Recapitalization Transaction and the Management Co-Invest (defined in Note 15), the Company now has a total of 48,913,490 limited voting shares issued and outstanding, which commenced trading on the TSX on September 11, 2018.

In connection with the implementation of the CBCA Plan, ADVANZ PHARMA finalized and entered into an investor rights agreement (the "**Investor Rights Agreement**") with the parties that participated in the Private Placement. The Company has also amended its articles to reflect certain aspects of the governance arrangements which became effective upon implementation of the CBCA Plan.

As part of the Recapitalization Transaction, a new management incentive plan (the "**MIP**") was adopted pursuant to the CBCA Plan, pursuant to which a maximum of up to 7.5% of the limited voting shares outstanding upon implementation of the CBCA Plan could be issued, as approved in connection with approval of the CBCA Plan. If such limited voting shares are issued, they will dilute the ownership percentage of holders of limited voting shares of ADVANZ PHARMA. Refer to Note 17 for a further description of the MIP.

The Company recorded a gain on settlement of debt of $1,924,520. Refer to Notes 10 and 14 for a further description of the gain on debt settlement.

3. Significant Accounting Policies

(a) Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IFRS**"). The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that are measured at fair value, as described in (o) below. The accounting policies have been consistently applied throughout the year unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Company to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The consolidated financial statements are prepared on a going concern basis and have been presented in U.S. dollars, which is also the Company's functional currency.

(b) Basis of Consolidation

The wholly owned subsidiaries of the Company are consolidated to produce the financial results for the consolidated corporation. All intercompany transactions, balances, income and expenses on transactions between the subsidiaries are fully eliminated. Profits and losses resulting from intercompany transactions that were recognized are also fully eliminated.

These consolidated financial statements include the following wholly owned material subsidiaries of the Company: Concordia Laboratories, Inc., Concordia Pharmaceuticals, Inc., ADVANZ PHARMA Investment Holdings (Jersey) Limited, ADVANZ PHARMA Financing (Jersey) Limited, ADVANZ PHARMA (Jersey) Limited, Amdipharm Holdings S.à R.L., Amdipharm AG, Amdipharm BV, Amdipharm Limited, Amdipharm Mercury Holdco UK Ltd., Amdipharm Mercury UK Ltd., ADVANZ PHARMA Holdings (Jersey) Limited, Amdipharm Mercury International Limited, ADVANZ PHARMA Investment Holdings (UK) Limited, Mercury Pharma Group Limited, Abcur AB, ADVANZ PHARMA Services (UK) Limited, Focus Pharma Holdings Limited, Focus Pharmaceuticals Limited, ADVANZ PHARMA Generics (UK) Limited, Mercury Pharmaceuticals (Ireland) Limited, Mercury Pharma International Limited, and Mercury Pharmaceuticals Limited.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those followed by other members of the Group.

(c) Comparative Financial Information

Certain prior period balances have been re-classified to conform with the current period financial statement presentation.

(d) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker ("**CODM**"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer of the Company.

(e) Business Combinations

Acquisitions have been accounted for as business combinations using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. Acquisition-related transaction costs are recognized in income (loss) and comprehensive income (loss) as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are initially recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Changes in fair value that are not considered measurement adjustments are recognized through the consolidated statements of income (loss). Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Contingent consideration that is classified as a financial asset or a financial liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognized in the consolidated statements of income (loss).

(f) Foreign Currency Translation

The Company's consolidated financial statements are presented in U.S. dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. All of the Company's significant subsidiaries report in U.S dollars ("**USD**") with the exception of subsidiaries within the ADVANZ PHARMA International segment which report primarily in Great British Pounds ("**GBP**" or "**£**") and certain others in Indian Rupees, European Euros ("**EUR**"), South African Rand, Hong Kong Dollars, Australian Dollars and Swedish Krona. Transactions in foreign currencies are initially recorded at the functional currency rate of exchange prevailing at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange prevailing at the balance sheet dates. All differences are taken to the consolidated statements of income (loss). Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates in effect at the date when the fair value was determined.

The assets and liabilities of foreign operations are translated into USD at the rate of exchange prevailing at the balance sheet dates, and their consolidated statements of income (loss) are translated at exchange rates prevailing at the average exchange rate for the period. The exchange differences arising on the translation are taken directly to a separate component of equity (accumulated other comprehensive income (loss)). On disposal or dissolution of a foreign operation, the deferred cumulative amount recognized in equity relating to the particular foreign operation is recognized in the consolidated statements of income (loss).

(g) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held with financial institutions and other short-term, highly liquid investments with maturities of three months or less that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

Cash equivalents as at December 31, 2018 includes deposits held with major financial institutions of $14,771 (2017 - $73,712).

(h) Inventory

Inventories consist of raw materials, work-in-progress and finished goods. Inventory, other than inventory acquired through a business combination, is valued at the lower of cost based on weighted average cost and net realizable value. Net realizable value is the estimated selling prices less applicable selling expenses and costs to complete the sale. If the carrying value exceeds the net realizable value, a write-down is recognized.

A reserve is taken on inventory for quantities not expected to be consumed. This reserve offsets the inventory balance. Inventories acquired through business combinations are initially recognized at fair value.

(i) Intangible assets

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. The assets are amortized using the straight line method over their estimated useful life, or using a declining balance approach if such method is more appropriate based on the pattern in which the assets future economic benefits are expected to be consumed by the Group. The declining balance rate used by the Group for certain acquired product rights ranges between 10% and 50% annually. Amortization recorded on all other intangibles applied on a straight line basis is as follows:

Acquired product rights and manufacturing processes	7-28 years
Intellectual property	20 years
Customer list	4 years
Supplier contracts	5 years
Distribution contracts	5 years
Software and other intangibles	3-5 years

The estimated useful life is reviewed at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis.

In-process research & development ("**IPR&D**") acquired in a business combination is capitalized as an indefinite-lived intangible asset and accordingly is not amortized, but is tested for impairment on an annual basis or more frequently if there are indications that IPR&D may be impaired. When IPR&D is completed, the asset will be assigned a useful life and amortized, or when abandoned, written off as an impairment. Indefinite life intangible assets, including IPR&D, are measured at cost less accumulated impairment losses.

Costs incurred on development projects are recognized as intangible assets when technical feasibility has been met, the Group's resources and intention to develop are committed, expenditures can be measured reliably and there is an expectation of future economic benefits. Other development expenditures are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Intellectual property acquired in a business combination is recognized separately as an intangible asset if it meets the definition of an intangible asset in accordance with IAS 38, "Intangible Assets", and its fair value can be measured reliably.

All development costs with a finite useful life that have been capitalized are amortized from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit.

(j) Goodwill

Goodwill represents the excess fair value of consideration transferred over the fair value of the underlying net assets in a business combination and is measured at cost less accumulated impairment losses. Goodwill is not amortized, but is tested for impairment on an annual basis or more frequently if there are indications that goodwill may be impaired. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units ("**CGU**") or group of CGU's, that are expected to benefit from the synergies of the acquisitions. If the recoverable amount of the CGU or group of CGU's is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to other assets of the CGU or group of CGU's.

(k) Impairment of Non-Financial Assets

The Group reviews assets such as property and equipment and intangible assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Intangible assets with indefinite lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that they may be impaired.

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Recoverable amount is the higher of an asset's fair value less the cost of disposal and value in use, (being the present value of the expected future cash flows of the relevant asset or CGU), as determined by the Group.

Any impairment losses are recognized immediately in the consolidated statements of income (loss). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Provisions

Provisions are recognized when present (legal or constructive) obligations as a result of a past event will lead to a probable outflow of economic resources and amounts can be estimated reliably. Provisions are measured at the Group's best estimate of the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are more prevalent within the ADVANZ PHARMA North America segment when compared to the ADVANZ PHARMA International segment. The provision level is also subject to factors such as product mix and customer mix which may result in higher levels of gross to net adjustment. Refer to Note 4, which provides further detail regarding the estimates involved in making provisions.

The Group performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered remote, no liability has been recognized.

(m) Net Investment Hedge

The Company had designated its GBP denominated term loan (refer to Note 14) as a net investment hedge with respect to its investment in the ADVANZ PHARMA International segment as this loan was entered into at the time of the acquisition of the ADVANZ PHARMA International segment and formed part of the consideration transferred. This term loan was carried at amortized cost, however foreign currency translation adjustments of the financial liability were recorded in other comprehensive income (loss) at each reporting period on a net of tax basis, along with the associated cumulative translation adjustment associated with the hedged investment. There were no amounts recorded in the consolidated statements of income (loss) with respect to ineffective portions of the hedge or subsequent changes from the initial designation of the net investment hedge.

(n) Income Taxes

Income taxes are comprised of current and deferred taxes. These taxes are accounted for using the liability method.

Current tax is recognized in connection with income for tax purposes, unrealized tax benefits, excluding interest in respect thereof, and the recovery of tax paid in a prior period. The determination of income for tax purposes requires interpretation of the relevant rules and judgment, therefore an unrealized tax benefit may arise in connection with taxation years that have not yet been reviewed by the relevant tax authority. If appropriate, an unrealized tax benefit will be realized in the reporting period in which the Group determines that realization is not in doubt. Current tax is measured at the tax rate applicable to the taxation period during which the income for tax purposes arose.

Deferred tax is recognized on the difference between the carrying amount of an asset or a liability, as reflected in the financial statements, and the corresponding tax base, used in the computation of income for tax purposes ("**temporary difference**"). A deferred tax liability is generally recognized for any temporary difference in respect of an asset where the carrying amount exceeds the tax base and in respect of a liability where the tax base exceeds the carrying amount. A deferred tax asset is generally recognized for any temporary difference in respect of an asset where the tax base exceeds the carrying amount, in respect of a liability where the carrying amount exceeds the tax base and to the extent that it is probable that income for tax purposes will be available from which the temporary difference can be deducted. Deferred tax is not recognized if a temporary difference arises in connection with goodwill or the initial recognition (other than in a business combination) of an asset or liability in a transaction that affects neither income for tax purposes nor income for accounting purposes.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient income for tax purposes will be available from which the temporary difference can be deducted. Deferred taxes are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that are enacted or substantively enacted during the reporting period and reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to realize the asset or settle the liability that gave rise to the temporary difference.

Income taxes are recognized in the consolidated statements of income (loss), except when they relate to an item that is recognized in other comprehensive income (loss) or directly in equity, in which case, the taxes are also recognized in other comprehensive income (loss) or directly in equity, respectively. Where income taxes arise from the initial accounting for a business combination, these are included in the accounting for the business combination.

(o) Financial Instruments

IFRS 9 introduced new classification and measurement models for financial assets. The investment classifications held-to-maturity and available-for-sale are no longer used and financial assets at fair value through other comprehensive income ("**FVTOCI**") were introduced. Financial assets held with an objective to hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest are measured at amortised cost using the effective interest method. Debt investments held with an objective to hold both assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of fair value are measured at FVTOCI. All other financial assets are classified and measured at fair value through profit or loss ("**FVTPL**"). Financial liabilities are classified as either FVTPL or other financial liabilities, and the portion of the change in fair value that relates to the Company's credit risk is presented in other comprehensive income (loss). Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in net income (loss). Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Accounts receivables are initially recognized at their invoiced amounts. Provisions for doubtful accounts receivables, recorded as allowance for doubtful accounts, are established using an expected credit loss (**"ECL"**) model. Impairment is measured using a 12-month expected credit loss method to recognize an

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

allowance. The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all accounts receivables.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as FVTPL, are added to or deducted from the fair value on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in consolidated net income (loss).

Financial assets and financial liabilities are recognized on the consolidated balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the Group transfers substantially all risks and rewards of ownership or the contractual rights to the cash flows expire. Financial liabilities are derecognized when the obligation is discharged, cancelled or expired.

The following table illustrates the classification and measurement of the Group's financial instruments:

IFRS 9 **Financial Instruments**	**Financial assets at amortized cost**	**Liabilities at amortized cost**	**FVTPL**	**As at Dec 31, 2018**
Cash and cash equivalents	224,438	—	—	224,438
Restricted cash	3,265	—	—	3,265
Accounts receivable	115,092	—	—	115,092
Trade payables, accrued liabilities and interest payable	—	(105,640)	—	(105,640)
Provisions	—	(25,877)	—	(25,877)
Long-term debt	—	(1,349,163)	—	(1,349,163)
	342,795	(1,480,680)	—	(1,137,885)

IAS 39 **Financial Instruments**	**Loans and receivables at amortized cost**	**Other financial liabilities at amortized cost**	**FVTPL**	**As at Dec 31, 2017**
Cash and cash equivalents	327,030	—	—	327,030
Accounts receivable	146,028	—	—	146,028
Trade payables, accrued liabilities and interest payable	—	(201,913)	—	(201,913)
Provisions	—	(34,096)	—	(34,096)
Cross currency swap liability	—	(114,431)	—	(114,431)
Long-term debt	—	(3,688,418)	—	(3,688,418)
Purchase consideration payable	—	—	(8,384)	(8,384)
	473,058	(4,038,858)	(8,384)	(3,574,184)

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 measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

(p) Share-based Compensation

In connection with the Recapitalization Transaction, the Group adopted the MIP as described in Notes 2 and 17. The MIP involves participants acquiring shares in a subsidiary of the Company which will be exchangeable for limited voting shares of the Company in certain circumstances. The MIP is subject to certain market based exchange conditions and has been valued using a Monte Carlo valuation model. The fair value of the MIP shares are recognized as a compensation expense over time and the related credit is recorded as a reserve for share-based compensation within contributed surplus. The share-based compensation expense is adjusted for subsequent changes in the Group's estimate of timing of when the exchange may occur. The effect of these are recognized in the period of change.

Prior to the Recapitalization Transaction, the Company had a stock option plan that allowed for the issuance of stock options to employees, directors, officers, and others as determined by the Company's board of directors. Under IFRS, each option installment was treated as a separate option grant with graded-vesting features, forfeitures were estimated at the time of grant and revised if actual forfeitures were likely to differ from previous estimates, and options granted to parties other than employees were measured at their fair value on the date goods or services were received. Over the vesting period of the option grants, the fair value was recognized as compensation expense and a related credit was recorded as reserve for share-based compensation. The reserve for share-based compensation was reduced as options were exercised through a credit to share capital. The consideration paid by option holders was credited to share capital when the options were exercised.

Prior to the Recapitalization Transaction, the Company had a long term incentive plan. For each Restricted Share Unit ("**RSU**"), Deferred Share Unit ("**DSU**") or Performance Based RSU ("**Performance Based RSU**") granted under the long-term incentive plan, the Company recognized an expense equal to the market value of an ADVANZ PHARMA common share at the date of grant based on the number of RSUs, DSUs and Performance Based RSUs expected to vest, recognized over the term of the vesting period, with a corresponding credit to reserve for share based compensation anticipated to be equity settled or a corresponding credit to a liability for those anticipated to be cash settled. Additional RSUs, DSUs or Performance Based RSUs were issued to reflect dividends declared on the common shares. Certain Performance Based RSUs were subject to market based vesting conditions and had been valued using a Monte Carlo valuation model. Compensation expense was adjusted for subsequent changes in management's estimate of the number of RSUs, DSUs or Performance Based RSUs that were expected to vest and, for

RSUs, DSUs or Performance Based RSUs anticipated to be cash settled, changes in the market value of ADVANZ PHARMA common shares. The effect of these changes was recognized in the period of the change. Vested RSUs, DSUs and Performance Based RSUs were settled either in ADVANZ PHARMA common shares or in cash or a combination thereof at the discretion of the Company.

(q) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing the net income by the weighted average number of shares outstanding during the year. Diluted earnings (loss) per share is calculated by dividing the applicable net earnings by the sum of the weighted average number of shares outstanding during the year and all additional shares that would have been outstanding if potentially dilutive shares had been issued during the year.

(r) Recent Accounting Pronouncements

(i) Recent accounting pronouncements adopted

Revenue Recognition

IFRS 15, "Revenue from Contracts with Customers" ("**IFRS 15**"), provides a comprehensive five-step revenue recognition model for all contracts with customers. IFRS 15 replaced IAS 18, "Revenue" ("**IAS 18**") which covered contracts for goods and services and IAS 11 which covered construction contracts. The IFRS 15 revenue recognition model requires the Group to exercise significant judgment and make estimates that affect revenue recognition. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard was effective January 1, 2018 and has been adopted by the Group using the modified retrospective approach, with no restatement of the comparatives.

The Group has assessed the effects of applying the new standard on the Company's financial statements and has identified the following areas that were affected:

- Accounting for variable consideration - Under IFRS 15 the Group recognizes revenue as performance obligations are satisfied to the extent there will not be a significant reversal in the future when the uncertainty surrounding any components of variable consideration is subsequently resolved. IFRS 15 did not have a significant impact on revenue recognition associated with the chargebacks, returns, rebates, prompt pay and other price adjustments components of contracts with the Group's customers. The Group recognizes variable consideration at the inception of the revenue recognition process, which is consistent with the Group's previously applied accounting policy, and therefore no impact was noted.
- Accounting for sales to distributors - Under IFRS 15 the Group recognizes revenue upon the transfer of control to the customer, which requires the Group to apply judgment based on the indicators provided in the standard. Under certain of the Group's arrangements associated with sales to distributors, revenue is not recognized until control of the product is transferred to the end customer, either because inventory is on consignment with the distributor, or because the transaction price is not final until the control of the product is transferred to the end customer. The Group has determined that the timing of revenue recognition for sales to distributors is not impacted on adoption of IFRS 15.

Revenue is recorded as net revenue and is recognized in the consolidated statement of income (loss) when a contractual promise to a customer (performance obligation) has been fulfilled by transferring control over the promised goods to the customer, generally at the point in time of shipment to or receipt of the products by the customer. The amount of revenue to be recognized is based on the consideration the Group expects to receive in exchange for its goods. If a contract contains more than one performance obligation, the consideration is allocated based on the standalone selling price of each performance obligation.

The consideration the Group receives in exchange for its goods may be fixed or variable. Variable consideration is only recognized to the extent it is highly probable that a significant reversal will not occur when the uncertainty surrounding any components of variable consideration is subsequently resolved. The most common and significant elements of variable consideration include chargebacks, returns, rebates, prompt pay and other price adjustments. Refer to Note 4 for further details relating to these elements of variable consideration.

Revenue represents the amounts receivable after providing for the elements of variable consideration, including the deduction of discounts, allowances given, provisions for chargebacks, other price adjustments and accruals for estimated future rebates and returns. Provisions for revenue deductions are adjusted to actual amounts as discounts, allowances, chargebacks, price adjustments, rebates and returns are processed. The provision represents estimates of the related obligations, requiring the use of judgment when estimating the effect of these sales deductions.

The Group operates in a number of different geographical segments, with different markets. Further detail by segment related to revenue recognition is described below:

ADVANZ PHARMA North America segment

Revenue within the ADVANZ PHARMA North America segment is primarily derived from two customer groups, those being wholesalers and authorized generic partners ("**AG Partners**"). Revenue is recognized at the time of sale to the wholesaler and AG Partners as this is the point of transferring control over the promised goods to the customer, based on the following; 1) the wholesalers and AG Partners are responsible for setting their sales price to the final customer and collecting on their receivables; 2) the Group can reliably measure the amount of revenue to be recognized (this includes the impact of gross to net adjustments, including expected returns, wholesaler and retail inventory levels, prescription data, current market trends, competitor activity and historical experience); 3) the wholesalers and AG Partners are responsible for managing their customers; and 4) costs associated with the sale have been incurred at the time the product is sold to the wholesaler and the AG Partner. Revenue related to Photofrin® is concentrated primarily within the United States ("**U.S.**") and is sold through distributors. The point of revenue recognition is at the time the distributors receive the product. Revenue is recognized at this time as the distributor has obtained control over the promised goods since they have no right of return, except for expired product (at which point they are entitled only to a replacement product), and full risk of ownership of the product has been transferred.

The Group also earns revenue from licensing and profit-sharing arrangements. Under these arrangements revenue is recognized as earned in accordance with the substance of the relevant agreement. Arrangements determined over time are recognized on a straight-line basis over the period of the agreement. Arrangements that are based on production, sales and other measures are recognized at a point in time once the performance obligations are satisfied by reference to the underlying arrangement.

Royalty income is recognized over a period of time as the performance obligations are satisfied in accordance with royalty agreements.

ADVANZ PHARMA International segment

The ADVANZ PHARMA International segment is similar to the ADVANZ PHARMA North America segment, as revenue is recognized at the time of sale to the wholesalers, hospitals and pharmacies, as this is the point of transferring control over the promised goods to the customer. The ADVANZ PHARMA International segment is not subject to significant levels of gross to net adjustments. Revenue is recognized on either shipment or receipt by the customer depending on the contractual terms of the sales agreement.

Financial Instruments

The final version of IFRS 9, "Financial Instruments" ("**IFRS 9**"), was issued by the IASB in July 2014 and replaced IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 introduces a model for classification and measurement, a single, forward-looking “expected loss” impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 was effective as at January 1, 2018.

The Group has reviewed the classification and measurement of its financial assets and financial liabilities with respect to new guidance under IFRS 9, and determined that the new standard does not quantitatively change the measurement of its financial assets. Additionally, the Group has determined that there is no impact on the accounting for its financial liabilities, as the new requirements only affects the accounting for financial liabilities that are designated at fair value through profit or loss and which are subject to fair value changes as a result of the entity's own credit risk.

The new impairment model for financial assets requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. The Group has determined that there is not a significant change in the loss allowance for accounts receivable as a result of adopting IFRS 9.

The Group adopted IFRS 9 on the effective date of January 1, 2018. The standard has been implemented following the specific transitional requirements listed in the standard related to classification and measurement, impairments and hedge accounting. This results in prospective application.

Financial Instruments Disclosures

IFRS 7, "Financial Instruments: Disclosures" ("**IFRS 7**"), has been amended by the IASB to require additional disclosures on transition from IAS 39 to IFRS 9. The amendment to IFRS 7 was effective for periods beginning on or after January 1, 2018. The Company has reflected the additional disclosures in the consolidated financial statements for the year ended December 31, 2018.

(ii) Recent accounting pronouncements not yet adopted

The following pronouncements that may be significant to the Group were issued by the IASB or the IFRS Interpretations Committee. Those pronouncements that are not applicable or do not have a significant impact to the Group have been excluded from the summary below.

The following pronouncements have not yet been adopted by the Group and are being evaluated to determine the resultant impact, as summarized below:

Leases

IFRS 16, "Leases" ("**IFRS 16**"), sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees, thereby removing the distinction between operating and finance leases. IFRS 16 requires a lessee to recognize an asset (right-to-use the leased item) and a financial liability to pay rentals on the consolidated balance sheets with terms

of more than 12-months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. The standard permits either a full retrospective or a modified retrospective approach for the adoption. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15.

The Group has assessed the effects of applying the new standard on the Company's financial statements and has identified the following items to highlight with respect to the Group's implementation of the new standard:

- The Group does not expect the standard to have a significant impact on the consolidated financial statements due to the limited quantity and magnitude of leases entered into by the Group, which are primarily leases of premises. However, the Group expects there to be an impact to assets, liabilities and opening retained earnings on the consolidated balance sheets upon adoption of the new standard, since the majority of the Group's leases are currently accounted for as operating leases and thus not recorded on the consolidated balance sheets.
- The Group will apply IFRS 16 to all arrangements containing a lease, with the exception of those leases that are low-value or short-term (contain a lease term of less than one year), since the exemptions provided within IFRS 16 for leases of this nature will be applied by the Group.
- The Group will be required to make key judgments and estimates when applying IFRS 16, including, but not limited to, determining the lease term and calculating the discount rate to be applied for each lease.

The Group will be adopting this standard from its mandatory date of January 1, 2019. The Group intends to use the modified retrospective approach, thus comparative information will not be restated.

Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments ("**IFRIC 23**"). IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. The IFRIC 23 interpretation specifically addresses whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The Group is currently evaluating the impact of adopting this standard on the consolidated financial statements.

4. Critical Accounting Estimates and Judgments and Key Sources of Estimation Uncertainty

The preparation of the consolidated financial statements requires the Group to make a number of judgments, estimates and assumptions regarding recognition and measurement of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Information about the judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Revenue Recognition

i. **Chargebacks**

The provision for chargebacks is a significant and complex estimate used in the recognition of revenue and represents variable consideration under IFRS 15. In the United States, the Group sells its products directly to wholesale distributors. The wholesale distributors sell directly to independent pharmacies, managed care organizations, hospitals and group purchasing organizations ("**indirect customers**"). The difference between what price the Group sells to the wholesaler and what price the wholesaler sells to the indirect customer is

called a chargeback. The provision for chargebacks is based on the historical sales mix of the wholesalers for their government and retail customers. As sales are made to large wholesale customers, the Group continually monitors the provision for chargebacks and makes adjustments when it believes that actual chargebacks may differ from estimated provisions.

ii. **Returns**

The provision for returns is a significant and complex estimate used in the recognition of revenue and represents variable consideration under IFRS 15. The Group has a returns policy that allows wholesalers to return the product within a specified period prior to and subsequent to the expiration date. Provisions for returns are recognized in the period in which the underlying revenue is recognized, as a reduction of the transaction price at the inception of the contract. The Group estimates provisions for returns based upon historical experience, representing the Group's best estimate. While such experience has allowed for reasonable estimations in the past, history may not always be an accurate indicator of future returns. The Group continually monitors provisions for returns and makes adjustments when it believes that actual product returns may differ from established reserves.

iii. **Rebates**

The provision for rebates is a significant and complex estimate used in the recognition of revenue and represents variable consideration under IFRS 15. Rebates are granted to healthcare authorities and under contractual arrangements with certain customers. Products sold in the United States are covered by various programs (such as Medicaid and Medicare) under which products are sold at a discount. The Group estimates its provisions for rebates based on current contractual terms and conditions as well as the historical experience, changes to business practices and credit terms. While such experience has allowed for reasonable estimations in the past, history may not always be an accurate indicator of future rebate liabilities. The Group continually monitors the provision for rebates and makes adjustments when it believes that actual rebates may differ from established provisions. All rebates are recognized in the period in which the underlying sales are recognized as a reduction of sales revenue.

iv. **Other transaction price adjustments**

The provision for other transaction price adjustments is a significant and complex estimate used in the application of IFRS 15. Other price adjustments are credits issued by the wholesaler to reflect various decreases in the selling price. The price that the Group sells to the wholesaler is called the Wholesale Acquisition Cost (or "**WAC**"). Decreases to WAC are discretionary decisions made by the wholesalers to reflect competitive market conditions. Amounts recorded for other transaction price adjustments are initially estimated at the inception of the contract with the wholesaler, based upon an estimated decline in market prices. The Group regularly monitors these and other factors and re-evaluates the adjustment to the transaction price as additional information becomes available.

v. **Prompt pay**

The provision for prompt pay is an estimate used in the recognition of revenue and represents variable consideration under IFRS 15. Prompt pay are discounts offered to customers for making early payments on their invoices within a defined period of time, prior to the payment due date under the Group's normal payment terms. The Group estimates provisions for prompt pay based upon historical experience, representing the Group's best estimate. The Group continually monitors provisions for prompt pay and makes adjustments when it believes that actual prompt pay discounts may differ from established reserves.

Share-based payments and compensation

The compensation expense related to share-based payments under the MIP is determined using the Monte Carlo option pricing model. The assumptions used in the model are (i) weighted average probability of expected time to maturity, (ii) share volatility (iii) risk free rates and (iv) the assumption that the Company will not pay dividends.

Impairment of non-financial assets

The Group reviews amortized non-financial assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. It also reviews annually non-financial assets with indefinite life for impairment. If the recoverable amount of the respective non-financial asset is less than its carrying amount, it is considered to be impaired. In the process of measuring the recoverable amount, the Group makes assumptions about future events and circumstances. The actual results may vary and may cause significant adjustments.

Amortization of intangible and other assets

The amortization expense related to intangible and other assets is determined using estimates relating to the useful life of the related assets.

Change in estimate

During the first quarter of 2018, the Group assessed the use of the straight line amortization method for certain intangible assets within the ADVANZ PHARMA International and ADVANZ PHARMA North America segments and determined that, based on recent developments and historical patterns of commercial benefit, certain assets should be amortized based on a declining balance model to align with corresponding expected future cash flows. Specifically, the Group determined that this method of amortization better reflects the pattern in which acquired product rights and manufacturing processes future economic benefits are expected to be realized by the Group. Products rights and manufacturing process assets are now predominantly amortized using the declining balance model.

This change in estimate resulted in an increase in amortization expense of approximately $69 million for the year ended December 31, 2018.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. The integrated nature of the Group's global operations gives rise to many transactions in the ordinary course of business in respect of which the determination of income for tax purposes may be uncertain. The Group uses judgment to determine its income for tax purposes which may impact the recognized amount of assets or liabilities, the disclosure of contingent liabilities or the reported amount of revenue or expense during the reporting period. The Group evaluates these judgments based upon historical experience, current and expected future outcomes, third-party evaluations and various other assumptions believed to be reasonable in the circumstances.

The evaluation by the Group may result in an unrealized tax benefit in connection with taxation years that have not yet been reviewed by the relevant tax authority. The Group believes that the amount of unrealized tax benefits appropriately reflects the uncertainty of items that are or may in the future be under discussion, audit, dispute or appeal with a tax authority or which may otherwise result in uncertainty in the determination of income for tax purposes. The unrealized tax benefit is determined based on the Group's estimate of the potential outcomes and is reviewed during each reporting period. If appropriate, an unrealized tax benefit will be realized in the reporting period in which the Group determines that realization is not in doubt. Where the finally determined outcome is different from the Group's estimate, such difference will impact the Group's income taxes in the reporting period during which such determination is made.

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

A deferred tax asset is generally recognized for any temporary difference in respect of an asset where the tax base exceeds the carrying amount and to the extent that it is probable that income for tax purposes will be available from which the temporary difference can be deducted and in respect of a liability where the carrying amount exceeds the tax base. The amount of the deferred tax asset recognized could be reduced if income or temporary differences from which the asset can be deducted do not materialize, which might occur due to various factors, including adverse business conditions. The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient income for tax purposes will be available from which the temporary difference can be deducted. The magnitude of any reduction of the amount of any temporary difference recognized is significantly influenced by the Group's forecast of income for tax purposes.

5. Restricted Cash

As at	Dec 31, 2018	Dec 31, 2017
Cash secured letters of credit and bonds	3,265	—
Total	3,265	—

6. Accounts Receivable

As at	Dec 31, 2018	Dec 31, 2017
Accounts receivable	117,281	148,805
Loss allowance	(2,189)	(2,777)
Total	115,092	146,028

Bad debt write-offs of $1,207 were recorded during the year ended December 31, 2018 (2017 - $2,202).

An aging of accounts receivable balances past due but not impaired is as follows:

As at	Dec 31, 2018	Dec 31, 2017
Amounts past due (net of loss allowance)		
Past due 1 - 30 days	8,046	6,280
Past due 31 - 60 days	2,997	2,642
Past due 61 - 120 days	986	3,070
Past due more than 120 days	2,642	3,344
Total	14,671	15,336

Amounts past due represent accounts receivable past due based on the customer's contractual terms. The net amounts past due of approximately $15 million, which is equivalent to 13% of the net accounts receivable balance as at December 31, 2018, has been assessed for recoverability by the Group. The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

7. Inventory

As at	Dec 31, 2018	Dec 31, 2017
Finished goods	63,264	65,852
Raw materials	19,334	23,842
Work in process	13,911	9,511
Obsolescence reserve	(22,579)	(22,489)
Total	73,930	76,716

Inventory costs charged to cost of sales during the year ended December 31, 2018 were $136,946 (2017 - $151,125), which includes $nil (2017 - $311) of non-cash fair value adjustments related to inventories acquired through business acquisitions. The Group increased its reserve for obsolete inventory by $90 during the year ended December 31, 2018.

8. Intangible Assets

	Acquired Product Rights and Manufacturing Processes	Intellectual Property	Distribution Contracts	Supplier Contracts	IPR&D	All Other Intangibles	Total
Balances, January 1, 2017	2,084,594	27,825	20,684	85,187	59,600	1,830	2,279,720
Additions	—	—	—	—	888	204	1,092
Dispositions	(748)	—	—	—	(37)	(40)	(825)
Transfer from IPR&D	2,422	—	—	—	(2,422)	—	—
Amortization	(194,703)	(1,640)	(5,718)	(23,405)	—	(959)	(226,425)
Impact of foreign exchange	115,760	—	1,717	7,023	10,833	270	135,603
Impairments	(625,694)	—	—	—	(59,593)	—	(685,287)
Balances, December 31, 2017	1,381,631	26,185	16,683	68,805	9,269	1,305	1,503,878
Additions	39	—	—	—	3,024	67	3,130
Transfer from IPR&D	24	—	—	—	(24)	—	—
Amortization	(217,818)	(1,640)	(5,926)	(24,253)	—	(745)	(250,382)
Impact of foreign exchange	(48,236)	—	(647)	(2,650)	(772)	(69)	(52,374)
Impairments	(52,650)	—	—	—	(4,910)	—	(57,560)
Balances, December 31, 2018	1,062,990	24,545	10,110	41,902	6,587	558	1,146,692

During the first quarter of 2018, the Group assessed the use of the straight line amortization method for certain intangible assets and determined that, based on recent developments and historical patterns of economic benefit, certain assets should be amortized based on a declining balance model to align with corresponding expected future cash flows. Refer to Note 4 for a description of the change in estimate relating to the amortization of certain intangible assets.

Impairment of intangible assets

In accordance with the Group's accounting policy, IPR&D is tested for impairment annually, and also when there is an indicator of impairment. The remaining intangible assets are tested for impairment when events or changes in business circumstances indicate that the carrying amount may not be recoverable.

Summary of impairments

For the year ended December 31, 2018 the Group recorded total impairment losses of $52,650 (2017 - $625,694) with respect to acquired product rights and manufacturing processes and $4,910 with respect to IPR&D (2017 - $59,593). Details of significant impairments are described below.

There have been no reversals of impairment losses or any previous impairments recorded with respect to acquired product rights and manufacturing processes intangible assets.

Impairments

ADVANZ PHARMA North America

Second quarter of 2018

During the second quarter of 2018, the Group became aware of additional competition on Donnatal® within the ADVANZ PHARMA North America segment. The Group determined that the additional competition did not result in an impairment based on estimated future product cash flows, including price and volume assumptions. Refer to Note 18 of these consolidated financial statements for further details and information on the related litigation.

Fourth quarter of 2017

In the fourth quarter of 2017, the Group determined that certain triggering events had occurred with respect to Nilandron®, requiring the Group to perform a test for impairment. The triggering events included the impact of market conditions associated with the brand and the generic market and the resulting impact to the Group's forecasts. The Group recorded a $44,312 impairment with respect to Nilandron® using a fair value less costs of disposal model in the consolidated statement of income (loss). The carrying value of Nilandron® recorded as acquired product rights intangible assets was written down to $9,824 as at December 31, 2017.

The calculation of the recoverable amount was determined using discounted cash flow projections based on financial forecasts approved by the Company (level 3 of fair value hierarchy).

Key assumptions used are as follows:

- Discount Rate: 13%
- Estimated future product cash flows, including price and volume assumptions based on historical trends

Sensitivity analysis

An increase/decrease in the discount rate by 0.5% would increase/decrease the total impairment by $277 and $295, respectively.

A 0.5% increase/decrease to the terminal revenue growth assumptions would have the impact to decrease/increase the total impairment to by $132 and $124, respectively.

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

Second quarter of 2017

In the second quarter of 2017, the Group determined that certain triggering events had occurred with respect to Donnatal®, requiring the Group to perform a test for impairment. The triggering events included the launch of an additional competitive product in the market (refer to Note 18), as well as continued market share erosion from existing competition (refer to Note 18). The Group recorded a $106,887 impairment with respect to Donnatal® using a fair value less costs of disposal model in the consolidated statement of income (loss). The carrying value of Donnatal® recorded as acquired product rights intangible assets was written down to $162,836 as at June 30, 2017.

The calculation of the recoverable amount was determined using discounted cash flow projections based on financial forecasts approved by the Company (level 3 of fair value hierarchy).

Key assumptions used are as follows:

- Discount Rate: 13%
- Estimated future product cash flows, including price and volume assumptions based on historical trends

Sensitivity analysis

An increase/decrease in the discount rate by 0.5% would increase/decrease the total impairment by $3,910 and $4,145, respectively.

A 0.5% increase/decrease to the terminal revenue growth assumptions would have the impact to decrease/increase the total impairment to by $1,808 and $1,705, respectively.

ADVANZ PHARMA International

Fourth quarter of 2018

In the fourth quarter of 2018, the Group determined that certain triggering events had occurred with respect to certain products within the ADVANZ PHARMA International segment. The triggering events included market pricing pressures, sustained issues experienced with respect to product supply, and/or increased product competition resulting in a decrease to future forecasts. The Group recorded impairments using a fair value less costs of disposal model in the consolidated statement of income (loss). The calculation of the recoverable amount was determined using discounted cash flow projections based on financial forecasts approved by the Company (level 3 of fair value hierarchy).

The total impairment recorded on acquired product rights during the fourth quarter of 2018 was $44,715. Details of significant impairments were as follows:

	Impairment	Remaining Carrying Value as at Dec 31, 2018
Carbimazole	14,624	34,642
Biperiden Hydrochloride	8,151	12,040
Alimemazine Tartrate	2,366	2,162
Trazodone	2,514	402
Flumethasone + Clioquinol	2,490	6,951

Key assumptions of the models are as follows:

- Discount rate: 12.5%
- Estimated future product cash flows, including price and volume assumptions based on historical trends

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

The following table presents a sensitivity analysis to show the impact on significant impairments for changes in certain assumptions:

	Discount rate		Terminal revenue growth assumption	
	+0.5%	-0.5%	+0.5%	-0.5%
Carbimazole	979	(923)	(416)	440
Biperiden Hydrochloride	326	(308)	(137)	146
Alimemazine Tartrate	19	(18)	—	—
Trazodone	3	(3)	—	—
Flumethasone + Clioquinol	212	(200)	(91)	96

Second quarter of 2018

In the second quarter of 2018, the Group determined that certain triggering events had occurred with respect to certain products within the ADVANZ PHARMA International segment. These triggering events included product supply challenges, and/or increased product competition resulting in a decrease to future revenue forecasts. The Group recorded impairments using a fair value less costs of disposal model in the consolidated statement of income (loss). The calculation of the recoverable amount was determined using discounted cash flow projections based on financial forecasts approved by the Company (level 3 of fair value hierarchy).

The total impairment recorded on acquired product rights during the second quarter of 2018 was $7,935, within the ADVANZ PHARMA International segment, primarily related to an impairment on Dicycloverine of $4,855 due to product supply interruption resulting in a current and future loss of market share. The key assumptions and estimates used in determining the value were related to estimated future product cash flows, including price and volume assumptions based on historical trends, and the discount rate of 13.5% applied to the cash flow projections.

Fourth quarter of 2017

In the fourth quarter of 2017, the Group determined that certain triggering events had occurred with respect to certain products within the ADVANZ PHARMA International segment. These triggering events required the Group to perform tests for impairment. The triggering events included market pricing pressures, sustained issues experienced with respect to product supply, and/or increased product competition resulting in a decrease to future forecasts. The Group recorded impairments using a fair value less costs of disposal model in the consolidated statement of income (loss). The calculation of the recoverable amount was determined using discounted cash flow projections based on financial forecasts approved by the Company (level 3 of fair value hierarchy).

The total impairment recorded on acquired product rights during the fourth quarter of 2017 was $124,899. Details of significant impairments were as follows:

	Impairment	Remaining Carrying Value as at Dec 31, 2017
Erythromycin	17,249	23,888
Cyclizine Hcl	17,084	41,634
Prednisolone	11,141	4,934
Trazodone	7,271	3,771
Ergotamine + Caffeine	6,084	7,037
Dipipanone + Cyclizine	4,373	12,603
Hydralazine Hcl	4,094	8,974

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

Key assumptions of the models are as follows:

- Discount rate: 13.5%
- Estimated future product cash flows, including price and volume assumptions based on historical trends

The following table presents a sensitivity analysis to show the impact on significant impairments for changes in certain assumptions:

	Discount rate		Terminal revenue growth assumption	
	+0.5%	-0.5%	+0.5%	-0.5%
Erythromycin	443	(462)	(128)	123
Cyclizine Hcl	1,004	(1,060)	(402)	381
Prednisolone	55	(57)	(12)	12
Trazodone	72	(76)	(27)	26
Ergotamine + Caffeine	175	(185)	(70)	67
Dipipanone + Cyclizine	306	(323)	(121)	115
Hydralazine Hcl	209	(220)	(82)	78

The Group also impaired other intangibles associated with manufacturing processes by $10,440 during the fourth quarter of 2017 primarily as a result of the revenue declines from the impaired products, including the products described above.

Second quarter of 2017

In the second quarter of 2017, the Group determined that certain triggering events had occurred with respect to certain products within the ADVANZ PHARMA International segment. These triggering events required the Group to perform tests for impairment. The triggering events included continued pricing pressure, supply chain challenges, and/or increased competition on a number of products (including the anticipated launch of a competitive product to Liothyronine Sodium) resulting in a decreased forecast of future net cash inflows compared to previous forecasts. The Group recorded impairments using a fair value less costs of disposal model as a basis for determining the recoverable amount during the quarter ended June 30, 2017. The calculation of the recoverable amount was determined using discounted cash flow projections based on financial forecasts approved by the Company (level 3 of fair value hierarchy).

The total impairment recorded on acquired product rights within the ADVANZ PHARMA International segment during the second quarter of 2017 was $301,538. Details of significant impairments were as follows:

	Impairment	Remaining Carrying Value as at Jun 30, 2017
Liothyronine Sodium	128,191	53,969
Fusidic Acid	83,263	64,956
Prednisolone	41,679	16,554
Nefopam	17,353	3,944
Alimemazine Tartrate	11,185	8,026
Prochlorperazine Mesilate	7,217	5,164
Dicycloverine	5,060	10,687

Key assumptions of the models are as follows:

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

- Discount rate: 13.5%
- Estimated future product cash flows, including price and volume assumptions based on historical trends

The following table presents a sensitivity analysis to show the impact on the significant impairments for changes in certain assumptions:

	Discount rate		Terminal revenue growth assumption	
	+0.5%	-0.5%	+0.5%	-0.5%
Liothyronine Sodium	958	(1,009)	(364)	345
Fusidic Acid	1,696	(1,793)	(719)	681
Prednisolone	301	(317)	(116)	110
Nefopam	88	(93)	(37)	35
Dicycloverine	260	(274)	(107)	101
Prochlorperazine Mesilate	101	(106)	(39)	37
Alimemazine Tartrate	89	(91)	—	—

The Group also impaired other intangible assets associated with manufacturing processes by $37,618 during the second quarter of 2017 primarily as a result of the revenue declines from the impaired products, including the products described above.

IPR&D

Annual Impairment test

The Group completes its annual impairment testing on IPR&D during the fourth quarter.

The Group recorded an impairment on IPR&D during the fourth quarter of 2018 in the amount of $4,910 (2017 - $28,011). The impairment relates to projects that have been abandoned, or certain IPR&D projects with lower present day future forecasts compared with those at the time of the acquisition of the ADVANZ PHARMA International segment. The calculation of the recoverable amount of IPR&D was determined using discounted cash flow projections based on financial forecasts.

Second quarter of 2017

In the second quarter of 2017, it was determined that an impairment on certain IPR&D assets was required in the amount of $31,582. The impairment relates to projects that have been abandoned, or certain IPR&D projects with lower present day future forecasts compared with those at the time of the acquisition of the ADVANZ PHARMA International segment. The calculation of the recoverable amount of IPR&D was determined using discounted cash flow projections based on financial forecasts. As a result of the abandonment of these IPR&D projects, there are no future cash flow projections associated with these projects, therefore the impairments represent the total prior carrying value of these projects.

9. Goodwill

As at	Dec 31, 2018	Dec 31, 2017
Opening balance	244,957	707,930
Impairment	—	(509,478)
Impact of foreign exchange	(12,173)	46,505
Total	232,784	244,957

A segment-level summary of the goodwill allocation is presented within Note 22.

In accordance with the Group's accounting policy, the carrying value of goodwill is assessed annually as well assessed for impairment triggers at each reporting date to determine whether there exists any indicators of impairment.

Summary of Impairments

For the year ended December 31, 2018, the Group recorded goodwill impairment losses of $nil (2017 - $509,478) associated with the ADVANZ PHARMA International segment.

Second quarter of 2017

During the second quarter of 2017, the Group identified a triggering event requiring the Group to perform goodwill impairment testing within the ADVANZ PHARMA International segment. The triggering event was primarily the result of events and conditions that triggered impairments on intangible assets, including acquired product rights and IPR&D, and associated revised forecasts on products as a result of on-going market competitive pressures. As a result of the impairment testing performed, the Group recorded an impairment loss of $509,478 on goodwill associated with the ADVANZ PHARMA International segment.

The Group recorded an impairment charge using a fair value less costs of disposal model, in the consolidated statement of income (loss) for the second quarter of 2017. The calculation of recoverable amount of the ADVANZ PHARMA International group of CGUs was determined using discounted cash flow projections based on financial forecasts approved by the Company (level 3 of fair value hierarchy) and a terminal growth assumption of 1.5%. The key assumptions and estimates used in determining the fair value are related to revenue and gross margin assumptions, which are based on the financial forecasts, estimated revenue growth rates, working capital assumptions and a discount rate of 13%. As a result of the impairment testing performed, it was determined that the recoverable amount of the ADVANZ PHARMA International group is $1,391,428.

The recoverable amount would decrease by $54,345 if the discount rate were to increase by 0.5% and would increase by $59,303 if the discount rate were to decrease by 0.5%. The recoverable amount would have increased by $37,571 if the terminal growth rate were increased by 0.5% and would have decreased by $34,423 if the terminal growth rate were decreased by 0.5%.

Annual Impairment Test

The Group completed its annual goodwill impairment testing on the goodwill remaining in the ADVANZ PHARMA International group of CGUs and the Orphan Drugs group of CGUs, which have goodwill carrying values of $204,818 and $27,966, respectively (2017 - $216,991 and $27,966, respectively). The recoverable amount of the ADVANZ PHARMA International group of CGUs was calculated using fair value less costs of disposal ("**FVLCD**"), and the Orphan Drugs group of CGUs recoverable amount was calculated based on value in use ("**VIU**").

ADVANZ PHARMA International

2018

The calculation of recoverable amount of the ADVANZ PHARMA International group of CGUs was determined using discounted cash flow projections based on financial forecasts approved by the Company covering a five-year period (level 3 of fair value hierarchy) and a terminal growth assumption of 1.5%. The key assumptions and estimates used in determining the FVLCD are related to revenue and gross margin assumptions, which are based on the most recently approved financial forecasts and assumed growth rates, working capital assumptions, the effective tax rate of 13% and the discount rate of 12% applied to the cash flow projections. As a result of the impairment testing performed, it was determined that the recoverable amount of the ADVANZ PHARMA International group of CGUs of $1,067,792 exceeded the carrying value of the ADVANZ PHARMA International group of CGUs of $1,013,969.

The recoverable amount would decrease by $47,545 if the discount rate were to increase by 0.5% and would increase by $52,518 if the discount rate were to decrease by 0.5%. If the terminal growth rate were to increase or decrease by 0.5%, the recoverable amount would increase by $35,892, or decrease by $32,474, respectively.

2017

The calculation of recoverable amount of the ADVANZ PHARMA International group of CGUs was determined using discounted cash flow projections based on financial forecasts approved by the Company covering a five-year period (level 3 of fair value hierarchy) and a terminal growth assumption of 1.5%. The key assumptions and estimates used in determining the FVLCD are related to revenue and gross margin assumptions, which are based on the most recently approved financial forecasts and assumed growth rates, working capital assumptions, the effective tax rate of 13% and the discount rate of 13% applied to the cash flow projections. As a result of the impairment testing performed, it was determined that the recoverable amount of the ADVANZ PHARMA International group of CGUs of $1,437,317 exceeded the carrying value of the ADVANZ PHARMA International group of CGUs of $1,397,928.

The recoverable amount would decrease by $58,333 if the discount rate were to increase by 0.5% and would increase by $63,729 if the discount rate were to decrease by 0.5%. If the terminal growth rate were to increase or decrease by 0.5%, the recoverable amount would increase by $41,705, or decrease by $38,169, respectively.

Orphan Drugs

2018

The calculation of recoverable amount of the Orphan Drugs group of CGUs (which forms part of the ADVANZ PHARMA North America segment) was determined using discounted cash flow projections based on financial budgets approved by the Company covering a five-year period (level 3 of fair value hierarchy). The key assumptions and estimates used in determining the VIU are related to revenue and gross margin assumptions, which are based on the financial forecast and assumed growth rates, and the discount rate of 15% applied to the cash flow projections. As a result of the impairment testing performed, it was determined that the recoverable amount of the Orphan Drugs group of CGUs of $82,981 exceeded the Orphan Drugs group of CGUs carrying value of $53,832.

The recoverable amount of the Orphan Drugs group of CGUs would decrease by $2,998 if the discount rate were to increase by 0.5%, and would increase by $3,209 if the discount rate were to decrease by 0.5%. If the terminal growth rate were to increase or decrease by 0.5%, the recoverable amount would increase by $1,643, or decrease by $1,756, respectively.

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

2017

The calculation of recoverable amount of the Orphan Drugs group of CGUs (which forms part of the ADVANZ PHARMA North America segment) was determined using discounted cash flow projections based on financial budgets approved by the Company covering a five-year period (level 3 of fair value hierarchy). The key assumptions and estimates used in determining the VIU are related to revenue and gross margin assumptions, which are based on the financial forecast and assumed growth rates, and the discount rate of 20% applied to the cash flow projections. As a result of the impairment testing performed, it was determined that the recoverable amount of the Orphan Drugs group of CGUs of $72,097 exceeded the Orphan Drugs group of CGUs carrying value of $54,894.

The recoverable amount of the Orphan Drugs group of CGUs would decrease by $2,315 if the discount rate were to increase by 0.5% and would increase by $2,445 if the discount rate were to decrease by 0.5%. If the terminal growth rate were to increase or decrease by 0.5%, the recoverable amount would increase by $1,042, or decrease by $992, respectively.

10. Trade payables, accrued liabilities and interest payable

As at	**Dec 31, 2018**	**Dec 31, 2017**
Trade payables	22,270	26,351
Accrued liabilities	70,613	68,994
Interest payable on long-term debt	12,757	106,568
Total	105,640	201,913

Interest payable on long-term debt as at December 31, 2017 includes certain interest payments that were stayed as part of the CBCA Proceedings. Refer to Note 2 for a further description of the CBCA Proceedings.

On September 6, 2018 as part of the Recapitalization Transaction, accrued and unpaid non-compound interest, calculated at contractual, non-default rates, on the Company's Secured Debt and Cross Currency Swap Liability was paid in cash and the remaining accrued and unpaid interest on Secured Debt and the accrued and unpaid interest on Unsecured Debt was settled. The total amount of accrued and unpaid interest that was settled as part of the Recapitalization Transaction for no consideration was $214,179, resulting in a gain on debt settlement for this amount. Refer to Note 14 for details of the settlement of the principal amounts of the Secured Debt and Unsecured Debt and the corresponding gain on debt settlement recorded.

11. Provisions

The following table describes movements in the Group's provisions balance by nature of provision:

	Chargebacks /Rebates/ Co-pay	Returns	Inventory management	Prompt pay	**Total**
Balance, January 1, 2017	14,716	8,326	3,392	800	27,234
Additions	100,450	32,440	22,015	5,347	160,252
Utilization	(98,571)	(29,700)	(19,524)	(5,595)	(153,390)
Balance, December 31, 2017	16,595	11,066	5,883	552	34,096
Additions	100,447	9,239	15,794	4,764	130,244
Utilization	(101,904)	(13,910)	(17,817)	(4,832)	(138,463)
Balance, December 31, 2018	15,138	6,395	3,860	484	25,877

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

The closing balance relates to provisions made to estimate the liabilities arising from chargebacks, rebates, returns and other price adjustments recorded as a reduction of revenue, as explained in Note 4. Payments are expected within 12 months from the balance sheet date. Invoices received for such charges and estimates are shown in the accounts payable when received. The provision is for the uninvoiced portion of the charges and estimates.

12. Income Taxes

As more fully described below, there are significant tax considerations in connection with the Recapitalization Transaction.

Significant components of the current and deferred income tax reflected in the consolidated statements of income (loss) are as follows:

For the year ended	Dec 31, 2018	Dec 31, 2017
Current income tax expense	16,980	18,491
Deferred income tax expense (recovery)	(15,540)	(55,248)
Provision for (recovery of) income taxes	1,440	(36,757)

As more fully described below, income taxes that are required to be reflected in equity, instead of in the consolidated statements of income (loss), are included in the consolidated statements of changes in equity (deficit) and therefore such income taxes are not reflected in the provision for (recovery of) income taxes amounts as disclosed in the table above.

Current and deferred income tax referred to above is recognized based on the Group's best estimate of the tax rates expected to apply to the income, loss or temporary difference.

The Group is subject to income tax in numerous jurisdictions with varying tax rates. During the current year ended there were no material changes to the statutory tax rates in the taxing jurisdictions where the majority of the Group's income for tax purposes was earned or where its material temporary differences or losses are expected to be realized or settled.

Although statutory tax rates may not have changed materially, except if noted above, the impact of commercial decisions and market forces result in changes to the distribution of income for tax purposes amongst taxing jurisdictions that may result in a change of the effective tax rate applicable to such item of income or temporary difference.

The implementation of the Recapitalization Transaction resulted in the settlement of certain of the Company's commercial obligations, which includes certain long-term debt and accrued interest, for an amount less than the amount for which such obligations were considered issued for income tax purposes. No amount of current income tax has been recorded in connection with the implementation of the Recapitalization Transaction, due to the utilization of certain of the Company's temporary differences in respect of which a deferred tax asset had not been previously recognized but were available to reduce income subject to tax, as disclosed in the tables below, as at December 31, 2017. In particular, the temporary differences that were disclosed as being in respect of North America losses and credits, are expected to be fully utilized. In addition, the implementation of the Recapitalization Transaction is expected to result in a reduction of the Company's adjusted cost base for Canadian income tax purposes in respect of certain of the Company's affiliated entities. This reduction, estimated to be between $1,275,000 and $1,375,000, will result in an increase of the amount of the cumulative temporary difference in connection with the Company's affiliated legal entities for which a deferred income tax liability has not been recognized. No amount of deferred income tax has been recorded in connection with this reduction of adjusted cost base on the basis that it is not probable that the temporary difference resulting therefrom will be realized in the foreseeable future.

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

As more fully described in the Company's Significant Accounting Policies, income taxes that are required to be reflected in equity, instead of in the consolidated statements of income (loss), are included in the consolidated statements of changes in equity (deficit). The implementation of the Recapitalization Transaction resulted in the realization of foreign exchange gains and losses in respect of certain of the Group's obligations denominated in a currency other than USD. Although the realization of such foreign exchange gains and losses has not resulted in the recording of current income tax recoverable or payable, a net income tax recovery of $1,945 (2017 - expense of $8,126) in respect of certain foreign exchanges gains has been recorded in the consolidated statements of changes in equity (deficit), which cumulative impact is a reduction of the amount of the "Net investment hedge of GBP denominated loans" and the consolidated statements of income (loss) includes the recording of a net deferred income tax expense of $1,945 (2017 - recovery of $8,126), in respect of certain foreign exchange losses. As described above, the implementation of the Recapitalization Transaction also resulted in the utilization of certain of the Company's temporary differences in respect of which a deferred tax asset had not been recognized, in particular, certain of the Company's losses and credits. A portion of these losses arose as a result of costs incurred in prior years in connection with the issuance by the Company of share capital, where such costs were reflected in the consolidated statements of changes in equity (deficit) as a reduction of the amount of share capital. An income tax recovery of $8,808 in respect of such share capital issuance costs has been recorded in the consolidated statements of changes in equity (deficit) as an adjustment to share capital due to "Issuance of shares" and the consolidated statements of income (loss) includes the recognition of a deferred income tax expense of $8,808, reflecting the utilization of certain of the Company's losses.

The Group continues to believe the amount of unrealized tax benefits appropriately reflects the uncertainty of items that are or may in the future be under discussion, audit, dispute or appeal with a tax authority or which otherwise result in uncertainty in the determination of income for tax purposes. If appropriate, an unrealized tax benefit will be realized in the year in which the Group determines that realization is not in doubt. Where the final determined outcome is different from the Group's estimate, such difference will impact the Group's income taxes in the year during which such determination is made.

A reconciliation of the amount of income taxes reflected above compared to the amount of income taxes that would result by multiplying income (loss) before income taxes by the legislated tax rate applicable to the Company in Canada is as follows:

For the year ended	**Dec 31, 2018**	**Dec 31, 2017**
Income (loss) before tax	1,468,743	(1,627,492)
Expected expense (recovery) at the Company's Canadian tax rate 26.5%	389,217	(431,285)
Gain on debt and purchase consideration settlement that does not give rise to current or deferred income tax expense	(356,152)	—
Change in deferred income tax assets not recognized (utilized)	(37,330)	99,297
Effect of tax rates outside of Canada	(2,223)	263,685
Change in tax rates during the year	(1,555)	—
Other items	591	3,777
Non-deductible and non-taxable items	8,892	27,769
Provision for (recovery of) income taxes	1,440	(36,757)

Significant components of the deferred income tax assets and liabilities reflected in the consolidated balance sheets are as follows:

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

As at	Dec 31, 2018	Dec 31, 2017
Deferred income tax assets (liabilities) in respect of:		
Losses and credits	356	1,198
Intangible assets	(98,025)	(130,523)
Other items	(1,927)	(3,328)
Deferred income tax assets (liabilities), net	(99,596)	(132,653)
Deferred income tax assets	4,781	2,466
Deferred income tax liabilities	(104,377)	(135,119)
Deferred income tax assets (liabilities), net	(99,596)	(132,653)

The change in the balance of net deferred tax assets (liabilities) includes a $6,763 reduction that arises as a result of the required revaluation of certain balances denominated in currencies other than USD. This reduction has been reflected as a component of accumulated other comprehensive income (loss) and not as part of the deferred income tax expense (recovery).

The balance of deferred income tax expense (recovery) includes a $10,754 expense that increases the balance of net deferred tax assets (liabilities), however this expense is offset be a recovery that reduces the balance of net deferred tax assets (liabilities) by a corresponding amount but which, as is more fully described above, is required to be reflected in the consolidated statements of changes in equity (deficit), therefore the impact on the change in the balance of net deferred tax assets (liabilities) is $nil.

A deferred income tax asset has not been recognized for certain temporary differences that may be available to reduce income subject to tax in a taxation period subsequent to the period covered by these financial statements. The amount of such temporary differences, that is the amount before applying the relevant tax rate, which is not recognized in the consolidated balance sheets or consolidated statements of income (loss), is as follows:

As at	Dec 31, 2018	Dec 31, 2017
Losses and credits	554,119	774,864
Other items	—	1,620
Total unrecognized temporary differences	554,119	776,484

The deferred income tax assets in connection with the Group's losses and credits that may be available to reduce income subject to tax in a taxation period subsequent to the period covered by these consolidated financial statements, is as follows:

As at	Dec 31, 2018	Dec 31, 2017
Expiring within 15 years	486	756
Expiring between 15 and 20 years	87,900	154,281
No expiration	51,077	50,631
Total deferred income tax asset in respect of losses and credits	139,463	205,668
Total in North America	90,749	155,241
Total in Europe	47,470	48,696
Total in other jurisdictions	1,244	1,731
Total deferred income tax asset in respect of losses and credits	139,463	205,668

The integrated nature of the Group's global operations gives rise to many transactions in the ordinary course of business in respect of which the determination of income for tax purposes may be uncertain. Transactions that arise between multiple taxing jurisdictions are subject to review by these jurisdictions, where a decision of one taxing authority may not agree with the decision of another. The Group is committed to mitigating uncertainty that may arise in connection with such transactions and to this end has prepared documentation that complies with local legislation and is in accordance with international guidelines, such as those of the Organization of Economic Co-operation and Development. Refer to the Income taxes section of the Critical Accounting Estimates and Judgments and Key Sources of Estimation Uncertainty of these notes to the consolidated financial statements for additional information regarding the Group's judgment and use of estimates relevant to income taxes.

The Group's global operations requires a corporate structure that includes affiliated legal entities that are collectively subject to the authority of numerous taxing jurisdictions. Certain transactions may arise which create a temporary difference in connection with an affiliated legal entity. The realization of this temporary difference may result in income tax. As at December 31, 2018, the Group has recognized $3,316 (2017 - $3,017) deferred income tax liability in connection with the realization of a temporary difference for certain affiliated legal entities on the basis that it is probable that such a temporary difference will be realized in the foreseeable future.

13. Cross Currency Swap Liability

The Group entered into the Currency Swaps as economic hedges of certain cash flows from its ADVANZ PHARMA International segment denominated in GBP and long-term debt repayments denominated mainly in USD.

On October 20, 2017, the Group was notified by the counterparty to the Currency Swaps that one or more events of default occurred under the Currency Swaps as a result of the Company obtaining a preliminary interim order from the Court in the Company's CBCA Proceedings. As a result of the foregoing, the counterparty to the Currency Swaps designated October 23, 2017 as the early termination date with respect to all transactions under the Currency Swaps. In connection with the Recapitalization Transaction, the Group and the Currency Swaps counterparty agreed to an amount of $114,431 as the outstanding amount in respect of the Currency Swaps (the "**Cross Currency Swap Liability**"). The Group paid interest associated with the Cross Currency Swap Liability pursuant to a termination agreement, until the implementation of the Recapitalization Transaction. The counterparty to the Cross Currency Swap Liability had entered into a support agreement with the Company in connection with the Recapitalization Transaction. The Cross Currency Swap Liability formed part of the Secured Debt settled as part of the Recapitalization Transaction. Refer to Notes 2 and 14 for further details.

During the year ended December 31, 2018, the Group incurred and recorded interest expense of $4,864 (2017 - $1,143) related to the Cross Currency Swap Liability.

During the year ended December 31, 2017, upon early termination of the Currency Swaps, the derivative financial instruments were reclassified to cross currency swap liability and presented within current liabilities in the consolidated balance sheet, and a loss was reflected in fair value (gain) loss on derivative financial instruments in the consolidated statements of income (loss). As a result of the early termination of the Currency Swaps, the remaining fair value loss cumulatively reflected in other comprehensive income as at October 23, 2017, as part of the initial hedge relationship, was recycled to the consolidated statements of income (loss) within fair value (gain) loss on derivative financial instruments. The total fair value loss on the Currency Swaps was $109,580 for the year ended December 31, 2017, comprised of $70,765 of fair value losses recognized prior to early termination of the Currency Swaps arising from changes in USD forward rates relative to GBP forward rates and $38,815 of fair value losses recognized in connection with the early termination.

Unrealized foreign exchange (gain) loss

Unrealized foreign exchange loss for the year ended December 31, 2018 was $38,257 (2017 - gain of $72,891). The primary component of the unrealized foreign exchange (gain) loss is the recognition of accumulated unrealized foreign exchange losses on certain inter-company loans associated with the Company's investment in the ADVANZ PHARMA International segment. Prior to entering into the Currency Swaps, foreign exchange

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

translation gains and losses on these inter-company loans were not included in the consolidated statements of income (loss) on the basis that these loans formed part of the permanent investment in the ADVANZ PHARMA International segment. Upon entering into the Currency Swaps, certain inter-company loans became designated as hedged items, and subject to on-going repayment. Accordingly, these inter-company loans were no longer considered to be permanent investments and therefore unrealized foreign exchange gains and losses in respect thereof are recorded in the consolidated statements of income (loss). Upon completion of the Recapitalization Transaction all USD denominated intercompany loans were treated as permanent investments. The EUR denominated intercompany loan is not considered a permanent investment as a result of its repayment terms. The principal and interest, if any, in respect of these inter-company loans are eliminated on consolidation.

14. Long-term Debt

As at	Dec 31, 2018	Dec 31, 2017
New Term Loans [(a)]		
- New USD Term Loan	795,409	—
- EUR Term Loan	253,782	—
8% senior secured notes [(b)]	299,972	—
Term Loan Facilities [(c)]		
- USD term loan	—	1,061,500
- GBP term loan	—	651,086
9% senior secured notes [(d)]	—	350,000
Extended bridge loan [(e)]	—	100,832
9.5% senior notes [(f)]	—	790,000
7% senior notes [(g)]	—	735,000
Total long-term debt	1,349,163	3,688,418
Less: current portion of long-term debt	(21,089)	(3,688,418)
Long-term portion	1,328,074	—

The commencement of the CBCA Proceedings on October 20, 2017 resulted in an event of default under certain of the debt agreements that were entered into to finance the acquisition of 100% of the outstanding shares of Amdipharm Mercury Limited (the **"ADVANZ PHARMA International Acquisition**") from Cinven and certain other parties (the **"ADVANZ PHARMA Credit Agreement**"), including the USD term loan and GBP term loan (together, the "**Term Loan Facilities**"), and the indentures governing the Company's 9% senior secured notes and 9.5% unsecured senior notes and the Currency Swaps. As a result of the foregoing events of default, a cross default was triggered under the indenture governing the 7% unsecured senior notes and the unsecured extended equity bridge facility (together with the Term Loan Facilities and the indentures governing the Company's 9% senior secured notes and 9.5% unsecured senior notes, the "**Exchanged Debt**"). Any demand for payment of these debts was stayed pursuant to the CBCA Proceedings. Also as a result of the foregoing, the counterparty to the Currency Swaps designated October 23, 2017 as the early termination date with respect to all transactions under the Currency Swaps. The Group's Cross Currency Swap Liability in an amount of $114,431 was addressed as part of the Secured Debt settled in connection with the implementation of the Recapitalization Transaction. The Company accelerated the accretion of the deferred financing fees associated with all of the Company's lending arrangements during the fourth quarter of 2017 and therefore there is no accretion expense related to deferred financing fees recorded during 2018.

During the CBCA Proceedings the Company made scheduled payments of non-compound interest, calculated at contractual non-default rates, and principal payments under its Secured Debt, referenced as (c) and (d) above, and the Cross Currency Swap Liability (refer to Note 13), as applicable. Conversely, during the CBCA

Proceedings, the Company did not make scheduled payments on its Unsecured Debt, referenced as (e), (f) and (g) above.

The Company completed the implementation of the Recapitalization Transaction on September 6, 2018. In connection with the implementation of the Recapitalization Transaction, the Term Loan Facilities and the 9% senior secured notes (the "**Secured Notes**") were extinguished and replaced for the following debt facilities (among other consideration pursuant to the Recapitalization Transaction):

(a) The Company entered into a credit agreement (the "**New ADVANZ PHARMA Credit Agreement**") on September 6, 2018 pursuant to which a syndicate of lenders made available secured term loans at par in the aggregate principal amounts of $799.4 million in one tranche (the "**New USD Term Loan**") and €222.8 million in a separate tranche (the "**EUR Term Loan**", and together with the New USD Term Loan, the "**New Term Loans**"). The New Term Loans were made available to the Company, as part of the settlement of Exchanged Secured Debt, including the Term Loan Facilities, pursuant to the implementation of the Recapitalization Transaction. All obligations of the Company under the New Term Loans are guaranteed by all current and future material subsidiaries of the Company and include security of first priority interests in the assets of the Company and its material subsidiaries. The New Term Loans have a maturity date of September 6, 2024, have variable interest rates and require quarterly principal repayments at a rate of 0.5%, with the first principal repayment completed on December 31, 2018. Interest rates are calculated based on LIBOR and EURIBOR plus applicable margins on the New USD Term Loan and EUR Term Loan, respectively, with a LIBOR or EURIBOR floor of 1%. Interest expense on the New Term Loans for the year ended December 31, 2018 was $25,348.

(b) The Company issued on September 6, 2018 at par approximately $300 million 8.00% senior secured first lien notes due on September 6, 2024 (the "**New Secured Notes**"). The New Secured Notes were issued by the Company, as part of the settlement of Exchanged Secured Debt, including the Secured Notes, pursuant to the implementation of the Recapitalization Transaction. All obligations of the Company under the New Secured Notes are guaranteed by all current and future material subsidiaries of the Company and include security of first priority interests in the assets of the Company and its material subsidiaries. The New Secured Notes require no payment of principal throughout their term. Interest on the New Secured Notes is payable semi-annually on April 1st and October 1st of each year, with the first interest payment scheduled for April 1, 2019. Interest expense on the Secured Notes for the year ended December 31, 2018 was $7,800.

The fair value of long-term debt as at December 31, 2018 was $1.3 billion.

As disclosed in Note 2, the Company completed the implementation of the Recapitalization Transaction on September 6, 2018. The following table details the movement in the principal amount of the Group's Secured Debt, Unsecured Debt and Cross Currency Swap Liability (that was treated as secured debt) from January 1, 2018 to September 6, 2018, as well as the movement in principal amounts to December 31, 2018 in connection with and subsequent to the Recapitalization Transaction on September 6, 2018. Refer to Note 2 for a further description of the stay of proceedings applicable to the Group's debt agreements and details pertaining to the implementation of the Recapitalization Transaction. Refer to Note 10 for a description of the interest settled as part of the Recapitalization Transaction.

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

	Secured Debt	Unsecured Debt	Total Long-Term Debt	Cross Currency Swap Liability	Total Long-term Debt including Cross Currency Swap Liability
Balance, January 1, 2018	2,062,586	1,625,832	3,688,418	114,431	3,802,849
Principal repayments	(22,267)	—	(22,267)	—	(22,267)
Impact of foreign exchange	(26,919)	—	(26,919)	—	(26,919)
Balance, September 6, 2018	2,013,400	1,625,832	3,639,232	114,431	3,753,663
Principal repayments as part of Recapitalization Transaction (Note 2 (c))	(571,981)	—	(571,981)	(32,929)	(604,910)
Issuance of limited voting shares (Notes 2 (d) and 15)	—	(79,975)	(79,975)	—	(79,975)
Debt forgiveness (principal)	(156,912)	(1,545,857)	(1,702,769)	(7,572)	(1,710,341)
Principal portion of debt repaid or refinanced	(1,284,507)	—	(1,284,507)	(73,918)	(1,358,425)
New Secured Debt issued [(1)]	1,358,425	—	1,358,425	—	1,358,425
Impact of foreign exchange	(4,014)	—	(4,014)	(12)	(4,026)
Principal repayments on New Secured Debt (subsequent to Recapitalization Transaction)	(5,248)	—	(5,248)	—	(5,248)
Balance, December 31, 2018	1,349,163	—	1,349,163	—	1,349,163

[(1)] Includes $73,918 associated with the settlement of the Cross Currency Swap Liability.

Interest expense

For the year ended	Dec 31, 2018	Dec 31, 2017
Interest expense payable in cash - Exchanged Debt	216,856	275,720
Interest expense payable in cash - New Secured Debt	33,148	—
Interest expense on Currency Swaps	—	61,830
Interest expense on Cross Currency Swap Liability (Note 13)	4,864	1,143
Accretion of deferred financing fees	—	26,503
Accelerated accretion of deferred financing fees	—	137,588
Other non-cash interest	2,787	4,010
Interest and accretion expense	257,655	506,794

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

15. Share Capital

On September 6, 2018, the Company amended its articles to provide for (i) a class of Class A special shares; (ii) a class of Class B special shares; (iii) a class of Class C special shares; and (iv) a re-designation of the common shares as limited voting shares.

The authorized share capital of the Company as at December 31, 2018 consists of an unlimited number of limited voting shares, 1,000 Class A special shares, 1,000 Class B special shares and 2,000 Class C special shares.

Common shares and limited voting shares

The holders of limited voting shares are entitled to one vote for each limited voting share on all matters to be voted on at all meetings of shareholders of the Company, other than meetings at which only the holders of another class or series of shares are entitled to vote separately as a class. Subject to the rights of the holders of any other class of share ranking in priority to the limited voting shares, the holders of the limited voting shares are entitled to (i) receive, on a ratable basis, any dividend declared by the Company in respect of the limited voting shares; and (ii) receive the remaining property and assets of the Company available for distribution, after payment of liabilities, upon the voluntary or involuntary liquidation, dissolution or winding-up of the Company on a ratable basis.

On September 6, 2018, as part of the Recapitalization Transaction, the Company completed the following:

(i) A Share Consolidation of the issued and outstanding common shares on the basis of one common share for every 300 common shares outstanding immediately prior to September 6, 2018. No fractional shares were issued in connection with the Share Consolidation. Any individual holders of 299 or fewer shares prior to the date of the share consolidation did not receive any common shares as a result of the consolidation. Refer to Note 2 (e).

(ii) A redesignation of the outstanding common shares as limited voting shares pursuant to the amended articles as noted above.

(iii) A Private Placement to certain parties that executed the subscription agreement with ADVANZ PHARMA, dated May 1, 2018, for gross proceeds of $586,500, net of transaction costs of $44,191. The limited voting shares were issued at a share price of $13.69 per share. Refer to Note 2 (b).

(iv) Issued 5,841,857 limited voting shares, with a market value of $13.69 per share, in settlement of the Unsecured Debt pursuant to the CBCA Plan. Refer to Note 2 (d).

On September 7, 2018, the Company issued 59,247 limited voting shares to certain employees of the Group for gross proceeds of $811, net of transaction costs of $6 (the "**Management Co-Invest**"). The limited voting shares were issued at a share price of $13.69.

	Number of Shares	$
Balances, January 1, 2017	51,089,556	1,277,175
Vesting of RSUs	193,345	5,908
Balance, December 31, 2017	51,282,901	1,283,083
Vesting of RSUs (defined herein) prior to Recapitalization Transaction	899	20
Balance, September 6, 2018	51,283,800	1,283,103
Share Consolidation	(51,112,868)	—
Private Placement	42,841,454	542,309
Unsecured debt settlement	5,841,857	79,975
Management Co-Invest	59,247	805
Tax effect of share issuance transaction costs (Note 12)	—	8,808
Balance, December 31, 2018	48,913,490	1,915,000

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

Class A, Class B and Class C special shares

All Class A special shares were issued to GSO (as defined in Note 23 (b)) at an issue price of $1.00 per share and are fully paid up.

All Class B special shares were issued to Solus (as defined in Note 23 (b)) at an issue price of $1.00 per share and are fully paid up.

The Class A and Class B special shares have the following significant rights, privileges, restrictions and conditions: (i) holders of these shares are entitled to receive notice of, to attend and speak at any meeting of the holders of limited voting shares; (ii) ability to elect a certain number of directors, depending on their holding of limited voting shares; (iii) no entitlement to dividends; (iv) redeemable by the holder; and (v) in the event of liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, entitled to receive $1.00 for each Class A or Class B special share held, in *pari passu*, before any distribution of any part of the property and assets of the Company among the holders of the limited voting share. The Class A and B special shares are classified as other liabilities in the consolidated balance sheets.

No Class C special shares have been issued.

16. Earnings (Loss) Per Share

On September 6, 2018, the Company completed a Share Consolidation. Accordingly, all share and per-share data presented in these consolidated financial statements and accompanying notes have been retrospectively restated to reflect the Share Consolidation, unless otherwise noted. The weighted average number of shares has been adjusted retrospectively to be comparable using that basis as if the Share Consolidation had been effective on the first day of the comparative reporting period of these consolidated financial statements. Refer to Notes 2 and 15.

The calculation of basic and diluted earnings (loss) per share for the years ended December 31, 2018 and 2017 was based on the information in the table below.

	2018	2017
Net income (loss) for the year	1,467,303	(1,590,735)
Weighted average number of shares in issue	15,661,555	170,523
Adjustments for:		
Dilutive unvested shares	—	7,635
Weighted average number of fully diluted shares	15,661,555	178,158
Earnings (loss) per share		
Basic earnings (loss) per share	93.69	(9,328.57)
Diluted earnings (loss) per share	93.69	(9,328.57)

For the 2017 period, the computation of diluted loss per share is equal to the basic earnings (loss) per share due to the anti-dilutive effect of the stock options and unvested shares.

As part of the Recapitalization Transaction, the MIP has been adopted, pursuant to which a maximum of 3,664,069 limited voting shares can be issued. If such number of limited voting shares are issued, they will dilute basic earnings per share in the future, however these dilutive limited voting shares were not included in the calculation of diluted earnings per share as they are based on a potential dilution event that has not yet occurred. Refer to Note 17 for further description of the MIP.

17. Share Based Compensation

Management Incentive Plan

In conjunction with the Recapitalization Transaction, the Group adopted the MIP which allows participants to share 7.59% of the incremental value growth of the Company in excess of an opening value on September 6, 2018, plus a hurdle of 9% per annum compounding on an annual basis. This 7.59% may increase to 10.12% if certain additional performance thresholds are met.

Participants acquired shares ("**MIP Shares**") in a subsidiary of the Company (the "**MIP Subsidiary**") which holds an ownership interest in the ADVANZ PHARMA International segment. An exchange rights agreement provides for mechanisms that can attribute the value of assets held outside of MIP Subsidiary to the MIP Shares, for purposes of calculating the value of the MIP Shares.

The exchange rights agreement also provides for the exchange of MIP Shares into limited voting shares of ADVANZ PHARMA in certain circumstances. These circumstances arise primarily in connection with an exit event ("**Exit Event**"). An Exit Event includes the following:

(i) a change of control of the Company,

(ii) a sale of substantially all of the assets of the Company and its subsidiaries on a consolidated basis (including by way of sale, merger, amalgamation, arrangement, business combination, consolidation, reorganisation or other similar transaction); or

(iii) an insolvency event, as defined in the exchange rights agreement.

In addition, MIP Shares may be exchanged into limited voting shares of ADVANZ PHARMA pursuant to certain tag-along rights contained in the exchange rights agreement upon a sale of 25% or more of the issued and outstanding limited voting shares of ADVANZ PHARMA by certain significant shareholders of ADVANZ PHARMA.

The performance of the MIP will be measured on or around the date of an Exit Event. The MIP Shares may be purchased and/or exchanged for new limited voting shares of the Company.

The Group has accounted for the issued MIP Shares on the basis that they will be equity settled, after evaluating alternatives that may require cash settlement. For accounting purposes, and in accordance with IFRS, the MIP was valued at $10 million on September 7, 2018 using a Monte-Carlo valuation model. The key assumptions included within this simulation were, (i) weighted average probability of expected time to maturity, (ii) share volatility of 35%, (iii) risk free rates between 2.53% and 2.78%, and (iv) the assumption that the Company will not pay dividends.

On September 7, 2018, 349,903 MIP Exchangeable Shares were acquired by the participants. For the year ended December 31, 2018 the Group recorded share based compensation expense of $1,577 related to the MIP Shares.

As at December 31, 2018, 367,342 MIP Exchangeable Shares were issued and outstanding.

Employee Stock Option Plan, Long-Term Incentive Plan

As part of the Recapitalization Transaction, as disclosed in Note 2 to these consolidated financial statements, all equity interests in the Company represented by options, warrants, rights or similar instruments outstanding on September 6, 2018, were cancelled pursuant to the CBCA Plan. As a result, all outstanding options under the employee stock option plan and the outstanding RSUs or DSUs which were granted to officers, directors, employees or consultants of the Group were cancelled for no consideration.

For the year ended December 31, 2018, the total compensation charged against income with respect to all stock options outstanding was $1,638 (2017 - $4,280).

For the year ended December 31, 2018, the Group recorded share based compensation recovery of $678 (2017 - expense of $4,434) related to the RSUs and DSUs accounted for on the basis that they will be equity-settled, with a corresponding credit to shareholders' equity.

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

18. Commitments and Contingencies

Commitments

The Group has operating leases relating to rental commitments for its various office locations, an aircraft lease and computer and electronic equipment leases. The leases typically run for a period of a number of months up to five years.

The below table sets forth the Group's obligations under operating leases:

	Minimum Lease Payments
2019	4,047
2020	2,294
2021	1,372
2022	997
2023	763
Thereafter	150
	9,623

The Group also has additional commitments for purchase obligations with contract manufacturers and royalty payments.

The Group has commitments of $19,533 relating to purchase obligations with contract manufacturers over the next five years.

The Group has a commitment to pay royalties on certain products acquired from Shionogi Inc. in May 2013 and certain products acquired from Covis Pharma S.à R.L. on April 21, 2015, at certain prescribed rates. These royalties are payable on a quarterly basis. During the year ended December 31, 2018 the royalty expense was $1,941 (2017 - $2,945).

The Group also has a separate commitment to pay royalties to Shionogi Inc. in relation to ADVANZ PHARMA's distribution of Ulesfia®. The minimum royalty payable on Ulesfia® is $3,000 per year, payable on an annual basis to the earlier of the period where: (i) there exists an issued and unexpired patent right; or (ii) no unauthorized third party generic version of Ulesfia® is being sold in the relevant territory.

Guarantees

As a result of the Final Order granted in connection with the CBCA Proceedings, and subject to certain restrictions, all directors and officers of the Group are indemnified by the Group for various items including, but not limited to, all costs to defend lawsuits or actions due to their association with the Group. The Group holds directors' and officers' liability insurance to mitigate the cost of any potential future lawsuits or actions.

In the normal course of business, the Group has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts, license agreements, supply agreements, distribution agreements, information technology agreements and various product, service, data hosting and network access agreements. These indemnification arrangements may require the applicable Group entity to compensate counterparties for losses incurred by the counterparties as a result of breaches in representations, covenants and warranties provided by the particular Group entity or as a result of litigation or other third party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction.

In connection with the acquisition of Zonegran®, the Company guaranteed the payment, performance and discharge of the purchaser's payment and indemnification obligations under the asset purchase agreement and each ancillary agreement entered into by the purchaser in connection therewith that contained payment or

indemnification obligations. Pursuant to the share purchase agreement entered into by the Company in connection with the ADVANZ PHARMA International Acquisition, the Company guaranteed the obligations of the purchaser under the share purchase agreement and related transaction documents.

Litigation and Arbitration

From time to time, the Group becomes involved in various legal and administrative proceedings, which include product liability, intellectual property, commercial, antitrust, government and regulatory investigations, related private litigation and ordinary course employment-related issues. From time to time, the Group also initiates actions or files counterclaims. The Group could be subject to counterclaims or other suits in response to actions it may initiate. The Group believes that the prosecution of these actions and counterclaims is important to preserve and protect the Group, its reputation and its assets. Certain of these proceedings and actions are described below.

Unless otherwise indicated the Group cannot reasonably predict the outcome of these legal proceedings, nor can it currently estimate the amount of loss, or range of loss, if any, that may result from these proceedings. An adverse outcome in certain of these proceedings could have a material adverse effect on the Group's business, financial condition and results of operations, and could cause the market value of its limited voting shares and/or debt securities to decline.

The Existing Equity Class Action Claims were released pursuant to the CBCA Plan and the Final Order, provided that any recovery in respect of such Existing Equity Class Action Claims was limited pursuant to the CBCA Plan and the Final Order to recovery from any applicable insurance policies maintained by the Group, subject to certain exceptions.

The Company and certain of its former executive officers are the subject of various class action complaints in the US relating to the Company's August 12, 2016 press release, whereby the Company revised its 2016 guidance. The complaints allege that the Company issued false and misleading statements to investors and/or failed to disclose that: the Company was experiencing a substantial increase in market competition against its drug Donnatal®, and other products; as a result, the Company's financial results would suffer, and the Company would be forced to suspend its dividend; and as a result of the Company's statements about its business, operations and prospects were materially false and misleading and/or lacked a reasonable basis at all relevant times. The class action lawsuits have been consolidated into a single case. During the third quarter of 2018, the Company agreed to a tentative settlement of this class action. The Company and the plaintiffs have asked the United States District Court, Southern District of New York to abate further proceedings for the time being. The tentative settlement has been approved in principle by the court and is subject to further documentation and approvals, before becoming binding on the parties.

The Company and certain of its former executive officers were also subject to a class action complaint alleging that the Company made false and/or misleading statements, as well as, failed to disclose material adverse facts about the Company's business operations and prospects, in the Company's Registration Statement, Prospectus and Supplemental Prospectus issued in connection with the Company's secondary offering completed on September 30, 2015. Specifically, the claim alleged that the statements were false and/or misleading and/or failed to disclose that: (i) the Company was experiencing a substantial increase in market competition against Donnatal®, and other products; (ii) consequently the Company's financial results would suffer and the Company would be forced to suspend its dividends; and (iii) as a result of the foregoing, the defendant's statements about the Company's business operations and prospects were false and misleading and/or lacked a reasonable basis. On June 27, 2017, the plaintiff in this action voluntarily dismissed the complaint on a without prejudice basis.

The Company and certain of its former executive officers and a former director are also subject to a securities class action filed in Quebec, Canada. The amended motion for authorization of a class action alleges that the Company failed to disclose adverse material facts relating to, and misrepresented, among other things, the Company's ability to achieve its guidance, increased generic competition on key products, including Donnatal®, the Company's pricing strategies, changes to the Company's sales force, and the Company's vulnerability to regulatory and political changes in certain disclosures from March 23, 2016 to August 11, 2016. On June 15,

2017, the plaintiff in the action discontinued their claim against the Company's board of directors (other than the one former director) and certain of its former executive officers. During the second quarter of 2018, the Company, with the approval of its affected insurance carriers, agreed to a settlement of both the proposed Quebec and Ontario class actions for the total amount of $13.9 million. The settlement has been approved by both the Quebec Superior Court and the Ontario Superior Court of Justice.

On October 19, 2017, a statement of claim was filed in Ontario, Canada against the Company and certain of its former executive officers on behalf of all persons and entities, other than persons resident in Quebec, Canada, which alleges substantially the same claims as those raised in the proposed Quebec class action described above. As described above, during the second quarter of 2018, the Company, with the approval of its affected insurance carriers, agreed to a settlement of both the proposed Quebec and Ontario class actions for the total amount of $13.9 million. The settlement has been approved by both the Quebec Superior Court and the Ontario Superior Court of Justice. The Company expects the settlement to close shortly.

On October 25, 2016, the Company announced that the United Kingdom ("**U.K.**") Competition and Markets Authority ("**CMA**") commenced an investigation into various issues in relation to the U.K. pharmaceutical sector, and that the ADVANZ PHARMA International segment was part of the inquiry. The CMA's investigation includes matters that pre-date the Group's ownership of the ADVANZ PHARMA International segment and relates to the ADVANZ PHARMA International segment's pricing of three products. On November 21, 2017, the Company announced that the CMA issued a statement of objections to the Group, and the former owners of the ADVANZ PHARMA International segment, Hg Capital LLP and Cinven, in relation to the pricing of one of the three products, liothyronine tablets, in the United Kingdom between November 2007 and at least July 2017. A statement of objections is a formal statement by the CMA that, on a provisional basis, it considers that a competition infringement may have occurred. On February 15, 2018, the Company announced that the CMA notified the Group that it was closing its investigation related to Fusidic Acid, also one of the three products under investigation. On April 20, 2018, the Company responded in detail to the CMA's statement of objections, and on May 21, 2018 the Group attended an oral hearing to present the key points of its response to the CMA decision panel. On January 30, 2019, the CMA panel issued a supplemental statement of objections narrowing the scope of the investigation into liothyronine tablets, including reducing the period of time under consideration by two years. The Company is in the process of considering its response and in addition has applied for a stay of the investigation pending various third party proceedings and appeals which are likely to clarify the law in this area. This investigation includes matters that pre-date the Group's ownership of the ADVANZ PHARMA International segment.

On March 3, 2017, the Company announced that the CMA issued a statement of objections to a third party and the Group in relation to the supply of 10mg hydrocortisone tablets in the U.K. between 2013 and 2016. On May 26, 2017, the Company responded in detail to the CMA's statement of objections and on July 20, 2017 the Group attended an oral hearing to present the key points of its response to the CMA decision panel. To date, the CMA decision panel has not issued a decision. This investigation includes matters that pre-date the Company's ownership of the ADVANZ PHARMA International segment.

On October 10, 2017, the Company announced that the CMA commenced additional investigations in relation to the U.K. pharmaceutical sector, and that the ADVANZ PHARMA International segment and certain of its products are part of the inquiry. These investigations include matters that predate the Company's ownership of the ADVANZ PHARMA International segment, and involve the following products: Carbimazole, Nitrofurantoin, Prochlorperazine, Dicycloverine, Trazodone and Nefopam. On November 12, 2018, the CMA notified the Group that it was no longer investigating Trazodone, Nefopam and Dicyloverine on the grounds of administrative priority. This decision does not prevent the CMA from opening a new investigation into these products in the future. On February 21, 2019, the Group received notice from the CMA that the investigation into Nitrofurantoin was being amended to include 100mg capsules in addition to 50mg capsules. The CMA is still assessing the status of its investigations into these remaining two products, Nitrofurantoin capsules and Prochlorperazine tablets.

During the first quarter of 2016, the Group became aware that a third party had notified wholesalers, through listing services, of its intent to distribute and sell in certain U.S. regions a non-FDA approved copy of Donnatal® tablets. On January 6, 2016, the Group commenced a lawsuit against the third party and its principal owner claiming damages from such conduct, and on April 29, 2016 and May 3, 2016 commenced proceedings against two listing services for the continued listing of the products in their database. In May 2016, the Group became aware that this non-FDA approved product was introduced into certain US regions. On October 4, 2016 and November 16, 2016, the Group dismissed its claims against the listing services on a without prejudice basis, respectively. On March 15, 2017, the court ruled on the third party's motion to dismiss the Group's claim, denying such motion in part and granting it in part. On March 29, 2017, the third party filed its answer and counter claim in response to the Group's claim. On August 16, 2017, this third party filed a motion to amend its counterclaim to add factual allegations detailing the scope of the Group's campaign to disparage its products and interfere with its contractual and business relationships. On November 8, 2017, the court granted the Group's motion for leave to file its second amended complaint, permitting the Group to include its direct false advertising claim. On June 29, 2018, the Group filed an amended complaint to include claims relating to the listing and distribution of a non-FDA approved copy of Donnatal® elixir. Discovery is set to close May 31, 2019 per court order. The Group continues to pursue this lawsuit vigorously and the litigation is expected to go to trial during the fourth quarter of 2019 or first quarter of 2020.

On June 16, 2018, the Group commenced a lawsuit in the United States against Lazarus Pharmaceuticals Inc. ("**Lazarus**") and Cameron Pharmaceuticals LLC ("**Cameron**") for listing and distributing a non-FDA approved copy of Donnatal® elixir in certain U.S. regions. On July 6, 2018, the Group filed a motion for a preliminary injunction against Lazarus and Cameron to remove the listings, and cease the distribution, of this product. On July 17, 2018, Lazarus filed a motion to dismiss the Group’s claims for lack of personal jurisdiction. On July 30, 2018, Cameron also filed a motion to dismiss the Group's claims for lack of personal jurisdiction. On June 29, 2018, ADVANZ PHARMA filed a statement of claim against Lazarus and Mark Thompson (the former Chief Executive Officer of the Company) in the Province of Ontario for, among other things, breach of contract and post-employment covenants. The Group was unsuccessful in an injunction hearing held on October 3, 2018. In December 2018, the Group filed an application to amend the claim to add Jean-Paul Laurin as a defendant. In January 2019, the Group filed a claim in the Province of Ontario against Jean-Paul Laurin for, among other things, breach of contract and post-employment covenants. The Group continues to pursue these lawsuits vigorously.

During the first quarter of 2018, the Group filed a complaint in the United States against Blake Kelley, a former employee of the Group, for breach of his employment agreement, non-disclosure agreement, non-competition agreement and separation agreement by, inter alia, retaining, disclosing and / or using the Group’s confidential, proprietary, and trade secret information relating to Donnatal®, breach of contract accompanied by a fraudulent act, misappropriation of trade secrets, a claim under the South Carolina Unfair Trade Practice Act, civil conspiracy, and violation of the Computer Fraud and Abuse Act. On May 17, 2018, Blake Kelley filed a motion to dismiss the action. On June 7, 2018 the Group filed an amended complaint, on information and belief that Mr. Kelley has been involved in the distribution of the non-FDA approved copy of the Donnatal® elixir distributed by Lazarus and Cameron. The Group has applied to consolidate the Kelley lawsuit with the Lazarus lawsuit.

In a similar lawsuit relating to non-FDA approved copies of Donnatal® tablets commenced against Method Pharmaceuticals, LLC ("**Method**") and its principal owner, the Group received a favourable jury verdict on April 21, 2016 and was awarded damages in the amount of approximately $733. On March 2, 2017, the United States District Court - Western District of Virginia, Charlottesville Division, granted the Group's motion for enhanced damages in part, to amend the judgment against Method and its principal owner to reflect an award of damages in the total amount of approximately $2.2 million. On March 30, 2017, Method filed a motion to reconsider the order on enhanced damages. On April 13, 2017, the Group filed an opposition to Method's motion to reconsider. On July 19, 2017, the court denied Method's motion to reconsider. On August 30, 2017, Method filed a notice of appearance with the United States Court of Appeals for the Fourth Circuit to appeal the enhanced damages award. On February 1, 2018, Method and its principal owner and the Group settled the enhanced damages award. The full settled amount has been paid to the Group.

The Group, through its subsidiary CPI, received a notice on December 20, 2016 from Lachlan Pharmaceuticals ("**Lachlan**"), the distributor of Ulesfia®, that it had received notice from its distributor Zylera Pharmaceuticals, LLC ("**Zylera**") that there had been a change in market conditions (a "**Market Change**") such that no minimum product payment obligations for the calendar year 2016 would be made to the Group. The Group issued a formal dispute notice to Lachlan on January 6, 2017 regarding Lachlan's obligation to make the minimum product payment to the Group for the calendar year 2016. Subsequently, Lachlan, Zylera, Shionogi Inc. ("**Shionogi**") and the Group entered into a joint prosecution agreement, and on June 12, 2017 Shionogi notified Summers Laboratories, Inc. ("**Summers**") (the upstream counterparty to which the minimum payments are ultimately paid), that there had been a Market Change and therefore no minimum product payments were due in 2016 and beyond. On July 28, 2017, Summers filed a Demand for Arbitration in the matter. The arbitration hearing took place in New York during July 2018. On October 22, 2018 the arbitration panel (the "**Panel**") issued an Interim Award. The Panel found that there had not been a Market Change up to and including the last date of the hearing in the arbitration, July 27, 2018. Further submissions were held in December 2018 regarding acceleration of the minimum royalty payments and whether attorney fees apply. On December 26, 2018, the Panel issued a second Interim Award denying acceleration of the minimum royalty payments but granting attorney fees. Summers submitted its application in support of its claim for attorneys' fees, expenses and costs on January 8, 2019. Shionogi submitted its response to Summers' application for attorneys' fees, expenses and costs on January 18, 2019. On March 4, 2019, the Panel issued its Final Order for attorneys' fees, expenses and costs of $2.3 million. The minimum royalty payable on Ulesfia® is $3 million per year, payable on an annual basis to the earlier of the period where: (i) there exists an issued and unexpired patent right; or (ii) no unauthorized third party generic version of Ulesfia® is being sold in the relevant territory.

On September 16, 2016, the Company announced that a bill was introduced in the U.K. House of Commons to amend and extend existing provisions of the National Health Service Act 2006 to enable the Secretary of State to help manage the cost of health service medicines. On April 27, 2017, the U.K. government accorded Royal Assent to the UK Health Service Medical Supplies (Costs) Act 2017 (the "**Act**"). The Act introduces provisions in connection with controlling the cost of health service medicines and other medical supplies. The Act also introduces provisions in connection with the provision of pricing and other information by manufacturers, distributors and suppliers of those medicines and medical supplies. On July 1, 2018, the U.K. Department of Health and Social Care (the "**Department of Health**") issued regulations relating to the provision of routine and non-routine information. These regulations require manufacturers and wholesalers to provide information relating to sales volumes and average selling prices on a quarterly basis, as well as provide the Department of Health the power to access information relating to costs and inventory holdings on a non-routine basis. The Group currently provides volume and average selling price data on many of its products, therefore, it is not anticipated that the information regulations issued by the Department of Health on July 1, 2018 will have a material adverse impact on the Group. However, the Group continues to monitor the implementation of the Act. While the full effects and implementation of the Act are unknown at this time, the Act could impose certain risks and uncertainties on the Group's operations and cash flows. In addition, although the Group currently believes that the provision of pricing and other information regulations under the Act do not at this time materially adversely affect the Group, the impact on the Group's business will not be known until such time that the regulations are fully implemented and enforced. The Department of Health are expected to consult with the industry on how it intends to utilize any new powers to control the cost of any health service medicines and other supplies.

19. Financial Risk Management

The Group's activities expose it to certain financial risks, including currency risk, interest rate risk, credit risk and liquidity risk.

Currency Risk

The Group operates primarily in USD, GBP and EUR. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

A portion of the Group's business is with customers in continental Europe and other foreign markets with transactions completed in foreign currencies. The Group's policy, where considered appropriate, is to minimize all currency exposures on any balance not expected to mature within 60 days of its arising. The Group is exploring options to mitigate its currency exposures.

The Group does not believe it is exposed to currency risk on its net assets denominated in Barbados dollars as the currency is fixed to the U.S. dollar. The Company, however, is exposed to currency risk through its net assets denominated in Canadian dollars, the effect of which is insignificant.

As part of the Recapitalization Transaction, as described in Note 2, the Company settled external GBP denominated debt and issued new EUR denominated debt. The settled external GBP debt was treated as a net investment hedge until the time of settlement.

The table below shows the extent to which the Group has net monetary assets (liabilities), excluding long-term debt, in currencies other than the functional currency of the Company.

As at (Amounts in USD)	**Dec 31, 2018**	**Dec 31, 2017**
GBP	148,033	114,865
Euro	9,837	11,403
Indian Rupees	15,614	14,866
Swedish Krona	4,828	8,040
Australian Dollars	6,106	4,038
South African Rand	4,063	4,781
Papua New Guinea Kina	2,454	3,179
Canadian Dollars	774	447
Other	6,787	10,856
Total	198,496	172,475

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The long-term debt which bears interest at floating rates is subject to interest rate cash flow risk resulting from market fluctuations in interest rates. Certain long-term debt bear interest at a fixed rate of interest, and as such are subject to interest rate price risk resulting from changes in fair value from market fluctuations in interest rates. A 1% appreciation (depreciation) in the interest rate would result in the following:

For the year ended	**2018**	**2017**
Impact of a 1% increase in USD LIBOR interest rates for long-term debt on net income (loss)	(14,119)	(17,311)
Impact of a 1% decrease in USD LIBOR interest rates for long-term debt on net income (loss)	8,610	1,820
Impact of a 1% increase in interest rates above EURIBOR floor for long-term debt on net income (loss)	(824)	—

Credit Risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation. Financial instruments that potentially expose the Group to significant concentrations of credit risk consist of cash and cash equivalents, accounts receivables, and other receivables. The Group's investment policies are designed to mitigate the possibility of deterioration of principal, enhance the Group's ability to meet its liquidity needs and provide high returns within those parameters. The Group

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

monitors the collectability of accounts receivable and estimates loss allowance. As at December 31, 2018, the loss allowance was $2,189 (2017 – $2,777).

Concentrations of credit risk

Financial instruments that potentially subject the Group to significant concentrations of credit risk primarily consist of accounts receivable.

The Group evaluates the recoverability of its accounts receivable on an on-going basis. As of December 31, 2018 the Group's three largest U.S. wholesale customers account for approximately 29% or $33 million of net trade receivables and 19% or $102 million of total revenue for the year ended December 31, 2018. The Group does not consider there to be additional concentration risk within the ADVANZ PHARMA International segment.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting its financial liability obligations as they become due. The Group has a planning and budgeting process in place to determine funds required to support the Group's normal operating requirements on an ongoing basis. Since inception, the Group has financed its cash requirements primarily through issuances of securities, short-term borrowings and issuances of long-term debt. The Group controls liquidity risk through management of working capital, cash flows and the availability and sourcing of financing.

The Group's primary source of liquidity is cash on hand and cash flows from operations not used for financing activities. In order to finance future acquisitions, the Group may consider combinations of debt and equity along with surplus cash on hand depending on the size of the acquisitions. Many factors, including, but not limited to, general market conditions, debt levels and our credit ratings, could impact our ability to issue securities and raise new debt on acceptable terms.

The Group believes that following the Recapitalization Transaction, which resulted in a significant reduction in annual required amortization and interest payments on long-term debt, the Group's cash on hand in addition to cash flows expected to be generated from operations will provide sufficient liquidity to support the Group's ongoing business and financing cash flow requirements for at least, but not limited to, the next 12 months.

The following tables summarize the Group's significant contractual maturities (on an undiscounted cash flow basis) as at December 31, 2018 and December 31, 2017:

As at							**Dec 31, 2018**
Financial Instruments	**< 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 2 years**	**2 to 5 years**	**Thereafter**	**Total**
Trade payables and accrued liabilities	92,883	—	—	—	—	—	92,883
Provisions	21,459	2,008	2,410	—	—	—	25,877
Long-term debt	5,272	5,272	10,545	21,089	63,268	1,243,717	1,349,163
Interest on long-term debt	24,629	19,767	53,383	101,741	294,774	83,330	577,624
	144,243	27,047	66,338	122,830	358,042	1,327,047	2,045,547

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

As at							Dec 31, 2017
Financial Instruments	**< 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 2 years**	**2 to 5 years**	**Thereafter**	**Total**
Trade payables and accrued liabilities	95,345	—	—	—	—	—	95,345
Provisions	26,130	3,902	4,064	—	—	—	34,096
Long-term debt [(a)]	3,688,418	—	—	—	—	—	3,688,418
Interest on long-term debt [(b)]	106,568	—	—	—	—	—	106,568
Purchase consideration payable	1,000	—	1,000	1,000	11,191	1,000	15,191
Cross currency swap liability	114,431	—	—	—	—	—	114,431
	4,031,892	3,902	5,064	1,000	11,191	1,000	4,054,049

(a) Refer to Notes 2 and 14 for details on long-term debt classification as at December 31, 2017, as well as the CBCA proceedings.
(b) The contractual interest amount as at December 31, 2017 reflects the accrued interest payable on long-term debt.

20. Financial Instruments – Fair Value Estimation

Accounting classifications and fair values

The fair value of a financial asset or liability is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. For the financial assets and liabilities of the Group, the fair values have been estimated as described below:

Cash and cash equivalents	- approximates to the carrying amount;
Long-term debt	- based on quoted price, or by reference to observable quoted prices for similar long-term debt;
Receivables and payables	- approximates to the carrying amount

The following table presents the fair value of financial assets and financial liabilities that are measured at fair value as at December 31, 2017, including their levels in the fair value hierarchy. There are no financial assets or liabilities that are measured at fair value as at December 31, 2018:

As at				Dec 31, 2017
	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value through profit or loss				
Purchase consideration	—	6,986	1,398	8,384
	—	6,986	1,398	8,384

The current portion of purchase consideration as at December 31, 2018 is $nil (2017 - $1,835).

Measurement of fair values

There were no transfers between Level 2 and Level 3 during the year.

During the year ended December 31, 2018 interest expense and changes in fair value of $425 (2017 - $1,297) related to purchase consideration was recognized in the consolidated statements of income (loss).

On June 13, 2018, the outstanding deferred purchase consideration payable was settled for $1,500, resulting in a gain on purchase consideration settlement of $7,308 recorded in the consolidated statements of income (loss).

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

21. Capital Management

The Group's capital management objectives are to safeguard its ability to provide returns for shareholders and benefits for other stakeholders, by ensuring it has sufficient cash resources to fund its activities, to pursue its commercialization efforts and to maintain its ongoing operations. The Group includes long-term debt and shareholders' equity (deficit) in the definition of capital.

The below table sets forth the Company's capital structure:

As at	Dec 31, 2018	Dec 31, 2017
Long-term debt (Note 14)	1,349,163	3,688,418
Shareholders' Equity (Deficit)	196,664	(1,910,513)
	1,545,827	1,777,905

22. Segmented Reporting

Operating Segments

The Group has two reportable operating segments: ADVANZ PHARMA International and ADVANZ PHARMA North America, as well as a Corporate cost centre. A brief description of each is as follows:

ADVANZ PHARMA International

The ADVANZ PHARMA International segment consists of a diversified portfolio of branded and generic products that are sold to wholesalers, hospitals and pharmacies in over 90 countries. The ADVANZ PHARMA International segment specializes in the acquisition, licensing and development of off-patent prescription medicines, which may be niche, hard to make products. The segment's over 200 products are manufactured and sold through an out-sourced manufacturing network and marketed internationally through a combination of direct sales and local distribution relationships. The ADVANZ PHARMA International segment operates primarily outside of the North American marketplace.

ADVANZ PHARMA North America

The ADVANZ PHARMA North America segment has a diversified product portfolio that focuses primarily on the U.S. pharmaceutical market. These products include, but are not limited to, Donnatal® for the treatment of irritable bowel syndrome; Zonegran® for the treatment of partial seizures in adults with epilepsy; Nilandron® for the treatment of metastatic prostate cancer; Lanoxin® for the treatment of mild to moderate heart failure and atrial fibrillation; Plaquenil® for the treatment of lupus and rheumatoid arthritis; and Photofrin® for the treatment of certain types of cancer. ADVANZ PHARMA North America's product portfolio consists of branded products and authorized generic contracts. The segment's products are manufactured through an out-sourced production network and sold primarily through a third party distribution network in the U.S.

Corporate

The corporate cost centre represents certain centralized costs including costs associated with the Group's office located in Canada and costs associated with being a public reporting entity.

The following tables set forth operating income (loss), goodwill, total assets and total liabilities by reportable operating segment for the years ended December 31, 2018 and 2017.

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

	ADVANZ PHARMA International	ADVANZ PHARMA North America	Corporate	**Year ended Dec 31, 2018**
Revenue	403,653	133,333	—	536,986
Cost of sales	148,943	26,946	—	175,889
Gross profit	254,710	106,387	—	361,097
Operating expenses				
General and administrative	27,841	5,276	11,103	44,220
Selling and marketing	24,367	12,508	—	36,875
Research and development	22,707	7,001	—	29,708
Restructuring related, acquisition and other	12,050	3,540	85,382	100,972
Share based compensation	—	—	2,537	2,537
Amortization of intangible assets	181,891	68,431	60	250,382
Impairments	57,560	—	—	57,560
Depreciation expense	1,437	96	187	1,720
Fair value (gain) loss	—	425	—	425
Total operating expenses	327,853	97,277	99,269	524,399
Operating income (loss) for the year	(73,143)	9,110	(99,269)	(163,302)

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

	ADVANZ PHARMA International	ADVANZ PHARMA North America	Corporate	**Year ended Dec 31, 2017**
Revenue	465,400	160,769	—	626,169
Cost of sales	157,586	33,046	—	190,632
Gross profit	307,814	127,723	—	435,537
Operating expenses				
General and administrative	23,150	6,874	20,666	50,690
Selling and marketing	25,900	12,366	—	38,266
Research and development	22,342	9,140	—	31,482
Restructuring related, acquisition and other	13,945	(2,328)	35,161	46,778
Share based compensation	—	2	8,709	8,711
Amortization of intangible assets	128,024	98,354	47	226,425
Impairments	1,043,566	151,199	—	1,194,765
Depreciation expense	1,619	92	251	1,962
Fair value (gain) loss	263	547	596	1,406
Total operating expenses	1,258,809	276,246	65,430	1,600,485
Operating income (loss) for the year	(950,995)	(148,523)	(65,430)	(1,164,948)

Income (loss) from continuing operations before tax includes the total operating income (loss) from above plus other income and expense which do not form part of any reportable operating segment.

	ADVANZ PHARMA International	ADVANZ PHARMA North America	Corporate	Total
As at				**Dec 31, 2018**
Goodwill	204,818	27,966	—	232,784
Total assets	1,326,526	473,713	30,705	1,830,944
Total liabilities	223,135	42,138	1,369,007	1,634,280
As at				**Dec 31, 2017**
Goodwill	216,991	27,966	—	244,957
Total assets	1,670,351	543,530	108,454	2,322,335
Total liabilities	373,166	48,895	3,810,787	4,232,848

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

Geographic Information

The Group has major operations in Barbados, Canada, Ireland, Jersey, the U.S. and the U.K.

The following table sets forth revenue by geographic location based on contracted entity (excluding inter-company transactions):

For the year ended						**Dec 31, 2018**
	Barbados	United States	United Kingdom & Jersey	Ireland	All other countries	**Total**
Revenue	123,366	9,967	246,311	15,592	141,750	536,986

For the year ended						**Dec 31, 2017**
	Barbados	United States	United Kingdom & Jersey	Ireland	All other countries	Total
Revenue	153,461	7,308	301,360	14,710	149,330	626,169

Product Revenue by Category

ADVANZ PHARMA International

For the year ended	**Dec 31, 2018**	**Dec 31, 2017**
Branded	200,210	201,496
Generics	203,443	263,904
Total	403,653	465,400

ADVANZ PHARMA North America

For the year ended	**Dec 31, 2018**	**Dec 31, 2017**
Branded	118,454	129,860
Authorized Generics and other	14,879	30,909
Total	133,333	160,769

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

The following table sets forth assets and liabilities by geographic location (excluding inter-company balances and investments in subsidiaries):

As at							**Dec 31, 2018**
	Barbados	Canada	United States	United Kingdom & Jersey	Ireland	All other countries [(1)]	**Total**
Current assets	83,129	30,594	9,859	166,537	106,613	47,405	444,137
Non-current assets	366,418	111	14,307	898,805	43,251	63,915	1,386,807
Total assets	449,547	30,705	24,166	1,065,342	149,864	111,320	1,830,944
Current liabilities	40,326	40,481	914	78,258	29,271	11,731	200,981
Non-current liabilities	898	1,328,526	—	86,279	—	17,596	1,433,299
Total liabilities	41,224	1,369,007	914	164,537	29,271	29,327	1,634,280

As at							**Dec 31, 2017**
	Barbados	Canada	United States	United Kingdom & Jersey	Ireland	All other countries [(1)]	**Total**
Current assets	86,342	108,021	10,323	213,441	105,320	44,161	567,608
Non-current assets	433,083	433	13,782	1,153,633	69,890	83,906	1,754,727
Total assets	519,425	108,454	24,105	1,367,074	175,210	128,067	2,322,335
Current liabilities	38,800	3,810,787	2,526	201,629	33,206	4,056	4,091,004
Non-current liabilities	7,569	—	—	112,207	—	22,068	141,844
Total liabilities	46,369	3,810,787	2,526	313,836	33,206	26,124	4,232,848

Notes:
(1) All other countries is comprised primarily of Australia, India, Netherlands and Sweden.

23. Related Party Transactions

(a) Compensation of Directors and Key Management

Compensation consisting of salaries, performance and retention bonuses, other benefits, severance and director fees to key management personnel and directors for the year ended December 31, 2018 amounted to $17,982 (2017 - $10,721). The compensation expense includes severance amounts of $11,721, net of previously accrued performance incentive and retention amounts, paid, or payable, to the former Chief Executive Officer, Chief Financial Officer, Chief Corporate Development Officer and Chief Legal Officer.

Share based compensation (recovery) expense recorded for key management and directors, for the year ended December 31, 2018 amounted to $250 (2017 - $4,804). The share based compensation (recovery) expense for the period includes the reversal of forfeited RSUs held by the former Chief Executive Officer of the Company.

Certain current employees of the ADVANZ PHARMA International segment had an equity interest in the ADVANZ PHARMA International segment at the time of its sale to the Company in October 2015. As a result, pursuant to the share purchase agreement entered into by the Company in connection with the acquisition of the

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

ADVANZ PHARMA International segment, these employees received a portion of the consideration paid by the Company to the vendors of the ADVANZ PHARMA International segment (including the earn-out consideration paid in December 2016 and February 2017, respectively).

(b) Recapitalization Transaction

As a result of the Recapitalization Transaction funds for which GSO Capital Partners LP or its affiliates acts as investment manager, advisor or sub-advisor ("**GSO**") and funds for which Solus Alternative Asset Management LP or its affiliates acts as investment manager, advisor or sub-advisor ("**Solus**"), are now considered to be related parties in accordance with IFRS and also hold a portion of the Group's long-term debt.

(c) Employee Loan

As at December 31, 2018, there was an employee loan outstanding in the amount of $6, which was subsequently repaid.

24. Nature of expenses

The nature of expenses included in cost of sales and operating expenses are as follows:

For the year ended	Dec 31, 2018	Dec 31, 2017
Production, manufacturing and distribution costs	175,889	190,632
Salaries, bonus and benefits	43,317	46,462
Sales and marketing expenses	23,699	24,996
Research and development expenses	20,291	21,962
Share-based compensation expense	2,537	8,711
Amortization and depreciation	252,102	228,387
Impairments	57,560	1,194,765
Fair value (gain) loss	425	1,406
Professional fees including those related to restructuring costs	111,054	51,441
Travel expenses	3,221	2,953
Rent and facilities	2,799	2,764
Other expenses	7,394	16,638
Total	700,288	1,791,117

Restructuring related, acquisition and other costs for the year ended December 31, 2018 was $100,972. The expense includes $74,802 of costs associated with the Company's Recapitalization Transaction (which includes costs of the Company's advisors and advisors of the debtholders involved in the Recapitalization Transaction (refer to Note 2)), $1,375 of employee retention costs, $15,977 of costs related to severance, and $7,054 of costs related to ongoing regulatory matters in connection with the CMA investigations (refer to Note 18 for further details). The remaining costs relate primarily to the class action lawsuits involving the Company.

(Stated in thousands of U.S. Dollars, except per share amounts and where otherwise stated)

25. Non-cash working capital

Changes in non-cash working capital is comprised of:

For the year ended	Dec 31, 2018	Dec 31, 2017
Accounts receivable	33,544	29,547
Inventory	3,168	15,437
Prepaid expenses and other current assets	(8,293)	981
Trade payable and accrued liabilities	744	(9,483)
Provisions	(8,536)	5,988
Other liabilities	672	(30)
Changes in non-cash working capital	21,299	42,440