# Pernix Ireland Pain Designated Activity Company

Directors' report and financial statements for the year ended 31 December 2016

**PERNIX IRELAND PAIN DESIGNATED ACTIVITY COMPANY**

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**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**
**for the year ended 31 December 2016**

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## COMPANY INFORMATION

| | |
|---|---|
| **BOARD OF DIRECTORS** | John Sedor (USA)<br>Graham Miao (USA)<br>Michael Golembiewski (USA) |
| **REGISTERED OFFICE** | 3 Burlington Road<br>Dublin 4 |
| **REGISTERED NUMBER** | 559207 |
| **SECRETARY** | Kenneth Pina |
| **AUDITOR** | Mazars Chartered Accountants<br>and Statutory Audit Firm<br>Harcourt Centre<br>Block 3<br>Harcourt Road<br>Dublin 2<br>Ireland |

**DIRECTORS' REPORT**
**for the year ended 31 December 2016**

The directors present their annual report together with the audited financial statements for the year ended 31 December 2016.

1. **PRINCIPAL ACTIVITIES**
The activities of the company consist of the development and licencing of pharmaceutical and related products. On 21 August 2017 the company Pernix Ireland Pain Limited re-registered the company as Pernix Ireland Pain Designated Activity Company.

2. **BUSINESS REVIEW AND FUTURE DEVELOPMENTS**
On April 24, 2015, the company completed the acquisition of the pharmaceutical product line, Zohydro ER, including an abuse-deterrent pipeline and rights to all related intellectual property, a supplier contract and an associated liability payable and a specified quantity of inventory associated therewith, from Zogenix, Inc. ("Zogenix"). There were no other tangible or intangible assets acquired and liabilities assumed related to the Zohydro ER product line from Zogenix. Recro Pharma, Inc. ("Recro") is the sole supplier of Zohydro ER to the company.

The company commenced commercialisation of its products in 2015. In the current year the company generated revenue of US$4.4 million and a loss of US$35 million, after charging amortisation of US$7.4 million and an impairment charge of US$4.2 million. The statement of financial position shows net liabilities of US$26.4 million, largely driven by the investment in Zohydro offset by the cost of this investment.

The directors, having reviewed the performance of the company for the year ended 31 December 2016, are satisfied with the performance of the business. The results for the year were in line with the expected performance, in light of the start-up phase of the business. The directors expect that business activity will continue to increase as the company expands its market footprint.

3. **RISKS AND UNCERTAINTIES**
Operating in a highly regulated and competitive environment, the business is faced with various risks and uncertainties which the company has policies and procedures in place to manage. The principal risks and uncertainties facing the business include:
   - Reliance on Recro as the sole supplier of Zohydro ER with BeadTek. Recro's inability to continue manufacturing adequate supplies of Zohydro ER with BeadTek, or its refusal to supply us with commercial quantities of Zohydro ER with BeadTek, may materially harm the business and financial condition and adversely impact the commercialisation and sales efforts with respect to the product.
   - The concentration of product sales to only a few wholesale distributors increases the risk of not been able to effectively distribute the products if there was a need to replace any of these customers, which would cause sales to decline.
   - Any collaboration arrangements entered into may not be successful, which could adversely affect our ability to develop and commercialise our product candidates.
   - The ability to successfully develop new products, obtain regulatory approval and commercialise these products is key to the success of the business.
   - Any adverse safety events could negatively affect the business.
   - There is intense competition and technological change in the pharmaceutical industry. The marketplace environment factors may impact on the success of the products developed.

4. **RESULTS AND DIVIDENDS**
The results for the year and state of affairs of the company are set out in the statement of comprehensive income and statement of financial position on pages 8 and 10 respectively. The directors do not recommend the payment of a dividend.

5. **RESEARCH AND DEVELOPMENT**
The company is engaged in the development of pharmaceutical products. The related research and development programmes to complete the development of these products are continuing and milestones reached are in line with the overall development plans.

**DIRECTORS' REPORT**
**for the year ended 31 December 2016 (continued)**

**6. POLITICAL DONATIONS**
The company made no political donations during the year.

**7. DIRECTORS AND SECRETARY**
The directors who served the company during the year, up to the approval of the financial statements were as follows:

Douglas Drysdale –resigned 9 May 2016
Sanjay Patel –resigned 20 July 2016
Terry Novak –resigned 22 July 2016
John Sedor – appointed 9 May 2016
Graham Miao – appointed 26 July 2016
Michael Golembiewski - appointed 26 July 2016

The secretaries who served the company during the year were as follows:
Barry Siegel –resigned 26 July 2016
Michael Golembiewski – appointed 26 July 2016 and resigned 6 July 2017
Kenneth Pina – appointed 6 July 2017

**8. INTERESTS OF DIRECTORS AND SECRETARY**
In accordance with Section 260(f) of the Companies Act 2014, none of the directors or secretary who held office at the year end held any interests in shares of the company or group companies greater than 1% of the nominal value of the shares of those companies.

**9. ACCOUNTING RECORDS**
The directors are responsible for ensuring that adequate accounting records, as outlined in Section 281 to 285 of the Companies Act 2014, are kept by the company. To achieve this, the directors have appointed appropriately qualified personnel and the maintenance of computerised accounting systems to ensure that those requirements are complied with. The company's accounting records are maintained at the registered office at 3 Burlington Road, Dublin 4.

**10. SUBSEQUENT EVENTS**
On 21 July 2017, the company entered into a term loan credit agreement, through which $30 million was drawn down on the date of the transaction. A further $15 million is available for subsequent drawdowns for certain specified purposes including the financing of certain acquisitions. This credit facility includes an incremental feature that allows the company to obtain up to an additional $20 million in funding. These securities were listed on the Bermuda Stock Exchange in October 2017. Interest is payable at a rate of 7.5% per annum. The maturity date of this loan is 21 July 2022.

**11. STATEMENT ON RELEVANT AUDIT INFORMATION**
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Each director has taken all the steps that he or she ought to have taken as a director in order to made himself or herself aware of any relevant audit information and to establish that the company's statutory auditor is aware of that information.

**12. AUDITOR**
The auditor, Mazars, Chartered Accountants and Statutory Audit Firm, will continue in office in accordance with Section 383(2) of the Companies Act 2014.

**On behalf of the board on 13 November 2017**

| | |
|---|---|
| **Michael Golembiewski** | **Graham Miao** |
| **Director** | **Director** |

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Irish company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with the Companies Act 2014 and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the company as at the end of the financial year, and the profit or loss for the company for the financial year, and otherwise comply with the Companies Act 2014.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and reasons for any material departure from those standards; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for ensuring that the company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the company, enable at any time the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy, enable them to ensure that the financial statements comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**On behalf of the board on 13 November 2017**

| | |
|---|---|
| **Michael Golembiewski** | **Graham Miao** |
| **Director** | **Director** |

## INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF

## PERNIX IRELAND PAIN DESIGNATED ACTIVITY COMPANY

We have audited the financial statements of Pernix Ireland Pain Designated Activity Company for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position and the related notes. The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council.

This report is made solely to the company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2016 and of its loss for the year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, the requirements of the Companies Act 2014.

## INDEPENDENT AUDITORS' REPORT

## TO THE MEMBERS OF

## PERNIX IRELAND PAIN DESIGNATED ACTIVITY COMPANY

**Emphasis of matter**

In forming our opinion, we have considered the adequacy of the disclosures made in Note 3(b) to the financial statements concerning the ability of the company to continue to trade as a going concern. Our opinion is not qualified in this respect.

**Matters on which we are required to report by the Companies Act 2014**

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the directors' report is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of our obligation under the Companies Act 2014 to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of the Act are not made.

Mairéad Divilly

**Mairéad Divilly**
**For and on behalf of**
**Mazars**
**Chartered Accountants**
**& Statutory Audit Firm**
**Harcourt Centre**
**Block 3**
**Dublin 2**

**13 November 2017**

## STATEMENT OF COMPREHENSIVE INCOME
**for the year ended 31 December 2016**

| | Note | Year ended 31/12/2016 US$ | Period from 19 March 2015 (date of incorporation) to 31/12/2015 US$ |
|---|---|---|---|
| **Turnover** | 5 | 4,395,331 | 5,777,846 |
| Cost of sales | | (4,383,306) | (3,121,944) |
| **Gross profit** | | 12,025 | 2,655,902 |
| Administrative expenses | | (28,168,210) | (21,204,042) |
| Impairment of intangible asset | 9 | (4,200,000) | - |
| Operating loss | | (32,356,185) | (18,548,140) |
| Interest payable and similar charges | 6 | (4,875,000) | (3,344,800) |
| **Loss on ordinary activities before taxation** | | (37,231,185) | (21,892,940) |
| Tax on loss on ordinary activities | 8 | 2,211,028 | 2,681,722 |
| **Loss for the financial year/period** | | (35,020,157) | (19,211,218) |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the year/period** | | (35,020,157) | (19,211,218) |

**All turnover presented relates to continuing operations.**

## STATEMENT OF CHANGES IN EQUITY
**for the year ended 31 December 2016**

| | Share capital US$ | Capital contribution US$ | Profit and loss account US$ | Total equity US$ |
|---|---|---|---|---|
| **At 19 March 2015 (date of incorporation)** | - | - | - | - |
| Loss for the period | - | - | (19,211,218) | (19,211,218) |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income for the period | - | - | (19,211,218) | (19,211,218) |
| Share issued | 113 | 27,852,887 | - | 27,853,000 |
| **At 31 December 2015** | 113 | 27,852,887 | (19,211,218) | 8,641,782 |
| Loss for the year | - | - | (35,020,157) | (35,020,157) |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income for the year | - | - | (35,020,157) | (35,020,157) |
| **At 31 December 2016** | 113 | 27,852,887 | (54,231,375) | (26,378,375) |

**Capital contribution**
Capital contributions are accumulated amounts received from the parent company which are irrevocable, non-payable, and unconditional.

**Profit and loss account**
The profit and loss account represents cumulative profits or losses, including unrealised profit/losses, net of dividends paid.

**Statement of Financial Position**
**As at 31 December 2016**

| | Note | 2016<br>US$ | 2015<br>US$ |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Intangible assets | 9 | 75,982,675 | 99,768,140 |
| | | 75,982,675 | 99,768,140 |
| **CURRENT ASSETS** | | | |
| Debtors | 10 | 5,013,362 | 6,127,973 |
| Cash at bank and in hand | 11 | - | 10,002,042 |
| | | 5,013,362 | 16,130,015 |
| **CREDITORS** | | | |
| **(amounts falling due within one year)** | 12 | (42,374,412) | (40,045,345) |
| **NET CURRENT LIABILITIES** | | (37,361,050) | (23,915,330) |
| Total assets less current liabilities | | 38,621,625 | 75,852,810 |
| **CREDITORS** | | | |
| **(amounts falling due after more than one year)** | 13 | (65,000,000) | (65,000,000) |
| Provisions for liabilities | 14 | - | (2,211,028) |
| **NET (LIABILITIES)/ASSETS** | | (26,378,375) | 8,641,782 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital - presented as equity | 15 | 113 | 113 |
| Capital contribution | | 27,852,887 | 27,852,887 |
| Profit and loss account | | (54,231,375) | (19,211,218) |
| **SHAREHOLDERS' (DEFICIT)/FUNDS** | | (26,378,375) | 8,641,782 |

**Approved by the board on 13 November 2017**

**Michael Golembiewski**
**Director**

**Graham Miao**
**Director**

**NOTES TO THE FINANCIAL STATEMENTS**
**for the year ended 31 December 2016**

## 1. GENERAL INFORMATION

Pernix Ireland Pain Designated Activity Company is a designated activity company limited by shares ("DAC") incorporated in the Republic of Ireland under the Companies Act 2014. The registered office is 3 Burlington Road, Dublin 4.

The principal activity of the company is the development and licencing of pharmaceutical and related products.

## 2. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with applicable accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (Generally Accepted Accounting Practice in Ireland) and the Companies Act 2014.

## 3. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

### a) Basis of preparation

The financial statements of Pernix Ireland Pain Designated Activity Company were authorised for issue by the Board of Directors on 13 November 2017.

The financial statements have been prepared on a going concern basis under the historical cost convention, modified to include certain items at fair value.

### b) Going concern

The financial statements have been prepared on the going concern basis, which assumes that the company will continue in operational existence for the foreseeable future. In concluding that it was appropriate to adopt the going concern basis in preparing the financial statements, the directors have considered the financial position of the company and accumulated losses to date. The company is dependent on financial support from its parent company Pernix Therapeutics Holdings Inc. Pernix Therapeutics Holdings Inc. has indicated its willingness to continue to provide financial support to the company for a period of not less than 12 months from the date of approval of the financial statements, to enable it to meet its liabilities as and when they fall due.

On 21 July 2017, the company also entered into a term loan credit agreement, through which $30 million was drawn down on the date of the transaction. A further $15 million is available for subsequent drawdowns for certain specified purposes including the financing of certain acquisitions. This credit facility includes an incremental feature that allows the company to obtain up to an additional $20 million in funding. These securities were listed on the Bermuda Stock Exchange in October 2017. Interest is payable at a rate of 7.5% per annum. The maturity date of this loan is 21 July 2022.

On this basis the directors consider it appropriate to prepare the financial statements on a going concern basis.

**NOTES TO THE FINANCIAL STATEMENTS**
**for the year ended 31 December 2016 (Continued)**

**3. ACCOUNTING POLICIES (Continued)**

**c) Revenue recognition**

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. Turnover represents the fair value of goods, net of customer discounts and excluding value added tax, delivered to customers in the accounting period. Goods are deemed to have been delivered to customers, when the customer has access to the significant benefits inherent in the goods and exposure to the risks inherent in those benefits.

**d) Leasing and hire purchase commitments**

Rentals payable under operating leases are charged in the income statement on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

**e) Functional currency and presentation currency**

The functional currency of the company is considered to be US dollar because that is the currency of the primary economic environment in which the company operates. The financial statements are also presented in US dollar.

**f) Foreign currencies**

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement.

**g) Exemptions**

Pernix Ireland Pain Designated Activity Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. The company's ultimate parent undertaking at the year end was Pernix Therapeutics Holdings Inc., a company incorporated and operating in the United States. The parent company of both the smallest and largest groups of undertakings of which the company was a member and in whose group accounts it is included, is Pernix Therapeutics Holdings Inc. The group financial statements of Pernix Therapeutics Holdings Inc. are available from its principal place of business at 10 North Park Place, Suite 201 Morristown, NJ 07960, United States.

Pernix Ireland Pain Designated Activity Company has taken advantage of the following disclosure exemptions under FRS 102:

- The requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv).
- The requirements of Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d).
- The requirements of Section 11 paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c) and Section 12 paragraphs 12.26, 12.27, 12.29(a), 12.29(b), and 12.29A.
- The requirement of Section 33 Related Party Disclosures paragraph 33.7.

**NOTES TO THE FINANCIAL STATEMENTS**
**for the year ended 31 December 2016 (Continued)**

**3. ACCOUNTING POLICIES (continued)**

**h) Taxation**

The company establishes provisions based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

**Deferred tax**

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

Where there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities compared with the amounts that are recognised for those assets and liabilities in a business combination a deferred tax liability/(asset) shall be recognised.

The amount attributed to goodwill is adjusted by the amount of the deferred tax recognised. Unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

**i) Intangible assets**

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets acquired as part of an acquisition are not recognised where they arise from legal or other contractual rights, and where there is no history of exchange transactions. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Subsequent to initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment. Intangible assets are amortised on a straight line basis over their estimated useful lives. The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. Intellectual property, patents and licences are amortised over their expected useful lives. Intangibles were amortised over a period of 4.6 years as of 31 December 2015. That changed in February 2016 to 18 years with the patent extension of the Zohydro developed technology.

If there are indicators that the residual value or useful life of an intangible asset has changed since the most recent annual reporting period previous estimates shall be reviewed and, if current expectations differ the residual value, amortisation method or useful life shall be amended. Changes in the expected useful life or the expected pattern of consumption of benefit shall be accounted for as a change in accounting estimate.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016 (Continued)

3. ACCOUNTING POLICIES (continued)

j) **Goodwill**
Positive goodwill acquired on each business combination is capitalised, classified as an asset on the statement of financial position and amortised on a straight line basis over its useful life. Goodwill acquired in a business combination is, from the acquisition date, allocated to each cash generating unit that is expected to benefit from the synergies of the combination. If a business is subsequently sold or discontinued, any goodwill arising on acquisition that has not been amortised through the income statement is taken into account in determining the profit or loss on sale or discontinuance. Goodwill is being amortised over 18 years, which is in line with the life of the patent.

k) **Impairment of non-financial assets**
The company assesses at each reporting date whether an asset may be impaired. If any such indication exists the company estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in the income statement unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

An impairment loss recognised for all assets, including goodwill, is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

l) **Cash and cash equivalents**
Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less.

m) **Short term debtors and creditors**
Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

n) **Research and development**
Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is capitalised as an intangible asset when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised evenly over the period of expected future benefit. During the period of development the asset is tested for impairment annually.

o) **Interest-bearing loans and borrowings**
All interest-bearing loans and borrowings are initially recognised at net proceeds. After initial recognition debt is increased by the finance cost in respect of the reporting period and reduced by repayments made in the period. Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

**NOTES TO THE FINANCIAL STATEMENTS**
**for the year ended 31 December 2016 (Continued)**

4. **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the year end date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements have had the most significant effect on amounts recognised in the financial statements.

*Critical judgements*

a) **Operating lease commitments**

The company has entered into leases, as a lessee it obtains use of property, plant and equipment. The classification of such leases as operating or finance lease requires the company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the statement of financial position.

*Key sources of estimation uncertainty*

a) **Goodwill and intangible assets**

The company establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected usual life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

b) **Going concern**

The directors have considered the applicability of the going concern basis in the preparation of these financial statements; refer to note 3(b) for further details.

c) **Impairment of non-financial assets**

Where there are indicators of impairment of individual assets, the company performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction on similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

5. **TURNOVER**

Turnover comprises the invoiced value of goods and services supplied by the company, exclusive of trade discounts and value added tax, less direct costs incurred in providing the service to customers. Turnover arising from continuing operations and is generated in the United States of America.

| 6. **INTEREST PAYABLE AND SIMILAR CHARGES** | **2016 US$** | **2015 US$** |
|---|---|---|
| Interest payable to group companies | 4,875,000 | 3,344,800 |

**NOTES TO THE FINANCIAL STATEMENTS**
**for the year ended 31 December 2016 (Continued)**

## 7. STATUTORY AND OTHER INFORMATION

| | 2016 US$ | 2015 US$ |
|---|---|---|
| Amortisation | 7,433,465 | 16,257,977 |
| Operating lease rentals – land and buildings | 20,879 | 14,823 |
| Directors' remuneration in respect of qualifying services | - | - |
| Auditor's remuneration in respect of the audit of entity financial statements | 5,000 | 5,000 |

## 8. TAX ON LOSS ON ORDINARY ACTIVITIES

| | 2016 US$ | 2015 US$ |
|---|---|---|
| *Irish corporation tax:* | | |
| Current corporation tax | - | - |
| Deferred tax: | | |
| Origination and reversal of timing differences | 2,211,028 | 2,681,722 |
| Tax on loss on ordinary activities | 2,211,028 | 2,681,722 |

The current tax charge differs from the standard rate of corporation tax in the Republic of Ireland. The differences are explained as follows:

| | 2016 US$ | 2015 US$ |
|---|---|---|
| Loss on ordinary activities before tax | (37,231,185) | (21,892,940) |
| Current tax at 12.5% | (4,653,898) | (2,736,618) |
| *Effects of:* | | |
| Expenses not deductible for tax purposes | 1,134,375 | 418,100 |
| Difference between amortisation and capital allowances | (27,516) | 2,032,247 |
| Losses forward | 3,547,039 | 286,271 |
| Originating and reversal of timing differences | 2,211,028 | 2,681,722 |
| Tax on loss on ordinary activities | 2,211,028 | 2,681,722 |

**NOTES TO THE FINANCIAL STATEMENTS**
**for the year ended 31 December 2016 (Continued)**

## 9. INTANGIBLE ASSETS

| | Goodwill US$ | Intellectual property US$ | Total US$ |
|---|---|---|---|
| **Cost** | | | |
| At 31 December 2015 | 11,884,117 | 104,142,000 | 116,026,117 |
| Disposal | - | (1,142,000) | (1,142,000) |
| Impairment | (11,884,117) | (4,907,048) | (16,791,165) |
| At 31 December 2016 | - | 98,092,952 | 98,092,952 |
| **Accumulated amortisation** | | | |
| At 31 December 2015 | 439,165 | 15,818,812 | 16,257,977 |
| Disposal | - | (1,142,000) | (1,142,000) |
| Charge for the year | - | 7,433,465 | 7,433,465 |
| Impairment | (439,165) | - | (439,165) |
| At 31 December 2016 | - | 22,110,277 | 22,110,277 |
| **Net book value** | | | |
| At 31 December 2016 | - | 75,982,675 | 75,982,675 |

Following the acquisition of the pharmaceutical product line, Zohydro ER in the prior period, a subsequent review of the consideration payable and ultimate recoverability of the intangible assets was conducted. The cost of the acquisition was adjusted resulting in a reduction in the cost of the intangible asset of US$12,152,000, with a corresponding reduction in contingent consideration and accruals.

In addition, following a review for impairment, the intangible assets were impaired by US$4,200,000 which was recognised as a cost in the year.

**In respect of prior period**

| | Goodwill US$ | Intellectual property US$ | Total US$ |
|---|---|---|---|
| **Cost** | | | |
| At 19 March 2015 | - | - | - |
| Additions | 11,884,117 | 104,142,000 | 116,026,117 |
| At 31 December 2015 | 11,884,117 | 104,142,000 | 116,026,117 |
| **Accumulated amortisation** | | | |
| At 19 March 2015 | - | - | - |
| Charge for the period | 439,165 | 15,818,812 | 16,257,977 |
| At 31 December 2015 | 439,165 | 15,818,812 | 16,257,977 |
| **Net book value** | | | |
| At 31 December 2015 | 11,444,952 | 88,323,188 | 99,768,140 |

**NOTES TO THE FINANCIAL STATEMENTS**
**for the year ended 31 December 2016 (Continued)**

## 10. DEBTORS

| | 2016 US$ | 2015 US$ |
|---|---|---|
| Trade debtors | 4,589,779 | 5,777,846 |
| Prepayments and other debtors | 418,030 | 349,300 |
| Value added tax receivable | 5,553 | 827 |
| | 5,013,362 | 6,127,973 |

## 11. CASH AND CASH EQUIVALENTS

| | 2016 US$ | 2015 US$ |
|---|---|---|
| Accruals | - | 10,002,042 |

## 12. CREDITORS (amounts falling due within one year)

| | 2016 US$ | 2015 US$ |
|---|---|---|
| Trade creditors | 227,608 | 1,890,364 |
| Amounts owed to group undertakings | 3,321,060 | 10,253,149 |
| Amounts owed to parent undertaking (a) | 36,422,744 | 3,344,790 |
| Contingent consideration | 2,403,000 | 14,055,000 |
| Other creditors | - | 10,002,042 |
| Accruals | - | 500,000 |
| | 42,374,412 | 40,045,345 |

a) The amounts owed to the parent undertaking relates to interest payable on the long term loan which is repayable on demand.

## 13. CREDITORS (amounts falling due after more than one year)

| | 2016 US$ | 2015 US$ |
|---|---|---|
| Amount owed to parent undertaking (a) | 65,000,000 | 65,000,000 |

The amount owed to the parent undertaking is interest bearing at a rate of 7.5% per annum and is repayable in 2022.

**NOTES TO THE FINANCIAL STATEMENTS**
**for the year ended 31 December 2016 (Continued)**

## 14. PROVISION FOR LIABILITIES

| | 2016 US$ | 2015 US$ |
|---|---|---|
| **Deferred tax:** | | |
| At beginning of year/period | 2,211,028 | - |
| Arising on acquisition | - | 4,892,750 |
| Credited to the income statement | (2,211,028) | (2,681,722) |
| At end of the year/period | - | 2,211,028 |

| **Components of deferred tax** | 2016 US$ | 2015 US$ |
|---|---|---|
| Excess amortisation over capital allowances | - | 2,915,399 |
| Tax losses carried forward | - | (286,271) |
| Other | - | (418,100) |
| At end of year/period | - | 2,211,028 |

A deferred tax asset of US$2,531,251 has not been recognised as there is insufficient evidence to support its recognition. The deferred tax asset will only be recognised if sufficient taxable profits are generated in the future. The unrecognised deferred tax asset comprises:

| | 2016 US$ |
|---|---|
| Excess amortisation over capital allowances | (1,372,834) |
| Interest forward | 1,027,475 |
| Tax losses | 2,876,611 |
| | 2,531,252 |

## 15. CALLED UP SHARE CAPITAL

| | 2016 € | 2015 € |
|---|---|---|
| ***Authorised*** | | |
| 100,000 ordinary shares of €1 each | 100,000 | 100,000 |

| | 2016 US$ | 2015 US$ |
|---|---|---|
| ***Allotted, called up and fully paid*** | | |
| 100 ordinary shares of €1 each converted at 1.1279 | 113 | 113 |
| Called up share capital presented as equity | 113 | 113 |

At the beginning of the prior period, 100 ordinary shares were issued following the formation of the company.

**NOTES TO THE FINANCIAL STATEMENTS**
**for the year ended 31 December 2016 (Continued)**

## 16. RELATED PARTY DISCLOSURES

The company has availed of the exemption provided in FRS 102 Section 33 "Related Party Disclosures" for wholly owned subsidiary undertakings whose voting rights are controlled within the group, from the requirements to give details of transactions with entities that are part of the group or investees of the group qualifying as related parties.

## 17. CONTINGENCIES AND COMMITMENTS

The company is required to purchase all of its supply of Zohydro product from Recro Pharma Inc.; there are no minimal purchase arrangements in place.

*Operating leases*

Total future minimum lease payments under non-cancellable operating leases are as follows:

| | 2016 US$ | 2015 US$ |
|---|---|---|
| Not later than one year | 8,500 | 4,000 |

The company enters into operating lease arrangements for the hire of buildings as these arrangements are a cost efficient way of obtaining the short-term benefits of these assets. The lease rental expense for the year is disclosed in Note 7. There are no other material off-balance sheet arrangements.

Cantor Fitzgerald Securities holds a security interest in all patent and patent applications of the company.

Other than those noted above, there are no other commitments or contingent liabilities at the end of the financial year.

## 18. CONTROLLING PARTIES

The company's immediate and ultimate parent undertaking at the year end was Pernix Therapeutics Holdings Inc., a company incorporated and operating in the United States of America. The parent company of both the smallest and largest groups of undertakings of which the company was a member and in whose group accounts it is included, is Pernix Therapeutics Holdings Inc. The group financial statements of Pernix Therapeutics Holdings Inc. are available from its principal place of business at 10 North Park Place, Suite 201 Morristown, NJ 07960, United States of America.

## 19. SUBSEQUENT EVENTS

On 21 July 2017, the company entered into a term loan credit agreement, through which $30 million was drawn down on the date of the transaction. A further $15 million is available for subsequent drawdowns for certain specified purposes including the financing of certain acquisitions. This credit facility includes an incremental feature that allows the company to obtain up to an additional $20 million in funding. These securities were listed on the Bermuda Stock Exchange in October 2017. Interest is payable at a rate of 7.5% per annum. The maturity date of this loan is 21 July 2022.

## 20. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board on 13 November 2017.