Consolidated Financial Statements

HLS Therapeutics Inc.

December 31, 2022 and 2021

Independent Auditor's Report

To the Shareholders of HLS Therapeutics Inc.

Opinion

We have audited the consolidated financial statements of HLS Therapeutics Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of loss, consolidated statements of comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IFRS").

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 are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Accrued gross-to-net adjustments relating to product revenue

Description of key audit matter	How our audit addressed the key audit matter
Product revenue is reduced by various gross-to-net adjustments, including rebates, chargebacks and returns. The methodology and assumptions used to estimate returns, rebates and chargebacks include consideration of factors such as contractual terms and historical trends. For the year ended December 31, 2022, the Company recorded product sales of $51.7million as disclosed in note 15 of the Company's consolidated financial statements. Product sales includes a reduction of revenue for rebates and chargebacks of $4.8 million and a partial reversal of the estimated returns provision of $1.4 million, as disclosed in note 9 of the Company's consolidated financial statements. The ending provision for estimated returns, rebates and chargebacks was $2.9 million as at December 31, 2022. Determining an appropriate provision for returns, rebates, and chargebacks requires judgment and estimation by management, particularly for new or acquired products where the Company has no access to historical trends. Management's estimate includes consideration of factors such as contractual terms and historical trends, where available. This process requires judgment due to the timeframe between a sale to a wholesaler and a settlement of the rebate or chargeback owed under a government program or under the terms of a customer's right of return.	To test the accrued gross-to-net adjustments as at December 31, 2022, our audit procedures included, among others: • We obtained an understanding of the revenue estimation process, specifically gross-to-net adjustments relating to the deductions made to product sales for chargebacks, rebates and returns, and the tracking of settlements of the provisions. • We obtained management's calculations for the provisions, recalculated the amounts and, with the assistance of professionals with specialized skills and knowledge where applicable, evaluated the assumptions used by reference to internal and external sources including the terms of the applicable contracts, government pricing information, and historical information on chargebacks and returns, where available. • We considered industry returns data in similar markets for similar products, where available, and compared industry data to the inputs made by the Company. • We compared the additional charges to provisions recorded throughout the current fiscal year to prior year provision amounts, to current year product revenue, and to current year settlement amounts. • We considered the adequacy of the Company's revenue recognition accounting policies, including the recognition and measurement of deductions to product sales relating to chargebacks, rebates and sales returns and related disclosures.

Perseris intangible asset impairment assessment

Description of key audit matter	How our audit addressed the key audit matter
As disclosed in note 7 to the consolidated financial statements, the Company determined that this delay in the expected timing for public market reimbursement represented an indicator of an impairment to its distribution right intangible asset related to Perseris. The Company performed an impairment analysis and concluded that the carrying amount of the Perseris intangible asset exceeded its fair value. This resulted in an impairment charge of $3.1 million during the year ended December 31, 2022. As at December 31, 2022, the remaining net book value of this asset is $2.4 million. We have determined that auditing management's Perseris intangible asset impairment test is a key audit matter given the complexity, degree of judgment, and subjectivity used in evaluating management's estimates and assumptions in determining the recoverable amount. The impairment analysis was performed using a discounted cash flow model, using estimates, judgements and assumptions related to market dynamics such as pricing, market access timing, market size and market share; operating costs; and a discount rate of 10%. The forecast assumes that the Company is successful in obtaining provincial public listing agreements on commercially viable terms.	Our audit procedures included, among others: • We obtained an understanding of the impairment assessment process and evaluated management's impairment model and assessed the reasonableness of key assumptions used in the calculations, comprising market dynamics such as pricing, market access timing, market size and market share; operating costs; and the discount rate. • We obtained an understanding of and evaluated management's basis for determining the assumptions, and compared them to industry data, economic growth forecasts, comparable companies, as well as internal evidence, where available. • We evaluated the Company's discount rates and valuation methodologies with the assistance of our valuation specialists. • We performed sensitivity analysis on significant assumptions to assess the sensitivity of the estimate to change, and the impact on the results of the impairment assessment. • We also assessed the adequacy of the Company's disclosures included in Note 7 of the accompanying consolidated financial statements in relation to this matter.

Other Information

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

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, 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.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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 in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charges with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe the matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 15, 2023

HLS THERAPEUTICS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in thousands of U.S. dollars]

	Notes	As at December 31, 2022	As at December 31, 2021
ASSETS	10		
Current			
Cash		20,723	21,179
Accounts receivable	4	10,999	11,511
Inventories		8,902	8,925
Income taxes recoverable		195	—
Other current assets	5	3,555	2,136
Total current assets		44,374	43,751
Property, plant and equipment	6	1,127	1,569
Intangible assets	7	195,018	229,181
Deferred tax asset	13	465	690
Other non-current assets		668	714
Total assets		241,652	275,905
LIABILITIES AND SHAREHOLDERS’ EQUITY			
Current			
Accounts payable and accrued liabilities	8	12,785	10,596
Provisions	9	2,934	3,472
Debt and other liabilities	10	15,471	13,507
Income taxes payable		—	97
Total current liabilities		31,190	27,672
Debt and other liabilities	10	84,578	86,844
Deferred tax liability	13	566	653
Total liabilities		116,334	115,169
Shareholders' equity			
Share capital	11	265,206	265,917
Contributed surplus		13,821	11,717
Accumulated other comprehensive income (loss)		(5,260)	2,959
Deficit		(148,449)	(119,857)
Total shareholders' equity		125,318	160,736
Total liabilities and shareholders’ equity		241,652	275,905
Commitments and guarantees	22		

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

On behalf of the Board of Directors:

“signed”	*“signed”*
Gregory Gubitz	**Rodney Hill**
Director	Director

HLS THERAPEUTICS INC.

CONSOLIDATED STATEMENTS OF LOSS

[in thousands of U.S. dollars, except per share amounts]

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
Revenues	15	61,467	60,009
Expenses			
Cost of product sales		4,981	3,972
Selling and marketing		17,846	14,660
Medical, regulatory and patient support		5,727	5,679
General and administrative		9,086	9,364
Stock-based compensation	11, 17	2,922	2,354
Amortization and depreciation	6, 7	34,402	30,264
Finance and related costs, net	18	5,040	5,355
Transaction and other costs	19	5,185	169
Loss before income taxes		(23,722)	(11,808)
Income tax expense (recovery)	13	(124)	1,309
Net loss for the year		(23,598)	(13,117)
Net loss per share:			
Basic and diluted	11	$(0.73)	$(0.41)

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

HLS THERAPEUTICS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

[in thousands of U.S. dollars]

	Year ended December 31, 2022	Year ended December 31, 2021
Net loss for the year	(23,598)	(13,117)
Item that may be reclassified subsequently to net loss		
Unrealized foreign currency translation adjustment	(8,219)	939
Comprehensive loss for the year	(31,817)	(12,178)

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

HLS THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
[in thousands of U.S. dollars]

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, December 31, 2020		257,411	11,393	2,020	(101,575)	169,249
Warrants exercised		3,203	(192)	—	—	3,011
Stock options exercised		5,332	(1,410)	—	—	3,922
Shares repurchased		(29)	—	—	(18)	(47)
Stock option expense		—	1,926	—	—	1,926
Net loss for the year		—	—	—	(13,117)	(13,117)
Dividends declared		—	—	—	(5,147)	(5,147)
Unrealized foreign currency translation adjustment		—	—	939	—	939
Balance, December 31, 2021		265,917	11,717	2,959	(119,857)	160,736
Stock options exercised	11	251	(67)	—	—	184
Shares repurchased	11	(962)	—	—	(36)	(998)
Share purchase obligation	11	—	(185)	—	—	(185)
Stock option expense	11, 17	—	2,356	—	—	2,356
Net loss for the year		—	—	—	(23,598)	(23,598)
Dividends declared		—	—	—	(4,958)	(4,958)
Unrealized foreign currency translation adjustment		—	—	(8,219)	—	(8,219)
Balance, December 31, 2022		265,206	13,821	(5,260)	(148,449)	125,318

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

HLS THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
[in thousands of U.S. dollars]

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
OPERATING ACTIVITIES			
Net loss for the year		(23,598)	(13,117)
Adjustments to reconcile net loss to cash provided by operating activities			
Stock-based compensation	17	2,922	2,354
Amortization and depreciation	6, 7	34,402	30,264
Impairment charge	7	3,051	—
Accreted interest	10, 18	810	783
Fair value adjustment on financial assets and liabilities	18	(2,330)	(1,970)
Deferred income taxes	13	138	1,136
Net change in non-cash working capital balances related to operations	20	1,547	(3,021)
Cash provided by operating activities		16,942	16,429
INVESTING ACTIVITIES			
Additions to property, plant and equipment	6	(45)	(47)
Royalty milestone payment	7	(10,000)	—
Rights acquisitions	7, 10	—	(3,820)
Other additions to intangible assets		(103)	(643)
Cash used in investing activities		(10,148)	(4,510)
FINANCING ACTIVITIES			
Stock options exercised	11	184	3,922
Warrants exercised		—	986
Shares repurchased	11	(998)	(47)
Dividends paid	11	(4,962)	(5,122)
Drawdown under credit agreement	10	10,000	—
Repayment of borrowing under credit agreement	10	(9,778)	(10,500)
Debt costs	10	(639)	—
Lease payments		(663)	(637)
Cash used in financing activities		(6,856)	(11,398)
Net increase (decrease) in cash during the year		(62)	521
Foreign exchange on cash		(394)	46
Cash, beginning of year		21,179	20,612
Cash, end of year		20,723	21,179

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

1. CORPORATE INFORMATION

HLS Therapeutics Inc. ("HLS" or the "Company") is a specialty pharmaceutical company, which acquires and commercializes pharmaceutical products for the North American markets.

The Company was incorporated as Heritage Life Sciences Inc. on June 5, 2014 under the *Business Corporations Act* (British Columbia). On December 18, 2014, the Company amended its articles to change its name to HLS Therapeutics Inc. On March 12, 2018, the Company continued under the *Business Corporations Act* (Ontario). The Company's common shares are listed on the Toronto Stock Exchange (the "Exchange") under the symbol HLS.

The registered office, head office and principal address of the Company is located at 10 Carlson Court, Suite 701, Toronto, Ontario, M9W 6L2.

These consolidated financial statements were authorized for issuance by the Board of Directors on March 15, 2023.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. The Company's presentation currency is the United States dollar. All dollar amounts are rounded to the nearest thousand ($000), except per share information or where otherwise indicated.

Accounting standards adopted during the year

Amendments to IFRS 9, *Financial Instruments* ("IFRS 9") – Fees in the "10 per cent test for Derecognition of Financial Liabilities

The amendments to IFRS 9 clarify which fees an entity includes when it applies the "10 per cent test" in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The Company applied the amendments to IFRS 9 in the third quarter of fiscal 2022 when performing the 10 per cent test on the amendment to the credit agreement described in note 10.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiaries as at December 31, 2022. These subsidiaries are: Heritage Life Sciences (Barbados) Inc.; Heritage R&D (Barbados) Ltd.; HLS Therapeutics (USA), Inc.; HLS Therapeutics (USA Holdings), Inc.; HLS Therapeutics (USA R&D), Inc. and HLS Therapeutics Royalty Sub LLC.

Subsidiaries are entities over which the Company is exposed, or has rights, to variable returns from its involvement in the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. The Company controls 100% of the voting rights for all its subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

All intercompany balances, revenues and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full upon consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity. Any investment retained is recognized at fair value, while any resulting gain or loss is recognized in net income or loss.

Business combinations and asset acquisitions

Business combinations are accounted for using the acquisition method whereby the cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the acquired net assets do not constitute a business under the acquisition method of accounting, the transaction is accounted for as an asset acquisition. The cost of an asset acquisition comprises its purchase price and any directly attributable cost of preparing the asset for its intended use.

Foreign currency translation

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity generates and expends cash. A foreign currency is any currency other than an entity’s functional currency. Each entity in the Company’s consolidated group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. The Company has determined that the functional currency of each entity in the consolidated group is the United States dollar, except that the functional currency of the Canadian distribution activities is determined to be the Canadian dollar.

Transactions that are not in the entity's functional currency are initially recorded at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate at the reporting date. All differences are recorded in the consolidated statements of loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

On consolidation, for entities where the functional currency is not the United States dollar, the assets and liabilities are translated into United States dollars at the rate of exchange prevailing at the reporting date, and their statements of income or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation purposes are recognized in other comprehensive income or loss.

Cash and cash equivalents

Cash and cash equivalents include business savings accounts and short-term, highly liquid investments that are readily convertible to known amounts of cash, with remaining maturities at the date of acquisition or purchase of ninety days or less, and that are not subject to significant risk of changes in value.

As at December 31, 2022 and 2021, there were no cash equivalents.

Inventories

Inventories primarily consist of finished goods. Inventories are valued at the lower of cost based on weighted average price and net realizable value. Net realizable value is the estimated selling price less applicable selling expenses. If the carrying value exceeds the net realizable value, a write down is recognized. Reversals of previous write downs to net realizable value are required when there is a subsequent increase in the net realizable value of the inventories.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is recorded as follows:

Furniture and equipment	Straight-line over three to five years
Right-of-use assets	Straight-line over the lease term

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is recorded as follows:

Product rights	Straight-line over 15 years
Distribution rights	Straight-line over 8 years
Acquired royalties	Straight-line between 2 and 10 years

Contingent consideration in connection with the purchase of individual intangible assets outside of business combinations is capitalized to the cost of the intangible asset only when the consideration is contingent upon future events that are beyond the Company's control or when it is determined that the obligation is no longer contingent.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets that have not yet reached commercial stage are not amortized and are tested for impairment annually or when impairment indicators are identified.

Provisions

Provisions are recognized when present (legal or constructive) obligations as a result of a past event are expected to lead to a probable outflow of economic resources and amounts can be estimated reliably. Provisions are measured at management'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.

Chargebacks and rebates are estimated based on historical experience, relevant statutes with respect to government pricing programs, and contractual sales terms.

Provisions for returns are estimated based on historical return levels.

The Company 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.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. At initial recognition, the Company classifies its financial instruments as one of the following:

Financial instruments carried at fair value through profit or loss

A financial asset or liability is classified in this category if it is a derivative or if it is acquired principally for the purpose of selling or repurchasing in the near term. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of loss. Gains and losses arising from changes in fair value are presented in the consolidated statements of loss in the period in which they arise.

Financial instruments in this category include cash and cash equivalents and derivative financial instruments.

Financial instruments carried at amortized cost

Financial instruments in this category are recorded initially at fair value and adjusted for directly attributable transaction costs and, when material, a discount to reduce the asset or liability to fair value. Financial instruments in this category are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate accretion is included in finance and related costs, net in the consolidated statements of loss.

Financial instruments in this category include trade and other accounts receivable, accounts payable and accrued liabilities, purchase consideration and the credit facility.

All financial 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	Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2	Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For financial assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of financial assets and liabilities on the basis of the nature, characteristics and risks of the financial asset or liability and the level of the fair value hierarchy, as explained above.

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

Revenue recognition

Revenue is recognized in the consolidated statements of loss to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties.

In the case of product sales, the determination of the fair value of consideration received or receivable includes a deduction for discounts, allowances given, chargebacks, other price adjustments and accruals and provisions for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns include consideration of factors such as contractual terms and historical trends.

Royalty revenue is recognized on an accrual basis when collection is reasonably assured.

Cost of product sales

Cost of product sales includes the cost of finished goods, royalties to license holders, and inventory provisions. The amount of inventory recognized as an expense in cost of product sales in fiscal 2022 is $4,168 (2021 – $3,523).

Stock-based compensation

The Company has a stock option plan, a performance share unit ("PSU") plan and a deferred share unit ("DSU") plan as described in note 11 that allow for the issuance of stock options, PSUs and DSUs to employees, directors, officers, and others as determined by the Board of Directors. Each option, PSU and DSU installment is treated as a separate grant with graded-vesting features. Forfeitures are estimated at the time of grant and revised if actual forfeitures are likely to differ from previous estimates.

The fair value of stock option, PSU and DSU grants is recognized as compensation expense over their respective vesting period. For stock options, a related credit is recorded as contributed surplus. For PSUs and DSUs, which are cash-settled, a liability is recognized. Contributed surplus is reduced as options are exercised through a credit to share capital. The consideration paid by option holders is credited to share capital when the options are exercised.

Options granted to parties other than employees, directors and officers are measured at their fair value on the date goods or services are received. The fair value of the goods and services received is determined indirectly by reference to the fair value of the instrument granted, unless the fair value of the goods and services received is reliably determinable.

Finance and related costs

Finance and related costs include interest expense on long-term liabilities, interest income on cash balances, realized and unrealized foreign exchange gains and losses, and fair value adjustments on financial assets and liabilities.

Interest expense on long-term liabilities is recognized using the effective interest rate method.

Impairment of long-lived assets

The Company reviews long-lived assets such as property, plant 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 not currently being amortized or with indefinite lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows or cash-generating units ("CGUs"). An impairment loss is recognized for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs 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 management.

Any impairment losses are recognized immediately in the consolidated statements of loss. Non-financial assets, other than goodwill, that suffer an impairment are reviewed for possible reversal of the impairment at each subsequent reporting date.

Leases

The Company assesses whether a contract is or contains a lease at the inception of a contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses a lease-specific incremental borrowing rate.

The lease liability is subsequently measured by increasing its carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect lease payments made. The right-of-use asset is depreciated over the shorter of the lease term and the useful life of the underlying asset.

Income taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction, either in other comprehensive income or loss or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in net income or loss.

3. SIGNIFICANT ESTIMATES, JUDGMENTS AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these estimates, judgments and assumptions could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected, and corresponding revenues and expenses, in future periods.

Revenue recognition

Gross product sales are reduced by rebates, discounts, allowances and product returns given or expected to be given. These arrangements with purchasing organizations and other private and public payers are dependent upon the submission of claims after the initial recognition of the revenue. Provisions are made at the time of sale for the estimated rebates, discounts or allowances payable or returns to be made, based on historical trends, contractual terms, past experience and projected market conditions . Because the amounts are estimated, they may not fully reflect the final outcome and the amounts are subject to change. Market conditions are evaluated using wholesaler and other third-party analyses, market research data and internally generated information. The remaining eligibility period for expired product returns is used to update the estimated provision for returns on a lot-by-lot basis. Future events could cause the assumptions on which the accruals are based to change and could affect the future results.

The recognition of royalty revenue may involve the use of estimates. In such cases, management will base its estimates on available market information and historical experience.

Impairment of long-lived assets

The Company tests the recoverability of its long-lived assets either: (i) when events or circumstances indicate that the carrying values may not be recoverable, or (ii) annually in the case of long-lived assets not yet brought into use. When such a test is performed, management must make certain estimates regarding the Company's cash flow projections that include assumptions about growth rates and other future events. Changes in certain assumptions could result in an impairment loss being charged in future periods.

Income taxes

Tax regulations and legislation and the interpretations thereof in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred tax assets are recognized to the extent that it is probable that the deductible temporary differences will be recoverable in future periods. The recoverability assessment involves a significant amount of estimation including an evaluation of when the temporary differences will reverse, an analysis of the amount of future taxable income, the availability of cash flow to offset the tax assets when the reversal occurs and the application of tax laws. To the extent that the assumptions used in the recoverability assessment change, there may be a significant impact on the consolidated financial statements of future periods.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position, which derivative financial instruments, cannot be derived from active markets, the fair value is determined using valuation techniques, which include a discounted cash flow model. The inputs to these models are taken from observable markets where possible. Where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

[all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted]

4. ACCOUNTS RECEIVABLE

	December 31, 2022	December 31, 2021
Trade accounts receivable	6,292	7,226
Royalties receivable	2,613	2,545
Other receivables	2,094	1,740
	10,999	11,511

5. OTHER CURRENT ASSETS

	December 31, 2022	December 31, 2021
Prepaid expenses	2,126	2,136
Derivative financial instruments	1,429	—
	3,555	2,136

6. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets	Furniture and equipment	Total
Cost			
As at December 31, 2020	2,060	1,031	3,091
Additions – purchased	—	47	47
Additions – right-of-use	847	—	847
Disposals	(478)	—	(478)
Foreign exchange	11	—	11
As at December 31, 2021	2,440	1,078	3,518
Additions – purchased	—	45	45
Additions – right-of-use	252	—	252
Disposals	(420)	—	(420)
Foreign exchange	(128)	—	(128)
As at December 31, 2022	2,144	1,123	3,267
Depreciation			
As at December 31, 2020	932	775	1,707
Depreciation	578	141	719
Disposals	(478)	—	(478)
Foreign exchange	(1)	2	1
As at December 31, 2021	1,031	918	1,949
Depreciation	608	108	716
Disposals	(420)	—	(420)
Foreign exchange	(60)	(45)	(105)
As at December 31, 2022	1,159	981	2,140
Net book value			
As at December 31, 2021	1,409	160	1,569
As at December 31, 2022	985	142	1,127

[all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted]

7. INTANGIBLE ASSETS

	Product rights	Distribution rights	Acquired royalties	Total
Cost				
As at December 31, 2020	323,660	19,612	29,682	372,954
Additions	—	4,374	—	4,374
Foreign exchange	1,197	32	—	1,229
As at December 31, 2021	324,857	24,018	29,682	378,557
Additions	—	103	10,000	10,103
Foreign exchange	(12,141)	(1,452)	—	(13,593)
As at December 31, 2022	312,716	22,669	39,682	375,067
Amortization				
As at December 31, 2020	116,272	2,056	1,222	119,550
Amortization	21,799	2,176	5,570	29,545
Foreign exchange	288	(7)	—	281
As at December 31, 2021	138,359	4,225	6,792	149,376
Amortization	21,343	2,515	9,828	33,686
Impairment	—	3,051	—	3,051
Foreign exchange	(5,665)	(399)	—	(6,064)
As December 31, 2022	154,037	9,392	16,620	180,049
Net book value				
As at December 31, 2021	186,498	19,793	22,890	229,181
As at December 31, 2022	158,679	13,277	23,062	195,018

Product rights

Product rights relate to the Company's acquisition of the United States and Canada rights to Clozaril® in August 2015.

The product rights have 7.5 years remaining in their amortization period.

Distribution rights

Vascepa®

Effective September 25, 2017, the Company entered into an exclusive agreement with Amarin Corporation plc ("Amarin") to register, commercialize and distribute Vascepa capsules in Canada. Vascepa capsules are a single-molecule prescription product for the treatment of cardiovascular disease.

On December 30, 2019, Health Canada approved Vascepa for use in Canada to reduce the risk of cardiovascular events (cardiovascular death, non-fatal myocardial infarction, non-fatal stroke, coronary revascularization, or hospitalization for unstable angina) in statin-treated patients with elevated triglycerides, who are at high risk of cardiovascular events due to established cardiovascular disease, or diabetes, and at least one other cardiovascular risk factor. The Company introduced Vascepa to the Canadian market in February 2020.

Under the agreement, the Company is responsible for regulatory and commercialization activities and associated costs. The Company has paid upfront and milestone payments totalling $13,750.

In addition to these payments, the terms of the agreement include sales-based milestone payments of up to an additional $50,000.

Amarin is also entitled to a tiered double-digit royalty on net sales of Vascepa in Canada. Amarin is obligated to supply finished product to the Company under negotiated supply terms.

As at December 31, 2022, the remaining unamortized costs on this asset is $9,257. This asset has five years remaining in its amortization period.

Trinomia®

On November 20, 2017, the Company entered into an exclusive agreement with Ferrer Internacional SA ("Ferrer") for the rights to distribute and commercialize Trinomia capsules in Canada. Trinomia has been approved for use outside of Canada for the secondary prevention of cardiovascular events but is not approved for use in Canada. The Company paid a nominal amount on signing with further contingent obligations of up to an aggregate of C$30,675 contingent upon achieving regulatory and sales-based milestones. The Company will also pay a royalty on the net sales of Trinomia in Canada. Ferrer is obligated to supply finished product to the Company under negotiated supply terms.

Amortization on this asset has not commenced as at December 31, 2022 as it has not reached the commercial stage. As at December 31, 2022, the unamortized cost on this asset is $1,381.

The Company performed an annual impairment test on this asset as at December 31, 2022, and determined that the recoverable amount exceeded the carrying value by a significant margin. The impairment test assumes the Company is successful in obtaining regulatory approval.

PERSERIS®

On May 8, 2019, the Company entered into an exclusive agreement for the rights to register and commercialize PERSERIS in Canada. PERSERIS was approved by Heath Canada for use in Canada on November 19, 2020. Under the terms of the agreement, the Company made an initial upfront payment of $1,000 in fiscal 2019 and a further payment of $2,500 in fiscal 2021 resulting from the achievement of a regulatory and pre-commercial milestone, with a remaining payment of $1,500 by fiscal 2023. Subsequent to year end, the terms of the agreement were amended, resulting in the due date of the remaining payment being moved to fiscal 2024. The Company will also pay a tiered double-digit sales royalty on the net sales of PERSERIS in Canada.

In June 2022, negotiations with the pan-Canadian Pricing Alliance ("pCPA") for public market reimbursement for PERSERIS concluded unsuccessfully. The Company is pursuing public listing agreements directly with provincial drug plans. The Company determined that this delay in the expected timing for public market reimbursement represented an indicator of an impairment to its intangible asset related to PERSERIS. The Company performed an impairment analysis and concluded that the carrying amount of PERSERIS exceeded its fair value. This resulted in an impairment charge of $3,051 in the second quarter of fiscal 2022. A change in the disclosed assumptions could result in a material change to the impairment charge as significant as the remaining carrying amount.

The impairment analysis was performed using a discounted cash flow, using estimates, judgments and assumptions related to market dynamics such as pricing, market access timing, market size and market share; operating costs; and a discount rate of 10%. The recoverable amount was based on value in use. The forecast assumes that the Company is successful in obtaining provincial public listing agreements on commercially viable terms. Uncertainty about these estimates, judgments and assumptions, including the Company's ability to reach provincial public listing agreements, could result in outcomes that make it necessary to perform further impairment tests in future periods.

[all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted]

The Company commenced amortization of the intangible asset related to PERSERIS in the third quarter of fiscal 2022. As at December 31, 2022, the remaining unamortized cost on this asset is \$2,406. This asset has 4.5 years remaining in its amortization period.

Acquired royalties

Effective September 30, 2020, the Company acquired certain entities that hold the rights to a diversified portfolio of royalty interests on global sales of four different products for upfront cash consideration of \$30,750. In fiscal 2022, the Company made a regulatory milestone payment of \$10,000. In addition, the Company has contingent obligations of up to \$18,500 for commercial performance milestones.

As at December 31, 2022, the unamortized cost on these assets is \$23,062. These assets have between one and nine years remaining in their amortization periods.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2022	December 31, 2021
Trade accounts payable and accrued liabilities	11,591	9,316
Dividends payable	1,194	1,280
	12,785	10,596

9. PROVISIONS

	Chargebacks and rebates	Returns	Total
As at December 31, 2020	2,364	2,152	4,516
Charges	3,312	389	3,701
Reversals	—	(310)	(310)
Utilization	(4,234)	(201)	(4,435)
As at December 31, 2021	1,442	2,030	3,472
Charges	4,431	374	4,805
Reversals	—	(1,480)	(1,480)
Utilization	(3,686)	(177)	(3,863)
As at December 31, 2022	2,187	747	2,934

[all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted]

10. DEBT AND OTHER LIABILITIES

	December 31, 2022	December 31, 2021
Current		
Credit agreement borrowing	13,056	12,000
Performance share unit obligation	274	—
Purchase consideration	1,428	—
Share purchase obligation	185	—
Derivative financial instruments	—	901
Lease obligation	528	606
	15,471	13,507
Non-current		
Credit agreement borrowing	83,279	84,134
Purchase consideration	—	1,294
Performance share unit obligation	375	549
Deferred share unit obligation	442	41
Lease obligation	482	826
	84,578	86,844
	100,049	100,351

Credit agreement

On August 15, 2018, the Company entered into a credit agreement with a syndicate of bank lenders administered by JPMorgan Chase Bank, N.A.. The principal amount of the senior secured term loan under the credit agreement was $100,000. In September 2020, the Company and its lenders amended the terms of the credit agreement to provide an additional $20,000 in borrowing. The Company may also request to be provided with incremental loans, for a maximum additional loan amount of $70,000 to support acquisitions and other growth opportunities. The principal amount of the senior secured term loan outstanding as at December 31, 2022 was $88,840.

The original maturity date of the senior secured term loan was August 15, 2023. In September 2022, the Company and its lenders amended the terms of the credit agreement to extend the maturity date of the senior secured term loan by one year to August 15, 2024. The Company concluded that the terms of the amended credit agreement were not substantially different from the terms of the original credit agreement.

In addition to the senior secured term loan, there is a revolving facility, available under similar terms, with a maturity date of August 15, 2023. In July 2022, the Company drew $10,000 on the revolving facility to finance the royalty milestone payment noted below. The balance on the revolving facility as at December 31, 2022 was $8,500, with $26,000 remaining available.

Under the original terms of the credit agreement, the Company was required to repay principal starting at 5% of the principal amount in the first full year and increasing to 10% in the fifth year of the term. Under the amended terms noted above, the required annual principal repayment returns to a 5% amortization to be based on the September 2022 principal balance.

The Company may be required to make additional payments from surplus cash flows or the Company could choose to repay some or all of the amount outstanding at any time during the term.

[all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted]

Interest on the borrowing under the credit agreement accrues at a rate per annum equal to the sum of the London Inter-bank Offered Rate ("LIBOR"), or its replacement, plus a range of 2.75% to 4.00% depending on the leverage ratio of the Company at the time. In fiscal 2019, the Company entered into a swap agreement to fix the LIBOR portion of the rate on the remainder of the initial principal amount at 1.453% for the remainder of the credit agreement.

Under the terms of the credit agreement, the lenders have security over substantially all of the assets of the Company.

Under the terms of the credit agreement, the Company is required to comply with financial covenants related to the maintenance of liquidity, operational results and coverage ratios. As at December 31, 2022, the Company was in compliance with the financial covenants.

The terms of the credit agreement permit the Company, under certain conditions, to return capital to shareholders through dividends and share repurchases.

Transaction costs associated with the senior secured term loan have been included as a reduction to the carrying amount of the liability and will be amortized through interest expense using the effective interest rate method.

Carrying amount as at December 31, 2020	105,955
Repayment	(10,500)
Accreted interest	679
Carrying amount as at December 31, 2021	96,134
Additional borrowing	10,000
Repayment	(9,778)
Debt costs	(639)
Accreted interest	618
Carrying amount as at December 31, 2022	96,335
Less current portion	13,056
Non-current portion as at December 31, 2022	83,279

Purchase consideration

A regulatory milestone was achieved in the second quarter of fiscal 2022 with respect to the fiscal 2020 acquisition of the royalty portfolio, resulting in an obligation of $10,000, which was paid in the third quarter of fiscal 2022.

Carrying amount as at December 31, 2020	1,320
Addition	3,731
Payment	(3,820)
Accreted interest	63
Carrying amount as at December 31, 2021	1,294
Addition	10,000
Payment	(10,000)
Accreted interest	134
Carrying amount as at December 31, 2022	1,428

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11. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares.

Issued and outstanding

The issued and outstanding common shares are as follows:

	#	**$**
Balance as at December 31, 2020	31,822,406	257,411
Issued on exercise of warrants	214,273	3,203
Issued on exercise of stock options	418,114	5,332
Shares repurchased	(3,600)	(29)
Balance as at December 31, 2021	32,451,193	265,917
Issued on exercise of stock options	21,825	251
Shares repurchased	(117,400)	(962)
Balance as at December 31, 2022	32,355,618	265,206

Stock option plan

Under the Company's Stock Option Plan (the "Plan"), the Company may grant options to purchase common shares to eligible officers and employees of, or consultants to, the Company. The number of common shares that the Company is authorized to issue under the Plan is 10% of the issued and outstanding common shares. All options granted are for terms not to exceed 10 years from the grant date. Options granted under the Plan vest over four years from the date of grant, with the exception of certain options granted to senior management in fiscal 2015, which vested immediately upon grant.

A summary of the changes to the stock options outstanding is presented as follows:

	Number of options (#)	Weighted average exercise price per share ($)
Outstanding as at December 31, 2020	2,978,431	10.02
Granted	576,842	11.95
Exercised	(418,114)	9.31
Forfeited	(45,124)	10.10
Outstanding as at December 31, 2021	3,092,035	10.47
Granted	190,853	7.82
Exercised	(21,825)	8.32
Forfeited	(113,437)	11.74
Outstanding as at December 31, 2022	3,147,626	10.02

[all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted]

As at December 31, 2022, the options outstanding and exercisable consist of the following:

	Options outstanding		Options exercisable	
Exercise price ($)	Number outstanding (#)	Weighted average remaining contractual life (years)	Number outstanding (#)	Weighted average exercise price ($)
6.16	395,654	2.6	395,654	6.16
7.82	190,853	7.0	—	—
9.25	78,645	5.2	78,645	9.25
10.00	978,310	2.8	978,310	10.00
11.12	35,393	3.9	27,002	11.12
11.15	518,117	5.9	129,519	11.15
11.48	950,654	4.1	605,365	11.48
	3,147,626		2,214,495	9.77

The fair value of each option granted since inception of the Plan was estimated on the date of the grant using the Black-Scholes option pricing model. The weighted average fair value per stock option granted in fiscal 2022 was $3.06 (2021 – $4.57). Significant assumptions used in determining the fair value of options granted in fiscal 2022 are a weighted average volatility rate of 48% (2021 – 46%), and an expected option life of between four and seven years (2021 – between four and seven years). The estimated fair value of the options is amortized to income over the options' vesting period. In fiscal 2022, the Company has recorded stock-based compensation expense of $2,356 (2021 – $1,926) in respect of options. This charge has been credited to contributed surplus. Unrecognized stock-based compensation expense as at December 31, 2022 related to the Plan is $2,198.

Performance share units

The Company issues PSUs to certain of its employees. Each PSU entitles the holder to receive a cash payout if the terms and conditions of the PSU plan are met. These terms include relative total shareholder return ("TSR") performance compared to relevant market indices to be achieved prior to expiry of the three-year term of each PSU.

As at December 31, 2022, the outstanding PSUs are as follows:

Issued in fiscal 2020	301,000
Issued in fiscal 2021	291,457
Issued in fiscal 2022	547,972

The fair value of the PSUs was determined using a risk-neutral Monte Carlo simulation to develop a probabilistic correlation matrix for the Company's TSR and the relevant comparators.

In fiscal 2022, the Company has recorded stock-based compensation expense of $147 (2021 – $388) in respect of the PSUs. As at December 31, 2022, the liability recorded in the consolidated statements of financial position in respect of PSUs is $649, of which $375 is classified as non-current.

Deferred share units

The Company grants DSUs to non-employee members of the Board of Directors. Each DSU entitles the holder to receive the cash equivalent of the Company's share price at the time of redemption.

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These DSUs vest over four years and can be redeemed only after the holder has left the Board of Directors. On December 8, 2021, the Company issued 104,685 DSUs and on December 12, 2022, the Company issued 167,615 DSUs.

In fiscal 2022, the Company has recorded stock-based compensation expense of $419 (2021 – $40) in respect of the DSUs. As at December 31, 2022, the liability recorded in the consolidated statements of financial position in respect of DSUs is $442, which is classified as non-current.

Dividends

The holders of common shares are entitled to receive such dividends as the Board of Directors determines to declare on a share-for-share basis, as and when any such dividends are declared or paid. In fiscal 2018, the Company's Board of Directors established a dividend policy providing for the payment of quarterly dividends of C$0.05 per common share.

In fiscal 2021 and 2022, quarterly dividends of $0.05 per common share were declared in March, May, August and November.

On March 15, 2023, the Company's Board of Directors declared a dividend of C$0.05 per outstanding common share to be paid on June 15, 2023, to shareholders of record as of April 28, 2023.

Loss per share

Basic loss per share is calculated by dividing net loss for the year by the weighted average number of common shares outstanding during the year.

Diluted loss per share is calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year, plus the weighted average number of common shares that would be issued on conversion of all dilutive potential securities into common shares.

The following is a reconciliation of the numerator and denominator used for the computation of the basic and diluted loss per share amounts:

	Year ended December 31, 2022	**Year ended December 31, 2021**
Net loss for the year	(23,598)	(13,117)
Weighted average number of common shares outstanding – basic	32,432,851	32,184,076
Effect of dilutive securities	—	—
Weighted average number of common shares outstanding – diluted	32,432,851	32,184,076

The calculation of diluted loss per share in fiscal 2022 excludes 3,036,552 (2021 – 2,915,585) weighted average number of common shares issuable upon the exercise of stock options, because the effect of their issuance would be anti-dilutive.

Normal course issuer bid

On November 5, 2020, the Company announced that the Exchange had approved the renewal of the Company's normal course issuer bid (the "NCIB"), which was renewed for a further twelvemonth period on November 4, 2021. On November 10, 2022, the Company announced that the Exchange had approved the renewal of the Company's NCIB under which the Company may, if considered advisable, purchase for cancellation, from time to time over the subsequent 12 months, up to an aggregate of 1,620,366 of its issued and outstanding common shares, being 5% of the issued and outstanding common shares as of October 31, 2022.

[all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted]

During fiscal 2022, the Company purchased for cancellation 117,400 common shares at an average price of C$11.14 per common share for total consideration of $998. The total cash consideration paid exceeded the weighted average carrying value of the shares repurchased by $36, which was adjusted to deficit.

The Company has entered into an automatic share purchase plan ("ASPP") with a designated broker that allows for the purchase of common shares under the NCIB at any time, including during blackout periods. As at December 31, 2022, a share purchase obligation of $185, with a corresponding adjustment to equity, was recorded with respect to this ASPP.

12. CAPITAL MANAGEMENT

The Company's capital management objectives are to maintain financial flexibility to pursue its acquisitive strategy of expanding its portfolio of commercial-stage pharmaceutical products consisting of established brands and promotional stage products in selected therapeutic areas. The Company defines capital as the aggregate of non-current debt and other liabilities and shareholders' equity.

Managed capital is set out in the following table:

	December 31, 2022	December 31, 2021
Non-current debt and other liabilities	84,578	86,844
Shareholders' equity	125,318	160,736
	209,896	247,580

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Company may elect to issue or repay long-term debt, issue shares, repurchase shares, pay dividends (where permitted) or undertake any other activity as deemed appropriate under specific circumstances.

The Company is not subject to any externally imposed capital requirements, other than as described in note 10. There has been no change in the Company's capital management approach during the year.

[all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted]

13. INCOME TAXES

The significant components of the Company's income tax expense (recovery) are as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Current income tax	(262)	173
Deferred income tax resulting from temporary differences	138	1,136
	(124)	1,309

The difference between the amount of the income tax expense (recovery) and the amount computed by multiplying loss before income taxes by the statutory Canadian, United States, and Barbados income tax rates is reconciled as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Loss before income taxes	(23,722)	(11,808)
Tax recovery at Canadian corporate tax rate	(6,334)	(3,153)
Items not included or deducted for income tax purposes	(425)	521
Income subject to tax in foreign jurisdictions	60	456
Tax losses not recognized	6,575	3,485
	(124)	1,309

A reconciliation of net deferred tax liability (asset) is as follows:

	December 31, 2022	December 31, 2021
Balance, beginning of year	(37)	(1,173)
Tax expense recognized	138	1,136
Balance, end of year	101	(37)

The significant components of the Company's net deferred tax liability (asset) are as follows:

	December 31, 2022	December 31, 2021
Tax differences related to product rights	4,350	7,544
Unused tax loss carryforwards	(3,707)	(5,832)
Tax benefit of share issuance costs	(155)	(403)
Tax treatment of debt issuance costs	43	8
Tax treatment of derivative contracts	381	(241)
Tax treatment of accruals and provisions	(642)	(879)
Other timing differences	(169)	(234)
	101	(37)

[all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted]

The net deferred tax liability (asset) is reflected in the consolidated statements of financial position as follows:

	December 31, 2022	**December 31, 2021**
Deferred tax asset	(465)	(690)
Deferred tax liability	566	653
	101	(37)

As at December 31, 2022, the Company had approximately $76,000 (2021 – $65,000) of non-capital loss carryforwards available in Canada, which expire between the years 2034 and 2042.

The Company has taxable temporary differences associated with its investments in its subsidiaries. No deferred income tax liabilities have been provided with respect to such temporary differences as the Company is able to control the timing of the reversal and such reversal is not probable in the foreseeable future.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The following tables set out the classification of financial and non-financial assets and liabilities:

As at December 31, 2022	Fair value through profit or loss	Amortized cost	Non-financial	Total carrying amount
Cash and cash equivalents	20,723	—	—	20,723
Accounts receivable	—	10,999	—	10,999
Other assets	1,429	—	208,501	209,930
Total assets	22,152	10,999	208,501	241,652
Accounts payable and accrued liabilities	—	12,785	—	12,785
Provisions	—	—	2,934	2,934
Debt and other liabilities	—	97,763	2,286	100,049
Income tax liabilities	—	—	566	566
Total liabilities	—	110,548	5,786	116,334

[all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted]

As at December 31, 2021	Fair value through profit or loss	Amortized cost	Non-financial	Total carrying amount
Cash and cash equivalents	21,179	—	—	21,179
Accounts receivable	—	11,511	—	11,511
Other assets	—	—	243,215	243,215
Total assets	21,179	11,511	243,215	275,905
Accounts payable and accrued liabilities	—	10,596	—	10,596
Provisions	—	—	3,472	3,472
Debt and other liabilities	901	97,428	2,022	100,351
Income tax liabilities	—	—	750	750
Total liabilities	901	108,024	6,244	115,169

Fair values

The carrying amounts of the Company's current receivables and payables are a reasonable approximation of their fair values due to the short-term nature of these instruments.

The fair values of all other financial instruments carried within the Company's consolidated statements of financial position are not materially different from their carrying amounts.

The following table presents information related to the Company's financial assets and liabilities measured at fair value on a recurring basis and the level within the fair value guidance hierarchy in which the fair value measurements fall as at December 31, 2022:

Description	Level 1	Level 2	Level 3
Interest rate swaps	—	1,429	—

In fiscal 2022, the Company recorded an unrealized gain of $2,330 (2021 – unrealized gain of $1,685) related to the change in fair value of the interest rate swaps.

There have been no transfers into and out of Level 3 for the years presented.

Credit risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts has not been significant. The requirement for impairment is analyzed at each reporting date on an individual basis for major clients. Virtually all of the trade accounts receivable at both December 31, 2021 and 2022 were current.

For the year ended December 31, 2022, three counterparties accounted for 25%, 14%, and 10%, respectively, of revenues.

As at December 31, 2022, two counterparties accounted for 24% and 20%, respectively, of the outstanding accounts receivable balance.

With respect to credit risk arising from the other financial assets of the Company, which at December 31, 2022 comprise cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

[all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted]

Liquidity risk

The Company monitors its availability of funds by monitoring its working capital and the maturity dates of existing debt.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank balances, operating cash flow, working capital management and loans.

The table below summarizes the maturity profile of the Company's financial liabilities as at December 31, 2022 based on contractual undiscounted payments.

	On demand	Less than one year	One to five years	Greater than five years	Total
Accounts payable and accrued liabilities	—	12,785	—	—	12,785
Purchase consideration	—	1,500	—	—	1,500
Credit facility	—	13,056	84,284	—	97,340
Leases	—	532	554	—	1,086
	—	27,873	84,838	—	112,711

In addition to the contractual payments in the table above, the Company will also pay interest on its senior secured term loan. Assuming no change in interest rates and using the principal balance as at December 31, 2022, the annual interest expense would be approximately $6,221 over the remaining term of the loan.

The Company may also be required to pay contingent consideration related to the acquisition of intangible assets, as discussed in notes 7 and 22.

Subsequent to year end, the terms of the purchase consideration agreement were amended resulting in the due date of the purchase consideration being moved to fiscal 2024.

Other risks

As described in note 10, interest on the borrowing under the credit agreement accrues at a rate per annum equal to the sum of the LIBOR, or its replacement, plus a range of 2.75% to 4.00% depending on the leverage ratio of the Company at the time. In fiscal 2019, the Company entered into an interest rate swap to fix the LIBOR portion of the interest rate on the remainder of the initial principal amount, which on December 31, 2022 was $70,000. As a result, that portion of the senior secured term loan is not exposed to fluctuations in the LIBOR, or its replacement.

The Company is exposed to foreign exchange risk through its Canadian dollar denominated cash balances and cash flows generated though its business in the Canadian market. The Company has at times used foreign currency forward contracts to manage its operational exposure to fluctuations in value between the Canadian dollar and the United States dollar. An assumed 10% increase in the value of the Canadian dollar relative to the United States dollar as at December 31, 2022 would not result in a material change in net loss for the fiscal year.

[all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted]

15. SEGMENTED INFORMATION

The Company is composed of a single reportable segment.

Revenues are generated from the following sources:

	Year ended December 31, 2022	**Year ended December 31, 2021**
Product sales	51,684	50,622
Royalties	9,783	9,387
	61,467	60,009

Revenues are generated from the following geographic sources, by location of customer:

	Year ended December 31, 2022	**Year ended December 31, 2021**
Canada	37,021	34,694
United States	19,563	20,170
Rest of world	4,883	5,145
	61,467	60,009

The Company has operations in Canada, Barbados and the United States. Non-current operating assets by geographic location are set forth in the following table:

	December 31, 2022	**December 31, 2021**
Canada	103,949	129,497
Barbados	69,078	78,308
United States	23,118	22,945
	196,145	230,750

Non-current assets for this purpose consist of property, plant and equipment and intangible assets.

16. EMPLOYEE BENEFITS

	Year ended December 31, 2022	**Year ended December 31, 2021**
Selling and marketing	6,089	5,951
Medical, regulatory and patient support	1,972	2,021
General and administrative	5,296	5,828
	13,357	13,800

[all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted]

17. STOCK-BASED COMPENSATION

	Year ended December 31, 2022	Year ended December 31, 2021
PSU expense	147	388
DSU expense	419	40
Stock option expense	2,356	1,926
	2,922	2,354

18. FINANCE AND RELATED COSTS, NET

	Year ended December 31, 2022	Year ended December 31, 2021
Interest expense	6,507	6,173
Accreted interest	810	783
Total interest expense	7,317	6,956
Interest income	(57)	(44)
Foreign exchange loss (gain)	110	(41)
Realized loss on foreign currency forward contract	—	454
Fair value adjustment on financial assets and liabilities		
Derivative financial instruments	(2,330)	(1,986)
Lender warrants	—	16
	5,040	5,355

19. TRANSACTION AND OTHER COSTS

	Year ended December 31, 2022	Year ended December 31, 2021
Transaction costs	794	169
Restructuring costs	1,340	—
Impairment charge (note 7)	3,051	—
	5,185	169

Restructuring costs

Restructuring costs represent amounts paid to the former executive chair of the Company in the second quarter of fiscal 2022, as this role has been eliminated.

[all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted]

20. CONSOLIDATED STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances consists of the following:

	Year ended December 31, 2022	Year ended December 31, 2021
Accounts receivable	(71)	1,044
Inventories	(622)	1,768
Income taxes recoverable	(195)	—
Other current assets	(169)	13
Other non-current assets	—	(708)
Accounts payable and accrued liabilities	3,239	(3,646)
Provisions	(538)	(1,044)
Income taxes payable	(97)	(448)
	1,547	(3,021)

Interest of $6,507 (2021 – $6,173) was paid during the year ended December 31, 2022. Income taxes of $30 (2021 – $621) were paid during the year ended December 31, 2022.

21. RELATED PARTY DISCLOSURES

The following table sets out the compensation of the Company's key management personnel:

	Year ended December 31, 2022	Year ended December 31, 2021
Short-term benefits	2,154	2,747
Stock-based compensation	1,434	1,132
Restructuring costs	1,340	—
	4,928	3,879

[all amounts are in thousands of U.S. dollars, except per share information, unless otherwise noted]

22. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Lease commitments

The Company leases its premises in Canada, Barbados and the United States and leases vehicles for use by its sales representatives. The leases typically run for periods up to five years. The following table sets forth the Company's undiscounted obligations under leases:

	Minimum lease payments
2023	532
2024	251
2025	165
2026	129
2027	9
	1,086

Contingencies

Pursuant to the acquisition of the Vascepa rights described in note 7, the Company has contingent obligations for sales-based milestone payments of up to an additional $50,000.

Pursuant to the acquisition of the Trinomia rights described in note 7, the Company has contingent obligations for regulatory and sales-based milestones of up to an additional C$30,675.

Pursuant to the royalty acquisition described in note 7, the Company has contingent obligations of up to $18,500 for commercial performance milestones.

Pursuant to the in-licensing of the exclusive Canadian rights for the *Athelas One* device from Athelas Inc. ("Athelas"), Athelas will earn performance-based fees and commercial milestones contingent on commercial success.

The Company is aware that one of its commercial marketing services partners may pursue payment for fiscal 2022 activities that are not covered by the terms of their services agreement. The Company does not consider it probable that an obligation exists with respect to this claim, which could be for an amount of up to approximately $1,200.

Guarantees

All directors and officers of the Company, and each of the Company's various subsidiaries, are indemnified by the Company for various items including, but not limited to, all costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future lawsuits or actions.

In the normal course of business, the Company 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, information technology agreements and various product, service, data hosting and network access agreements. These indemnification arrangements may require the Company to compensate counterparties for losses incurred by the counterparties as a result of breaches in representations, covenants and warranties provided by the Company 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.

23. SUBSEQUENT EVENT

On March 10, 2023, the U.S. Federal Deposit Insurance Corporation was appointed as receiver of Silicon Valley Bank ("SVB"), one of the lenders in the Company's credit agreement syndicate that is administered by JP Morgan Chase N.A., following a declaration of insolvency by SVB's regulator. The Company does not hold any funds on deposit with SVB and does not anticipate any near-term interruption in commercial operations as a result. This subsequent event had no impact on the Company's financial position as at December 31, 2022 or the results of operations for the year then ended.

If the Company were to seek to draw additional funds from its revolver or access the expansion facility under the credit agreement, it could take longer than usual to secure access to those additional funds. The Company does not have a current requirement to access such additional funds.