MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2022

HLS Therapeutics Inc. ("**HLS**" or the "**Company**") was formed on March 12, 2018 by the amalgamation of HLS Therapeutics Inc. ("**former HLS**") and Automodular Corporation ("**AMD**"). The following management's discussion and analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of HLS for the year ended December 31, 2022. References to "HLS" and the "Company" in this MD&A also refer to former HLS, as the context requires.

This discussion is presented as of March 15, 2023 and is current to that date unless otherwise stated.

The financial information presented in this MD&A is derived from the above noted financial statements prepared in accordance with International Financial Reporting Standards ("**IFRS**"), with the exception of the Selected Quarterly Information. All amounts are in thousands of United States ("U.S.") dollars unless otherwise stated. References to LIBOR in this MD&A refer to the London Inter-Bank Offered Rate or its replacement.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "potential" and similar expressions are intended to identify forward-looking statements or information. More particularly and without limitation, this MD&A contains forward-looking statements and information concerning: statements with respect to future prospects for Company products, including Clozaril®, CSAN® Pronto®, MyCare™ Insite™, MyCare™ Psychiatry™, PERSERIS®, Trinomia® and Vascepa®, and royalty interests; statements with respect to HLS's pursuit of additional product and pipeline opportunities in certain therapeutic markets; and HLS's anticipated cash needs and its need for additional financing.

The forward-looking statements and information included in this MD&A are based on certain key expectations and assumptions made by HLS and although HLS believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because HLS can give no assurance that they will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. Factors and risks which could cause actual results or events to differ materially from those expressed in its forward-looking statements are discussed below and in HLS's materials filed with the Canadian securities regulatory authorities from time to time, including, without limitation, the Company's Annual Information Form dated March 15, 2023, which has been filed on SEDAR and can be accessed at www.sedar.com.

The forward-looking statements and information contained in this MD&A are made as of the date hereof and HLS undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

CAUTIONARY NOTE REGARDING NON-IFRS MEASURES

This MD&A refers to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of HLS's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of HLS's financial information reported under IFRS. HLS uses non-IFRS measures to provide investors with supplemental measures of its operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. HLS also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. HLS's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess HLS's ability to meet its future debt service, capital expenditure and working capital requirements.

In particular, management uses Adjusted EBITDA as a measure of the Company's performance. To reconcile net loss for the year with Adjusted EBITDA, each of (i) "stock-based compensation", (ii) "amortization and depreciation", (iii) "finance and related costs", (iv) "transaction and other costs", and (v) "income tax expense (recovery)" appearing in the Selected Consolidated Financial Information presented below are added to net loss for the period to determine Adjusted EBITDA. Adjusted EBITDA does not have any standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other companies. Adjusted EBITDA should not be considered in isolation or as a substitute for net income (loss) prepared in accordance with IFRS as issued by the IASB.

	Year ended December 31,	
	2022	**2021**
Net loss for the year	(23,598)	(13,117)
Stock-based compensation	2,922	2,354
Amortization and depreciation	34,402	30,264
Finance and related costs, net	5,040	5,355
Transaction and other costs	5,185	169
Income tax expense (recovery)	(124)	1,309
Adjusted EBITDA	23,827	26,334

OVERVIEW

HLS is a Canadian-based North American-focused specialty pharmaceutical company focused on clinically differentiated pharmaceutical products in the specialty central nervous system ("CNS") and cardiovascular ("CV") markets. The following is a discussion of the Company's products.

Clozaril and CSAN Pronto

HLS's lead product is Clozaril (an atypical antipsychotic indicated in the management of symptoms of treatment-resistant schizophrenia) for the Canadian and U.S. markets. Clozaril continues to lead the market for treatment-resistant schizophrenia in Canada, with a large part of this leadership attributed to the superior service and support provided by the dedicated resources of the Clozaril Support and Assistance Network (CSAN®). The Company continues to improve and enhance the CSAN service. On October 17, 2019, the Company announced that Health Canada granted a medical device license to the Athelas One capillary point-of-care medical device, that is being commercialized in Canada as CSAN

Pronto. This system was designed to enhance and simplify the mandatory safety blood monitoring process for patients that are prescribed Clozaril. HLS has the exclusive Canadian rights to the device in the field of schizophrenia.

Vascepa

In 2017, the Company entered into a license agreement with Amarin Corporation plc ("Amarin") to register, commercialize and distribute Vascepa (icosapent ethyl) capsules in Canada. Since then, several milestones have been achieved:

- In 2018, Amarin announced that its REDUCE-IT™ Cardiovascular Outcomes Study of Vascepa capsules met its primary endpoint, demonstrating an approximately 25% relative risk reduction, to a high degree of statistical significance ($p<0.001$), in the primary endpoint composite of the first occurrence of major adverse CV events ("MACE"), including CV death, nonfatal myocardial infarction, nonfatal stroke, coronary revascularization, or unstable angina requiring hospitalization. Following release of these results, the Company paid Amarin a $2.5 million milestone payment in 2018.
- Also, in 2018, Amarin presented more granular results of the REDUCE-IT Cardiovascular Outcomes Study in which Vascepa, taken as an add-on to a statin in a population presenting a residual cardiovascular risk, demonstrated a 20% reduction in cardiovascular death, a 31% reduction in heart attacks and a 28% reduction in strokes among other results when compared to a placebo add-on to a statin.
- On March 29, 2019, the Company announced that Health Canada had granted priority review status for Vascepa. This priority approval process could reduce the time to approval for Vascepa by more than four months in recognition of the potential that Vascepa could address a serious, life-threatening condition for which there is no other treatment in market and that there is substantial evidence of the clinical effectiveness of the treatment.
- On December 30, 2019, Health Canada approved Vascepa 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 disease or diabetes and at least one other cardiovascular risk factor. Following approval by Health Canada, the Company paid Amarin a $2.5 million milestone payment in 2019.
- On January 6, 2020, the Company learned that Vascepa (icosapent ethyl) was added to Health Canada's Register of Innovative Drugs and as a result it will benefit from data protection for a period of eight years, in addition to any other intellectual property rights. Following confirmation of data protection, the Company paid Amarin a $3.75 million milestone payment in the first quarter of 2020. In addition, the Company has rights in 25 patents and patent applications covering Vascepa. 16 of which are issued and 9 are pending. Of the 16 issued patents, 12 are currently listed on Health Canada's Patent Register, the last of which expires in 2039.
- The Company started commercial distribution of Vascepa in Canada in February 2020, ensuring that Vascepa was broadly available to all Canadian pharmacies through their usual pharmaceutical wholesalers within two weeks.
- On July 20, 2020, the Company announced that the Canadian Agency for Drugs and Technologies in Health ("CADTH") had recommended that Vascepa be reimbursed by participating public drug plans for statin-treated patients with established cardiovascular disease and elevated

triglycerides. The Company further announced that the Patented Medicines Pricing Review Board ("PMPRB") had also notified the Company that, further to its review, the initial price submitted by the Company for Vascepa did not trigger the investigation criteria for excessive pricing.

- On August 31, 2020, the Company announced that the results from the EVAPORATE Trial (Effect of Icosapent Ethyl on Progression of Coronary Atherosclerosis in Patients with Elevated Triglycerides on Statin Therapy) were presented at the European Society of Cardiology. In this trial, Vascepa demonstrated a 17% regression of low attenuation plaque volume over eighteen months when compared to placebo.
- On March 29, 2021, the Company announced that the Canadian Cardiovascular Society included incosapent ethyl (Vascepa) in its 2021 Canadian Cardiovascular Society Guidelines for the Management of Dyslipidemia for the Prevention of Cardiovascular Disease in the Adult, published in the Canadian Journal of Cardiology. The icosapent ethyl recommendation was classified as "Strong Recommendation; High-Quality Evidence" and was supported by the results of the REDUCE-IT cardiovascular outcomes study. Vascepa is now included in the treatment guidelines or otherwise recommended for use by 16 medical associations worldwide, including American Diabetes Association; American Heart Association; National Lipid Association; American Association of Clinical Endocrinologists; American College of Endocrinology; Endocrine Society; European Society of Cardiology; European Atherosclerosis Society; Chinese Society of Cardiology; Japan Circulation Society; Brazilian Society of Cardiology, Thrombosis Canada and the Canadian Stroke Best Practices. Since March 31, 2021, Canadian private insurance plans representing more than 90% of the privately insured lives in Canada provide reimbursement for Vascepa.
- On August 16, 2021, the Company announced a promotional services agreement with Pfizer Inc. ("Pfizer") for the expansion of Vascepa promotion in Canada. Under the terms of the agreement, Pfizer deployed a team across Canada to support education about Vascepa with primary care physician groups, which started in late September 2021. The Company retains responsibility for Vascepa's commercialization in Canada and the Company's existing cardiovascular field personnel remain primarily focused on the specialist physician audience.
- On April 26, 2022, the Company announced completion of a Letter of Intent with the pan-Canadian Pharmaceutical Alliance for the confidential terms and conditions for reimbursement for Vascepa by all Canadian provincial, territorial and federal government drug plans.
- Subsequent to the completion of the Letter of Intent, there have been a series of public listing announcements.
    - On May 24, 2022, the Company announced that it had obtained public reimbursement for Vascepa in Quebec.
    - In June, New Brunswick became the first Atlantic province with a public drug plan that reimburse Vascepa.
    - On July 25, 2022, the Company announced that Vascepa was reimbursed by Ontario's Provincial Drug Plan effective July 21, 2022.
    - On August 2, 2022, the Company announced that the Saskatchewan Drug Plan became the first Western Canadian provincial drug plan to reimburse Vascepa.
- To date, Vasepa is now reimbursed by public drug plans covering approximately 70% of publicly insured Canadians. Vascepa is also covered for more than 95% of privately insured Canadians for the full in-label indication.

PERSERIS

On May 8, 2019, the Company entered into an exclusive agreement to register and commercialize PERSERIS, a novel long-acting subcutaneous injectable containing risperidone for the treatment of schizophrenia, that is intended to complement the Company's CNS portfolio in Canada.

On November 17, 2020, the Company announced that Health Canada approved the use of PERSERIS for the treatment of schizophrenia in adults.

The Company made an initial upfront payment of $1.0 million in 2019 and a further payment of $2.5 million in 2021 resulting from achievement of a regulatory and pre-commercial milestone, with a remaining payment of $1.5 million to be made by 2024. The Company has also capitalized eligible development costs related to bringing this product to market.

In June 2022, the pan-Canadian Pricing Alliance announced that negotiations had concluded without an agreement with respect to public market reimbursement despite an earlier positive listing recommendation from Canadian Drug and Health Technology Agency (CADTH). This decision will cause a delay in the commercialization of PERSERIS as listing discussions will need to be pursued with individual provinces. As a result, the Company recorded an impairment charge of $3.1 million in the second quarter of fiscal 2022.

MyCare and MyCare Insite

On June 1, 2020, the Company entered into an agreement to distribute the MyCare Psychiatry Lab Assays and MyCare Insite point of care Therapeutic Drug-level Monitoring ("TDM") tests in Canada.

On December 16, 2020, the Company announced that Health Canada approved the MyCare Psychiatry Lab Assay therapeutic drug-level monitoring tests in patients taking any of the six most common antipsychotic drugs. On July 21, 2021, Health Canada approved the MyCare Insite point of care therapeutic drug monitoring system for use with clozapine patients. The TDM technology is being introduced first in the medical laboratory environment and the benefits are being disseminated to clinicians in parallel.

Trinomia

In 2017, the Company entered into a license agreement to commercialize and distribute Trinomia in Canada contingent on achieving certain regulatory milestones. Trinomia is a second product related to the treatment of cardiovascular disease and, if approved, will be complementary to Vascepa. On December 16, 2020, the Company announced that it had received a notice of deficiency for its pending submission for Trinomia that Health Canada may require additional scientific information pertaining to safety and efficacy to support the approval of the application. In particular, Health Canada noted that there is an ongoing study using Trinomia and that a regulatory decision for Trinomia should await these study results. Accordingly, the Company withdrew its application from Health Canada so that it could be re-submitted following availability of the requested data. The study was completed successfully and results were released at the European Society of Cardiology Congress on August 26, 2022. The Company met with Health Canada in March 2023 to discuss the positive trial results and is working with its licensor to prepare an updated application for submission to Health Canada in 2023.

Royalties

On 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, three of which were already being commercialized. On June 28, 2022, the fourth product received regulatory approval in Europe, resulting in a $10.0 million regulatory approval milestone payment that was made in July 2022. This product was also approved in Japan in March 2022 and the United States in August 2022 and commercial sales began in the third quarter of fiscal 2022.

Corporate development

HLS intends to pursue additional product and pipeline opportunities in the central nervous system and cardiovascular therapeutic markets, and potentially in other therapeutic areas, through targeted business development efforts.

KEY PERFORMANCE INDICATORS

HLS measures the success of its strategies using several key performance indicators. These include Revenue, and Adjusted EBITDA, as described above. HLS believes these are important measures as they allow the company to evaluate its operating performance and identify financial and business trends relating to its financial condition and results of operations.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	Year ended December 31,	
	2022	**2021**
Revenue	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
Adjusted EBITDA [(1)]	23,827	26,334
Stock-based compensation	2,922	2,354
Amortization and depreciation	34,402	30,264
Finance and related costs, net	5,040	5,355
Transaction and other costs	5,185	169
Loss before income taxes	(23,722)	(11,808)
Income tax expense (recovery)	(124)	1,309
Net loss for the year	(23,598)	(13,117)
Net loss per share:		
Basic and diluted	$(0.73)	$(0.41)

	As at December 31, 2022	**As at December 31, 2021**
Cash and cash equivalents	20,723	21,179
Total assets	241,652	275,905
Total long-term debt and other liabilities	84,578	86,844
Total shareholders' equity	125,318	160,736

[(1)] See "Cautionary Note Regarding Non-IFRS Measures" section of this MD&A.

RESULTS OF OPERATIONS

The following section provides management's analysis of operating results, including key performance indicators.

Revenue

	Year ended December 31,	
	2022	**2021**
Product sales		
Canada	36,942	34,609
United States	14,742	16,013
	51,684	50,622
Royalty revenue	9,783	9,387
	61,467	60,009

Product sales

Led by the growth of Vascepa, the Company's Canadian product sales of C$48.1 million increased by C$4.7 million or 11% in local currency in fiscal 2022. A 3.9% decline in the value of the Canadian dollar resulted in a growth rate of 7% as reported in U.S. dollars.

In Canadian dollars, Vascepa sales were C$12.3 million compared to C$7.4 million last year, an increase of 67% for the year. In U.S. dollars the increase was 61%, reflecting the exchange rate depreciation. Following the April 2022 receipt of a Letter of Intent with the pan-Canadian Pharmaceutical Alliance for reimbursement of Vascepa by all public payors in Canada on confidential terms and conditions, the Company subsequently entered into product listing agreements with the provinces of Quebec (May 2022), Ontario (July 2022), and New Brunswick, Saskatchewan, and the Northwest Territories, as well as listing agreements with the federal government agencies for Veterans Affairs Canada and Indigenous Services Canada. In total, Vascepa is covered by public drug plans representing approximately 70% of the publicly covered lives, in addition to insurance coverage for more than 95% of privately insured Canadians in-label for Vascepa. This significant expansion of coverage and simplification of the reimbursement messaging for prescribers is expected to begin having a growing impact on product sales in subsequent quarters, particularly as critical mass starts to be achieved as a result of the cumulative detailing efforts on the expanded number of primary care physicians under coverage as a result of the salesforce expansion.

In the Canadian market, where Clozaril and the CSAN patient support program are supported by a comprehensive network of HLS employees, Clozaril continues to be the market-leading treatment for treatment-resistant schizophrenia with a growing number of patients and a growing market share. In Canada, the blood monitoring process for patients that have been prescribed Clozaril requires 39 venous blood draws in the first year of treatment, which has been cited as a barrier to utilization of the medication. CSAN Pronto, the point-of-care blood-testing device integrated with the Company's CSAN patient support program and granted a medical device license by Health Canada in October 2019, is designed to enhance and simplify the mandatory blood monitoring process for Canadian patients prescribed Clozaril as it will require only a drop of blood from a finger prick, and it will return test results in minutes compared with the inconvenience and delay of a laboratory test.

Deployment of CSAN Pronto continued to expand to additional key centers with the number of devices in service growing during the quarter. To date, CSAN Pronto has been deployed with 107 customer locations, up 15% from 93 at the end of the third quarter of 2022 and up 91% from 56 at the end of fiscal 2021. The Company expects continued progress making this new blood testing system broadly available to Clozaril patients at an increasing number of sites at leading mental health institutions across Canada. HLS has the exclusive Canadian rights to this device in the field of schizophrenia.

Canadian Clozaril net sales results for the year were essentially flat in Canadian dollars, consistent with aggregate patient levels enrolled in the CSAN program. On translation to U.S. dollars, the flat underlying results correspond to a decline of 4% for reporting purposes. Over time the Company expects Clozaril net sales growth in local currency to follow the growth in patients.

For the US Clozaril market, fiscal 2022 net sales of $14.7 million were down 8% from the prior year, reflecting a number of one-time benefits in the earlier year as well as continued modest erosion of patients. Current year revenues benefited from the impact of pricing and favorable trends in expired returns and government rebates.

Royalty revenues

On September 30, 2020, the Company acquired a diversified portfolio of royalty interests on global sales of four different products. The Company recorded royalty revenues of $9.8 million for the year, up 4% from the $9.4 million in the prior year. In addition to the already marketed products in the portfolio, results for fiscal 2022 include the recently launched fourth product in the portfolio. Commercialization for that product began in the third quarter following approvals in Japan, Europe and the United States earlier in the year.

Operating expenses

	Year ended December 31,	
	2022	**2021**
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
	37,640	33,675

Cost of product sales increased as a result of the year-over-year increase in Vascepa gross sales that were partially offset by favorable purchasing and manufacturing variances.

Other operating expenses increased by 10% or $3.0 million, attributable to the 22% increase in Selling and marketing expenses, mainly for Vascepa, while Medical, regulatory and patient support costs were essentially flat year-over-year and General and administrative costs decreased by 3%.

Adjusted EBITDA [(1)]

	Year ended December 31, 2022	2021
Adjusted EBITDA [(1)]	23,827	26,334

[(1)] See "Cautionary Note Regarding Non-IFRS Measures" section of this MD&A.

Adjusted EBITDA of $23.8 million decreased by $2.5 million as revenues increased by $1.5 million while cost of product sales increased by $1.0 million as a result of Vascepa sales growth, and other operating costs increased by $3.0 million led by additional selling and marketing costs, primarily for Vascepa.

Stock-based compensation

Stock-based compensation relates to the Company's Stock Option Plan, Performance Share Unit plan, and Deferred Share Unit plan.

Amortization and depreciation

Amortization and depreciation is primarily related to the intangible assets acquired in various transactions since fiscal 2015.

Finance and related costs, net

Finance and related costs consist primarily of interest on the senior secured term, accreted interest related to debt issuance costs and long-term purchase consideration, and fair value adjustments related to financial instruments.

In fiscal 2019, the Company entered into a swap agreement to fix the LIBOR portion of the interest rate on the remaining portion of the initial senior secured term loan at 1.453% for the remainder of the loan agreement. An increase in the LIBOR in fiscal 2022 resulted in a fair value adjustment gain of $2.3 million related to this swap agreement.

Transaction and other costs

The impairment charge of $3.1 million represents the result of performing an impairment analysis on the Company's investment in PERSERIS as a result of the delay in commercialization resulting from the conclusion of negotiations with the pan-Canadian Pricing Alliance without an agreement despite a positive listing recommendation from the government's health technology assessment agency.

Restructuring costs of $1.3 million relate to the retirement of the Executive Chair of the Company and the elimination of the Executive Chair role in the second quarter of fiscal 2022.

FOURTH QUARTER 2022

The Company's product sales in Canada of C$12.8 million increased by 10% in the fourth quarter of fiscal 2022 from the same period last year. In Canadian dollars, Vascepa sales were C$3.6 million compared to C$2.4 million last year, an increase of 51% for the quarter while Clozaril sales in the fourth quarter were essentially flat compared to the prior year. As a result of the 7% decline in the Canadian dollar exchange rate for the fourth quarter of the fiscal year relative to the same period in 2021, the Canadian product sales reported in U.S. dollars increased by only 2%.

Product sales in the U.S in the fourth quarter were essentially flat compared to the same period last year, while royalty revenues reported for the quarter were down by $0.2 million.

The Company's operating expenses were $10.3 million in the fourth quarter of fiscal 2022, an increase of $0.8 million from the same period last year, as Cost of products sold increased by $0.4 million as a result of Vascepa sales growth and other operating costs increased by $0.4 million led by increased investment in Selling and marketing, primarily for Vascepa, off-set by reduction in general and administrative costs.

Adjusted EBITDA of $5.3 million in fourth quarter of fiscal 2022 decreased $0.8 million from the same period last year.

LIQUIDITY AND CAPITAL RESOURCES

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 twelve-month 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.

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 $1.0 million.

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.

Capital structure

The Company's strategy is to acquire rights to late stage, post-clinical and commercial stage branded pharmaceutical products for the North American market. This includes acquisition or in-licensing of soon-to-be-fileable or promotional stage branded pharmaceutical products in selected therapeutic areas and the acquisition of select established pharmaceutical products or royalty interests that meet certain financial criteria. This may occur through direct rights acquisitions or through the acquisition of specialty pharmaceutical companies. To execute this strategy, the Company may need to access the additional capacity under its senior secured term loan facility or seek other sources of financing.

The Company financed its initial acquisitions through a portion of the net proceeds of each of (i) a subscription receipt financing of $170.0 million, (ii) a common share financing of $30.0 million, and (iii) a senior secured term facility.

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 $100.0 million. In September 2020, the Company and its lenders amended the terms of the senior secured credit facility to provide an additional $20.0 million in borrowing to finance the acquisition of a portfolio of royalty interests. The Company may also request to be provided with incremental loans, for a maximum additional loan amount of $70.0 million to support acquisitions and other growth opportunities. The original maturity date was August 15, 2023. In September 2022, the Company and its lenders amended the terms of the senior secured credit facility to extend the maturity date by one year to August 15, 2024. The principal amount of the senior secured term loan outstanding as at December 31, 2022 was $88.8 million.

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 $10.0 million on the revolving facility to settle the regulatory milestone noted elsewhere. As at December 31, 2022, the balance on the revolver facility was $8.5 million, with $26.0 million remaining available.

Interest on borrowings under the credit agreement accrues at a rate per annum equal to the sum of LIBOR plus a range of 2.75% to 4.0% depending on the leverage ratio of the Company at the time. The Company has a swap agreement in place to fix the LIBOR portion of the rate at 1.453% on the remainder of the initial principal amount for the remainder of the original loan agreement.

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

Under the original terms, 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 returned to a 5% amortization 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.

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 all covenants.

The terms of the credit agreement permit the Company, under certain conditions, to pay dividends and to repurchase shares.

Equity

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

Cash flow

Cash flow from operating activities was $16.9 million for fiscal 2022 compared with $16.4 million in fiscal 2021, reflecting continued strong operating results.

Investing activities for the current year included the payment of a $10.0 million regulatory approval milestone noted above, while the prior year includes the regulatory approval milestone for PERSERIS and the final purchase consideration payment associated with the Absorica marketing rights acquired in fiscal 2016.

Financing activities in the current year includes the drawdown of $10.0 million on the revolving facility while both the current and prior year include the proceeds from the exercise of stock options, quarterly dividend payments and quarterly repayments of the credit facility.

Financial position

As at December 31, 2022, the Company had cash of $20.7 million and positive working capital. The Company believes that its cash balances and cash flow from operations will be sufficient to fund its operating activities for the ensuing twelve-month period. In addition, the undrawn portion of the revolving facility is available to the Company if needed.

As a result of the September 2022 amendment of the credit agreement, the required amortization of the senior secured term loan was reduced by $1.9 million per fiscal quarter through the balance of the initial term providing additional working capital flexibility.

Working capital items such as accounts receivable, inventory, accounts payable, accrued liabilities and provisions experienced fluctuations quarter-over-quarter related to seasonality and timing during fiscal 2022. However, these fluctuations were within normal ranges.

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 HLS 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.

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 any near-term requirements to access such additional funds. The Company will continue to monitor the situation closely and hold regular discussions with its lenders.

RELATED PARTY TRANSACTIONS

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

	Year ended December 31,	
	2021	**2020**
Short-term benefits	2,154	2,747
Stock-based compensation	1,434	1,132
Restructuring costs	1,340	—
	4,928	3,879

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.

COMMITMENTS AND CONTINGENCIES

The Company has the following undiscounted contractual obligations at December 31, 2022:

	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

For a description of these obligations, see note 10 of the audited consolidated financial statements for the year ended December 31, 2022.

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.

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 $6.2 million 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 described in note 22 to the audited consolidated financial statements for the year ended December 31, 2022.

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 $10.0 million that was paid in the third quarter of fiscal 2022. This milestone had previously been disclosed as a contingent liability.

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 $1.2 million.

OFF-BALANCE SHEET ARRANGEMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

The Company has used interest rate swaps and foreign currency forward contracts to manage exposure to fluctuations in interest rates and the value between the Canadian dollar and the United States dollar. As at December 31, 2022, the fair value of the outstanding interest rate swap is an asset of $1.4 million, which is recognized on the balance sheet.

The Company has not entered into any off-balance sheet arrangements.

SELECTED QUARTERLY INFORMATION

	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Product sales				
Canada	8,403	9,527	9,570	9,442
United States	3,443	3,718	3,590	3,991
	11,846	13,245	13,160	13,433
Royalty revenue	2,710	2,287	2,544	2,242
Revenues	14,556	15,532	15,704	15,675
Adjusted EBITDA [(1)]	6,316	6,158	6,016	5,337
Net loss	(3,616)	(9,143)	(4,410)	(6,429)

	2021 Q1	2021 Q2	2021 Q3	2021 Q4
Product sales				
Canada	7,833	8,912	8,619	9,245
United States	3,935	3,861	4,214	4,003
	11,768	12,773	12,833	13,248
Royalty revenue	2,546	2,172	2,227	2,442
Revenues	14,314	14,945	15,060	15,690
Adjusted EBITDA [(1)]	6,668	6,561	6,923	6,182
Net income (loss)	(4,753)	(2,197)	(1,979)	(4,188)

[(1)] See "Cautionary Note Regarding Non-IFRS Measures" section of this MD&A.

In the second quarter of fiscal 2022, the Company recorded an intangible impairment charge of $3.1 million and a restructuring charge of $1.3 million.

OUTSTANDING SHARE DATA

As at March 15, 2023, the Company had: 32,350,523 common shares outstanding and 3,068,971 stock options outstanding (resulting in a maximum issuance of 3,068,971 common shares).

RISK MANAGEMENT

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has the overall responsibility for the oversight of these risks and reviews the Company's policies on an ongoing basis to ensure that these risks are appropriately managed, including through the use of financial instruments where appropriate. Further discussion of the management of such risks is included in note 14 to the audited consolidated financial statements for the year ended December 31, 2022.

For a discussion of the additional risks and uncertainties facing the Company, please see the Company's Annual Information Form ("AIF") dated March 15, 2023 filed on SEDAR.

SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

A description of the Company's significant accounting policies is included in note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2022 and are unchanged as of the date of this MD&A.

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. A description of the Company's significant estimates, judgements and assumptions is included in note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2022 and are unchanged as of the date of this MD&A.

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 include derivative financial instruments, cannot be derived from active markets, the fair value is determined using valuation techniques including the 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.

CONTROLS AND PROCEDURES

Disclosure controls and procedures

The Company's management is responsible for establishing and maintaining disclosure controls and procedures, as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") and have designed such disclosure controls and procedures to provide reasonable assurance that material information with respect to the Company is made known to them and information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Company's management evaluated the effectiveness of the Company's disclosure controls and procedures and concluded, as at December 31, 2022, that such disclosure controls and procedures were effective.

Internal controls over financial reporting

The Company's management is responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), as defined in NI 52-109 and have designed such ICFR to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with IFRS.

The control framework the Company's management used to design the Company's ICFR is set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

The Company's management evaluated the effectiveness of the Company's ICFR and concluded, as at December 31, 2022, that such ICFR were effective.

There have been no changes in the Company's ICFR during the three months ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Annual Information Form, can be found in SEDAR at www.sedar.com.