Consolidated Financial Statements

HLS Therapeutics Inc.

For the Years Ended December 31, 2019 and 2018

INDEPENDENT AUDITOR'S REPORT

To the shareholders of HLS Therapeutics Inc.

Opinion

We have audited the accompanying consolidated financial statements of HLS Therapeutics Inc. (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of net 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 Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("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 Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our 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.

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. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 18, 2020

HLS THERAPEUTICS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in thousands of U.S. dollars]

	Notes	As at December 31, 2019	As at December 31, 2018
ASSETS			
Current			
Cash and cash equivalents		47,078	10,930
Accounts receivable	6	11,858	17,509
Inventories		2,055	1,505
Derivative financial instruments		271	755
Prepaid expenses and other current assets		1,838	919
Total current assets		63,100	31,618
Property, plant and equipment	7	1,276	363
Intangible assets	8	252,050	271,153
Restricted assets	9	2,188	2,290
Deferred tax asset	14	1,057	1,001
Total assets		319,671	306,425
Current			
Accounts payable and accrued liabilities		13,466	12,405
Provisions	10	5,471	6,574
Debt and other financial liabilities	11	27,855	18,920
Income taxes payable	14	347	369
Total current liabilities		47,139	38,268
Debt and other financial liabilities	11	91,822	104,459
Deferred tax liability	14	2,511	5,209
Total liabilities		141,472	147,936
Shareholders' equity			
Share capital	12	248,687	210,360
Contributed surplus	12	11,517	12,973
Accumulated other comprehensive loss		(537)	(7,455)
Deficit		(81,468)	(57,389)
Total shareholders' equity		178,199	158,489
Total liabilities and shareholders’ equity		319,671	306,425
Commitments and guarantees	22		

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

On behalf of the Board:

(signed) “William Wells”	(signed) “Rodney Hill”
William Wells	Rodney Hill
Director	Director

HLS THERAPEUTICS INC.

CONSOLIDATED STATEMENTS OF NET LOSS

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

	Notes	Year ended December 31, 2019	Year ended December 31, 2018
Revenues	16	54,160	61,415
Expenses			
Cost of product sales		1,932	2,595
Selling and marketing		6,256	4,323
Medical, regulatory and patient support		5,287	4,437
General and administrative		9,042	8,964
Stock-based compensation	12	3,761	1,062
Amortization and depreciation	7, 8	32,510	32,395
Operating income (loss)		(4,628)	7,639
Acquisition and transaction costs	18	957	891
Finance and related costs, net	11, 19	14,878	35,551
Loss before income taxes		(20,463)	(28,803)
Income tax recovery	14	(911)	(3,997)
Net loss for the year		(19,552)	(24,806)
Net loss per share:			
Basic and diluted	12	$(0.67)	$(0.92)

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, 2019	Year ended December 31, 2018
Net loss for the year	(19,552)	(24,806)
Item that may be reclassified subsequently to net loss		
Unrealized foreign currency translation adjustment	6,918	(13,396)
Comprehensive loss for the year	(12,634)	(38,202)

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]

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, December 31, 2017		192,743	12,330	5,941	(30,632)	180,382
Common shares issued	12	19,905	—	—	—	19,905
Share issuance costs	12	(1,252)	—	—	—	(1,252)
Shares repurchased	12	(1,036)	—	—	112	(924)
Stock option expense	12	—	643	—	—	643
Net loss for the year		—	—	—	(24,806)	(24,806)
Dividends declared	12	—	—	—	(2,063)	(2,063)
Unrealized foreign currency translation adjustment		—	—	(13,396)	—	(13,396)
Balance, December 31, 2018		210,360	12,973	(7,455)	(57,389)	158,489
Common shares issued	12	37,329	—	—	—	37,329
Share issuance costs	12	(2,411)	—	—	—	(2,411)
Warrants exercised	12	3,395	(3,358)	—	—	37
Stock options exercised	12	14	—	—	—	14
Warrants granted	12	—	470	—	—	470
Stock option expense	12	—	1,432	—	—	1,432
Net loss for the year		—	—	—	(19,552)	(19,552)
Dividends declared	12	—	—	—	(4,527)	(4,527)
Unrealized foreign currency translation adjustment		—	—	6,918	—	6,918
Balance, December 31, 2019		248,687	11,517	(537)	(81,468)	178,199

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, 2019	Year ended December 31, 2018
OPERATING ACTIVITIES			
Net loss for the year		(19,552)	(24,806)
Adjustments to reconcile net loss to cash provided by operating activities			
Stock-based compensation		3,761	1,062
Amortization and depreciation		32,510	32,395
Debt refinancing costs	19	—	18,951
Accreted interest	11, 19	1,979	4,895
Fair value adjustment on financial assets and liabilities		9,384	(775)
Unrealized foreign exchange		(982)	—
Deferred income taxes	14	(2,241)	(5,446)
Listing expense	4	—	435
Net change in non-cash working capital balances related to operations	20	1,549	6,036
Cash provided by operating activities		26,408	32,747
INVESTING ACTIVITIES			
Additions to property, plant and equipment	7	(199)	(99)
Asset acquisitions	5, 11	(12,800)	(13,800)
Other additions to intangible assets		(2,360)	(682)
Cash used in investing activities		(15,359)	(14,581)
FINANCING ACTIVITIES			
Common shares issued	12	37,329	19,470
Common share issuance costs		(2,648)	(1,699)
Stock options exercised		14	—
Warrants exercised		37	—
Common shares repurchased		—	(924)
Dividends paid	12	(4,332)	(1,047)
Repayment of original senior secured term loan	11	—	(151,271)
Drawdown of new senior secured term loan	11	—	100,000
Repayment of new senior secured term loan	11	(5,000)	(1,250)
Cash portion of debt refinancing costs		(1,000)	(11,453)
Lease payments		(453)	—
Decrease in restricted cash	9	—	5,555
Lender royalty payment	11	—	(237)
Cash provided by (used in) financing activities		23,947	(42,856)
Net increase (decrease) in cash and cash equivalents during the year		34,996	(24,690)
Foreign exchange on cash and cash equivalents		1,152	(599)
Cash and cash equivalents, beginning of year		10,930	36,219
Cash and cash equivalents, end of year		47,078	10,930

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 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 18, 2020.

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 ("IASB").

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.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiaries as at December 31, 2019. These subsidiaries are: Heritage Life Sciences (Barbados) Inc.; Heritage R&D (Barbados) Ltd.; and HLS Therapeutics (USA), Inc.

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 income or loss.

Business combinations

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.

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 consolidated 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 net 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 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, 2019 and 2018, 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:

Computer equipment	Straight-line over three years
Furniture and fixtures	Straight-line over five years
Leasehold improvements	Straight-line over the lease term
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
Marketing rights	Straight-line over 4.5 years

Future milestone payments associated with the acquisition of intangible assets are capitalized to the cost of the intangible asset when it is determined that the milestones have a high likelihood of being attained.

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

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

Warrants

Broker warrants issued in relation to equity financings are considered a form of compensation for services rendered and are classified as a component of equity. They are measured at the fair value of the services received on the date of issue and are not revalued subsequent to issuance.

Lender warrants issued in relation to debt financings that have a net settlement provision are classified as a liability. They are remeasured to fair value at each reporting date, with gains and losses on remeasurement included in the consolidated statements of net loss.

Lender warrants issued in relation to debt financings that do not have a net settlement provision are classified as a component of equity. They are measured at their fair value on the date of issue and are not revalued subsequent to issuance.

Warrants are reclassified to share capital when they are exercised.

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. In those cases where the possible outflow of economic resources as a result of present obligations is considered remote, no liability has been recognized.

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 net loss. Gains and losses arising from changes in fair value are presented in the consolidated statements of net loss in the period in which they arise.

Financial instruments in this category are the lender warrants, preferred shares and foreign currency forward contracts.

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 cash and cash equivalents, restricted assets, trade and other accounts receivable, accounts payable and accrued liabilities, purchase consideration, the senior secured term loan and the lender royalty.

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 net 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, provisions for chargebacks, other price adjustments and accruals 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.

Stock-based compensation

The Company has a stock option plan and two performance share unit (“PSU”) plans as described in note 12 that allow for the issuance of stock options and PSUs to employees, directors, officers, and others as determined by the Board of Directors. Each option and PSU 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.

Over the vesting period of the option grants, the fair value is recognized as compensation expense, and a related credit is recorded as contributed surplus. 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, debt refinancing costs, 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 net 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 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 net 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 profits 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 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 profit or loss.

Accounting standards adopted in the year

IFRS 16, Leases ("IFRS 16")

The Company adopted IFRS 16 on January 1, 2019, in accordance with the transitional provisions outlined in the standard and updated its accounting policies for leases to align with the requirements of the standard. IFRS 16 supersedes previous accounting standards for leases and introduces a single accounting model for leases unless the underlying asset is of low value or for a lease term of 12 months or less.

A lessee is required to recognize, on its consolidated statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. The right-of-use asset and the associated lease liability is initially measured at the present value of the future lease payments. Subsequent to initial measurement, a lessee is required to separately recognize interest expense on the lease liability and depreciation expense on the right-of-use asset. A lessee is also required to remeasure the lease liability upon the occurrence of certain events such as a change in the lease term. The amount of the remeasurement of the lease liability will generally be recognized as an adjustment to the right-of-use asset.

The Company adopted IFRS 16 using the modified retrospective transition approach and elected to use the exemptions proposed by the standard on leases where the underlying asset is of low value or the term is 12 months or less. The adoption of IFRS 16 has resulted in an increase in the Company's property, plant and equipment and an increase in lease obligations of $1,020 as at January 1, 2019. The lease liability was recognized based on the present value of the remaining lease payments, discounted using the related incremental borrowing rate at the date of initial application. The comparative periods have not been restated.

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 in future periods.

Revenue recognition

Gross revenue is reduced by rebates, discounts, allowances and product returns given or expected to be given. These arrangements with purchasing organizations are dependent upon the submission of claims after the initial recognition of the revenue. Accruals and provisions are made at the time of sale for the estimated rebates, discounts or allowances payable or returns to be made, based on available market information and historical experience. Because the amounts are estimated, they may not fully reflect the final outcome and the amounts are subject to change. Inputs into calculation of the accruals and provisions include contractual and legal obligations, historical trends, past experience and projected market conditions. 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.

Amortization of long-lived assets

The amortization expense relating to long-lived assets, which include property, plant and equipment and product and marketing rights, is determined using estimates relating to the useful economic lives of the related assets.

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 stock-based compensation

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date on which they are granted. The Company measures the cost of cash-settled transactions by reference to the fair value of the associated liability at each reporting date. Estimating fair value for stock-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility, yield, and forfeiture rates and making assumptions about them.

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 lender warrants, PSUs and 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.

4. AMALGAMATION

On March 12, 2018, the Company completed a plan of arrangement (the "Arrangement") with Automodular Corporation ("AMD") in accordance with Section 183 of the Business Corporations Act (Ontario). Pursuant to the Arrangement, the Company and AMD amalgamated to form a new entity named HLS Therapeutics Inc. ("new HLS"), operating in the life sciences industry. The completion of the Arrangement resulted in a reverse takeover of AMD as defined in the policies of the TSX Venture Exchange ("TSX-V"). New HLS common shares commenced trading on the TSX-V on March 14, 2018 and graduated to the TSX on February 7, 2019.

Under the Arrangement, AMD shareholders received, for each AMD share, one preferred share of new HLS and 0.165834 common share of new HLS, and HLS shareholders received, for each HLS share, one new HLS common share. At the completion of the Arrangement, former shareholders of HLS held approximately 92% of the outstanding common shares of new HLS. As a result, HLS was considered the acquiring company for accounting purposes.

HLS preferred shares were issued to former AMD shareholders to allow them to receive their pro rata share of proceeds from the settlement of AMD's pre-existing litigation and any residual funds that were in excess of AMD's commitment to deliver C$25,000 to HLS on closing of the Arrangement. Prior to closing the Arrangement, AMD announced that it had reached a settlement related to the litigation. The settlement proceeds were then received by AMD on March 8, 2018, and such funds, along with the residual funds and less any preferred share redemptions, are being held in escrow as at December 31, 2019.

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

The following table represents the fair value of the share-based consideration provided and net assets acquired in the Arrangement on March 12, 2018:

Consideration provided	
Fair value of 2,151,900 common shares at $9.25 per share	19,905
Net assets acquired	
Net assets of AMD	26,581
Less escrow funds (notes 10 and 12)	7,111
Closing cash amount	19,470
Listing expense	435

5. ASSET ACQUISITIONS

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 will be responsible for regulatory and commercialization activities and associated costs. The Company paid an initial $5,000 up-front, an additional $2,500 milestone payment in fiscal 2018 following the Reduce-IT Trial results, and a further $2,500 milestone payment in fiscal 2019 following Health Canada approval. In addition to these payments, the terms of the agreement include regulatory and sales-based milestone payments of up to an additional $53,750, the timing and achievability of which cannot be determined at this time, other than a milestone payment of $3,750 which became payable to Amarin on January 6, 2020 when the Company learned that Health Canada had granted Vascepa with data protection for a period of eight years.

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.

The transaction has been accounted for as an asset purchase. As at December 31, 2019, the Company has capitalized $11,603 to distribution rights in respect of this agreement.

This asset was not amortized in fiscal 2019.

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

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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 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.

The transaction has been accounted for as an asset purchase. The Company has capitalized $1,065 to distribution rights in respect of this agreement.

This asset was not amortized in fiscal 2019.

PERSERIS™

On May 8, 2019, the Company entered into an exclusive agreement for the rights to register and commercialize PERSERIS™ in Canada. PERSERIS, which was developed by Indivior PLC, is a novel long-acting subcutaneous injectable containing risperidone for the treatment of schizophrenia and will complement the Company's central nervous system portfolio in Canada. PERSERIS has been approved by the US Food and Drug Administration but it is not approved for use in Canada. Under the terms of the agreement, the Company made an initial upfront payment of $1,000 in the third quarter of 2019 and will make a further $4,000 payment contingent on achievement of regulatory and pre-commercial milestones along with tiered double-digit sales royalties.

The transaction has been accounted for as an asset purchase. The Company has capitalized $1,644 to distribution rights in respect of this agreement.

This asset was not amortized in fiscal 2019.

6. ACCOUNTS RECEIVABLE

	December 31, 2019	December 31, 2018
Trade accounts receivable	7,750	11,876
Royalty receivable	2,508	3,687
Other receivables	1,600	1,946
	11,858	17,509

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

7. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets	Computer equipment	Furniture and equipment	Leasehold improvements	Total
Cost					
As at December 31, 2017	—	273	354	63	690
Additions	—	38	45	16	99
As at December 31, 2018	—	311	399	79	789
Adoption of IFRS 16	1,020	—	—	—	1,020
Additions – purchased	—	97	95	7	199
Additions – right-of-use	236	—	—	—	236
As at December 31, 2019	1,256	408	494	86	2,244
Depreciation					
As at December 31, 2017	—	126	77	46	249
Depreciation	—	72	88	17	177
As at December 31, 2018	—	198	165	63	426
Depreciation	389	62	84	7	542
As at December 31, 2019	389	260	249	70	968
Net book value					
As at December 31, 2018	—	113	234	16	363
As at December 31, 2019	867	148	245	16	1,276

8. INTANGIBLE ASSETS

	Product rights	Distribution rights	Marketing rights	Total
Cost				
As at December 31, 2017	327,084	5,585	48,113	380,782
Additions	—	3,182	500	3,682
Foreign exchange	(15,470)	(579)	—	(16,049)
As at December 31, 2018	311,614	8,188	48,613	368,415
Additions	—	5,860	—	5,860
Foreign exchange	8,717	518	—	9,235
As at December 31, 2019	320,331	14,566	48,613	383,510
Amortization				
As at December 31, 2017	52,085	—	16,038	68,123
Amortization	21,390	—	10,828	32,218
Foreign exchange	(3,079)	—	—	(3,079)
As at December 31, 2018	70,396	—	26,866	97,262
Amortization	21,095	—	10,873	31,968
Foreign exchange	2,230	—	—	2,230
As December 31, 2019	93,721	—	37,739	131,460
Net book value				
As at December 31, 2018	241,218	8,188	21,747	271,153
As at December 31, 2019	226,610	14,566	10,874	252,050

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

The product rights have 10 ½ years remaining in their amortization period and the marketing rights have one year remaining in their amortization period.

Distribution rights have not been amortized as the associated products were not yet approved for use in Canada through to the end of fiscal 2019.

The Company performed an annual impairment test on intangible assets not yet brought into use and determined that the recoverable amount exceeded the carrying value by a significant margin. Reasonable changes in key assumptions would not cause the recoverable amount to be less than the carrying value.

9. RESTRICTED ASSETS

	December 31, 2019	December 31, 2018
Escrow funds	2,188	2,290

As described in note 4, escrow funds represent the net assets of AMD in excess of AMD's commitment to deliver C$25,000 to HLS on closing of the Arrangement. The escrow funds consist of cash as well as other legacy working capital items. The payment of expenses related to escrow activity will be funded by the escrow funds. The holders of the preferred shares are only entitled to distributions from the escrow funds.

The Company expects to use any escrow funds remaining at the end of fiscal 2020 to fund a complete redemption of the preferred shares.

10. PROVISIONS

	Chargebacks and rebates	Returns	Total
As at December 31, 2017	4,187	2,789	6,976
Charges	4,839	(353)	4,486
Utilization	(4,415)	(473)	(4,888)
As at December 31, 2018	4,611	1,963	6,574
Charges	4,542	532	5,074
Utilization	(5,783)	(394)	(6,177)
As at December 31, 2019	3,370	2,101	5,471

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11. DEBT AND OTHER FINANCIAL LIABILITIES

	December 31, 2019	December 31, 2018
Current		
Senior secured term loan	5,625	5,000
Lender warrants	12,772	3,931
Purchase consideration	8,989	8,989
Derivative financial instruments	51	—
Lease obligation	418	—
Lender royalty	—	1,000
	27,855	18,920
Non-current		
Senior secured term loan	86,582	91,707
Purchase consideration	2,559	10,462
Preferred shares	2,188	2,290
Derivative financial instruments	8	—
Lease obligation	485	—
	91,822	104,459
	119,677	123,379

Senior secured term loan

On August 15, 2018, the Company entered into a senior secured term loan with a syndicate of bank lenders co-led by JPMorgan Chase Bank, N.A. and Silicon Valley Bank. The principal amount of the new senior secured term loan was $100,000. In addition, there is a $25,000 revolving facility, available under similar terms, that is undrawn at December 31, 2019. The Company may also request to be provided with incremental loans, for a maximum additional loan amount of $100,000 to support acquisitions and other growth opportunities. The maturity date is August 15, 2023.

Interest on the new senior secured term loan accrues at a rate per annum equal to the sum of the London Inter-bank Offered Rate ("LIBOR") plus a range of 2.75% to 3.25% 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 at 1.453% for the remainder of the loan agreement.

Under the terms of the new senior secured term loan, the lenders have security over substantially all the assets of the Company.

The Company will be 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. The Company may also 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 senior secured term loan, the Company is required to comply with financial covenants related to the maintenance of liquidity and coverage ratios. As at December 31, 2019, the Company was in compliance with the financial covenants.

The terms of the new senior secured term loan permit the Company, under certain conditions, to pay a dividend.

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

Transaction costs associated with the new 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.

Drawdown of senior secured term loan	100,000
Repayment	(1,250)
Debt issue costs	(2,237)
Accreted interest	194
Carrying amount as at December 31, 2018	96,707
Repayment	(5,000)
Accreted interest	500
Carrying amount as at December 31, 2019	92,207
Less current portion	5,625
Non-current portion as at December 31, 2019	86,582

Lender warrants

On August 11, 2015, the Company issued lender warrants to the lenders under the original senior secured term loan. These lender warrants give the lenders the right to acquire 1,164,000 common shares at an exercise price of $11 per share until August 11, 2020. On April 1, 2016, an additional 100,008 lender warrants were issued and the exercise price of all the lender warrants was reduced to $10.13 per share. As a result of the amalgamation described in note 4, the term of the lender warrants was extended to August 11, 2021 and an additional 32,000 lender warrants were issued for no consideration.

The terms of the lender warrants include a net settlement provision and thus are presented as a liability.

As at December 31, 2019, the total fair value of the 1,292,506 outstanding lender warrants was determined to be $12,772 and the Company recorded an expense of $8,841 in fiscal 2019 (2018 – $1,056) related to the revaluation of the lender warrants. Fair value at issuance and at subsequent remeasurement dates was determined using the Black-Scholes option pricing model with a volatility assumption of 42%.

Fair value as at December 31, 2017	2,875
Change in fair value	1,056
Fair value as at December 31, 2018	3,931
Change in fair value	8,841
Fair value as at December 31, 2019	12,772

Purchase consideration

As part of the consideration for the acquisition of Absorica®, the Company is obligated to make fixed quarterly and semi-annual payments of approximately $38,850 during the period from July 2016 through 2020. This obligation has been recorded at the present value of deferred payments using a discount rate of 10%. Payments of $9,300 were made in fiscal 2019. Interest expense on this obligation amounted to $1,397 for the year ended December 31, 2019 (2018 – $2,141).

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As part of the consideration for the acquisition of the Vascepa rights in fiscal 2017, the Company made a milestone payment of $2,500 in fiscal 2019, and as part of the consideration for the acquisition of the PERSERIS rights the Company made an upfront payment of $1,000 in fiscal 2019.

Carrying amount as at December 31, 2017	28,110
Addition	3,000
Payment	(13,800)
Accreted interest	2,141
Carrying amount as at December 31, 2018	19,451
Addition	3,500
Payment	(12,800)
Accreted interest	1,397
Carrying amount as at December 31, 2019	11,548
Less current portion	8,989
Non-current portion	2,559

Preferred shares

Under the Arrangement described in note 4, the Company issued 12,976,227 preferred shares to the former shareholders of AMD.

As a condition to closing the Arrangement, the parties to the Arrangement entered into a claims administration and escrow agreement, the purpose of which is to establish the administration of the escrow funds, the funding of AMD litigation and any other AMD legacy matters. Escrow funds on closing of the Arrangement were defined to include AMD cash in excess of the closing cash amount (defined to be C$25,000), as well as the receivables and payables of AMD at the date of closing. The escrow funds are intended to redeem the preferred shares, and as a result, the preferred shares are presented as a liability.

The preferred shares are not entitled to receive any dividends and have no voting rights. The preferred shares are measured at fair value, which is estimated to be the net balance of the escrow funds.

On May 9, 2018, the Company redeemed 9,321,491 of the Company's outstanding preferred shares at a price of C$0.61149 per preferred share, for a total redemption payment of C$5,700.

Issued on amalgamation	7,111
Redemption	(4,345)
Other escrow fund activity	(235)
Foreign exchange	(241)
Fair value as at December 31, 2018	2,290
Escrow fund activity	(211)
Foreign exchange	109
Fair value as at December 31, 2019	2,188

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

12. SHARE CAPITAL

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

Issued and outstanding

The issued and outstanding common shares as at December 31, 2019 are as follows:

	#	$
Balance as at December 31, 2017	25,277,997	192,743
Issued on amalgamation	2,151,900	18,653
Repurchased	(134,600)	(1,036)
Balance as at December 31, 2018	27,295,297	210,360
Issued by public offering	3,126,563	34,918
Issued on exercise of warrants	635,156	3,395
Issued on exercise of stock options	2,122	14
Balance as at December 31, 2019	31,059,138	248,687

On June 5, 2019, the Company closed an offering whereby 3,126,563 common shares were sold at a price of C$16.00 per common share for aggregate gross proceeds of approximately C$50,000.

Broker warrants

On June 5, 2019, the Company issued 171,960 broker warrants to the agents involved in the offering noted above. The exercise of these broker warrants would result in the issuance of 171,960 common shares at an exercise price of C$16.00 per common share. The broker warrants expire on June 5, 2021. The fair value of the broker warrants was determined to be $470 using the Black-Scholes option pricing model with a volatility assumption of 42%, is accounted for as a reduction in the proceeds from the issuance of share capital and is credited to contributed surplus.

In fiscal 2019, 172 broker warrants were exercised, and 171,788 broker warrants remain outstanding as at December 31, 2019.

Additional lender warrants

In fiscal 2015, the Company issued additional lender warrants to a member of the original lending syndicate giving the lender the right to acquire 1,263,844 common shares in four equal tranches at an exercise price of $0.009 per share if the share price hits certain targets prior to their expiry on August 11, 2020.

In April 2019, the share price target was met for the first tranche. The warrant holders then exercised their warrants, resulting in 315,732 common shares being issued on April 4, 2019.

In November 2019, the share price target was met for the second tranche. The warrant holders then exercised their warrants, resulting in 315,750 common shares being issued on November 18, 2019.

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The remaining additional lender warrants as at December 31, 2019 are exercisable as follows:

Number of additional lender warrants (#)	Share price target ($)	Expiry date
315,960	17.50	August 11, 2020
315,964	20.00	August 11, 2020
631,924		

Stock option plan

Under the Company's Stock Option Plan (the "Plan"), the Company may grant options to purchase common shares to eligible officers, directors 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, 2017	1,299,475	10.00
Granted	629,510	6.57
Outstanding as at December 31, 2018	1,928,985	8.88
Granted	590,480	11.70
Exercised	(2,122)	7.12
Forfeited	(25,646)	7.48
Outstanding as at December 31, 2019	2,491,697	9.62

As at December 31, 2019, the options outstanding and exercisable consist of the following:

	Options outstanding		Options exercisable	
Exercise price ($)	Number outstanding (#)	Weighted average remaining contractual life (years)	Number outstanding (#)	Weighted average exercise price ($)
6.39	517,686	5.6	129,108	6.39
9.25	88,105	8.2	22,023	9.25
10.00	1,299,475	5.8	1,247,830	10.00
11.40	40,916	6.9	—	—
11.72	545,515	6.4	—	—
	2,491,697	6.0	1,398,961	9.66

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. Significant assumptions used in determining the fair value of options granted in fiscal 2019 are a volatility rate of 44% (2018 – between 43% and 48%), and an expected option life of between four and seven years (2018 – between four and eight years). The estimated fair value of the options is amortized to income over the options' vesting period on a straight-line basis. In fiscal 2019, the Company has recorded stock-based compensation expense of $1,432 (2018 – $643) in respect of options. This charge has been credited to contributed surplus. Unrecognized stock-based compensation expense as at December 31, 2019 related to the Plan was $2,533.

Founder performance share units ("Founder PSUs")

In fiscal 2015, the Company issued 1,040,000 Founder PSUs to the Company's four founders. Each Founder PSU entitles the holder to receive one common share if the terms and conditions of the Founder PSU plan are met. These terms include share price targets to be achieved prior to expiry on the fifth anniversary of the date of grant on June 25, 2020. Management determined that the fair value of this grant on the issuance date was not significant, and thus recorded no expense in respect of these Founder PSUs.

In May 2018, the Founder PSU plan was amended such that 780,000 of the Founder PSUs will be settled for their cash value, provided the existing terms and conditions of the Founder PSU plan are met. Management determined that the fair value of the amended Founder PSUs on the date of amendment and at December 31, 2018 and 2019 was not significant, and thus has recorded no expense or liability in respect of the amended Founder PSUs.

In June 2019, 195,000 of the equity-settled Founder PSUs and 585,000 of the cash-settled Founder PSUs expired unexercised.

Performance share units ("PSUs")

On August 17, 2018, the Company issued 600,000 PSUs to selected employees of the Company. Each PSU entitles the holder to receive a cash payout if the terms and conditions of the PSU plan are met. These terms include share price targets to be achieved prior to expiry on the third anniversary of the date of grant on August 17, 2021, provided that, on or before the vesting date, the Company is listed on an exchange that permits price-based vesting.

The fair value of the PSUs was determined using a risk-neutral Monte Carlo simulation with a volatility assumption of 42% and is accounted for as a liability. In fiscal 2019, the Company has recorded stock-based compensation expense of $2,329 (2018 – $419) in respect of PSUs. As at December 31, 2019, the liability recorded in the consolidated balance sheet in respect of PSUs is $2,802 (2018 – $409).

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.

No dividends were paid prior to fiscal 2018.

On August 15, 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 2019, quarterly dividends of $0.05 per common share were declared on March 20, May 8, August 7 and November 6.

On March 18, 2020, the Company's Board of Directors declared a dividend of C$0.05 per outstanding common share to be paid on June 15, 2020, to shareholders of record as of April 30, 2020.

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

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, 2019	Year ended December 31, 2018
Net loss for the year	(19,552)	(24,806)
Weighted average number of common shares outstanding – basic	29,360,830	26,952,523
Effect of dilutive securities	—	—
Weighted average number of common shares outstanding – diluted	29,360,830	26,952,523

The calculation of diluted loss per share in fiscal 2019 excludes 4,774,546 (2018 – 4,687,398) weighted average number of common shares issuable upon the exercise of Founder PSUs, warrants and stock options because the effect of their issuance would be anti-dilutive.

Normal course issuer bid

On May 9, 2018, the Company announced the commencement of a Normal Course Issuer Bid under which the Company may, if considered advisable, purchase for cancellation, from time to time over the following 12 months, up to an aggregate of 1,371,495 of its issued and outstanding common shares, being 5% of the issued and outstanding common shares as of May 7, 2018.

During fiscal 2018, the Company purchased for cancellation 134,600 common shares at an average price of C$9.01 per common share. The weighted average carrying value of the shares repurchased exceeded the total cash consideration paid by $112, which was credited to deficit.

The Normal Course Issuer Bid expired on May 8, 2019, and no shares were purchased during fiscal 2019.

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13. 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 financial liabilities and shareholders' equity.

Managed capital is set out in the following table:

	December 31, 2019	December 31, 2018
Non-current debt and other financial liabilities	91,822	104,459
Shareholders' equity	178,199	158,489
	270,021	262,948

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 restrictions in the senior secured term loan limiting the payment of dividends, and there has been no change in the Company's capital management approach during the year.

14. INCOME TAXES

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

	Year ended December 31, 2019	Year ended December 31, 2018
Current income tax	1,330	1,449
Deferred income tax resulting from temporary differences	(2,241)	(5,446)
	(911)	(3,997)

The difference between the amount of the income tax 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, 2019	Year ended December 31, 2018
Loss before income taxes	(20,463)	(28,803)
Tax recovery at Canadian corporate tax rate of 26.7%	(5,464)	(7,690)
Expenses not deductible for tax purposes	3,125	955
Income subject to tax in foreign jurisdictions	1,428	2,738
	(911)	(3,997)

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

A reconciliation of net deferred tax liability is as follows:

	December 31, 2019	December 31, 2018
Balance, beginning of year	4,208	10,593
Tax benefit of share issuance costs	(707)	(447)
Tax recovery recognized	(2,241)	(5,446)
Foreign exchange	194	(492)
Balance, end of year	1,454	4,208

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

	December 31, 2019	December 31, 2018
Tax differences related to product rights	10,715	11,606
Unused tax loss carryforwards	(5,764)	(4,484)
Tax benefit of share issue costs	(930)	(927)
Tax treatment of debt issue costs	(567)	(855)
Tax treatment of derivative contracts	56	202
Tax treatment of accruals and provisions	(1,833)	(1,001)
Other timing differences	(223)	(333)
	1,454	4,208

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

	December 31, 2019	December 31, 2018
Deferred tax asset	(1,057)	(1,001)
Deferred tax liability	2,511	5,209
	1,454	4,208

As at December 31, 2019, the Company had approximately $22,000 (2018 – $17,000) of non-capital loss carryforwards available in Canada, which expire between the years 2034 and 2039.

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.

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15. FINANCIAL INSTRUMENTS

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

As at December 31, 2019	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Non-financial	Total carrying amount
Cash and cash equivalents	47,078	—	—	—	47,078
Accounts receivable	—	11,858	—	—	11,858
Derivative financial instruments	271	—	—	—	271
Other non-financial assets	—	—	—	260,464	260,464
Total assets	47,349	11,858	—	260,464	319,671
Accounts payable and accrued liabilities	—	—	13,466	—	13,466
Provisions	—	—	—	5,471	5,471
Debt and other financial liabilities	15,019	—	104,658	—	119,677
Other non-financial liabilities	—	—	—	2,858	2,858
Total liabilities	15,019	—	118,124	8,329	141,472

As at December 31, 2018	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Non-financial	Total carrying amount
Cash and cash equivalents	10,930	—	—	—	10,930
Accounts receivable	—	17,509	—	—	17,509
Derivative financial instruments	755	—	—	—	755
Other non-financial assets	—	—	—	277,231	277,231
Total assets	11,685	17,509	—	277,231	306,425
Accounts payable and accrued liabilities	—	—	12,405	—	12,405
Provisions	—	—	—	6,574	6,574
Debt and other financial liabilities	6,221	—	117,158	—	123,379
Other non-financial liabilities	—	—	—	5,578	5,578
Total liabilities	6,221	—	129,563	12,152	147,936

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 financial statements are not materially different from their carrying amounts.

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

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, 2019:

Description	Level 1	Level 2	Level 3
Interest rate swap	—	271	—
Foreign currency forward contract	—	(59)	—
PSUs	—	—	(2,802)
Lender warrants	—	—	(12,772)
	—	212	(15,574)

In fiscal 2019, the Company recorded income of $271 (2018 – nil) related to the change in fair value of the interest rate swap; an expense of $814 (2018 – income of $1,831) related to the change in fair value of the foreign currency forward contract; an expense of $2,329 (2018 – $409) in respect of the PSUs; and an expense of $8,841 (2018 – expense of $1,056) related to the change in the fair value of the lender warrants (note 11).

There have been no transfers into and out of Level 3 for any of 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.

For the year ended December 31, 2019, two customers accounted for 30% and 15%, respectively, of gross product sales, and one licensee accounted for all the royalty revenue.

As at December 31, 2019, three customers accounted for 33%, 15% and 11%, respectively, of the outstanding trade accounts receivable balance, and one licensee accounted for all the royalty receivable.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and the foreign currency forward contract, 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.

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.

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The table below summarizes the maturity profile of the Company's financial liabilities as at December 31, 2019 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	—	13,466	—	—	13,466
Purchase consideration	—	9,300	2,825	—	12,125
Senior secured term loan	—	5,625	88,125	—	93,750
Leases	—	419	588		1,007
	—	28,810	91,538	—	120,348

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, 2019, the annual interest expense would be approximately $4,175 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 5 and 22.

Other risks

As described in note 11, interest on the senior secured term loan accrues at a rate per annum equal to the sum of the LIBOR plus a range of 2.75% to 3.25% 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, and as a result is no longer exposed to fluctuations in the LIBOR.

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 entered into foreign currency forward contracts to manage its operational exposure to fluctuations in value between the Canadian dollar and the United States dollar. An assumed 1% increase in the value of the Canadian dollar relative to the United States dollar as at December 31, 2019 would not result in a material change in net income for the fiscal year.

16. SEGMENTED INFORMATION

The Company is composed of a single reportable segment.

Revenues are generated from the following sources:

	Year ended December 31, 2019	Year ended December 31, 2018
Product sales	44,592	49,823
Royalties	9,568	11,592
	54,160	61,415

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

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

	Year ended December 31, 2019	Year ended December 31, 2018
Canada	27,159	29,726
United States	27,001	31,689
	54,160	61,415

The Company has operations in Canada, Barbados and the United States. Assets and liabilities by geographic location are set forth in the following table:

	Canada	Barbados	United States	December 31, 2019
Current assets	45,561	11,008	6,531	63,100
Non-current assets	148,239	107,221	1,111	256,571
Total assets	193,800	118,229	7,642	319,671
Current liabilities	30,250	10,306	6,583	47,139
Non-current liabilities	91,742	2,591	—	94,333
Total liabilities	121,992	12,897	6,583	141,472

	Canada	Barbados	United States	December 31, 2018
Current assets	18,524	6,449	6,645	31,618
Non-current assets	146,706	127,094	1,007	274,807
Total assets	165,230	133,543	7,652	306,425
Current liabilities	19,976	11,224	7,068	38,268
Non-current liabilities	99,206	10,462	—	109,668
Total liabilities	119,182	21,686	7,068	147,936

17. EMPLOYEE BENEFITS

	Year ended December 31, 2019	Year ended December 31, 2018
Selling and marketing	2,099	1,634
Medical, regulatory and patient support	1,277	975
General and administrative	5,982	6,180
	9,358	8,789

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

18. ACQUISITION AND TRANSACTION COSTS

	Year ended December 31, 2019	Year ended December 31, 2018
Legal and professional fees	957	456
Listing expense (note 4)	—	435
	957	891

19. FINANCE AND RELATED COSTS, NET

	Year ended December 31, 2019	Year ended December 31, 2018
Interest on senior secured term loan	5,720	12,215
Accreted interest	1,979	4,895
Total interest expense	7,699	17,110
Debt refinancing costs	—	18,951
Interest income	(585)	(356)
Foreign exchange loss (gain)	(1,022)	307
Realized (gain) loss on foreign currency forward contract	(598)	314
Fair value adjustment on financial assets and liabilities		
Derivative financial instruments	543	(1,831)
Lender warrants	8,841	1,056
	14,878	35,551

Debt refinancing costs incurred in fiscal 2018 are composed of the following:

Expensing of deferred debt costs	12,150
Debt repayment premium	4,137
Lender royalty settlement	2,585
Other fees	79
	18,951

20. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended December 31, 2019	Year ended December 31, 2018
Accounts receivable	6,060	7,288
Inventories	(501)	(236)
Prepaid expenses and other current assets	(854)	624
Accounts payable and accrued liabilities	(2,031)	(737)
Provisions	(1,103)	(402)
Income taxes payable	(22)	(501)
	1,549	6,036

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

Interest of $5,720 (2018 – $12,346) was paid during the year ended December 31, 2019. Income taxes of $1,352 (2018 – $1,950) were paid during the year ended December 31, 2019.

21. RELATED PARTY DISCLOSURES

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

	Year ended December 31, 2019	Year ended December 31, 2018
Short-term benefits	3,050	2,375
Stock-based compensation	2,036	324

Originally defined as four of the Company's key management personnel, effective 2019, the definition of key management changed to become five of the Company's key management personnel.

22. COMMITMENTS 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 four years. The following table sets forth the Company's undiscounted obligations under leases:

	Minimum lease payments
2020	419
2021	314
2022	167
2023	107
	1,007

Contingent consideration

Pursuant to the acquisition of the Vascepa rights described in note 5, the Company has contingent obligations for regulatory and sales-based milestone payments of up to an additional $53,750, the timing and achievability of which cannot be determined at this time, with the following exception: the Company made a payment of $3,750 to Amarin in the first quarter of fiscal 2020.

Pursuant to the acquisition of the Trinomia rights described in note 5, the Company has contingent obligations for regulatory and sales-based milestones of up to an additional C$30,675, the timing and achievability of which cannot be determined at this time.

Pursuant to the acquisition of the PERSERIS rights described in note 5, the Company has contingent obligations for regulatory and pre-commercial milestones of up to $4,000, the timing and achievability of which cannot be determined at this time.

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.

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.