MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2019

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, 2019. 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 18, 2020 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.

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 Absorica®, Clozaril®, PERSERIS™, Trinomia® and Vascepa®; 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 18, 2020, 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 HLS's performance. To reconcile net loss for the year with Adjusted EBITDA, each of (i) "stock-based compensation", (ii) "amortization and depreciation", (iii) "acquisition and transaction costs", (iv) "finance and related costs", and (v) "recovery of income taxes" 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,	
	2019	**2018**
Net loss for the year	(19,552)	(24,806)
Stock-based compensation	3,761	1,062
Amortization and depreciation	32,510	32,395
Acquisition and transaction costs	957	891
Finance and related costs	14,878	35,551
Income tax recovery	(911)	(3,997)
Adjusted EBITDA	31,643	41,096

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

As at December 31, 2019, 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, to be 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 April 29, 2019, the Company announced that it had filed a New Drug Submission with Health Canada for Vascepa.
- 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, a $3.75 million milestone became payable to Amarin in 2020.
- The Company started commercial distribution of Vascepa in Canada on February 7, 2020 ensuring that Vascepa was broadly available to all Canadian pharmacies through their usual pharmaceutical wholesalers within two weeks.

Other products

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, if approved, will complement the Company's CNS portfolio in Canada. On January 23, 2020, the Company announced that PERSERIS had been accepted for review by Health Canada.

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. Subsequent to the fiscal year, Trinomia has been accepted for review by Health Canada.

HLS also holds the U.S. marketing rights to Absorica (a commercial stage dermatology product) which, in effect, provides HLS with income based on U.S. sales of Absorica by a third party.

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.

AMALGAMATION AND LISTING

On March 12, 2018, the Company completed a plan of arrangement (the "Arrangement") to amalgamate with 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., 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 (the "TSX-V").

HLS common shares commenced trading on the TSX-V on March 14, 2018. On February 7, 2019, the Company completed its graduation to the Toronto Stock Exchange ("TSX") and the Common Shares began trading on the TSX under the symbol "HLS." In connection with the Company's graduation to the TSX, the Common Shares were voluntarily delisted from the TSX-V on February 7, 2019.

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, 2019	2018
Revenue	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
Adjusted EBITDA [(1)]	31,643	41,096
Stock-based compensation	3,761	1,062
Amortization and depreciation	32,510	32,395
Operating income (loss)	(4,628)	7,639
Acquisition and transaction costs	957	891
Finance and related costs, net	14,878	35,551
Loss before income taxes	(20,463)	(28,803)
Income tax expense (recovery)	(911)	(3,997)
Net loss for the year	(19,552)	(24,806)
Net loss per share:		
Basic and diluted	$(0.67)	$(0.92)

	As at December 31, 2019	As at December 31, 2018
Cash and cash equivalents	47,078	10,930
Total assets	319,671	306,425
Total long-term debt and financial liabilities	91,822	104,459
Total shareholders' equity	178,199	158,489

[(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,	
	2019	2018
Product sales		
Canada	27,159	29,726
United States	17,433	20,097
	44,592	49,823
Royalty revenue	9,568	11,592
	54,160	61,415

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. The number of Clozaril patients in Canada grew by 2.4% year-over-year.

Clozaril net sales in Canada of $27.2 million were down 8.6% from the prior year. The decrease reflects the impact of a 2.4% reduction in the average exchange rate over the year on the translation of results to U.S. dollars. With a growing number of patients and other strong fundamentals, the remaining decline in year-over-year revenue for Clozaril in Canada was largely attributable to recent changes in Ontario government purchasing directives. These changes led to an increase in hospital inventories in the fourth quarter of 2018 and then a subsequent drawdown of inventory levels beginning mid-year in 2019 with Ontario hospitals now maintaining a lower ongoing base of inventory. The Company believes that Clozaril patients in Ontario are still well supported by the new pattern of more frequent hospital orders, which is more consistent with order patterns elsewhere in Canada.

On October 17, 2019, the Company announced that a point-of-care blood-testing device to be integrated with the Company's CSAN patient support program and to be marketed as CSAN Pronto had been granted a medical device license by Health Canada. 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 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.

The Company subsequently introduced CSAN Pronto into the Canadian market and is working with leading mental health institutions across Canada to make this new blood testing system available to Clozaril patients. HLS has the exclusive Canadian rights to this device in the field of schizophrenia.

Clozaril continues to experience modest low single-digit percentage volume declines in the U.S. market. The previous authorized generic supply agreement was discontinued following marginal results at the end of 2018. This discontinued agreement accounts for $0.9 million of the $2.7 million decline in U.S. market product sales. Product sales in the prior period benefited from $0.8 million more favorable gross-to-net adjustments in the prior period.

In 2019, the Company conducted a pilot program with Athelas, the developer and manufacturer of the Athelas One medical device to evaluate the potential for the blood testing system for clozapine patients

in the U.S. market. Based on the results of this pilot program, the Company will work with Athelas to progressively extend the program to selected regions and settings of care.

Absorica royalty revenue was $9.6 million in 2019 compared with $11.6 million in 2018. After considerable volatility in past years, it appears that Absorica prescription activity in the U.S. market is now relatively stable, though in a declining trend. Subsequent to the end of the year, on February 6, 2020, the distributor of Absorica announced that the U.S. marketer of the product had launched Absorica LD, a line extension to Absorica, that could provide the potential for near-term growth in the Company's royalty revenues. Looking forward, the Company still expects that the economic life of its marketing rights will terminate at the end of 2020.

Operating expenses

	Year ended December 31,	
	2019	**2018**
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
	22,517	20,319

The cost of product sales for Clozaril continues to be stable and low relative to revenues, benefiting from scale economies of Canadian Clozaril sales volumes and other improved manufacturing costs from the Company's supply chain operations. The reduction in cost of product sales from the prior year is primarily attributable to the decision to discontinue the previous authorized generic supply agreement at the end of 2018.

Selling and marketing activities increased by $0.6 million for the fourth quarter of 2019 and by $1.9 million for the full year, relative to the same periods in the prior year, reflecting additional activity to prepare and support the introductions of Vascepa and CSAN Pronto, including the pilot program in the U.S. market. Medical, regulatory and patient support activities increased by $0.4 million for the fourth quarter of 2019 and by $0.9 million for the full-year, relative to same periods in the prior year, primarily as a result of additional activity related to supporting the introduction of Vascepa. General and administrative costs were steady across both periods, with increases of only $0.3 million in the fourth quarter of 2019 and $0.1 million for the full year, relative to the same periods in the prior year.

Adjusted EBITDA [(1)]

	Year ended December 31,	
	2019	**2018**
Adjusted EBITDA [(1)]	31,643	41,096

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

For the quarter and full year periods, the decrease in Adjusted EBITDA reflects the decrease in Clozaril product sales, the decrease in Absorica royalties and the increase in other operating expenses, particularly the selling and marketing costs and medical, regulatory and patient support costs tied to preparations for the introduction of Vascepa and CSAN Pronto. These negative impacts were partially offset by the reduction in Clozaril cost of product sales.

Stock-based compensation

Stock-based compensation relates to the Company's Performance Share Unit plan and Stock Option plan. An increase to the Company's stock price in late 2019 resulted in an increase to the expense related to the Performance Share Unit plan.

Amortization and depreciation

Amortization and depreciation is almost entirely related to the intangibles acquired in the Clozaril and Absorica acquisitions.

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.

Interest on the senior secured term loan decreased from $12.2 million in fiscal 2018 to $5.7 million in fiscal 2019. The reduction in interest is primarily due to the refinancing of the Company's debt in August 2018. The Company's current debt structure has both a lower principal amount outstanding and a lower interest rate than its original debt facility.

An increase in the Company's share price in late 2019 resulted in a significant increase in the fair value of the Company's lender warrants. The net settlement feature of the lender warrants dictates that they be treated as a liability with changes in fair value being recorded in the consolidated statement of net loss.

In the third quarter of fiscal 2018, the Company incurred debt refinancing costs of $19.0 million in connection with the repayment of its original senior secured term loan.

FOURTH QUARTER 2019

The number of Clozaril patients in Canada continued to grow in the fourth quarter of 2019 and other key fundamentals remained strong. Product sales in Canada of $7.0 million in the fourth quarter of 2019 were down $1.0 million compared to the same period in the prior year, with most of this decrease occurring in Ontario where changes in provincial government purchasing directives had an impact in increasing hospital inventories in the prior period and reducing hospital orders in the current period as their inventory levels were managed lower.

Clozaril product sales in the U.S. market were $4.4 million in the fourth quarter of 2019, a decrease of $0.5 million compared with the fourth quarter of 2019. Clozaril experienced low single-digit percentage shipment volume declines in the U.S. market in the fourth quarter and there were higher gross-to-net sales adjustments in the prior period.

Royalty revenue in the fourth quarter of 2019 was $2.5 million compared with $3.6 million in the same period in the prior year.

The Company's operating expenses were $6.7 million in the fourth quarter of 2019, an increase of $1.2 million compared with the same period in the prior year. Selling and marketing expenses increased year-over-year by $0.6 million and medical, regulatory and patient support costs increased year-over-year by $0.4 million, both of which were primarily to support preparations for the introduction of Vascepa to the Canadian market. For this same period, the Company's general and administrative costs only increased by $0.3 million while cost of product sales decreased $0.1 million compared to the same period in the prior year.

Adjusted EBITDA of $7.2 million in the fourth quarter of 2019, reflects the decrease of $1.5 million in product sales, decrease of $1.2 million of royalty revenues and $1.2 million increase in operating costs compared to the same period in the prior year.

The pre-tax loss of $12.8 million for the fourth quarter of 2019 reflects finance and related costs of $9.5 million, of which $8.9 million is the result of the fair value adjustment to the lender warrants due to the increase of the HLS stock price during this period.

LIQUIDITY AND CAPITAL RESOURCES

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 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.

Senior secured term loan

On August 15, 2018, the Company entered into a new senior secured term loan with a syndicate of bank lenders, and the principal balance of the original senior secured term loan was repaid in full.

The new senior secured term loan is 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 $100.0 million. In addition, there is a $25.0 million revolving facility 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 $100.0 million 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 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 new 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 all covenants.

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

As at December 31, 2019, the principal debt balance outstanding under the new senior secured term facility was $93.8 million.

Equity

On June 5, 2019, the Company closed a public 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$50.0 million.

In fiscal 2019, quarterly dividends of C$0.05 per outstanding common share were declared on March 20, May 8, August 7 and November 6, for a total of $4.5 million.

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.

Cash flow

Cash flow from operating activities was $26.4 million for fiscal 2019 compared with $32.7 million in fiscal 2018. The decrease is attributable to the lower revenues, offset by the reduction in interest expense following the August 2018 refinancing.

Investing activities for the current year relate to the recent acquisitions of PERSERIS, Trinomia and Vascepa rights, as well as ongoing quarterly payments associated with the acquisition of the Absorica marketing rights. The prior year includes the quarterly payments associated with the Absorica acquisition as well as up-front and milestone payments associated with the acquisition of the Vascepa distribution rights.

Financing activities in fiscal 2019 include the proceeds from a public offering, quarterly dividends, quarterly repayments of the senior secured term loan and the final payment associated with the debt refinancing from August 2018. Financing activities in fiscal 2018 include the issuance of common shares as a result of the amalgamation noted above as well as cash flows associated with the refinancing of the Company's debt.

Financial position

As at December 31, 2019, the Company has cash of $47.1 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 currently undrawn revolver facility is available to the Company if needed.

Working capital items such as accounts receivable, inventories, accounts payable, accrued liabilities and provisions experienced fluctuations quarter-over-quarter related to seasonality and timing during 2019. However, these fluctuations were within normal ranges. Over the ensuing twelve-month period, the Company expects increases in all of these working capital items to reflect the growth in business requirements following the introduction of Vascepa in Canada in the first quarter of 2020.

Debt and other financial liabilities continue to decrease as the Company repays its senior secured term loan and settles its acquisition-related obligations.

RELATED PARTY TRANSACTIONS

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

	Year ended December 31,	
	2019	**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.

COMMITMENTS

The Company has the following undiscounted contractual obligations at December 31, 2019:

	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 $4.2 million over the remaining term of the loan.

For a description of these obligations, see note 11 of the audited consolidated financial statements for the year ended December 31, 2019.

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, 2019.

OFF-BALANCE SHEET ARRANGEMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

The Company has entered an interest rate swap 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, 2019, the fair value of the interest rate swap is an asset of $0.3 million, while the fair value of the foreign exchange forward contracts is a liability of $0.1 million, both of which are recognized on the balance sheet.

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

SELECTED QUARTERLY INFORMATION (UNAUDITED)

	2019 Q1	2019 Q2	2019 Q3	2019 Q4
Product sales				
Canada	6,387	6,898	6,851	7,023
United States	4,275	4,495	4,257	4,406
	10,662	11,393	11,108	11,429
Royalty revenue	2,510	2,232	2,318	2,508
Revenues	13,172	13,625	13,426	13,937
Adjusted EBITDA [(1)]	8,257	8,105	8,045	7,236
Net loss	(3,703)	(1,631)	(1,998)	(12,220)

	2018 Q1	2018 Q2	2018 Q3	2018 Q4
Product sales				
Canada	6,759	7,772	7,130	8,065
United States	4,872	4,732	5,584	4,909
	11,631	12,504	12,714	12,974
Royalty revenue	1,535	3,801	2,569	3,687
Revenues	13,166	16,305	15,283	16,661
Adjusted EBITDA [(1)]	8,592	11,039	10,274	11,191
Net income (loss)	(4,876)	(563)	(19,736)	369

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

In the third quarter of fiscal 2018, the Company incurred debt refinancing costs of $19.0 million in connection with the repayment of its original senior secured term loan.

In the fourth quarter of fiscal 2019, the Company recorded an expense of $8.9 million related to the revaluation of its outstanding lender warrants.

OUTSTANDING SHARE DATA

As at March 18, 2020, the Company had: 31,739,625 common shares outstanding; 3,654,736 preferred shares outstanding; 2,487,546 stock options outstanding (resulting in a maximum issuance of 2,487,546 common shares); 1,417,502 warrants outstanding (resulting in a maximum issuance of 1,417,502 common shares); and 65,000 equity-settled performance share units outstanding (resulting in a maximum issuance of 65,000 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 15 to the audited consolidated financial statements for the year ended December 31, 2019.

For a discussion of the risks and uncertainties facing the Company, please see the Company's Annual Information Form ("AIF") dated March 18, 2020 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 2 of the Company's audited consolidated financial statements for the year ended December 31, 2019 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. 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 returns eligibility period is used to update the estimated provision for expired product 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.

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, 2019, 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, 2019, that such ICFR were effective.

There have been no changes in the Company's ICFR during the year ended December 31, 2019 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.