Consolidated Financial Statements

HLS Therapeutics Inc.

For the Years Ended December 31, 2020 and 2019

Independent Auditor's Report

To the Shareholders of HLS Therapeutics Inc.

Opinion on the Consolidated Financial Statements

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, 2020 and 2019, 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, 2020 and 2019, 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.

Key Audit Matter

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

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

Accrued gross to net adjustments relating to product revenue

Description of key audit matter	How our audit addressed the key audit matter
Product revenue is reduced by various gross to net adjustments, including: rebates, chargebacks and returns. The methodology and assumptions used to estimate returns, rebates and chargebacks include consideration of factors such as contractual terms and historical trends.	To test the accrued gross to net adjustments as at December 31, 2020, our audit procedures included, among others: • We obtained an understanding of the revenue estimation process specifically gross-to-net adjustments relating to the deductions made to

For the year ended December 31, 2020, the Group recorded product revenue of $45.7 million as disclosed in note 15 of the Group's consolidated financial statements. Product revenue includes a reduction for rebates and chargebacks of $4.6 million and estimated returns of $0.4 million, as disclosed in note 9 of the Group's consolidated financial statements. The ending provision for estimated returns, rebates and chargebacks was $4.5 million as at December 31, 2020 and the continuity of the balance is disclosed within note 9 of the Group's consolidated financial statements. Determining an appropriate provision for returns, rebates, and chargebacks requires judgement and estimation by management, particularly for new or acquired products where the Group has no access to historical trends. Management's estimate includes consideration of factors such as contractual terms and historical trends, where available. This process requires judgement due to the timeframe between a sale to a wholesaler and a settlement of the rebate or chargeback owed under a government program or under the terms of a customer's right of return.	product sales for chargebacks, rebates and returns, and the tracking of settlements of the provisions. • We obtained management's calculations for the provisions, recalculated the amounts and evaluated the assumptions used by reference to internal and external sources including the terms of the applicable contracts, government pricing information, and historical information on chargebacks and returns, where available. • We considered industry returns data in similar markets for similar products, where available, and compared industry data to the inputs made by the Group. • We compared the additional charges to provisions recorded throughout the current fiscal year to prior year provision amounts, to current year product revenue, and to current year settlement amounts. • We considered the adequacy of the Group's revenue recognition accounting policies, including the recognition and measurement of deductions to product sales relating to chargebacks, rebates and sales returns and related disclosures.

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 Charges with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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 17, 2021

HLS THERAPEUTICS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[in thousands of U.S. dollars]

	Notes	As at December 31, 2020	As at December 31, 2019
ASSETS			
Current			
Cash and cash equivalents		20,612	47,078
Accounts receivable	5	12,497	11,858
Inventories		10,630	2,055
Derivative financial instruments		—	271
Prepaid expenses and other current assets		2,172	1,838
Total current assets		45,911	63,100
Property, plant and equipment	6	1,384	1,276
Intangible assets	7	253,404	252,050
Restricted assets	8	2,034	2,188
Deferred tax asset	13	1,173	1,057
Total assets		303,906	319,671
Current			
Accounts payable and accrued liabilities		14,223	13,466
Provisions	9	4,516	5,471
Debt and other financial liabilities	10	16,358	27,855
Income taxes payable	13	545	347
Total current liabilities		35,642	47,139
Debt and other financial liabilities	10	99,015	91,822
Deferred tax liability	13	—	2,511
Total liabilities		134,657	141,472
Shareholders' equity			
Share capital	11	257,411	248,687
Contributed surplus	11	11,393	11,517
Accumulated other comprehensive income (loss)		2,020	(537)
Deficit		(101,575)	(81,468)
Total shareholders' equity		169,249	178,199
Total liabilities and shareholders’ equity		303,906	319,671
Commitments and guarantees	21		

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

On behalf of the Board:

(signed) “William Wells”
William Wells
Director

(signed) “Rodney Hill”
Rodney Hill
Director

HLS THERAPEUTICS INC.

CONSOLIDATED STATEMENTS OF NET LOSS

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

	Notes	Year ended December 31, 2020	Year ended December 31, 2019
Revenues	15	56,109	54,160
Expenses			
Cost of product sales		3,625	1,932
Selling and marketing		12,900	6,256
Medical, regulatory and patient support		5,467	5,287
General and administrative		10,487	9,042
Stock-based compensation	11	2,531	3,761
Amortization and depreciation	6, 7	33,186	32,510
Operating loss		(12,087)	(4,628)
Realized gain on acquired royalty receivable	4	(509)	—
Acquisition and transaction costs		709	957
Finance and related costs, net	18	4,012	14,878
Loss before income taxes		(16,299)	(20,463)
Income tax recovery	13	(968)	(911)
Net loss for the year		(15,331)	(19,552)
Net loss per share:			
Basic and diluted	11	$(0.48)	$(0.67)

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, 2020	Year ended December 31, 2019
Net loss for the year	(15,331)	(19,552)
Item that may be reclassified subsequently to net loss		
Unrealized foreign currency translation adjustment	2,557	6,918
Comprehensive loss for the year	(12,774)	(12,634)

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, 2018		210,360	12,973	(7,455)	(57,389)	158,489
Common shares issued	11	37,329	—	—	—	37,329
Share issuance costs	11	(2,411)	—	—	—	(2,411)
Warrants exercised	11	3,395	(3,358)	—	—	37
Stock options exercised	11	14	—	—	—	14
Warrants granted	11	—	470	—	—	470
Stock option expense	11	—	1,432	—	—	1,432
Net loss for the year		—	—	—	(19,552)	(19,552)
Dividends declared	11	—	—	—	(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
Warrants exercised		8,663	(1,652)	—	—	7,011
Stock options exercised		61	(16)	—	—	45
Stock option expense		—	1,544	—	—	1,544
Net loss for the year		—	—	—	(15,331)	(15,331)
Dividends declared		—	—	—	(4,776)	(4,776)
Unrealized foreign currency translation adjustment		—	—	2,557	—	2,557
Balance, December 31, 2020		257,411	11,393	2,020	(101,575)	169,249

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, 2020	Year ended December 31, 2019
OPERATING ACTIVITIES			
Net loss for the year		(15,331)	(19,552)
Adjustments to reconcile net loss to cash provided by operating activities			
Stock-based compensation		2,531	3,761
Amortization and depreciation		33,186	32,510
Accreted interest	10, 18	1,173	1,979
Fair value adjustment on financial assets and liabilities		(2,243)	9,384
Unrealized foreign exchange		176	(982)
Deferred income taxes	13	(2,483)	(2,241)
Net change in non-cash working capital balances related to operations	19	(7,665)	1,549
Cash provided by operating activities		9,344	26,408
INVESTING ACTIVITIES			
Additions to property, plant and equipment	6	(36)	(199)
Royalty acquisition	4, 7	(31,692)	—
Rights acquisitions	7, 10	(12,050)	(12,800)
Other additions to intangible assets		(899)	(2,360)
Cash used in investing activities		(44,677)	(15,359)
FINANCING ACTIVITIES			
Common shares issued		—	37,329
Common share issuance costs		—	(2,648)
Stock options exercised		45	14
Warrants exercised		1,590	37
Dividends paid	11	(4,749)	(4,332)
Drawdown of senior secured term loan	10	20,000	—
Repayment of senior secured term loan	10	(6,132)	(5,000)
Debt costs		(658)	(1,000)
Lease payments		(532)	(453)
Cash provided by financing activities		9,564	23,947
Net increase (decrease) in cash and cash equivalents during the year		(25,769)	34,996
Foreign exchange on cash and cash equivalents		(697)	1,152
Cash and cash equivalents, beginning of year		47,078	10,930
Cash and cash equivalents, end of year		20,612	47,078

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

1. CORPORATE INFORMATION

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

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

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 17, 2021.

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.

Global pandemic

In early 2020, the coronavirus ("COVID-19") was confirmed in multiple countries throughout the world and on March 11, 2020, the World Health Organization declared a global pandemic.

As a result of the continued and uncertain economic and business impact of the COVID-19 pandemic, the Company has reviewed the estimates, judgments and assumptions used in the preparation of its financial statements, including with respect to the determination of whether indicators of impairment exist for its tangible and intangible assets and the credit risk of its counterparties.

Although the Company has determined that no significant revisions to such estimates, judgments or assumptions were required for fiscal 2020, revisions may be required in future periods. Any such revision (due to COVID-19 or otherwise) could have a material impact on its results of operations and financial condition. Further, in the event that such a material impact were to occur, the Company may need to consider requesting modifications to the covenants in its credit facility and there can be no assurance that such modifications would be provided.

While the Company believes the current conditions related to the COVID-19 pandemic to be temporary, the situation is dynamic and the impact of COVID-19 on its results of operations and financial condition cannot be reasonably estimated at this time. The Company continues to evaluate the situation and monitor any impacts or potential impacts to its business.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiaries as at December 31, 2020. These subsidiaries are: Heritage Life Sciences (Barbados) Inc.; Heritage R&D (Barbados) Ltd.; HLS Therapeutics (USA), Inc.; HLS Therapeutics (USA Holdings), Inc.; HLS Therapeutics (USA R&D), Inc. and HLS Therapeutics Royalty Sub LLC.

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

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

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

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

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

Business combinations and asset acquisitions

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

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

Foreign currency translation

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity generates and expends cash. A foreign currency is any currency other than an entity’s functional currency. Each entity in the Company’s consolidated group determines its own functional currency, and items included in the 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, 2020 and 2019, 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 equipment	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
Distribution rights	Straight-line over 8 years
Marketing rights	Straight-line over 4.5 years
Acquired royalties	Straight-line between 2 and 10 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 Company performed an annual impairment test on intangible assets not yet brought into use as at December 31, 2020, 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.

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 derivative financial instruments.

Financial instruments carried at amortized cost

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

Financial instruments in this category include cash and cash equivalents, restricted assets, trade and other accounts receivable, accounts payable and accrued liabilities, purchase consideration and the senior secured term loan.

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 a performance share unit (“PSU”) plan as described in note 11 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.

3. SIGNIFICANT ESTIMATES, JUDGMENTS AND ASSUMPTIONS

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

Revenue recognition

Gross product sales are reduced by rebates, discounts, allowances and product returns given or expected to be given. These arrangements with purchasing organizations and other private and public payers are dependent upon the submission of claims after the initial recognition of the revenue. 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.

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

Amortization of long-lived assets

The amortization expense relating to long-lived assets, which include property, plant and equipment; product, marketing and distribution rights; and royalty interests, 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.

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

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. ROYALTY ACQUISITION

Effective September 30, 2020, the Company acquired certain entities that hold the rights to a diversified portfolio of royalty interests on global sales of four different products for upfront cash consideration of $30,750. In addition to the upfront payment, the Company has contingent obligations of up to $10,000 for regulatory milestones and $18,500 for commercial performance milestones, the timing and achievability of which cannot be determined at this time.

The transaction has been accounted for as an asset purchase. The Company capitalized costs of $942 related to the transaction. Under the terms of the agreement, the Company is entitled to the royalties related to the quarter ended September 30, 2020, which were estimated to be $2,010. The purchase price has been allocated as follows:

Accounts receivable	2,010
Intangible assets	29,682
	31,692

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

The actual receipts for the royalties related to the quarter ended September 30, 2020 were $2,519, resulting in a realized gain of $509.

5. ACCOUNTS RECEIVABLE

	December 31, 2020	December 31, 2019
Trade accounts receivable	6,086	7,750
Royalties receivable	4,834	2,508
Other receivables	1,577	1,600
	12,497	11,858

6. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets	Computer equipment	Furniture and equipment	Leasehold improvements	Total
Cost					
As at December 31, 2018	1,020	311	399	79	1,809
Additions – purchased	—	97	95	7	199
Additions – right-of-use	236	—	—	—	236
As at December 31, 2019	1,256	408	494	86	2,244
Additions – purchased	—	30	5	1	36
Additions – right-of-use	703	—	—	—	703
Foreign exchange	101	5	—	2	108
As at December 31, 2020	2,060	443	499	89	3,091
Depreciation					
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
Depreciation	478	81	89	7	655
Foreign exchange	65	12	5	2	84
As at December 31, 2020	932	353	343	79	1,707
Net book value					
As at December 31, 2019	867	148	245	16	1,276
As at December 31, 2020	1,128	90	156	10	1,384

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7. INTANGIBLE ASSETS

	Product rights	Distribution rights	Marketing rights	Acquired royalties	Total
Cost					
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
Additions	—	4,649	—	29,682	34,331
Reduction related to amendment	—	—	(2,505)	—	(2,505)
Foreign exchange	3,329	397	—	—	3,726
As at December 31, 2020	323,660	19,612	46,108	29,682	419,062
Amortization					
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 at December 31, 2019	93,721	—	37,739	—	131,460
Amortization	20,974	1,966	8,369	1,222	32,531
Foreign exchange	1,577	90	—	—	1,667
As December 31, 2020	116,272	2,056	46,108	1,222	165,658
Net book value					
As at December 31, 2019	226,610	14,566	10,874	—	252,050
As at December 31, 2020	207,388	17,556	—	28,460	253,404

Product rights

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

The product rights have 9.5 years remaining in their amortization period.

Distribution rights

Vascepa®

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

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

Under the agreement, the Company is responsible for regulatory and commercialization activities and associated costs. The Company has paid upfront and milestone payments totalling $13,750, including $3,750 paid in fiscal 2020. In addition to these payments, the terms of the agreement include sales-based milestone payments of up to an additional $50,000, the timing and achievability of which cannot be determined at this time.

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, 2020, the Company has capitalized $15,728 to distribution rights in respect of this agreement.

Amortization on this asset commenced in fiscal 2020. This asset has seven years remaining in its amortization period.

Trinomia®

On November 20, 2017, the Company entered into an exclusive agreement with Ferrer Internacional SA ("Ferrer") for the rights to distribute and commercialize Trinomia capsules in Canada. Trinomia has been approved for use outside of Canada for the secondary prevention of cardiovascular events but is not approved for use in Canada. The Company paid a nominal amount on signing with further 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 $1,287 to distribution rights in respect of this agreement.

This asset was not amortized in fiscal 2020 as it has not reached the commercial stage.

PERSERIS™

On May 8, 2019, the Company entered into an exclusive agreement for the rights to register and commercialize PERSERIS™ in Canada. PERSERIS was approved by Heath Canada for use in Canada on November 19, 2020. Under the terms of the agreement, the Company made an initial upfront payment of $1,000 in fiscal 2019 and will make up to $4,000 in payments 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 $2,062 to distribution rights in respect of this agreement.

Amortization on this asset is expected to commence in fiscal 2021, pending the commercialization of PERSERIS in Canada.

Marketing rights

Marketing rights relate to the Company's acquisition of the United States marketing rights to Absorica® in July 2016. In December 2020, the Company terminated its ownership of these marketing rights by exercising its right to require the vendor to re-acquire the rights acquired by the Company in the original transaction.

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Marketing rights were fully amortized by December 31, 2020.

Acquired royalties

Acquired royalties relate to the transaction described in note 4.

Amortization on these assets commenced in the fourth quarter of fiscal 2020.

8. RESTRICTED ASSETS

	December 31, 2020	December 31, 2019
Escrow funds	2,034	2,188

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.

Under the Arrangement, 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. These excess funds were placed in escrow.

The escrow funds consisted of cash as well as other legacy working capital items. The payment of expenses related to escrow activity have been funded by the escrow funds. The holders of the preferred shares are only entitled to distributions from the escrow funds.

The escrow funds remaining at the end of fiscal 2020 were used to fund a complete redemption of the preferred shares in January 2021.

9. PROVISIONS

	Chargebacks and rebates	Returns	Total
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
Charges	4,583	405	4,988
Utilization	(5,589)	(354)	(5,943)
As at December 31, 2020	2,364	2,152	4,516

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10. DEBT AND OTHER FINANCIAL LIABILITIES

	December 31, 2020	December 31, 2019
Current		
Senior secured term loan	9,750	5,625
Lender warrants	2,009	12,772
Purchase consideration	1,320	8,989
Derivative financial instruments	2,887	51
Lease obligation	392	418
	16,358	27,855
Non-current		
Senior secured term loan	96,205	86,582
Purchase consideration	—	2,559
Preferred shares	2,034	2,188
Derivative financial instruments	—	8
Lease obligation	776	485
	99,015	91,822
	115,373	119,677

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 senior secured term loan was $100,000. In September 2020, the Company and its lenders amended the terms of the senior secured credit facility to provide an additional $20,000 in borrowing. In addition, there is a $35,000 revolving facility, available under similar terms, that is undrawn at December 31, 2020. The Company may also request to be provided with incremental loans, for a maximum additional loan amount of $70,000 to support acquisitions and other growth opportunities. The maturity date is August 15, 2023. The principal amount of the senior secured term loan outstanding as at December 31, 2020 was $107,618.

Interest on the 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 4.00% depending on the leverage ratio of the Company at the time. In fiscal 2019, the Company entered into a swap agreement to fix the LIBOR portion of the rate on the remainder of the initial principal amount at 1.453% for the remainder of the 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, operational results and coverage ratios. As at December 31, 2020, 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.

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

Carrying amount as at December 31, 2018	96,707
Repayment	(5,000)
Accreted interest	500
Carrying amount as at December 31, 2019	92,207
Debt costs	(658)
Repayment	(6,132)
Drawdown	20,000
Accreted interest	538
Carrying amount as at December 31, 2020	105,955
Less current portion	9,750
Non-current portion as at December 31, 2020	96,205

Lender warrants

In fiscal 2015, the Company issued lender warrants to the lenders under a previous senior secured term loan. These lender warrants give the lenders the right to acquire 1,296,008 common shares at an exercise price of $10.13 per share until August 11, 2021, of which 1,292,506 were outstanding as at December 31, 2019.

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

During fiscal 2020, 832,459 lender warrants were exercised, resulting in the issuance of 340,706 common shares for proceeds of $358.

As at December 31, 2020, the total fair value of the remaining 460,047 lender warrants was determined to be $2,009 and the Company recorded income of $5,342 (note 18) in fiscal 2020 (2019 – expense of $8,841) 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 48% (2019 – 42%).

Fair value as at December 31, 2018	3,931
Change in fair value	8,841
Fair value as at December 31, 2019	12,772
Transfer to share capital on exercise	(5,421)
Change in fair value	(5,342)
Fair value as at December 31, 2020	2,009

On March 2, 2021, a further 407,507 lender warrants were exercised, resulting in the issuance of 126,113 common shares.

Purchase consideration

As part of the consideration for the acquisition of Absorica®, the Company was obligated to make fixed quarterly and semi-annual payments totalling approximately $38,850 for the period from July 2016 through 2020. This obligation was recorded at the present value of deferred payments using a discount rate of 10%. Payments of $8,300 were made in fiscal 2020. Interest expense on this obligation for fiscal 2020 amounted to $577 (2019 – $1,397). In the second quarter of fiscal

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2020, the Company amended the agreement with the vendor, which reduced the final purchase price by $2,505. The Company has accounted for this as a reduction to the purchase consideration payable, with a corresponding reduction to the intangible asset.

As part of the consideration for the acquisition of the Vascepa rights in fiscal 2017, the Company made a milestone payment of $3,750 in fiscal 2020.

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
Addition	3,750
Payment	(12,050)
Reduction related to amendment	(2,505)
Accreted interest	577
Carrying amount as at December 31, 2020	1,320
Less current portion	1,320
Non-current portion	—

Preferred shares

Under the Arrangement described in note 8, the Company issued 12,976,527 preferred shares to the former shareholders of AMD. The purpose of the preferred shares was to allow the former shareholders of AMD 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. These excess funds were placed in escrow. As the escrow funds are intended to redeem the preferred shares, 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.

In May 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. In January 2021, the remaining 3,655,036 preferred shares were redeemed at a price of C$0.70 for final redemption payment of approximately C$2,600.

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
Escrow fund activity	(186)
Foreign exchange	32
Fair value as at December 31, 2020	2,034

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11. SHARE CAPITAL

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

Issued and outstanding

The issued and outstanding common shares as at December 31, 2020 are as follows:

	#	$
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
Issued on exercise of warrants	757,117	8,663
Issued on exercise of stock options	6,151	61
Balance as at December 31, 2020	31,822,406	257,411

Broker warrants

On June 5, 2019, the Company issued 171,960 broker warrants. 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. At December 31, 2019, 171,788 broker warrants were outstanding.

In fiscal 2020, 100,596 broker warrants have been exercised for proceeds of $1,232, and 71,192 broker warrants remain outstanding as at December 31, 2020.

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 fiscal 2019, the share price target was met for the first and second tranche. The warrant holders then exercised their warrants, resulting in 631,482 common shares being issued.

In fiscal 2020, the share price target was met for the third tranche. The warrant holders then exercised their warrants, resulting in 315,815 common shares being issued. In August 2020, the remaining 315,964 additional lender warrants expired unexercised.

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.

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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, 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	6.92
Granted	507,250	11.94
Exercised	(6,151)	7.44
Forfeited	(14,365)	10.21
Outstanding as at December 31, 2020	2,978,431	10.02

As at December 31, 2020, 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	510,244	4.6	263,971	6.39
9.25	84,345	7.2	41,791	9.25
10.00	1,299,475	4.8	1,283,700	10.00
11.40	38,461	5.9	9,610	11.40
11.72	540,656	5.4	144,886	11.72
11.94	505,250	6.9	—	—
	2,978,431	5.3	1,743,958	9.59

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 2020 are a volatility rate of 48% (2019 – 44%), and an expected option life of between four and seven years (2019 – between four and seven years). The estimated fair value of the options is amortized to income over the options' vesting period on a straight-line basis. In fiscal 2020, the Company has recorded stock-based compensation expense of $1,544 (2019 – $1,432) in respect of options. This charge has been credited to contributed surplus. Unrecognized stock-based compensation expense as at December 31, 2020 related to the Plan was $3,349.

Founder performance share units ("Founder PSUs")

In fiscal 2020, the remaining 65,000 equity-settled Founder PSUs and 195,000 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 (the "2018 PSUs"). Each 2018 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.

The fair value of the 2018 PSUs was determined using a risk-neutral Monte Carlo simulation with a volatility assumption of 48% and is accounted for as a liability. In fiscal 2020, the Company has recorded stock-based compensation expense of $921 (2019 – $2,329) in respect of the 2018 PSUs.

On November 9, 2020, the Company issued 337,000 PSUs to selected employees of the Company (the "2020 PSUs"). Each 2020 PSU entitles the holder to receive a cash payout if the terms and conditions of the PSU plan are met. These terms include relative total shareholder return ("TSR") performance compared to relevant market indices to be achieved prior to expiry of the three-year term on November 8, 2023.

The fair value of the 2020 PSUs was determined using a risk-neutral Monte Carlo simulation to develop a probabilistic correlation matrix for the Company's TSR and the relevant comparators. In fiscal 2020, the Company has recorded stock-based compensation expense of $66 in respect of the 2020 PSUs.

As at December 31, 2020, the liability recorded in the consolidated balance sheet in respect of PSUs is $3,794 (2019 – $2,802).

Base shelf prospectus

On May 15, 2020, the Company filed a short-form base shelf prospectus. The base shelf prospectus enables the Company to raise up to C$250,000 over the 25-month period that the base shelf prospectus is effective.

Dividends

The holders of common shares are entitled to receive such dividends as the Board of Directors determines to declare on a share-for-share basis, as and when any such dividends are declared or paid.

In fiscal 2018, the Company's Board of Directors established a dividend policy providing for the payment of quarterly dividends of C$0.05 per common share.

In fiscal 2019 and 2020, quarterly dividends of $0.05 per common share were declared in March, May, August and November.

On March 17, 2021, the Company's Board of Directors declared a dividend of C$0.05 per outstanding common share to be paid on June 15, 2021, to shareholders of record as of April 30, 2021.

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.

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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, 2020	Year ended December 31, 2019
Net loss for the year	(15,331)	(19,552)
Weighted average number of common shares outstanding – basic	31,713,592	29,360,830
Effect of dilutive securities	—	—
Weighted average number of common shares outstanding – diluted	31,713,592	29,360,830

The calculation of diluted loss per share in fiscal 2020 excludes 3,619,392 (2019 – 4,774,546) 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 November 5, 2020, the Company announced that the Exchange had accepted the Company's Notice of Intention to Make a Normal Course Issuer Bid under which the Company may, if considered advisable, purchase for cancellation, from time to time over the next 12 months, up to an aggregate of 1,587,193 of its issued and outstanding common shares, being 5% of the issued and outstanding common shares as of October 30, 2020.

No common shares were purchased under the Normal Course Issuer Bid in fiscal 2020.

12. CAPITAL MANAGEMENT

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

Managed capital is set out in the following table:

	December 31, 2020	December 31, 2019
Non-current debt and other financial liabilities	99,015	91,822
Shareholders' equity	169,249	178,199
	268,264	270,021

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.

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

13. INCOME TAXES

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

	Year ended December 31, 2020	Year ended December 31, 2019
Current income tax	1,515	1,330
Deferred income tax resulting from temporary differences	(2,483)	(2,241)
	(968)	(911)

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, 2020	Year ended December 31, 2019
Loss before income taxes	(16,299)	(20,463)
Tax recovery at Canadian corporate tax rate of 26.7%	(4,352)	(5,464)
Items not included or deducted for income tax purposes	(5,676)	3,125
Income subject to tax in foreign jurisdictions	743	1,428
Tax losses not recognized	8,317	—
	(968)	(911)

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

	December 31, 2020	December 31, 2019
Balance, beginning of year	1,454	4,208
Tax benefit of share issuance costs	—	(707)
Tax recovery recognized	(2,483)	(2,241)
Foreign exchange	(144)	194
Balance, end of year	(1,173)	1,454

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

	December 31, 2020	December 31, 2019
Tax differences related to product rights	8,793	10,715
Unused tax loss carryforwards	(6,085)	(5,764)
Tax benefit of share issue costs	(644)	(930)
Tax treatment of debt issue costs	(203)	(567)
Tax treatment of derivative contracts	(771)	56
Tax treatment of accruals and provisions	(2,040)	(1,833)
Other timing differences	(223)	(223)
	(1,173)	1,454

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

	December 31, 2020	December 31, 2019
Deferred tax asset	(1,173)	(1,057)
Deferred tax liability	—	2,511
	(1,173)	1,454

As at December 31, 2020, the Company had approximately $54,000 (2019 – $22,000) of non-capital loss carryforwards available in Canada, which expire between the years 2034 and 2040.

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

As at December 31, 2020	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Non-financial	Total carrying amount
Cash and cash equivalents	20,612	—	—	—	20,612
Accounts receivable	—	12,497	—	—	12,497
Other non-financial assets	—	—	—	270,797	270,797
Total assets	20,612	12,497	—	270,797	303,906
Accounts payable and accrued liabilities	3,794	—	10,429	—	14,223
Provisions	—	—	—	4,516	4,516
Debt and other financial liabilities	6,930	—	108,443	—	115,373
Other non-financial liabilities	—	—	—	545	545
Total liabilities	10,724	—	118,872	5,061	134,657

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

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	2,802	—	10,664	—	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	17,821	—	115,322	8,329	141,472

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.

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, 2020:

Description	Level 1	Level 2	Level 3
Interest rate swap	—	(2,586)	—
Foreign currency forward contract	—	(301)	—
PSUs	—	—	(3,794)
Lender warrants	—	—	(2,009)
	—	(2,887)	(5,803)

In fiscal 2020, the Company recorded an expense of $2,858 (2019 – income of $271) related to the change in fair value of the interest rate swap; an expense of $241 (2019 – expense of $814) related to the change in fair value of the foreign currency forward contract; an expense of $987 (2019 – expense of $2,329) in respect of the PSUs; and income of $5,342 (2019 – expense of $8,841) related to the change in the fair value of the lender warrants (note 10).

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

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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, 2020, three counterparties accounted for 23%, 14% and 11%, respectively, of revenues.

As at December 31, 2020, three counterparties accounted for 21%, 18% and 17%, respectively, of the outstanding accounts receivable balance.

With respect to credit risk arising from the other financial assets of the Company, which at December 31, 2020 comprise cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

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

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

The table below summarizes the maturity profile of the Company's financial liabilities as at December 31, 2020 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	—	14,223	—	—	14,223
Purchase consideration	—	1,320	—	—	1,320
Senior secured term loan	—	9,750	97,868	—	107,618
Leases	—	541	680	—	1,221
	—	25,834	98,548	—	124,382

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, 2020, the annual interest expense would be approximately $4,979 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 4, 7 and 21.

Other risks

As described in note 10, 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 4.00% depending on the leverage ratio of the Company at the time. In fiscal 2019, the Company entered into an interest rate swap to fix the LIBOR portion of the interest rate on the remainder of the initial principal amount, which on December 31, 2020 was $87,993. As a result, that portion of the senior secured term loan is not exposed to fluctuations in the LIBOR.

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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, 2020 would not result in a material change in net income for the fiscal year.

15. SEGMENTED INFORMATION

The Company is composed of a single reportable segment.

Revenues are generated from the following sources:

	Year ended December 31, 2020	Year ended December 31, 2019
Product sales	45,658	44,592
Royalties	10,451	9,568
	56,109	54,160

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

	Year ended December 31, 2020	Year ended December 31, 2019
Canada	29,414	27,159
United States	25,500	27,001
Rest of world	1,195	—
	56,109	54,160

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, 2020
Current assets	29,783	5,679	10,449	45,911
Non-current assets	140,893	87,417	29,685	257,995
Total assets	170,676	93,096	40,134	303,906
Current liabilities	27,455	2,077	6,110	35,642
Non-current liabilities	99,015	—	—	99,015
Total liabilities	126,470	2,077	6,110	134,657

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

	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

16. EMPLOYEE BENEFITS

	Year ended December 31, 2020	Year ended December 31, 2019
Selling and marketing	5,463	2,099
Medical, regulatory and patient support	1,749	1,277
General and administrative	7,189	5,982
	14,401	9,358

17. STOCK-BASED COMPENSATION

	Year ended December 31, 2020	Year ended December 31, 2019
PSU expense	987	2,329
Stock option expense	1,544	1,432
	2,531	3,761

18. FINANCE AND RELATED COSTS, NET

	Year ended December 31, 2020	Year ended December 31, 2019
Interest on senior secured term loan	5,134	5,720
Accreted interest	1,173	1,979
Total interest expense	6,307	7,699
Interest income	(322)	(585)
Foreign exchange loss (gain)	575	(1,022)
Realized gain on foreign currency forward contract	(305)	(598)
Fair value adjustment on financial assets and liabilities		
Derivative financial instruments	3,099	543
Lender warrants	(5,342)	8,841
	4,012	14,878

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19. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended December 31, 2020	Year ended December 31, 2019
Accounts receivable	1,520	6,060
Inventories	(8,077)	(501)
Prepaid expenses and other current assets	(281)	(854)
Accounts payable and accrued liabilities	(70)	(2,031)
Provisions	(955)	(1,103)
Income taxes payable	198	(22)
	(7,665)	1,549

Interest of $5,134 (2019 – $5,720) was paid during the year ended December 31, 2020. Income taxes of $1,317 (2019 – $1,352) were paid during the year ended December 31, 2020.

20. RELATED PARTY DISCLOSURES

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

	Year ended December 31, 2020	Year ended December 31, 2019
Short-term benefits	4,096	3,050
Stock-based compensation	1,354	2,036

Short-term benefits for fiscal 2020 include a retirement allowance of $1,313 paid to the Company's chief executive officer.

21. 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
2021	541
2022	338
2023	275
2024	67
	1,221

Contingent consideration

Pursuant to the royalty acquisition described in notes 4 and 7, the Company has contingent obligations of up to $10,000 for regulatory milestones and $18,500 for commercial performance milestones, the timing and achievability of which cannot be determined at this time.

Pursuant to the acquisition of the Vascepa rights described in note 7, the Company has contingent obligations for sales-based milestone payments of up to an additional $50,000, the timing and achievability of which cannot be determined at this time.

Pursuant to the acquisition of the Trinomia rights described in note 7, the Company has contingent obligations for regulatory and sales-based milestones of up to an additional C$30,675, the timing and achievability of which cannot be determined at this time.

Pursuant to the acquisition of the PERSERIS rights described in note 7, the Company has contingent obligations for regulatory and pre-commercial milestones of up to $4,000 that could become payable as soon as fiscal 2021. The Company expects that these milestones will be payable in fiscal 2021.

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.