DRI HEALTHCARE TRUST

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

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INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited) *(in thousands of U.S. dollars)*		As at September 30, 2021	As at December 31, 2020
Assets			
Cash and cash equivalents		$ 33,767	$ —
Royalties receivable		43,965	—
Funds held in trust	note 6, 11	7,369	—
Derivative assets	note 7	349	—
Other current assets		1,510	—
Current assets		86,960	—
Royalty assets, net of accumulated amortization	note 8	306,572	—
Loan receivable	note 9	49,530	—
Restricted cash	note 10	1,000	—
Other non-current assets		1,067	—
Non-current assets		358,169	—
Total assets		$ 445,129	$ —
Liabilities			
Accounts payable and accrued liabilities		$ 3,466	$ —
Distributions payable to unitholders	note 12	1,504	—
Current portion of secured notes	note 11	20,138	—
Other current liabilities		1,506	—
Current liabilities		26,614	—
Long-term portion of secured notes	note 11	26,945	—
Unit-based compensation liability	note 14	25	
Total liabilities		53,584	—
Equity			
Unitholders' capital	note 12	378,003	—
Other equity	note 12	(981)	—
Retained earnings and accumulated other comprehensive earnings		14,523	—
Total equity		391,545	—
Total liabilities and equity		$ 445,129	$ —

See accompanying notes to the unaudited interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF NET EARNINGS AND OTHER COMPREHENSIVE EARNINGS

(unaudited) *(in thousands of U.S. dollars except per unit data)*			Three months ended September 30, 2021		Nine months ended September 30, 2021
Income					
Royalty income	note 8	$	22,861	$	59,000
Interest income on loan receivable	note 9	$	544	$	544
Other interest income			4		7
			23,409		59,551
Expenses					
Amortization of royalty assets	note 8		11,125		28,923
Management fees	note 21		1,113		4,163
Interest expense	note 11		383		1,111
Servicer fees	note 21		400		978
Deal investigation and research costs			602		1,531
Unit-based compensation	note 14		25		25
Other operating expenses	note 15		1,463		4,036
Other items	note 8		718		718
Net loss on interest rate derivatives	note 7		3		—
Net gain on foreign exchange derivatives	note 7		(58)		(135)
			15,774		41,350
Net earnings and comprehensive earnings		$	7,635	$	18,201
Net earnings and comprehensive earnings per unit					
Basic and diluted	note 13	$	0.19	$	0.55

See accompanying notes to the unaudited interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) *(in thousands of U.S. dollars)*		Unitholders' Capital	Other Equity	Retained Earnings	Total Equity
Balance - October 21, 2020 (date of formation)		$ —	$ —	$ —	$ —
Issuance of units	note 12	—	—	—	—
Net earnings (loss)		—	—	—	—
Balance - December 31, 2020		$ —	$ —	$ —	$ —
Issuance of units - private offering	note 12	**34,730**	**—**	**—**	**34,730**
Issuance of units - public offering	note 12	**365,270**	**—**	**—**	**365,270**
Unit issuance costs	note 12	**(21,997)**	**—**	**—**	**(21,997)**
Reserve for units subject to automated purchase plan	note 12	**—**	**(981)**	**—**	**(981)**
Distributions to unitholders	note 12	**—**		**(3,678)**	**(3,678)**
Net earnings		**—**	**—**	**18,201**	**18,201**
Balance - September 30, 2021		**$ 378,003**	**$ (981)**	**$ 14,523**	**$ 391,545**

See accompanying notes to the unaudited interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited) *(in thousands of U.S. dollars)*		**Nine months ended September 30, 2021**
Operating Activities		
Net earnings		**18,201**
Adjustment to net earnings for:		
Interest income on loan receivable	note 9	**(544)**
Other interest income		**(7)**
Interest expense	note 11	**1,111**
Amortization of royalty assets	note 8	**28,923**
Unit-based compensation expense	note 14	**25**
Net gain on foreign exchange derivatives	note 7	**(135)**
		47,574
Changes in non-cash working capital:		
Royalties receivable		**14,155**
Funds held in trust	note 6	**(7,241)**
Other current assets		**(449)**
Other non-current assets		**(1,067)**
Accounts payable and accrued liabilities		**1,655**
Other current liabilities		**525**
		7,578
Cash provided by operating activities		**55,152**
Financing Activities		
Issuance of unitholders' capital	note 12	**400,000**
Unit issuance costs	note 12	**(21,423)**
Cash distributions paid	note 12	**(2,174)**
Repayment of secured notes	note 11	**(23,193)**
Cash interest paid	note 11	**(1,009)**
Change in restricted cash	note 10	**435**
Cash provided by financing activities		**352,636**
Investing Activities		
Purchase of royalty assets and other net assets, net of cash	note 5	**(324,327)**
Cash transaction costs paid	note 5	**(206)**
Investment in loan receivable, net of commitment fees received	note 9	**(49,500)**
Cash interest received		**7**
Other investing activities		**5**
Cash used in investing activities		**(374,021)**
Increase in cash and cash equivalents		**33,767**
Cash and cash equivalents, beginning of the period		**—**
Cash and cash equivalents		**33,767**

See accompanying notes to the unaudited interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)
(in thousands of U.S. dollars except per unit data)

DRI Healthcare Trust was established as an unincorporated open-ended trust under the laws of the Province of Ontario pursuant to a declaration of trust on October 21, 2020. The Trust is a “mutual fund trust” as defined in the Income Tax Act (Canada) but not a “mutual fund” within the meaning of applicable Canadian securities legislation.

DRI Healthcare Trust was formed to provide unitholders with differential exposure to the pharmaceutical and biotechnology industries through ownership and acquisitions of pharmaceutical royalties. DRI Capital Inc. (“**DRI Capital**”, our “**manager**”) acts as the manager for the Trust pursuant to the terms of a management agreement.

DRI Healthcare Trust’s units became listed on the Toronto Stock Exchange in Canadian dollars under the symbol “**DHT.UN**” and in U.S. dollars under the symbol “**DHT.U**” effective February 11, 2021, pursuant to its initial public offering, as described in note 12.

The registered address for DRI Healthcare Trust is 100 King Street West, Suite 7250, Toronto, Ontario, Canada.

All amounts included in the notes to these unaudited interim consolidated statements are in thousands of U.S. dollars unless otherwise noted.

Throughout these statements, “**Trust**”, “**we**”, “**us**” or “**our**” refer to DRI Healthcare Trust and its consolidated subsidiaries.

The unaudited interim consolidated financial statements were authorized for issuance by the board of trustees on November 8, 2021.

NOTE 1 | BASIS OF PREPARATION

(a) Statement of Compliance

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“**IAS**”) 34, *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards (“**IFRS**”) and its interpretations adopted by the International Accounting Standards Board (“**IASB**”).

(b) Basis of Measurement

These interim consolidated financial statements have been prepared on a historical cost basis, adjusted for the revaluation of certain financial assets and liabilities recorded at fair value through net earnings (loss).

(c) Basis of Consolidation

These interim consolidated financial statements represent the accounts of DRI Healthcare Trust and its directly or indirectly owned subsidiaries. Control is achieved when the Trust is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The results of operations of subsidiaries are included in the interim consolidated financial statements from the date on which the Trust obtains control. All significant intercompany balances and transactions have been eliminated.

These interim consolidated financial statements include the accounts of DRI Healthcare Trust and its subsidiaries, as presented below.

Entity	Date of Control	Jurisdiction of Organization	Economic Interest(i)
DRI Healthcare ICAV	February 19, 2021	Ireland	100%
Drug Royalty III, L.P.	February 19, 2021	Delaware, United States	100%
Drug Royalty III LP 2	February 19, 2021	Delaware, United States	100%
Drug Royalty III LP 1	February 19, 2021	Delaware, United States	100%
Drug Royalty LP 2	February 22, 2021	Delaware, United States	100%
Drug Royalty LP 1	February 22, 2021	Delaware, United States	100%
Drug Royalty LP 3	February 22, 2021	Cayman Islands	100%
ROC Royalties S.à r.l.	February 19, 2021	Luxembourg	100%
DRC Management III LLC 1	February 19, 2021	Delaware, United States	100%
DRC Management III LLC 2	February 19, 2021	Delaware, United States	100%
DRC Management LLC 2	February 22, 2021	Delaware, United States	100%
Drug Royalty III GP, LLC	February 19, 2021	Delaware, United States	100%
DRC Springing III LLC	February 19, 2021	Delaware, United States	100%
TCD Royalty Sub, LP(ii)	September 30, 2021	Delaware, United States	100%

(i) Economic interest can be held directly or indirectly through wholly-owned subsidiaries.

(ii) Converted to a limited partnership from a limited liability company immediately subsequent to the acquisition of control by the Trust.

(d) Functional and Presentation Currency

The functional and presentation currency of the Trust is the United States dollar (“U.S. dollar”).

NOTE 2 | SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within other liabilities in the consolidated statements of financial position.

(b) Royalties Receivable

Royalties receivable is recognized if an amount of unconditional consideration is due from a counterparty. Royalties receivable is recognized initially at fair value and subsequently measured at amortized cost, less loss allowances. The Trust applies the simplified approach for measuring the loss allowance by applying a lifetime expected loss allowance for all royalties receivable. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganization and default in payments are all considered indicators that a loss allowance might be required. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit-impaired.

A credit loss is recorded in net comprehensive earnings (loss) with an offsetting amount recorded as an allowance against royalties receivable on the statement of financial position. When a receivable is deemed permanently uncollectible, the receivable is written off against the allowance account.

(c) Royalty Assets

Royalty assets represent the contractual right to receive, directly or indirectly, a royalty payment, license fee or any other form of compensation or benefit arising from or contingent upon the use of any patent, copyright or any other form of intellectual property or other right relating to pharmaceutical drugs, devices or delivery technologies.

In accordance with IFRS, royalty assets are assessed based on the terms of each royalty arrangement to determine whether they meet the definition of financial or intangible assets. The Trust's royalty assets are recognized as intangible assets. Acquired royalty assets are measured initially at the fair value of the consideration paid. Royalty assets are subsequently amortized over the useful life of the asset and are presented net of any impairment.

A royalty asset is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of a royalty asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in net comprehensive earnings (loss) when the asset is derecognized.

Amortization of royalty assets

Royalty assets with finite lives are amortized over the economic useful life of the asset on a straight-line basis. The expected economic useful life of the asset takes into consideration the contractual terms of the royalty entitlement and reflects the expected pattern of consumption of future economic benefits embodied in the asset. Expected useful life is separately considered for each royalty asset and reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits are considered to modify the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Impairment of royalty assets

The Trust assesses, at the end of each reporting period, whether there are indications that its royalty assets may be impaired. If any such indications exist, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows for the duration of royalty entitlement are discounted to their present value using appropriate discount rates that reflect current market assessments of the time value of money and the risks specific to the asset, for which the estimates of future cash flows have not been adjusted.

If the estimated recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in net comprehensive earnings (loss).

The Trust assesses, at the end of each reporting period, whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such an indication exists, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Impairment reversal is recognized in net comprehensive earnings (loss).

(d) Recognition and Derecognition of Financial Instruments

Purchases and sales of financial assets are recognized on the trade date, being the date on which the Trust commits to purchase or sell the asset.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or the contractual rights to the cash flows are transferred. Financial liabilities are derecognized when the liability is extinguished through the discharge, cancellation or expiration of the contract.

(e) Financial Instruments

Financial assets are classified and measured based on the business model in which they are held and the characteristics of their cash flows. At initial recognition, all financial assets classified as amortized cost, fair value through profit or loss ("**FVTPL**") and fair value through other comprehensive income ("**FVOCI**") are measured at fair value. The Trust classifies its financial assets in the following categories:

- Financial assets at amortized cost: A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL – it is held in a business model whose objective is to hold the asset to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets within this category are subsequently measured at amortized cost using the effective interest rate method. A credit loss is recorded in net comprehensive earnings (loss) with an offsetting amount recorded as an allowance against assets recorded at amortized cost on the statement of financial position. When a receivable is deemed permanently uncollectible, the receivable is written off against the allowance account.

- Financial assets at FVTPL: Financial assets not classified as amortized cost or FVOCI are measured at FVTPL. On initial recognition, the Trust may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or FVOCI at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. These assets are subsequently measured at fair value, with net gains or losses, including any interest or dividend income, recognized through profit or loss.

Financial liabilities are classified as measured at amortized cost or FVTPL. Once the classification of a financial liability has been determined, reclassification is not permitted.

- Financial liabilities at amortized cost: A financial liability is measured at amortized cost using the effective interest rate method if it is not designated as FVTPL. Interest expense and foreign exchange gains and losses are recognized in profit or loss.
- Financial liabilities at FVTPL: A financial liability is classified as FVTPL if it is a derivative or designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value, and net gains and losses, including any interest expense, are recognized in profit or loss. For financial liabilities classified as FVTPL, changes in credit risk will be recognized in other comprehensive income, with the remainder of changes recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss.

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Trust:

- has a current, legally enforceable right to set off the recognized amounts; and
- intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(f) Derivative Financial Instruments

Derivatives are initially recognized at fair value and subsequently measured at fair value at each reporting date. The Trust does not account for its derivative assets as effective hedges.

The Trust enters into a variety of derivative contracts, such as foreign exchange and interest rate derivatives to manage its exposure to currency volatility inherent in its royalty agreements, as well as its exposure to volatility in the market interest rates related to its secured notes. Foreign exchange derivatives are measured at the present value of future cash flows based on the exchange rates at the end of the period. Interest rate derivatives are measured at the present value of estimated future cash flows based on observable yield curves.

(g) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

IFRS 13, *Fair value measurement,* establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Trust. Unobservable inputs are inputs that reflect the Trust's assumptions as to what market participants would use in pricing the asset or liability, based on the best information available in the circumstances. The hierarchy is broken down into three levels, based on the observability of inputs, as follows:

- Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities that the Trust has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these instruments does not entail a significant degree of judgment.
- Level 2: Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

In certain cases, the inputs used to measure fair value may fall into different levels in the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The Trust's investments in currency and interest rate derivatives are considered Level 2 financial instruments.

(h) Provisions

Provisions for legal claims are recognized when the Trust has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. The expense relating to a provision is included in net comprehensive earnings (loss) net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

(i) Income Taxes

The Trust is treated as a "mutual fund trust", as defined in the Income Tax Act (Canada). The Trust is not subject to income taxes due to the nature of its organization, given that all the Trust's income is distributed to unitholders in cash or by way of additional units each year. Income distributed by the Trust is included in the tax returns of the unitholders.

(j) Unitholders' Capital

The Trust has classified its units as equity pursuant to the provisions of IAS 32, *Financial instruments: Presentation*, on the basis that the units meet all of the criteria in IAS 32 for such classification. As at September 30, 2021, the Trust did not have any issued or outstanding preferred units.

Incremental costs directly attributable to the issuance of new units or preferred units are shown in equity as a reduction from the proceeds of issuance of such units.

(k) Distributions to Unitholders

Distributions to unitholders of DRI Healthcare Trust authorized by the board of trustees on or before the end of the reporting period but not distributed at the end of the reporting period are recognized as a liability in the period in which the distributions are authorized.

(l) Royalty Income

The Trust records the amount of royalty payments received or receivable as royalty income. The Trust typically earns royalties as a percentage of sales revenue generated by a third party at the time that the sales occur. The third parties, however, report and pay royalties owed for sales in any given quarter after the conclusion of that quarter, and, in some instances, although royalties are reported quarterly, payments are made on a semi-annual or annual basis.

The Trust estimates and records the royalty income earned for sales by third parties in the period in which such sales occur, based on reasonable estimates of such amounts. When reasonable estimates cannot be made, the Trust records income once information to make a reasonable estimate becomes available, which is typically upon receipt of royalties reported by such third parties.

The Trust's royalty income is based on the contractual rights to revenue streams that are based on the related underlying patent or exclusivity protection of the pharmaceutical products invested in by the Trust.

(m) Interest Income on Loan Receivable

The Trust records interest income related to its loan receivable using the effective interest method.

(n) Management Fees

DRI Capital acts as the manager of the Trust pursuant to a management agreement. Under the management agreement, the Trust is required to pay quarterly management fees to our manager or its affiliates equal to 6.50% of total cash royalty receipts for such quarter and 0.25% of the fair value of security investments and related derivative financial instruments, as of the end of such quarter. Security investments consist of (i) the securities (including controlling and non-controlling interests, equity, debt and hybrid securities) of entities in the pharmaceutical, biopharmaceutical, medical or healthcare industry or operating assets thereof (other than royalties); (ii) any securities, investments or contracts that may provide a hedge for the investments referred to in clause (i); and (iii) other assets and investments determined by the manager to be related to the investments referred to in (i) and (ii).

Our manager is entitled to receive management fees regardless of whether the Trust realizes gains on the eventual sale or realization of royalty assets. Management fees are intended to fund the operating and personnel expenses of our manager.

Management fees are payable quarterly in advance as of the first business day of each fiscal quarter based on the estimated projected cash receipts from royalty assets and estimated projected security investment values as of such date. Management fees are recalculated based on the actual cash receipts from royalty assets and actual security investment values following the date on which the Trust's financial statements are finalized. The excess or shortfall in management fees paid in advance is received from or repaid to our manager on or prior to the next date the management fees are due.

(o) Performance Fees

DRI Capital is entitled to performance fees determined on a portfolio-by-portfolio basis pursuant to the terms of a management agreement. DRI Capital is not entitled to performance fees on royalty assets acquired as part of the acquisition transaction at the time of the Trust's initial public and private offerings of units described in note 5. Performance fees are structured on a portfolio-by-portfolio basis, with portfolios based on a group of investments made during each consecutive two-year period, to mitigate the risk that performance fees are paid on a profitable investment even though, in the aggregate, the investments made over a two-year period are not profitable, and further to reduce the risk that performance fees are payable at a time when our portfolio of investments is not performing well overall.

Performance fees are determined at the end of each fiscal period for each portfolio equal to 20% of the net economic profit for such portfolio for the applicable period. Net economic profit is defined as the aggregate cash receipts for all new portfolio investments in such portfolio less total expenses. Total expenses are defined as interest expense, operating expense and recovery of acquisition cost in respect of such portfolio.

The manager may, subject to obtaining any applicable regulatory approval, elect to receive payment for the performance fees in the form of new units issued by the Trust instead of in cash.

The payment of any performance fees to our manager will be subject to the following three conditions:

(i) Condition One: Cumulative net economic profit, defined as the difference between the aggregate cash receipts for all new portfolio investments in such portfolio from the date of acquisition less total expenses from the date of acquisition, for such portfolio for all periods prior to the relevant quarterly determination date is positive. Cumulative net economic profit is positive if the aggregate cash receipts for all investments in a portfolio for all prior periods are greater than the total expenses allocated to such portfolio for all prior periods.

(ii) Condition Two: The aggregate projected cash receipts, calculated based on analyst consensus, for all investments in such portfolio, for all periods commencing after such quarterly determination date are equal to or greater than 135% of the projected total expenses for all investments in such portfolio through the expected termination dates of all investments in such portfolio.

(iii) Condition Three: The aggregate projected cash receipts, calculated based on analyst consensus, for all investments in all portfolios, for all periods commencing after such quarterly determination date are equal to or greater than 135% of the projected total expenses for all such portfolios through the termination or disposition dates of all investments in all such portfolios.

(p) Unit-based Compensation

Unit-based compensation benefits under the Trust's Omnibus Equity Incentive Plan ("**Incentive Plan**") are provided to employees of the Trust or its designated affiliates, consultants or board members of the Trust. The Incentive Plan consists of Options, Restricted Units ("**RUs**"), Performance Units ("**PUs**") and Deferred Units ("**DUs**"). These unit-based compensation plans are accounted for as cash-settled awards as the Trust is an open-ended trust making its units redeemable, and thus requiring outstanding awards to be recognized as liabilities carried at fair value. The Trust has discretion to settle the units either in cash or by issuing units. These unit-based compensation plans are measured at fair value at the grant date and a unit-based compensation expense is recognized consistent with the vesting features of each plan. The liability is adjusted for changes in fair value with a corresponding adjustment to unit-based compensation expense in the period in which they occur. As awards are settled for Trust units or upon cancellation or forfeiture of awards, the liability is reduced and a corresponding increase in equity is recorded.

RUs, PUs and DUs are credited with distribution equivalents in the form of additional RUs, PUs and DUs, respectively, on each distribution payment date in respect of which normal distributions are paid on the Trust's units. Such distribution equivalents are subject to the same vesting conditions as the instruments to which they relate. Distributions on RUs, PUs and DUs are treated as an increase in unit-based compensation expense with a corresponding increase in unit-based compensation liability and an increase in the number of awards outstanding, respectively.

The board of trustees may, from time to time, subject to the provisions of the Incentive Plan and such other terms and conditions as the board may prescribe, grant DUs to eligible participants of the Incentive Plan. The board has complete discretion over the terms and conditions of each award. The board may permit trustees, and the trustees may elect at the board's approval, to receive all or portion of their annual retainer fees in the form of DUs.

(q) Earnings per Unit

Basic earnings per unit is calculated by dividing the profit attributable to equity holders by the weighted average number of units outstanding during the period, excluding treasury units, if any.

Diluted earnings per unit reflects the dilution effect from options, RUs and DUs using the treasury share method. PUs are included in the calculation of diluted earnings per unit only if the associated performance conditions are satisfied at the end of the reporting period as if were the end of the performance period.

(r) Foreign Currency Translation

Foreign currency transactions are translated at the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the exchange rate prevailing at the period end date. Gains and losses resulting from translation are included in the Trust’s earnings in the year in which they arise. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

(s) Acquisitions

At the time of acquisition of a royalty asset or a portfolio of royalty assets, the Trust evaluates whether the acquisition is a business combination or asset acquisition. IFRS 3, *Business combinations,* is only applicable if it is considered that a business has been acquired. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

When determining whether the acquisition of a royalty asset or a portfolio of royalty assets is a business combination or an asset acquisition, the Trust exercises judgment as to whether the integrated set of activities and assets consists of inputs, and processes applied to those inputs, that have the ability to contribute to the creation of outputs. The Trust also considers the optional concentration test under IFRS 3 that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

If the acquisition is determined to be a business, it is accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values on the date of the exchange. The Trust recognizes non-controlling interest in acquired entities either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net assets. Acquisition-related costs are expensed as incurred. Goodwill is recognized as the excess of consideration transferred and the net identifiable assets acquired in the business combination.

When an acquisition does not represent a business, the Trust classifies the portfolio of royalty assets as an asset acquisition. Identifiable assets acquired and liabilities assumed in an asset acquisition are measured initially at an allocated amount of transaction consideration, including acquisition-related transaction costs, on a relative fair value basis at the date of purchase. Acquisition-related transaction costs are capitalized to the royalty assets.

NOTE 3 | USE OF JUDGMENTS AND ESTIMATES

The preparation of the interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and equity, and the related note disclosures. Actual results could differ from those estimates and such differences could be material to the interim consolidated financial statements. The estimates and underlying assumptions are reviewed by management on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Financial statement areas which require critical judgments, assumptions and estimates that could have a material impact on the interim consolidated financial statements are described below.

Royalty income

In determining royalty income earned, judgments are made with respect to the performance of the underlying products and commercial factors based on historical and expected performance, knowledge of each royalty asset and regular correspondence with royalty payers. Estimated royalty income is recognized on the basis of amounts receivable for each royalty asset based on the Trust's contractual entitlement, which incorporates an element of uncertainty.

The estimated income recognized may differ from actual cash received in respect of each accounting period and adjustments may therefore be required throughout the financial period when the actual income received becomes known.

Useful life of royalty assets

Royalty revenue recognized and amortization charges related to royalty assets are based on the estimated economic useful lives of those royalty assets. In estimating a royalty's useful life for terms that are not contractually fixed, the Trust considers a number for factors, including the strength of existing patent protection, expected entry of generic or biosimilar products or other competitive products, geographical exclusivity periods and potential patent term extensions tied to the underlying product.

The estimated useful life of the royalty assets may differ from the actual useful life of the royalty assets, which may have an impact on the carrying value of royalty assets recognized in the consolidated financial position and the amortization expense recognized in net comprehensive earnings (loss).

Impairment of Royalty Assets

The Trust reviews royalty assets for impairment at each reporting date to determine if there is any indication that an asset may be impaired. If an indication of impairment exists, the recoverable amount of the potentially impaired asset is determined. This requires the Trust to use a valuation technique to determine the extent of the impairment, if any. The Trust applies a discounted cash flow model based on forecasted royalties that gives consideration to a range of factors, including but not limited to, the nature of the investment, market conditions, current and projected royalty cash flows and similar transactions subsequent to the acquisition of the investment. As a result, the forecasted cash flows used in the valuation of the royalty assets could differ from actual results.

Acquisitions

In business combinations and asset acquisitions, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at their respective fair values on the date of acquisition. Financial instruments that are not publicly traded instruments are valued by an independent valuation expert using appropriate valuation techniques, which are generally based on discounting future expected cash flows using appropriate discount rates.

NOTE 4 | RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT

Presentation of financial statements

Amendments to IAS 1, *Presentation of financial statements,* effective for periods beginning on or after January 1, 2023, applicable retrospectively in accordance with IAS 8, *Accounting policies and changes in accounting estimates and errors*, clarify that the classification of liabilities as current or non-current should be based on rights that were in existence at the end of the reporting period, and is unaffected by the likelihood of whether the entity will exercise its right to defer the settlement of a liability. The amendments also require companies to disclose their material accounting policy information rather than significant accounting policies. The Trust does not believe that the application of the amendments will have a material impact on the presentation of its financial position or its significant accounting policy disclosures.

Accounting policies, changes in accounting estimates and errors

Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors,* effective for periods beginning on or after January 1, 2023, applicable prospectively for accounting estimates, redefines accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". The Trust does not believe that the amendments will have a material impact on its use of judgment and estimates.

NOTE 5 | ASSET ACQUISITIONS

(a) DRI Healthcare ICAV Acquisition Transaction

On October 21, 2020, the Trust acquired a 100% interest in DRI Healthcare ICAV, an Irish collective asset management vehicle established under the laws of Ireland and authorized by the Central Bank of Ireland, for two euros (approximately two U.S. dollars). This represented the fair value of its assets and liabilities.

(b) Closing Transactions

On February 19, 2021, in connection with the completion of DRI Healthcare Trust’s initial public and private offerings of units, as described in note 12, the Trust, through its wholly-owned subsidiary DRI Healthcare ICAV, acquired 100% economic interests in Drug Royalty III GP, LLC, DRC Management III LLC 1, DRC Management III LLC 2, Drug Royalty III, L.P. and their wholly-owned subsidiaries, as well as 100% beneficial interests in the royalty assets held by Drug Royalty LP 1. On February 22, 2021, the Trust, through its wholly-owned subsidiary, DRI Healthcare ICAV, acquired 100% economic interests in DRC Management LLC 2, Drug Royalty LP 2 and its wholly-owned subsidiary. Collectively, these transactions are referred to as the “**Closing Transactions**” in these interim consolidated financial statements. The Closing Transactions was contemplated in the Trust’s offering document.

The total purchase price paid in the Closing Transactions was $292,670 and was funded by the issuance of units of DRI Healthcare Trust, as described in note 12. Management determined that the transaction did not meet the definition of a business combination as substantially all of the fair value of the gross assets acquired is concentrated in a group of similar identifiable assets.

The acquired cash and cash equivalents include cash royalties received of $2,269 during the period from January 1, 2021 to the date of the Closing Transactions. The acquired royalties receivable include royalty income of $13,833 accrued during the period from January 1, 2021 to the date of the Closing Transactions and $1,079 of adjustments to reflect changes in the balance receivable based on actual royalty receipts.

(c) Oracea Transaction

On September 30, 2021, the Trust acquired royalties on Oracea for $50,500. As part of the transaction, the Trust acquired interests in two additional royalty assets which are not expected to make a material contribution to the Trust's royalty income. Management determined that this transaction did not meet the definition of a business combination as substantially all of the fair value of the gross assets acquired is concentrated in the royalty assets acquired, primarily Oracea.

Oracea (doxycycline) is a prescription therapy indicated for the treatment of inflammatory lesions (papules and pustules) of rosacea in adult patients. Marketed by Galderma Laboratories, Inc., a subsidiary of Galderma S.A., sales of Oracea commenced in 2006 upon its approval by the U.S. Food and Drug Administration (“**FDA**”). The royalty entitlement associated with Oracea is on the worldwide sales of Oracea and is expected to expire in the first quarter of 2028. Royalties related to Oracea are collected on a one quarter lag.

In accordance with the terms of the transaction, the Trust was entitled to the royalties from April 1, 2021 and beyond. The associated cash royalty receipts generated from April 1, 2021 to June 30, 2021 totalled $4,136 and were applied as a reduction in the total cash consideration transferred in the transaction. Transaction costs of $599 were capitalized as part of the royalty assets acquired.

The following assets and liabilities were acquired in the transactions:

	Closing Transactions	Oracea Transaction	Total
Assets			
Cash and cash equivalents	$ 14,707	$ 4,136	$ 18,843
Royalties receivable	55,190	2,930	58,120
Funds held in trust	128	—	128
Derivative assets	219	—	219
Other current assets	196	—	196
Royalty assets	291,462	43,434	334,896
Restricted cash	1,435	—	1,435
	$ 363,337	$ 50,500	$ 413,837
Liabilities			
Accounts payable and accrued liabilities	(743)	—	(743)
Secured notes payable	(69,924)	—	(69,924)
	(70,667)	—	(70,667)
Net acquired assets	$ 292,670	$ 50,500	$ 343,170

NOTE 6 | FUNDS HELD IN TRUST

Cash receipts from certain royalty assets are initially deposited into an account held in trust for the indenture trustee of its secured notes. The funds are distributed to the Trust on a quarterly basis, as described in note 11.

Funds held in trust include cash and cash equivalents, which represent short-term, highly liquid investments of high credit quality that are readily convertible to known amounts of cash and have original maturities of three months or less and are carried at fair value.

On October 22, 2021, the Trust fully repaid its secured notes, as described in note 11. Accordingly, the requirement for holding royalty cash receipts in trust has been removed going forward.

NOTE 7 | DERIVATIVE INSTRUMENTS

To manage its exposure to fluctuating interest rates on the secured notes, as described in note 11, the Trust maintains a series of interest rate cap contracts. To manage its exposure to fluctuations in foreign exchange rates related to certain royalty assets, the Trust maintains foreign exchange option contracts. As at September 30, 2021, the interest rate cap and foreign exchange option contracts outstanding were as follows (December 31, 2020 – nil):

Instrument	Latest Expiry Date	Notional Value	Fair Value	Increase (Decrease) in Fair Value	
				Three months ended September 30, 2021	Nine months ended September 30, 2021
Interest rate cap	July 15, 2024	$ 23,294	$ 2	$ (3)	$ —
Foreign exchange options	October 3, 2023	$ 14,031	347	58	135
			$ 349	$ 55	$ 135

The Trust does not apply hedge accounting. Changes in the fair value of interest rate caps and foreign exchange options are recognized in comprehensive net earnings (loss).

NOTE 8 | ROYALTY ASSETS

The following table presents a breakdown of the royalty assets. Royalty assets were acquired by the Trust, as described in note 5.

Cost	
As at January 1, 2021	—
Additions	335,495
As at September 30, 2021	$ 335,495
Accumulated amortization	
As at January 1, 2021	—
Amortization	28,923
As at September 30, 2021	$ 28,923
Net book value	
As at January 1, 2021	—
As at September 30, 2021	$ 306,572

Amortization for the three months ended September 30, 2021 was $11,125.

The following table presents further details about the products underlying our royalty streams. During 2021, the Trust has recorded royalty income from February 19, 2021, the date on which the Trust obtained control of the royalty assets, to September 30, 2021 in connection with the royalty assets acquired in the Closing Transactions, as described in note 5. The Trust obtained control over the royalty assets acquired in the Oracea Transaction on September 30, 2021, as described in note 5. As a result, no income was recognized for those assets for the period ended September 30, 2021.

				Royalty Income		Net Book Value
	Therapeutic Area	Acquisition Quarter	Expected Royalty Expiry(i)	Three months ended September 30, 2021	Nine months ended September 30, 2021	As at September 30, 2021
Eylea I	Ophthalmology	Q1 2021	Q1 2027	$ 3,256	$ 7,462	$ 19,907
Eylea II	Ophthalmology	Q1 2021	Q1 2027	1,447	3,316	10,341
FluMist	Vaccine	Q1 2021	Q4 2023	1,863	1,887	5,606
Natpara	Endocrinology	Q1 2021	Q3 2024	538	1,329	29,613
Oracea(ii)	Dermatology	Q3 2021	Q1 2028	—	—	40,188
Rydapt	Oncology	Q1 2021	Q1 2025	2,299	7,064	14,110
Spinraza	Rare Diseases	Q1 2021	Q3 2031	4,708	12,021	99,339
Xolair	Respiratory	Q1 2021	Q2 2032	2,129	6,013	53,978
Zytiga	Oncology	Q1 2021	Q2 2028	4,452	10,403	23,331
Autoimmune Portfolio(iii),(iv)	Autoimmune Disease	Q1 2021	Q1 2025	1,905	6,160	6,314
Rilpivirine Portfolio(v)	HIV	Q1 2021	Q2 2021	—	2,899	—
Other Royalties(vi)	Various	Various	n/a	264	446	3,845
				$ 22,861	$ 59,000	$ 306,572

(i) Represents the quarter during which the final royalty payment is expected, and is based on our manager's estimates of patent expiry dates in key geographies and the contractual agreements of each royalty stream. These estimates may be impacted by regulatory, commercial or other product developments. Variance from the anticipated performance of royalty-bearing sales may also affect these estimates as a result of caps or other structuring.

(ii) The Trust's entitlement to Oracea was acquired on September 30, 2021; accordingly, no income was recognized for the quarter ended September 30, 2021.

(iii) The Autoimmune Portfolio consists of agreements to receive royalties on sales of Stelara, Simponi and Ilaris. The three royalty assets include two royalty streams on each product, for a total of six royalty streams held directly and indirectly.

(iv) During the quarter, the Trust recorded other current liabilities of $718 with a corresponding charge to other items to reflect the obligation for excess royalty payments received in connection with the Autoimmune Portfolio prior to the Trust's acquisition of the asset. Royalties receivable of $194 was used to reduce the obligation during the quarter. Royalty income earned in future periods related to the Autoimmune Portfolio will be used to repay the remaining obligation of $524 for the past overpayments recorded in other current liabilities.

(v) The Rilpivirine Portfolio consists of an agreement to receive royalties on sales of Complera, Edurant, Odefsey and Juluca. In accordance with the terms of the royalty agreement of the Rilpivirine Portfolio, the entitlement to royalty receipts from the portfolio ended during the second quarter of 2021.

(vi) Other Royalties includes royalty assets which are not individually material, as well as royalty assets which are fully amortized or, where applicable, the entitlements to which have substantially expired.

NOTE 9 | LOAN RECEIVABLE

On August 25, 2021, the Trust entered into an agreement with CTI BioPharma Corp. ("**CTI**") to provide $50,000 in secured debt the proceeds of which will be used by CTI to fund the commercialization of pacritinib for the treatment of myelofibrosis patients with severe thrombocytopenia. The Trust concurrently entered into an agreement to purchase a tiered royalty on future sales of pacritinib upon the approval of the product by the FDA, as further described in note 20.

The loan receivable bears interest at LIBOR plus 8.25%, subject to a LIBOR floor of 1.75% and matures on August 25, 2026. The Trust is also entitled to receive an exit fee of 2% on the principal balance repaid. Interest payments are due quarterly and the principal amount of the loan is due on maturity.

As at September 30, 2021, the gross principal balance of the loan receivable was $50,000. A commitment fee of $500 was received by the Trust and recorded as a reduction in the gross principal amount receivable. As at September 30, 2021, the principal balance of the loan receivable was reduced by the unamortized balance of the commitment fee of $490 and included an accrued exit fee receivable of $20.

For the period from August 25, 2021, the date when the loan receivable was funded, to September 30, 2021, the Trust recorded interest income of $544, comprised of $514 related to the loan receivable, $10 related to the amortization of the commitment fee and $20 related to the accretion of the exit fee.

NOTE 10 | RESTRICTED CASH

Pursuant to the terms of the indenture agreement in connection with the outstanding secured notes, as described in note 11, the Trust is required to maintain certain deposits in the name of the indenture trustee for the benefit of secured parties for the payment of interest (the “**reserve account**”), as well as an amount on deposit to be utilized to make any required contingent payments for royalty or equity assets (the “**contingency reserve account**”).

The amount deposited in the reserve account is equal to the greater of (i) $1 million; or (ii) the product of (a) the current interest due on all series notes up to the current payment date, and (b) a fraction, the numerator of which is 180 and the denominator of which is the actual number of days in the related collection period.

The amount deposited in the contingency reserve account will be the sum of contingent payments reasonably expected to become due on the royalty asset obligation.

Restricted cash includes cash and cash equivalents, which represent short-term highly liquid investments of high credit quality that are readily convertible to known amounts of cash and have original maturities of three months or less, and are carried at fair value.

On October 22, 2021, the Trust fully repaid its secured notes, as described in note 11. Accordingly, the Trust is no longer subject to the requirement for holding amounts in the reserve account and the balance of restricted cash was transferred to cash and cash equivalents.

NOTE 11 | SECURED NOTES

In February 2021, in connection with the Closing Transactions described in note 5, the Trust assumed gross secured notes payable totalling $69,924.

As at September 30, 2021, the Trust’s secured notes payable consisted of the following:

	Interest Rate	Final Stated Maturity	As at September 30, 2021
Series 2018-1 Class A-1	LIBOR(i)+1.6%	October 15, 2031	$ 22,129
Series 2018-1 Class A-2	4.27%	October 15, 2031	24,954
Secured notes			$ 47,083
Current portion of secured notes			$ 20,138
Long-term portion of secured notes			26,945
Secured notes			$ 47,083

(i) In the event that LIBOR is no longer available, an alternate benchmark rate will be selected in accordance with the terms of the indenture agreements.

Principal payments on the secured notes are made on a quarterly basis. Cash receipts from certain royalty assets secured by the notes are initially deposited into an account held in trust for the indenture trustee. The trust account is pledged as collateral for the secured notes. On a quarterly basis, following the prioritization order of payments defined in the indenture agreement, the indenture trustee calculates and remits the required principal and interest payments, as well as certain debt servicing costs, from the funds received in the trust account. The balance remaining in the trust account is paid to the Trust. As at September 30, 2021, the amount of funds held in trust was $7,369 (December 31, 2020 – $nil), as described in note 6.

The notes have a final stated maturity date; however, the actual maturity will differ depending on the amount and timing of principal payments. The repayment schedule for the secured notes is presented below. Actual repayments may vary depending on the timing and amount of royalty receipts and the resulting impact on the payment provisions, as provided for in the Indenture Agreement. The terms of the notes require accelerated payments in certain events and allow for voluntary prepayments under certain circumstances.

As at September 30, 2021, the expected principal repayments are presented in the following table. On July 15, 2021, the Trust made final scheduled payments on Series 2017-1 Class A-1 and Series 2017-1 Class A-2 notes. The Trust made total principal repayments of $23,193 during the nine months ended September 30, 2021. Subsequent to the quarter end, on October 15, 2021, the Trust made principal repayments of $4,158.

	Series 2018-1 Class A-1	Series 2018-1 Class A-2	Total
Remainder of 2021	$ 1,955	$ 2,204	$ 4,159
Full year 2022	9,347	10,541	19,888
Full year 2023	7,360	8,299	15,659
Full year 2024	3,467	3,910	7,377
	$ 22,129	$ 24,954	$ 47,083

During the three and nine months ended September 30, 2021, interest expense related to the secured notes totalled $383 and $1,111, respectively. The Trust made total interest payments of $1,009 during the nine months ended September 30, 2021.

The Trust maintains interest rate cap contracts in connection with the secured notes, as discussed in note 7.

On October 22, 2021, the Trust entered into a credit agreement comprised of (i) a $175,000 senior secured revolving acquisition credit facility ("acquisition credit facility") with the initial amounts drawn used to fully repay the existing secured notes and the remaining capacity to be used for financing future acquisitions and (ii) a $25,000 senior secured revolving working capital facility ("working capital credit facility") the proceeds from which are to be used for general business purposes or to finance future acquisitions. The credit facilities bear interest at LIBOR plus a margin which may vary from 2.00% to 2.50% based on the Trust's leverage ratio. The unused portion of the revolving credit facilities is subject to an interest charge of 0.40% to 0.50% based on the Trust's leverage ratio. Interest payments on both credit facilities are due on a quarterly basis. The borrowings under the credit agreement mature on October 22, 2024. The maturity date may be extended by one-year increments subject to obtaining the lender's approval. Principal repayments of 3.75% of the outstanding acquisition credit facility balance are due quarterly, with no corresponding decrease in the borrowing capacity. Principal repayments on the working capital credit facility are to be made on maturity. The Trust is subject to certain financial as well as customary non-financial covenants under the credit agreement. Substantially all of the assets of the Trust are pledged as collateral under the credit agreement.

NOTE 12 | EQUITY

Authorized equity

The authorized equity capital consists of (i) an unlimited number of units; and (ii) an unlimited number of preferred units, issuable in series.

(i) Units

Each unit represents a proportionate undivided beneficial ownership interest in the Trust, which entitles the holder to one vote, participation in distributions made by the Trust on a pro rata basis and, in the event of the termination or winding-up of the Trust, in the pro rata share of its net assets remaining after the satisfaction of all its liabilities. Units are fully paid and non-assessable when issued and are transferable. The units rank among themselves equally and ratably without discrimination, preference or priority. Each unit entitles the holder thereof to one vote at all meetings of unitholders. The units are redeemable by the holder thereof and the units have no other conversion, retraction, redemption or pre-emptive rights. Fractional units do not entitle the holders thereof to vote, except to the extent that such fractional units may represent in the aggregate one or more whole units.

On February 19, 2021, DRI Healthcare Trust completed initial public and private offerings of its units for combined gross proceeds of $400,000. In connection with its public offering, the Trust issued 36,527,000 units at $10.00 per unit, for gross proceeds of $365,270. Concurrent with the completion of the initial public offering, certain related parties and other investors purchased an aggregate of 3,580,407 units at $9.70 per unit, for gross proceeds of $34,730. Transaction costs associated with the offerings totalled $21,997 and were recorded as a reduction in unitholders' equity.

	Units	Weighted Average Cost per Unit	Total Cost
Balance – October 21, 2020 (date of formation)	—	$ —	$ —
Issuance of units – date of formation	1	$ 10.00	—
Balance – December 31, 2020	1		$ —
Issuance of units – private placement	3,580,407	$ 9.70	34,730
Issuance of units – public offering	36,527,000	$ 10.00	365,270
Unit issuance costs	n/a	n/a	(21,997)
Redemption of units	(1)	$ 10.00	—
Balance – September 30, 2021	40,107,407		$ 378,003

(ii) Preferred units

Preferred units rank on a parity with the preferred units of every other series and are entitled to preference over our units, and any other of our units ranking junior to the preferred units, with respect to payment of distributions. In the event of the liquidation, dissolution or winding-up of the Trust, whether voluntary or involuntary, the holders of preferred units will be entitled to preference with respect to distribution of our property or assets over our units, and any other of our units ranking junior to the preferred units, with respect to the repayment of capital paid up and the payment of unpaid distributions accrued on the preferred units.

Preferred units may at any time and from time to time be issued in one or more series. Subject to the provisions of our declaration of trust, the board of trustees may, by resolution, from time to time before the issue of preferred units determine the maximum number of units of each series, create an identifying name for each series, attach special rights or restrictions to the preferred units of each series including, without limitation, any right to receive distributions (which may be cumulative or non-cumulative and variable or fixed) or the means of determining such distributions, the dates of payment thereof, any terms or conditions of redemption or purchase, any conversion rights, any retraction rights, any rights on the liquidation, dissolution or winding-up of the Trust, and any sinking fund or other provisions. Except as provided in any special rights or restrictions attaching to any series of preferred units issued from time to time, the holders of preferred units will not be entitled to receive notice of, attend or vote at any meeting of unitholders.

As at September 30, 2021, no preferred units had been issued or were outstanding (December 31, 2020 – nil).

*Normal course issuer bid ("**NCIB**")*

On September 30, 2021, the Trust was granted approval by the Toronto Stock Exchange to acquire, from time to time, if considered advisable, up to 1,500,000 units of the Trust for cancellation between October 5, 2021 and October 4, 2022. In connection with the NCIB, the Trust established an automated unit repurchase plan ("**AUPP**"), whereby units of the Trust may be repurchased at the discretion of a broker party to the AUPP using commercially reasonable efforts and subject to trading parameters defined in the AUPP.

As at September 30, 2021, the Trust has recorded an other current liability of $981 representing the maximum amount that would be required to settle the AUPP in effect on September 30, 2021 with a corresponding decrease in other equity. The actual number of units repurchased under the AUPP may be less than the estimate as at September 30, 2021 resulting in a decrease in other current liabilities and an increase in other equity. As at November 1, 2021, the Trust had acquired 70,152 units at an average unit price of $6.64, totalling $466.

Distribution policy

Distributions in respect of a quarter are paid on or about each distribution date to unitholders of record as at the close of business on the corresponding distribution record date.

The payment of any distributions by the Trust is at the sole discretion of our board of trustees, which may change our distribution policy at any time, and will be paid out of our distributable reserves. Our board of trustees takes into account general economic and business conditions, our strategic plans and prospects, our business and asset acquisition opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, legal, tax and regulatory restrictions, other constraints on the payment of distributions by us to our unitholders, and such other factors as our board of trustees may deem relevant. The payment of distributions is therefore not guaranteed.

In March 2021, the board of trustees declared a quarterly distribution of $0.0167 per unit, totalling $670, to unitholders of record as at March 31, 2021, which was paid on April 20, 2021.

In May 2021, the board of trustees declared a quarterly distribution of $0.0375 per unit, totalling $1,504, to unitholders of record as at June 30, 2021, which was paid on July 20, 2021.

In August 2021, the board of trustees declared a quarterly distribution of $0.0375 per unit, totalling $1,504, to unitholders of record as at September 30, 2021 and payable on October 20, 2021.

For the nine months ended September 30, 2021, the Trust declared total distributions of $3,678.

On November 8, 2021, the board of trustees declared a quarterly distribution of $0.075 per unit to unitholders of record as at December 31, 2021 and payable on January 20, 2022.

NOTE 13 | NET EARNINGS PER UNIT

Weighted average number of units outstanding for the purpose of calculating earnings per unit were as follows:

	For the three months ended September 30, 2021	For the nine months ended September 30, 2021
Basic	40,107,407 units	32,908,642 units
Diluted	40,107,407 units	32,908,642 units

NOTE 14 | UNIT-BASED COMPENSATION

The Trust provides unit-based compensation under its Incentive Plan, as described in note 2. Total number of units authorized to be issued under the Incentive Plan is the lower of (i) 4,101,741; and (ii) 10% of total outstanding units of the Trust.

On September 10, 2021, the Trust granted 117,500 RUs which, vest equally over a three-year period. An additional 698 distribution equivalent RUs related to the September 10, 2021 grant were issued in connection with the Trust's third quarter distribution. For the three months ended September 30, 2021, unit-based compensation expense and the corresponding liability related to the awards totalled $25.

No Options, PUs or DUs were granted as at September 30, 2021.

On October 1, 2021, the Trust granted 15,343 RUs, which were immediately vested and converted to units. On October 8, 2021, the Trust further granted 150,000 RUs subject to vesting conditions.

NOTE 15 | OPERATING AND OTHER EXPENSES

The Trust’s operating and other expenses were as follows:

	For the three months ended September 30, 2021	For the nine months ended September 30, 2021
Professional fees	$ 739	$ 1,531
Board of trustee fees	104	395
Other expense	620	2,110
Total other operating expenses	$ 1,463	$ 4,036

NOTE 16 | FINANCIAL INSTRUMENTS

The financial assets and liabilities held by the Trust, as at September 30, 2021, were as follows. As at December 31, 2020, the Trust had nominal assets.

	FVTPL – Recognized	Amortized Cost	Total
Financial Assets			
Cash and cash equivalents	$ 33,767	$ —	$ 33,767
Royalties receivable	—	43,965	43,965
Funds held in trust	7,369	—	7,369
Derivative assets	349	—	349
Other current assets	—	1,074	1,074
Loan receivable	—	49,530	49,530
Restricted cash	1,000	—	1,000
	$ 42,485	$ 94,569	$ 137,054
Financial Liabilities			
Accounts payable and accrued liabilities	$ —	$ 3,466	$ 3,466
Distributions payable to unitholders	—	1,504	1,504
Current portion of secured notes	—	20,138	20,138
Other current liabilities	—	1,506	1,506
Long-term portion of secured notes	—	26,945	26,945
	$ —	$ 53,559	$ 53,559

NOTE 17 | FAIR VALUE MEASUREMENTS

Financial instruments measured at fair value are allocated within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. Transfers between the three levels of the fair value hierarchy are recognized on the date of the event or change in circumstances that caused the transfer.

There were no transfers among the three levels of the fair value hierarchy during the nine months ended September 30, 2021 (December 31, 2020 – nil).

The following table presents the allocation of financial assets measured at fair value to the fair value hierarchy as at September 30, 2021. As at December 31, 2020, the Trust had nominal assets.

	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash and cash equivalents	$ 33,767	$ —	$ —	$ 33,767
Funds held in trust	7,369	—	—	7,369
Derivative assets	—	349	—	349
Restricted cash	1,000	—	—	1,000
	$ 42,136	$ 349	$ —	$ 42,485

The carrying values of royalties receivable, loan receivable, other current assets, other non-current assets, accounts payable and accrued liabilities, distributions payable to unitholders and secured notes approximate the fair values of these financial instruments.

The Trust did not have any financial liabilities measured at fair value.

NOTE 18 | RISK MANAGEMENT

(a) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the Trust by failing to discharge an obligation.

The Trust has determined that it is exposed to credit risk primarily related to the counterparties of its royalty assets as well as its loan receivable, as described in note 9.

The counterparties to the Trust's royalty agreements are comprised primarily of marketers of the underlying products in the pharmaceutical and life science industries. As at September 30, 2021, royalties receivable from the five largest royalties receivable counterparties represented 86% of total royalties receivable. The Trust monitors its exposure to counterparties of its royalty assets on a regular basis.

The counterparty to the Trust's loan receivable is CTI, a publicly traded biopharmaceutical company focused on the acquisition, development and commercialization of novel targeted therapies for blood-related cancers that offer a unique benefit to patients and their healthcare provider. According to the terms of the credit agreement, CTI is required to maintain minimum liquidity of at least $10,000 during the duration of the loan and is subject to certain non-financial covenants customary in lending arrangements. As at September 30, 2021, the gross principal balance of the loan receivable was $50,000.

Cash and cash equivalents, restricted cash and royalty assets are subject to credit risk. Cash and cash equivalents, funds held in trust and restricted cash are held with reputable financial institutions which have high credit ratings.

(b) Liquidity risk

Liquidity risk is the risk that the Trust will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Trust manages its cash and capital to ensure that it can meet its obligations in the normal course of operations. The Trust generally settles its accounts payable obligations within 90 days. The Trust also maintains enough liquidity to ensure it can meet the mandatory payment requirements of its secured notes, the repayment schedule of which is presented in note 11.

(c) Foreign exchange risk

Foreign exchange is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Trust’s functional currency is the U.S. dollar; however, the Trust is exposed to changes in foreign exchange on certain underlying revenue streams supporting the royalty income. To mitigate its exposure to currency fluctuations in royalty income, the Trust has entered into foreign exchange derivatives, as described in note 7. An appreciation or depreciation of 5% in the currencies to which the Trust has exposure against the U.S. dollar would not have a material impact on the Trust’s net earnings (loss) as at September 30, 2021.

(d) Interest rate risk

The Trust is exposed to changes in interest rates on its secured notes payable, as described in note 11, and loan receivable, as described in note 9.

The Trust has mitigated its exposure to fluctuating interest rates related to the secured notes payable by entering into interest rate cap transactions, as described in note 7. An increase or decrease of 0.5% in interest rates would not have a material impact on the Trust’s net earnings (loss) as at September 30, 2021.

The Trust's loan receivable is subject to a LIBOR floor, which further mitigates the Trust's exposure to fluctuating interest rates.

(e) Additional risks

The Trust is monitoring the impact of the current global COVID-19 pandemic as it could potentially affect our financial position, financial performance and cash flows. While the financial impact of the pandemic cannot be reasonably estimated at this time, the Trust does not anticipate that these events will have a material adverse impact on our long-term operations.

NOTE 19 | CAPITAL MANAGEMENT

As at September 30, 2021, the Trust’s capital was $425,086, and consisted of its unitholders' capital and secured notes. The Trust’s objectives in managing capital are to:

- Build long-term value for its unitholders;
- Maintain optimal liquidity for pursuing acquisitions, meeting its obligations and making distributions to unitholders;
- Achieve reasonable return on capital and control the risk and exposure associated with capital investments; and
- Maintain an optimal capital structure and reduce the cost of capital.

Certain royalty streams are held in trust until payments are made to satisfy the obligations related to the secured notes, as described in note 6. The Trust is also required to maintain a predefined amount of cash in connection with the securitization agreement, as described in note 10, which has been classified as restricted cash on the statement of financial position. As at September 30, 2021, the Trust was in compliance with all externally imposed capital requirements.

There have been no changes in the composition of the Trust’s capital or its capital management policies compared to prior periods.

On October 22, 2021, the Trust entered into a credit agreement and fully repaid its existing secured notes, as described in note 11.

NOTE 20 | COMMITMENTS

On August 25, 2021, concurrent with the agreement to provide a $50,000 secured loan to CTI, as described in note 9, the Trust entered into an agreement with CTI for a tiered royalty on sales of pacritinib, upon approval of the product by the FDA, for $60,000. CTI is also entitled to additional consideration of up to $25,000 upon the achievement of certain sales milestones. Pacritinib is a drug for the treatment of myelofibrosis with severe thrombocytopenia. CTI has a New Drug Application ("**NDA**") under priority review by the FDA with a Prescription Drug User Fee Act ("**PDUFA**") target action date of November 30, 2021, and is preparing for a potential commercial launch by end of year.

In accordance with the terms of the royalty agreement, the Trust will be entitled to receive royalties equal to 9.6% on the first $125,000 of annual net sales in the United States, 4.5% on annual net sales in the United States between $125,000 and $175,000, 0.5% on annual net sales in the United States between $175,000 and $400,000, and will have no entitlement to royalties on annual net sales in the United States exceeding $400,000. Royalties will be collected with a one quarter lag.

NOTE 21 | RELATED-PARTY TRANSACTIONS

DRI Capital is under common control with the Trust.

DRI Capital serves as manager of the Trust. Management fees and performance fees are payable by the Trust pursuant to the investment management agreement. The manager's entitlement to management fees and performance fees is described in note 2(n) and (o), respectively. The manager also provides administrative services to the Trust for servicing the secured notes, pursuant to a debt servicing agreement.

During the three and nine months ended September 30, 2021, the Trust recorded the following transactions and balances with its manager.

	For the three months ended September 30, 2021	For the nine months ended September 30, 2021	As at September 30, 2021
Management fee expense	$ 1,113	$ 4,163	—
Servicer fees	$ 400	$ 978	—
Accounts payable and accrued liabilities	—	—	$ 622

The Trust did not enter into any related-party transactions for the period from October 21, 2020 (date of formation) to December 31, 2020.

NOTE 22 | SEGMENT INFORMATION

The chief operating decision-maker, determined to be the Chief Executive Officer of the Trust, reviews financial information presented on a consolidated basis to allocate resources, evaluate financial performance and make overall operating decisions. As such, the Trust has concluded that it operates as one segment, primarily focused on acquiring royalty assets.

The Trust's segment earnings are comprised of royalty income. The Trust attributes its royalty income to individual countries by reference to the countries where the products underlying its royalty agreements are sold. The Trust is not entitled to such country-by-country information for each of its royalty streams; as such, the Trust attributes its income to geographies for which it has reliable information, namely the United States, which represents its largest geographic market, Japan, the European Union and the rest of the world.

The Trust's non-current segment assets are comprised of its royalty assets. Similar to royalty income, the Trust attributes its royalty assets by reference to the countries where the products underlying its royalty agreements are expected to be sold. This allocation is done at the time of the acquisition of the royalty agreement and is not subsequently revised to take into consideration changes in consumption over the life of the asset.

The presentation of geographic information for royalty assets is not feasible, as the net book value of the Trust's royalty assets is not directly correlated to the royalty entitlements from various geographies.

The following table provides the estimated geographical information on the Trust's royalty income. In certain circumstances, the Trust does not have access to the underlying geographical information of its royalty income. In such cases, the Trust has allocated its royalty income to geographies using internally forecasted sales of the underlying products by geography.

	Royalty income	
	Three months ended September 30, 2021	Nine months ended September 30, 2021
United States	$ 10,288	$ 25,137
European Union	2,738	13,747
Japan	272	3,710
Rest of the world	9,563	16,406
	$ 22,861	$ 59,000

During the three and nine months ended September 30, 2021, the Trust earned royalty income of 79% and 83%, respectively, from five counterparties. These counterparties are comprised primarily of marketers of the underlying products in the pharmaceutical and life science industries. The following table lists revenues by each counterparty, which individually represented more than 10% of the Trust's royalty income.

	Royalty Income			
	Three months ended September 30, 2021		Nine months ended September 30, 2021	
Counterparty 1	$ 4,708	20%	$ 12,021	20%
Counterparty 2	4,111	18%	10,778	18%
Counterparty 3	4,327	19%	10,403	18%
Counterparty 4	2,427	11%	8,378	14%
Counterparty 5	2,492	11%	7,744	13%
Other	4,796	21%	9,676	17%
Total	$ 22,861	100%	$ 59,000	100%

NOTE 23 | SUBSEQUENT EVENTS

(a) Repayment of Secured Notes

On October 15, 2021, the Trust made required quarterly principal repayments of its secured notes totalling $4,158, as described in note 11. On October 22, 2021, the Trust repaid the remaining principal balance of the secured notes by drawing funds pursuant to a credit agreement, as described in note 11.

(b) Restricted Units

As described in note 14, on October 1, 2021, the Trust granted 15,343 RUs which were immediately vested and converted to units. On October 8, 2021, the Trust further granted 150,000 RUs subject to vesting conditions.

(c) NCIB

As described in note 12, the Trust entered into an NCIB to repurchase units of the Trust for cancellation. As at November 1, 2021, the Trust had acquired 70,152 units at an average unit price of $6.64, totalling $466.

(d) Credit Agreement

On October 22, 2021, the Trust entered into a credit agreement, as described in note 11.

(e) Third Quarter Distribution Declared

On November 8, 2021, the board of trustees declared a quarterly distribution of $0.075 per unit to unitholders of record as at December 31, 2021 and payable on January 20, 2022.

INVESTOR INFORMATION

Traded Units
The Trust's units are traded on the Toronto Stock Exchange.

Trading Symbols
U.S. dollars: DHT.U
Canadian dollars: DHT.UN

Registrar and Transfer Agent
Computershare
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All questions related to unit certificates or distribution receipts should be directed to the Registrar and Transfer Agent.

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Investor requests for copies of quarterly or annual reports, and information about the company should be directed to the Trust's investor relations team.

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