DRI HEALTHCARE TRUST

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

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BASIS OF PRESENTATION

The following Management's Discussion and Analysis ("**MD&A**") is intended to help the reader understand the results of operations and financial condition of DRI Healthcare Trust (the "**Trust**"). This MD&A is provided as a supplement to, and should be read in conjunction with, the audited consolidated financial statements of the Trust for the year ended December 31, 2022 (the "**consolidated financial statements**"), including the accompanying notes to such financial statements. The consolidated financial statements of the Trust have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and its interpretations adopted by the International Accounting Standards Board ("**IASB**").

We present our financial statements in United States dollars ("**U.S. dollars**"). In this MD&A, all dollar amounts are expressed in U.S. dollars unless otherwise indicated. Accordingly, all references to "**US$**", "**$**" or "**dollars**" are to U.S. dollars, and all references to "**C$**" are to Canadian dollars. Certain totals, subtotals and percentages throughout this MD&A may not reconcile due to rounding. Dollar amounts in the tables and elsewhere in this MD&A are presented in thousands of U.S. dollars unless otherwise noted.

The board of trustees has approved this disclosure.

This MD&A is dated as of March 1, 2023.

ADDITIONAL INFORMATION

Additional information relating to the Trust, including the Trust's annual and interim quarterly consolidated financial statements and management's discussion and analyses, annual information form and management information circular, are available on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com.

FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking information within the meaning of applicable securities laws in Canada. Forward-looking information may relate to our future financial outlook and anticipated events or results and may include information regarding our financial position, business operations, business strategy, growth strategies, budgets, operations, financial results, taxes, distribution policy, plans and objectives.

In certain cases, forward-looking information includes statements that are predictive in nature, depend upon or refer to future events or conditions, and/or can be identified by the use of words such as "expect", "continue", "anticipate", "intend", "aim", "plan", "believe", "budget", "estimate", "forecast", "foresee", "close to", "target" or negative versions thereof and similar expressions, and/or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, although not all forward-looking information contains these terms and phrases. Any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances.

Forward-looking information involves known and unknown risks and uncertainties, many of which are beyond our control, that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. These risks and uncertainties include, but are not limited to, those described in greater detail under "Risk Factors" in the Trust's most recent annual information form, available under our profile on SEDAR at www.sedar.com.

Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in the forward-looking information, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information, which speaks only as of the date stated. The forward-looking information contained in this MD&A represents our expectations as of the date of this MD&A, or as of the date they are otherwise stated, and are subject to change after such date. However, we disclaim any intention, obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada.

REFERENCES AND DEFINED TERMS

All references in this MD&A to the "**Trust**", "**we**", "**us**" or "**our**" are to DRI Healthcare Trust, together with its consolidated subsidiaries.

In this MD&A, the terms "**royalties**", "**royalty assets**", "**royalty entitlements**", "**royalty agreements**" and "**royalty streams**" are used interchangeably to refer to either: (i) contractual arrangements that grant the buyer the right to receive royalties derived from the sale of pharmaceutical, biotechnology and other life science products pursuant to license agreements or other contractual arrangements (we refer to these as "**traditional**" royalty streams); or (ii) contractual arrangements that grant the buyer the right to receive a percentage of the top-line sales of pharmaceutical, biotechnology and other life science products directly from the marketer of the product (we refer to these as "**synthetic**" royalty streams). Unless the context otherwise requires, when we refer to terms such as "**our royalties**", "**our portfolio**", "**our royalty portfolio**", "**our interests in products**" and similar terms, we are referring to our contractual interests in royalties and royalty streams that are held by our subsidiaries. When we refer to "**products**", we are referring to the pharmaceutical, biotechnology or other life science products relating to our royalties. When we refer to the "**pharmaceutical industry**", we are referring generally to the pharmaceutical, biotechnology and other life science products industry.

USE OF NON-GAAP MEASURES

This MD&A contains a number of financial performance measures that have been calculated using methodologies which are not in accordance with IFRS ("**non-GAAP measures**"). These financial measures do not have a standardized meaning as prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other companies. We believe that providing these financial measures, in addition to our IFRS results, gives investors additional information for understanding the critical components of our financial performance. Accordingly, these non-GAAP measures should not be considered in isolation or as a substitute for analysis of our financial information reported under IFRS. These non-GAAP measures are used to provide investors with a supplemental measure of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We also believe that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers. We rely on these measures in the day-to-day management of our business, assessment of investment opportunities and assessment of our liquidity and borrowing needs.

Our uses, definition and calculation methodology, and the reconciliations of these non-GAAP financial measures and non-GAAP ratios to the most directly comparable measures calculated and presented in accordance with IFRS, if available, for each of the measures, are presented under *Financial Review: Non-GAAP Financial Measures* on page 15 of this MD&A. The Trust has presented the following non-GAAP financial measures and non-GAAP ratios in this MD&A:

- Total Cash Receipts;
- Total Cash Royalty Receipts;
- Adjusted EBITDA;
- Adjusted EBITDA Margin; and
- Adjusted Cash Earnings per Unit.

OVERVIEW OF THE TRUST

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. Our head and registered office is located at First Canadian Place, Suite 7250, 100 King Street West, Toronto, Ontario, M5X 1B1.

In December 2022, our manager, DRI Capital Inc. changed its brand name to DRI Healthcare in order to be better aligned with the Trust. Our manager's legal name remains as DRI Capital Inc. All references in this MD&A to "**DRI Healthcare**", "**our manager**" or the "**manager**" are to DRI Capital Inc. DRI Healthcare provides management and other services to us, and also provides the services of certain employees of DRI Healthcare who act as executive officers of the Trust, pursuant to the terms of a management agreement.

DRI Healthcare Trust's Units are listed on the Toronto Stock Exchange in Canadian dollars under the symbol "**DHT.UN**" and in U.S. dollars under the symbol "**DHT.U**".

BUSINESS AND STRATEGY OVERVIEW

Business Overview

We excel at sourcing, evaluating and completing acquisitions of mid-sized royalty assets based on the worldwide sales of leading therapeutics. We do this by leveraging our twenty year track record of disciplined capital deployment, the skills and competencies of our exceptional team, and our proprietary sourcing and diligence systems. Our customers include leading inventors working at top universities and research institutions, academic institutions, biotech companies and large pharmaceutical companies.

We provide our Unitholders with exposure to a broadly diversified portfolio of therapeutics that we expect will grow significantly in the medium and long term. We target royalties on products with the following characteristics:

- Products that treat chronic and severe conditions and do so effectively;
- Products that benefit from strong patent protection; and
- Products that are marketed by leading biotech and pharma companies worldwide.

Even though we have been public only about two years, our manager, DRI Healthcare, has been at the forefront of our business since 1989. Over the past 16 years, DRI has purchased 69 royalty streams on 45 products for more than $2.5 billion.

As at December 31, 2022, our portfolio consisted of 22 royalty streams on 18 products that address severe and life-threatening conditions, such as oncology, spinal muscular atrophy (“**SMA**”), ophthalmology, endocrinology, hematology, dermatology, acid sphingomyelinase deficiency (“**ASMD**”), autoimmune diseases and influenza. Our portfolio includes royalties based on top-line sales of several blockbuster therapies, including Omidria, Spinraza, Xolair and Zejula. Our products are marketed by leading global pharmaceutical and biotechnology companies, including Apellis, AstraZeneca, Biogen, CTI Biopharma, GSK, Galderma, Johnson & Johnson, Novartis, Regeneron, Roche and Sanofi. In addition to the royalties that we have purchased, we have also made a secured loan to CTI Biopharma as part of the transaction to acquire a royalty on Vonjo.

Unique Growth Strategy

Our growth strategy is focused on providing our Unitholders with top-line exposure to a portfolio of attractive therapeutics by executing royalty transactions on growth-oriented products that meet our investment criteria. In order to execute this strategy, we target an underserved niche that optimizes the competitive advantages that have been developed over the last 33 years, the extensive experience and highly relevant expertise of our team members, unparalleled access to data and information through proprietary tools and knowledge and our leadership and unparalleled reputation in the industry.

As the most experienced player in our industry, we have developed a number of advantages that either can’t be or are hard to copy. Beginning with our one-of-a-kind database that we used to source transactions and that now tracks over 6,500 royalties on over 2,000 drugs worldwide and the deep relationships we have developed in our industry. We target transactions that are out of the scope of other royalty buyers either because they are too small, too complicated, or simply hard to find.

Our target is to complete between $850 million and $900 million in transactions by December 31, 2025. This will allow us to generate sustainable annual growth in cash receipts. We have increased this target from the previous range of $650 million to $750 million. We expect to fund these acquisitions using our cash and cash flows as well as with the prudent use of leverage. Since 2021, we have completed six transactions for up front and contingent consideration of up to $457.5 million.

We intend to fulfill our growth strategy primarily by pursuing traditional and synthetic pharmaceutical royalty transactions. Traditional royalty investing involves a purchaser, such as the Trust, acquiring an existing royalty that was granted to an inventor, academic institution or drug developer as part of a licensing agreement in which a pharmaceutical marketer obtains a license to use intellectual property or know-how to develop and commercialize a product. Synthetic royalty transactions involve the creation of a new royalty stream in which the purchaser, such as the Trust, contracts directly with a pharmaceutical marketer to receive a portion of top-line product sales. As biotechnology companies continue to conduct their own research and development to bring internally developed technologies to market, synthetic royalties have become an increasingly important tool for these companies to finance ongoing capital requirements through non-dilutive means. We will also selectively consider other opportunities to grow our asset base, including through the deployment of capital through lending arrangements and other instruments backed by pharmaceutical products and companies.

Our Assets

The Trust’s assets currently comprise royalties on products that address therapeutic areas, such as oncology, SMA, ophthalmology, endocrinology, hematology, dermatology, ASMD and autoimmune diseases, and are marketed by leading global pharmaceutical and biotechnology companies, including Apellis, AstraZeneca, Biogen, CTI Biopharma, GSK, Galderma, Johnson & Johnson, Novartis, Regeneron, Roche and Sanofi. In addition, the Trust has provided a secured loan to CTI Biopharma as part of the transaction to acquire a royalty on Vonjo, an oncology product.

We receive royalty payments based on the sales of pharmaceutical products in particular geographies. In general, when sales of these products increase, the payments we receive through our royalties also increase. The sales of products in turn can be affected by a number of factors, including regulatory approvals that permit the sale of a product in the relevant market, the competitive landscape for the product, whether the product is recommended for use by health agencies or medical professional associations, and the extension of a product for additional indications, which we sometimes refer to as product extensions.

The table below provides an overview of the Trust’s royalty assets held as at December 31, 2022, and outlines expected royalty expirations 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 elements.

(in thousands of U.S. dollars, unless otherwise noted)

Royalty Asset	Therapeutic Area	Primary Marketer(s)	FDA Approval Date	Expected Royalty Expiry(i)
Empaveli	Hematology	Apellis, Swedish Orphan Biovitrum	May 2021	Q1 2034
Eylea I	Ophthalmology	Regeneron, Bayer, Santen	November 2011	Q1 2027
Eylea II	Ophthalmology	Regeneron, Bayer, Santen	November 2011	Q1 2027
FluMist	Influenza	AstraZeneca	June 2003	Q4 2023
Ilaris(ii)	Autoimmune Diseases	Novartis	June 2009	Q1 2025
Natpara	Endocrinology	Takeda	January 2015(iii)	Q3 2025
Omidria	Ophthalmology	Rayner Surgical	May 2014	Q4 2030
Oracea	Dermatology	Galderma	May 2006	Q1 2028
Rydapt	Oncology	Novartis	April 2017	Q1 2028
Simponi(ii)	Autoimmune Diseases	Johnson & Johnson, Merck, Mitsubishi Tanabe	April 2009	Q1 2025
Spinraza	Spinal Muscular Atrophy	Biogen	December 2016	Q3 2031
Stelara(ii)	Autoimmune Diseases	Johnson & Johnson, Mitsubishi Tanabe	September 2009	Q2 2024
Vonjo	Oncology	CTI Biopharma	February 2022	Q2 2034
Xenpozyme	Acid Sphingomyelinase Deficiency	Sanofi	August 2022	Q4 2036
Xolair	Respiratory	Roche, Novartis	June 2003	Q2 2032
Zejula	Oncology	GSK	April 2022	Q2 2033
Zytiga	Oncology	Johnson & Johnson	September 2011(iv)	Q2 2028

(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) Stelara, Simponi and Ilaris were previously referred to as the Autoimmune Portfolio. The royalty assets include two royalty streams on each product, for a total of six royalty streams held directly and indirectly.
(iii) In March 2022, Takeda received a Complete Response Letter from the FDA stating that Natpara cannot be approved in its current form, as discussed in Key Developments Related to Royalty Assets below. Natpara was approved by the European Medicines Agency in April 2017 and is currently available in the European Union.
(iv) Represents the European Commission approval date.

Key Developments Related to Royalty Assets

Natpara

In September 2019, as a result of manufacturing and delivery-related difficulties related to rubber particulates originating from the rubber septum of the Natpara cartridge that led to its recall in the United States, Takeda Pharmaceutical Company Ltd. ("**Takeda**"), the marketer of Natpara, ceased product sales in the United States.

On March 22, 2022, Takeda announced that a Complete Response Letter was received from the U.S. Food and Drug Administration ("**FDA**"), in response to the company's Prior Approval Supplement submission to address the issue that led to the recall in the United States, stating that the product cannot be approved in its present form. Takeda noted that it is evaluating the details of the letter to determine next steps and has suspended the commercial return of Natpara to the United States.

On October 4, 2022, Takeda announced that it will discontinue manufacturing the pharmaceutical Natpara globally at the end of 2024 due to unresolved supply issues related to protein particle formation that is unique to Natpara. As a result, Takeda will not re-commercialize Natpara in the United States. Beyond 2024, Takeda intends to supply available doses to Europe and other regions around the world until the inventory of Natpara is depleted or expired. Takeda will provide updates before the manufacturing end date and ahead of any potential supply interruptions.

Since the announcement by Takeda, we have been reviewing and assessing various options to maximize the value of our remaining royalties. Based on our review performed to date, we have not recognized an impairment in the net book value of Natpara as at December 31, 2022. Given the ongoing review it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year will be different from the assumption used as at December 31, 2022 and could require an adjustment to the carrying value of the Natpara. We continue to earn royalty income on European and rest of the world sales and we expect that this will continue past Takeda's planned end of manufacturing at the end of 2024 to account for residual inventory depletion.

Vonjo

On February 28, 2022, the FDA approved Vonjo (pacritinib) for the treatment of adult myelofibrosis patients with platelets below 50×10^9/L. Myelofibrosis is a bone marrow cancer that results in the formation of fibrous scar tissue and can lead to thrombocytopenia and anemia, weakness, fatigue and enlarged spleen and liver. This approval triggered the funding of the tiered royalty transaction on Vonjo for $60 million, which occurred on March 7, 2022, as described on page 5 of this MD&A.

Rydapt

In 2022, a royalty-bearing patent covering Rydapt was selected for a supplementary protection certificate ("**SPC**") in Germany, Great Britain, Spain and France. The SPC adds five years to the royalty term in these countries. The new expected royalty expiry for our Rydapt royalty is to Q1 2028.

Other Key Events

*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 ("**September 2021 NCIB**"). On March 8, 2022, the Trust was granted approval by the Toronto Stock Exchange to amend its September 2021 NCIB and increase the total number of Units that can be repurchased under the September 2021 NCIB to 2,500,000 Units. The September 2021 NCIB expired on October 4, 2022.

On November 7, 2022, the Trust was granted approval by the Toronto Stock Exchange to acquire, from time to time, if considered advisable, up to 2,493,280 Units of the Trust for cancellation between November 14, 2022 and November 13, 2023 ("**November 2022 NCIB**").

During the year ended December 31, 2022, the Trust acquired and cancelled 1,388,440 Units at an average price of $5.23, totalling $7,263. As at December 31, 2022, in aggregate, the Trust had acquired and cancelled 2,431,510 Units at an average price per Unit of $5.24, totalling $12,741 under the NCIB plan. The Trust's NCIB plan is discussed further on page 23 of this MD&A. The Trust did not acquire further Units in the subsequent period from December 31, 2022 to March 1, 2023.

Long-term Debt

On October 22, 2021, the Trust entered into a credit agreement for credit facilities comprised of (i) a $175,000 senior secured revolving acquisition credit facility ("**acquisition credit facility**") with an initial amount drawn used to repay the remaining balance of its 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.

On April 20, 2022, the Trust entered into an amended and restated credit agreement that added a new tranche to the credit facility consisting of a $150,000 delayed draw term loan which can be drawn against to fund future transactions. As part of the amendment, the interest rate for new drawings on the credit facility was revised from the London Interbank Offered Rate ("**LIBOR**") plus a margin which may vary from 2.00% to 2.50% based on the Trust's leverage ratio to the Secured Overnight Financing Rate ("**SOFR**") plus (i) a margin which may vary from 2.00% to 2.50% based on the Trust's leverage ratio; and (ii) a margin of 0.10% to 0.25% based on the term of the borrowing. All other material terms of the credit facility remained unchanged. The credit facility is discussed in further detail on page 21 of this MD&A.

Distributions

During the year ended December 31, 2022, the Trust declared total distributions of $17,785, comprised of cash distributions of $11,531 and Unit distributions of $6,254.

The Trust pays quarterly distributions in accordance with its distribution policy. Distributions are discussed in further detail in note 9 to the consolidated financial statements.

Transactions Completed in 2022

Vonjo Transaction

On August 25, 2021, concurrent with the agreement to provide a $50 million secured loan to CTI BioPharma Corp. ("**CTI**"), as described on page 7 of this MD&A, we entered into an agreement with CTI for a tiered royalty on sales of pacritinib, upon approval of the product by the FDA, for $60 million.

On February 28, 2022, the FDA approved pacritinib under the brand name Vonjo for the treatment of adult myelofibrosis patients with platelets below 50 x 10^9/L. Myelofibrosis is a bone marrow cancer that results in the formation of fibrous scar tissue and can lead to thrombocytopenia and anemia, weakness, fatigue and enlarged spleen and liver. This approval triggered the funding of the above noted tiered royalty transaction on Vonjo for $60 million, which occurred on March 7, 2022. Transaction costs of $632 were capitalized as part of the royalty asset acquired.

In accordance with the terms of the royalty agreement, CTI is also entitled to additional consideration of $6.5 million in the event that Vonjo sales exceed certain thresholds on or before March 31, 2023 ("**Net Sales Threshold I**") and an additional $18.5 million in the event that Vonjo sales exceed certain thresholds on or before September 30, 2023 ("**Net Sales Threshold II**"). Subsequent to year end, CTI confirmed that Vonjo sales exceeded Net Sales Threshold I. Accordingly, we have recognized a royalty asset of $6,500 and recorded a related other current liability of $6.5 million, representing the contractual obligation to CTI, the funding for which was completed on January 25, 2023.

The transaction entitles us to receive royalties equal to 9.60% on the first $125 million of annual net sales in the United States, 4.50% on annual net sales in the United States between $125 million and $175 million, 0.50% on annual net sales in the United States between $175 million and $400 million, and will have no entitlement to royalties on annual net sales in the United States exceeding $400 million. Royalties are collected on a one-quarter lag.

(in thousands of U.S. dollars, unless otherwise noted)

Empaveli Transaction

On July 20, 2022, we bought royalties on the sales of Empaveli (pegcetacoplan) for a purchase price of $24,5 million. The transaction entitles us to a less than one percent royalty on the worldwide net sales of Empaveli, subject to a cap at net sales of $500 million in each calendar year, above which we will not be entitled to any royalty. As part of the transaction, we have an option to increase the annual sales cap to $1.1 billion in exchange for a one-time payment of $21 million. We are entitled to receive quarterly royalty payments in respect of net sales of all formulations of pegcetacoplan, commencing January 1, 2022 to be paid on a three-quarter lag and received its first payment in the fourth quarter of 2022. Our royalty entitlement will step down upon the expiry of the relevant patents in each jurisdiction. The royalty term is expected to expire in the U.S. in the first quarter of 2032 and in the European Union ("**EU**") in the third quarter of 2032.

We recognized royalty assets of $23,646 related to Empaveli and other current assets of $500 related to the acquired option to increase the annual sales cap at our discretion before June 1, 2023. We record amortization related to the option on a straight-line basis over the period from July 20, 2022, the date on which we obtained control over the asset, to June 1, 2023, the date of the option's expiry. We have recognized acquired royalties receivable of $354 related to our royalty entitlement accrued from January 1, 2022 to July 20, 2022, the date of the royalty transaction. Transaction costs of $788 were capitalized as part of the royalty asset acquired.

Empaveli is the active molecule in the first targeted C3 therapy for use in adults with paroxysmal nocturnal hemoglobinuria and was approved for that indication by the FDA and the European Medicines Agency ("**EMA**") in 2021. It is marketed in the U.S. by Apellis Pharmaceuticals Inc. and outside the U.S., including the EU, by Swedish Orphan Biovitrum AB, where it is marketed under the brand name Aspaveli.

On February 17, 2023, the FDA approved Syfovre (pegcetacoplan injection) as the first and only treatment of geographic atrophy. Pegcetacoplan is also in development for additional pipeline indications including cold agglutinin disease and C3 glomerulopathy.

Zejula Transaction

On September 9, 2022, we bought royalties on the sales of Zejula for a purchase price of $35 million. The transaction entitles us to a net 0.5% royalty on worldwide net sales of Zejula by GSK plc. We will be entitled to receive quarterly royalty payments on a one-quarter lag based on sales beginning July 1, 2022, and received its first payment in the fourth quarter of 2022. Acquired royalties receivable of $594 are related to our royalty entitlement from July 1, 2022 to September 9, 2022, the date of the royalty transaction. Transaction costs of $566 were capitalized as part of the royalty asset acquired.

In accordance with the terms of the royalty agreement, we are committed to making a milestone payment of $10 million should Zejula be approved by the FDA for the treatment of endometrial cancer on or before December 31, 2025.

Zejula is approved by both the FDA and the EMA as a treatment for both first-line and recurrent ovarian cancer. Additional indications in development include endometrial cancer, HER2-negative breast cancer, non-small cell lung cancer, metastatic castrate-sensitive prostate cancer, as well as metastatic castration-resistant prostate cancer, which was submitted for approval to the EMA in April 2022.

Omidria Transaction

On September 30, 2022, we bought royalties on the sales of Omidria for a purchase price of $125 million. In accordance with the terms of the royalty agreement, we will be entitled to receive royalties until December 2030 subject to annual caps. Royalties are collected on a monthly basis. The details of the annual royalty caps are presented below:

		Annual Royalty Cap
September 1, 2022 – December 31, 2022	$	1,670
2023	$	13,000
2024	$	20,000
2025	$	25,000
2026	$	25,000
2027	$	25,000
2028	$	25,000
2029	$	26,250
2030	$	27,500

We recognized acquired royalties receivable of $418 related to our royalty entitlement accrued from September 1, 2022 to September 30, 2022, the date of the royalty transaction. Transaction costs of $1,116 were capitalized as part of the royalty asset acquired.

Omidria was approved by the FDA in May 2014 and the EMA in July 2015 for intracameral use during cataract surgery or intraocular lens replacement to maintain pupil dilation and reduce postoperative pain. Omidria is marketed worldwide by Rayner Surgical.

Xenpozyme

On November 25, 2022, we bought royalties on the sales of Xenpozyme for a purchase price of $30 million. The transaction entitles us to royalties equal to approximately one percent of worldwide net sales of Xenpozyme. We are entitled to receive semi-annual royalty payments in respect of net sales of Xenpozyme commencing from the transaction date on a two-quarter lag from the respective half-year period. For sales made in the first and second quarters of the year, we expect to receive its royalty payment in the fourth quarter of that year. For sales made in the third and fourth quarters of the year, we expect to receive its royalty payment in the second quarter of the following year. Transaction costs of $1,506 were capitalized as part of the royalty asset acquired.

(in thousands of U.S. dollars, unless otherwise noted)

In accordance with the terms of the royalty agreement, the royalty seller may also be entitled to additional consideration of up to $26 million in the event that cumulative royalties received by us on Xenpozyme sales exceed certain thresholds within a predefined period of time.

Xenpozyme is the only product developed and approved for the treatment of non-central nervous system manifestations of ASMD, also known as Niemann-Pick disease, in pediatric and adult patients. ASMD is an extremely rare, progressive genetic disease with significant morbidity and mortality, especially among infants and children. Signs and symptoms of ASMD may include enlarged spleen or liver, difficulty breathing, lung infections and unusual bruising or bleeding, among other disease manifestations. Current management of the disease includes palliative and supportive care to manage the symptoms. Xenpozyme was approved in Japan in March 2022, by the European Commission in June 2022 and by the FDA in August 2022. Xenpozyme is marketed worldwide by Sanofi S.A.

Summary of Transactions Completed in 2022

The following assets were acquired in these royalty transactions for the year ended December 31, 2022:

	Vonjo Transaction	Empaveli Transaction	Zejula Transaction	Omidria Transaction	Xenpozyme Transaction	Total for the year ended December 31, 2022
Assets						
Royalties receivable	$ —	$ 354	$ 594	$ 418	$ —	$ 1,366
Other current assets	—	500	—	—	—	500
Royalty assets	66,500	23,646	34,406	124,582	30,000	279,134
Net acquired assets	$ 66,500	$ 24,500	$ 35,000	$ 125,000	$ 30,000	$ 281,000

Transactions Completed in 2021

Initial Public Offering and Private Placement

On February 19, 2021, we completed our initial public offering and concurrent private placement of Units. In connection with its initial public offering, we 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, DRI Healthcare and other investors purchased an aggregate of 3,580,407 Units pursuant to a private placement at a price of $9.70 per Unit, for gross proceeds of $34,730. The Units issued pursuant to the concurrent private placement are subject to resale restrictions under applicable laws. The total Units issued pursuant to the initial public offering and concurrent private placement were 40,017,407, for combined gross proceeds of $400,000. Transaction costs associated with the offerings totalled $21,997 and were recorded as a reduction in Unitholders' capital.

Closing Transactions

Following the closing of the initial public offering, we completed the acquisition of an initial portfolio of royalty assets and certain other net assets held by certain private funds managed by DRI Healthcare, for $292,670 ("**Closing Transactions**"), funded by the issuance of Units of DRI Healthcare Trust. The royalty assets consisted primarily of a portfolio of 18 royalties derived from the sale of 14 pharmaceutical products focused on eight therapeutic areas. As part of the transaction, we assumed the outstanding securitization indebtedness associated with certain royalty 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 receipts.

CTI Loan Receivable Transaction

On August 25, 2021, we entered into an agreement with CTI to provide $50 million in secured debt, the proceeds of which were used by CTI to partially fund the commercialization of Vonjo. Vonjo is used for the treatment of myelofibrosis patients with severe thrombocytopenia. The loan receivable bears interest at LIBOR plus 8.25%, subject to a LIBOR floor of 1.75% and matures on August 25, 2026. As the more commonly used U.S. dollar LIBOR settings will be discontinued effective June 30, 2023, the interest rate on the loan receivable will be transitioned to SOFR plus an adjustment spread. We are also entitled to receive an exit fee of 2.00% on the principal balance repaid. Interest payments are due quarterly and the principal amount of the loan is due on maturity. We received a commitment fee of $500 and it recorded as a reduction in the gross principal amount receivable.

Oracea Transaction

On September 30, 2021, we bought royalties on the sales of Oracea for $50.5 million. As part of the transaction, we acquired interests in two additional royalty assets which are not expected to make a material contribution to our royalty income.

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 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, we were entitled to the royalties from April 1, 2021 and beyond. The 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.

(in thousands of U.S. dollars, unless otherwise noted)

Summary of Transactions Completed in 2021

The following assets and liabilities were acquired in these royalty transactions for the year ended December 31, 2021:

	Closing Transactions	Oracea Transaction	Total for the year ended December 31, 2021
Assets			
Cash and cash equivalents	$ 14,707	$ 4,136	$ 18,843
Royalties receivable	55,190	2,930	58,120
Funds held in trust(i)	128	—	128
Derivative assets(i)	219	—	219
Other current assets	196	—	196
Royalty assets	291,462	43,434	334,896
Restricted cash(i)	1,435	—	1,435
	$ 363,337	$ 50,500	$ 413,837
Liabilities			
Accounts payable and accrued liabilities	(743)	—	(743)
Secured notes payable(i)	(69,924)	—	(69,924)
	(70,667)	—	(70,667)
Net acquired assets	$ 292,670	$ 50,500	$ 343,170

(i) During 2021, the Trust fully repaid the secured notes, as described on page 21 of this MD&A. In connection with its secured notes, the Trust was required to maintain funds held in trust and restricted cash as well as interest rate and foreign exchange derivative contracts, which were released and settled subsequent to the repayment of the secured notes.

(in thousands of U.S. dollars, unless otherwise noted)

FINANCIAL REVIEW: RESULTS OF OPERATIONS

During the year ended December 31, 2022, the Trust generated total income of $93,034 (2021 – $81,765) and total expenses of $81,436 (2021 – $60,202).

The Trust commenced its operations on February 19, 2021, the date of the completion of its public and private offerings, and as such, net earnings and comprehensive earnings for the year ended December 31, 2021 reflect the results of operations from February 19, 2021.

The following table presents the components of net earnings and comprehensive earnings and is followed by a discussion on the nature of significant sources of income and categories of expenses.

	Year ended	
	December 31, 2022	December 31, 2021
Income		
Royalty income	$ 87,273	$ 79,860
Interest income on loan receivable	5,678	1,897
Other interest income	83	8
Total income	93,034	81,765
Expenses		
Amortization of royalty assets	59,266	41,837
Management fees	6,532	6,275
Interest expense	6,630	2,236
Servicer fees	—	1,076
Deal investigation and research expenses	3,228	2,252
Unit-based compensation	1,191	473
Other operating expenses	4,589	5,414
Other items	—	718
Net gain on interest rate derivatives	—	(2)
Net gain on foreign exchange derivatives	—	(77)
Total expenses	81,436	60,202
Net earnings and comprehensive earnings	$ 11,598	**$ 21,563**

Royalty income

Royalty income is comprised of income from our royalty assets, which represents 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, trade secret or any other form of intellectual property or other right relating to pharmaceutical drugs, devices and/or delivery technologies. The Trust typically does not own the licensed intellectual property; however, it earns income based on rights to a royalty stream generally tied to the related underlying patent, calculated as a percentage of sales revenue generated by a third party at the time that the sales occur. Royalty income is recorded on an accrual basis when earned in accordance with our contractual rights. Management is required to make estimates of royalty income earned for which a report or actual cash royalty receipts have not been received from our counterparty. Actual royalty receipts are reported and paid by our counterparties typically one or more quarters after they are earned. Royalty income of $87,273 for the year ended December 31, 2022 (2021 – $79,860) includes $27,748 related to royalty entitlements (2021 – $30,148) which will be received subsequent to December 31, 2022.

(in thousands of U.S. dollars, unless otherwise noted)

The following table presents the Trust's royalty income by royalty asset for the years ended December 31, 2022 and 2021:

	Year ended December 31, 2022	Year ended December 31, 2021	% Change
Royalty Assets			
Empaveli[(i)]	**$ 234**	$ —	n/a
Eylea I[(ii)]	**5,563**	9,308	(40)%
Eylea II[(ii)]	**5,778**	4,831	20 %
FluMist[(ii)]	**2,180**	3,158	(31)%
Natpara[(ii)]	**2,564**	2,008	28 %
Omidria[(i)]	**3,419**	—	n/a
Oracea[(iii)]	**7,702**	1,373	461 %
Rilpivirine Portfolio[(iv)]	**—**	2,899	(100)%
Rydapt[(ii)]	**9,989**	9,576	4 %
Spinraza[(ii)]	**15,536**	16,359	(5)%
Stelara, Simponi and Ilaris[(v),(vi)]	**3,231**	8,185	(61)%
Vonjo[(i)]	**5,179**	—	n/a
Xolair[(ii)]	**9,615**	7,713	25 %
Zejula[(i)]	**919**	—	n/a
Zytiga[(ii)]	**12,599**	13,377	(6)%
Other Products[(vii),(viii)]	**2,765**	1,073	158 %
Total Royalty Income	**$ 87,273**	**$ 79,860**	9 %

(i) The Trust recorded no royalty income related to Empaveli, Omidria, Vonjo and Zejula prior to December 31, 2021 as the Trust obtained control over the royalty assets in 2022, as described on page 5 of this MD&A.
(ii) The Trust recorded royalty income related to the assets acquired in connection with the Closing Transactions, as described on page 7 of this MD&A, from February 19, 2021, the date on which the Trust obtained control over those assets.
(iii) The Trust recorded royalty income related to Oracea from September 30, 2021, the date on which the Trust obtained control over the asset, as described on page 7 of this MD&A.
(iv) The Rilpivirine Portfolio consisted of an agreement to receive royalties on sales of Complera, Edurant, Odefsey and Juluca. In accordance with the terms of the royalty agreement, the entitlement to royalty receipts from the portfolio ended during the second quarter of 2021.
(v) Stelara, Simponi and Ilaris were previously referred to as the Autoimmune Portfolio. The three royalty assets include two royalty streams on each product, for a total of six royalty streams held directly and indirectly.
(vi) During the third quarter of 2021, the Trust recorded an other current liability of $718 with a corresponding charge to other items to reflect the obligation for excess royalty payments received in connection with Ilaris prior to the Trust's acquisition of the asset. Royalties receivable of $334 were used to reduce the obligation during the year ended December 31, 2022. Royalties receivable of $384 were used to reduce the obligation during 2021. There is no remaining obligation as at December 31, 2022 (2021 – $334) related to the past overpayments.
(vii) Other Products 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.
(viii) For the year ended December 31, 2022, Other Products also includes royalty income of $750 related to the settlement of litigation on a royalty asset which predated the Trust's acquisition of royalty assets as part of the Closing Transactions, as described on page 7 of this MD&A. The entitlement to royalties on the royalty asset expired in the fourth quarter of 2018, and due to the uncertainty of the outcome of the litigation, no value was attributed to the asset as part of the Closing Transactions.

The Trust records royalty income from royalty assets from the date on which the Trust obtains control of those assets, which is typically the date on which the agreement creating the royalty assets is entered into. Royalty income for the year ended December 31, 2022 was $87,273 (2021 – $79,860). The increase in royalty income was primarily due to (i) the proration of royalty income in the first quarter of 2021 related to the royalty assets acquired in the Closing Transactions in 2021 to reflect the period during which the Trust held control over those assets; (ii) royalty income earned related to Empaveli, Omidria, Vonjo and Zejula, which were added to the portfolio subsequent to December 31, 2021, as described on page 5 of this MD&A; (iii) stronger market demand for Eylea, Natpara and Xolair compared to the same period in 2021; (iv) the inclusion of the royalty litigation settlement of $750 for Other Products; and (v) royalties from the other assets acquired as part of the Oracea Transaction in Other Products for four quarters in 2022 compared to two quarters in 2021. The increase in royalty income was partially offset by (i) the contractual step down in royalty rate for Eylea I starting in the first quarter of 2022; (ii) the decline in the sales of FluMist from unusually high levels in 2021 due to increased vaccination programs in the U.S. and the EU due to the impact of the COVID-19 pandemic; (iii) the expiry of the royalty entitlements from the Rilpivirine Portfolio during the second quarter of 2021; and (iv) the expiry of the royalty entitlements in major geographic areas for Stelara, Simponi and Ilaris.

Royalty assets added to the portfolio subsequent to December 31, 2021 contributed $9,751 in royalty income for the year ended December 31, 2022.

Interest income on loan receivable

Interest income is primarily comprised of interest earned on the loan receivable from CTI, as described on page 7 of this MD&A. Interest income for the years ended December 31, 2022 and 2021 is presented below:

	Year ended December 31, 2022	Year ended December 31, 2021
Interest on principal loan receivable	**$ 5,387**	$ 1,791
Amortization of commitment fee	**97**	35
Accretion of exit fee receivable	**194**	71
Interest income on loan receivable	**$ 5,678**	**$ 1,897**

(in thousands of U.S. dollars, unless otherwise noted)

Amortization of royalty assets

Royalty assets are amortized over the estimated useful life of the assets, as described in note 2(c) to the Trust's consolidated financial statements. The Trust amortizes its royalty assets from the date on which the Trust obtains control of those assets, which is typically the date on which the agreement creating the royalty assets is entered into. During the year ended December 31, 2022, the Trust recorded amortization of royalty assets of $59,266 (2021 – $41,837).

The increase in amortization expense during the year ended December 31, 2022 compared to the same period in 2021 was primarily due to (i) the proration of the amortization expense in 2021 related to the royalty assets acquired in the Closing Transactions in 2021 to reflect the period during which the Trust held control over those assets; and (ii) the additional amortization recorded during the current period related to the assets acquired subsequent to December 31, 2021, as described on page 5 of this MD&A.

Management fees

The Trust pays management fees on a quarterly basis to our manager, as described on page 25 of this MD&A. The Trust recorded management fees of $6,532 during the year ended December 31, 2022 (2021 – $6,275).

The increase in management fees for the year ended December 31, 2022 compared to the same period in 2021 is due to (i) the proration of management fees in 2021 to reflect the effective date of February 19, 2021 of the management agreement; (ii) the additional management fees earned on the assets acquired subsequent to December 31, 2021, as described on page 5 of this MD&A; and (iii) the management fees on the cash receipts related to the royalty litigation settlement of $750.

Interest expense

In connection with the Closing Transactions, the Trust assumed the obligation for secured notes on February 19, 2021, as described on page 21 of this MD&A. On October 22, 2021, the Trust entered into a new credit facility agreement, as described on page 21 of this MD&A, the proceeds from which were used to fully repay the secured notes.

Interest expense for the years ended December 31, 2022 and 2021 is presented below. The increase in interest expense during the year ended December 31, 2022 compared to the same period in 2021 was primarily due to additional long-term debt the Trust has taken on during 2022 to fund transactions, as described on page 5 of this MD&A. The Trust's long-term debt is discussed further on page 21 of this MD&A.

	Year ended December 31, 2022	Year ended December 31, 2021
Interest on credit facility net borrowings	$ 5,386	$ 222
Interest on secured notes	—	1,866
Standby fees	807	119
Amortization of deferred transaction costs	437	29
Total interest expense	$ 6,630	$ 2,236

Servicer fees

Our manager provided administrative services to the Trust for servicing the secured notes pursuant to a servicing agreement. The servicing agreement was terminated on October 22, 2021, when the Trust fully repaid the secured notes, as described on page 21 of this MD&A. No servicer fees were incurred during the year ended December 31, 2022. During the year ended December 31, 2021, the Trust recorded servicer fees of $1,076 for the period from February 19, 2021.

Deal investigation and research expenses

Deal investigation and research expenses include the ongoing costs associated with the Trust's research and due diligence activities and other expenses necessary for the assessment of potential asset acquisition opportunities, including consulting, legal, research data and data subscription expenses.

For the year ended December 31, 2022, the Trust recorded deal investigation and research expenses of $3,228 (2021 – $2,252). The increase was primarily due to the growth of the Trust's asset acquisition transactions in the current year when compared with the prior year.

Directly attributable costs associated with successful acquisitions are capitalized as part of the cost of the royalty assets, in accordance with IFRS.

Unit-based compensation

The Trust provides unit-based compensation under its Incentive Plan, as described in note 2(o) of the Trust's consolidated financial statements.

For the year ended December 31, 2022, the unit-based compensation expense was $1,191 (2021 – $473) and was comprised of Restricted Unit ("**RU**") grants. As at December 31, 2022, the unit-based compensation liability was $778 (2021 – $370), comprised of a current portion of $509 (2021 – $233) and a long-term portion of $269 (2021 – $137), related to the outstanding awards.

For the year ended December 31, 2022, the Trust granted 186,028 RUs (2021 – 432,843) and 18,771 distribution equivalent Units (2021 – 24,269), 137,885 Units vested in the normal course (2021 – 15,343) and 116,089 Units were forfeited (2021 – nil) resulting in 392,594 total Units outstanding as at December 31, 2022 (2021 – 441,769) pursuant to the vesting of RUs.

(in thousands of U.S. dollars, unless otherwise noted)

No Options or Performance Units ("**PUs**") were granted as at December 31, 2022 and 2021. Certain members of the board of trustees elected to be compensated fully or partially in Deferred Units ("**DUs**"), as described in other operating expenses below.

Other operating expenses

Other operating expenses include fees paid to the board of trustees, as well as other ongoing operating expenses, including consulting, legal and audit fees, required to operate our business. During the year ended December 31, 2022, the Trust recorded total operating expenses of $4,589 (2021 – $5,414).

A summary of the Trust's other operating expenses by nature is presented below:

	Year ended December 31, 2022	Year ended December 31, 2021
Board of trustees fees	$ 480	$ 464
Professional fees	2,628	3,601
Amortization of other current assets	260	—
Other expenses	1,221	1,349
Total other operating expenses	$ 4,589	$ 5,414

Board of trustees fees

During 2022, certain members of the board of trustees elected to be compensated fully or partially in DUs under the Trust's Incentive Plan. The DUs granted pursuant to the election vest immediately and are settled in accordance with the established terms of the award agreement, but not earlier than the resignation or termination of the respective trustee from the board of trustees. All DUs are credited with distribution equivalents in the form of additional DUs 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. DUs are initially recognized at fair value and are subsequently remeasured at fair value on each reporting date, as described in note 2(o) to the Trust's consolidated financial statements.

During the year ended December 31, 2022, the Trust granted 50,373 DUs in lieu of cash compensation to trustees and 1,573 distribution equivalent Units in relation to the quarterly distributions. Board compensation expense for the year ended December 31, 2022 included $296 related to the issuance of DUs and the related distribution equivalents. The fair value of the DUs vested but not settled was $296, and was included in other non-current liabilities. The Trust did not grant any DUs during the year ended December 31, 2021.

Professional fees

For the year ended December 31, 2022, the Trust recorded total professional fees of $2,628 (2021 – $3,601) related to professional services including audit, legal, tax, valuation and consulting. The decrease compared to the prior year was primarily due to the higher legal costs incurred in association with the establishment of the Trust's operations in 2021. The decrease in professional fees was partially offset by (i) increased fees for audit and tax services in 2022; and (ii) an increase in other legal and consulting fees due to the growth in the Trust's portfolio in 2022.

Amortization of other current assets

On July 21, 2022, in connection with the Empaveli Transaction, as described on page 6 of this MD&A, the Trust acquired an exclusive option to increase the annual net sales cap for Empaveli on which the Trust will be entitled to royalty payments from $500,000 to $1.1 billion, for $500. The option is exercisable at the discretion of the Trust before June 1, 2023. The Trust recorded the option as an other current asset initially at cost and is amortizing it on a straight-line basis over the period from July 21, 2022, the date on which the Trust obtained control over the asset, to June 1, 2023, the date of the option's expiry. The Trust also assesses, at the end of each reporting period, whether there are indications that the option 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. As at December 31, 2022, the option has a net book value of $240 and the Trust has assessed that there are no indications that the option may be impaired.

For the year ended December 31, 2022, the Trust recorded amortization related to the option of $260. The Trust did not record amortization related to the option in 2021.

Other items

During 2021, the Trust recorded an other current liability of $718 with a corresponding charge to other items to reflect the obligation for excess royalty payments received in connection with Ilaris prior to the Trust's acquisition of the asset. Royalties receivable of $334 were used to reduce the obligation during the year ended December 31, 2022. Royalties receivable of $384 were used to reduce the obligation in 2021. There is no remaining obligation as at December 31, 2022 (2021 – $334) related to the past overpayments.

Weighted average number of Units

For the year ended December 31, 2022, the Trust generated basic and fully diluted net earnings and comprehensive earnings per Unit of $0.30 (2021 – $0.62). The weighted average number of Units outstanding for the purpose of calculating earnings per Unit were as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Basic	38,570,499 Units	34,646,277 Units
Diluted	38,591,392 Units	34,654,282 Units

(in thousands of U.S. dollars, unless otherwise noted)

Fourth Quarter Results

Net earnings (loss) and comprehensive earnings (loss) for the fourth quarter of 2022 were $(4,807) (2021 – $3,362). The summary of the results of operations during the fourth quarters of 2022 and 2021 is presented below:

	Three months ended December 31, 2022	Three months ended December 31, 2021
Income		
Royalty income	$ 20,983	$ 20,860
Interest income on loan receivable	1,609	1,353
Other interest income	50	1
Total income	22,642	22,214
Expenses		
Amortization of royalty assets	19,078	12,914
Management fees	2,055	2,112
Interest expense	4,013	1,125
Servicer fees	—	98
Deal investigation and research expenses	863	721
Unit-based compensation	342	448
Other operating expenses	1,098	1,378
Net gain on interest rate derivatives	—	(2)
Net loss on foreign exchange derivatives	—	58
Total expenses	27,449	18,852
Net earnings (loss) and comprehensive earnings (loss)	$ (4,807)	$ 3,362

During the fourth quarter of 2022, the Trust generated total income of $22,642 (2021 – $22,214). This consisted primarily of royalty income of $20,983 (2021 – $20,860) and interest income of $1,609 (2021 – $1,353) on the loan receivable. Royalty income for the three months ended December 31, 2022 included $20,809 related to estimated royalty entitlement, which will be received subsequent to December 31, 2022 (2021 – $19,159).

During the fourth quarter, the Trust's expenses were $27,449 (2021 – $18,852), including $19,078 related to amortization of royalty assets over their expected useful lives (2021 – $12,914); $2,055 related to management fees paid to our manager (2021 – $2,112); $4,013 related to interest expense for the credit facility (2021 – $1,125), as described on page 5 of this MD&A; deal investigation and research expenses of $863 (2021 – $721), which include the ongoing costs associated with the Trust's research and due diligence activities for potential asset acquisitions; and other operating expenses of $1,098 (2021 – $1,378) which include general costs of operating our business including board, consulting, legal, audit fees and amortization of the royalty option, as described on page 12 of this MD&A.

(in thousands of U.S. dollars, unless otherwise noted)

The following table presents the Trust’s royalty income by royalty asset for the three months ended December 31, 2022 and 2021:

	Three months ended December 31, 2022	Three months ended December 31, 2021	% Change
Royalty Assets			
Empaveli(i)	$ 109	$ —	n/a
Eylea I	1,312	1,846	(29)%
Eylea II	1,117	1,515	(26)%
FluMist	(412)	1,271	(132)%
Natpara	562	679	(17)%
Omidria(i)	3,419	—	n/a
Oracea	1,431	1,373	4 %
Rydapt	1,782	2,512	(29)%
Spinraza	4,041	4,338	(7)%
Stelara, Simponi and Ilaris(ii),(iii)	598	2,025	(70)%
Vonjo(i)	1,949	—	n/a
Xolair	1,858	1,700	9 %
Zejula(i)	774	—	n/a
Zytiga	1,447	2,974	(51)%
Other Products(iv)	996	627	59 %
Total Royalty Income	**$ 20,983**	**$ 20,860**	**1 %**

(i) The Trust recorded no royalty income related to Empaveli, Omidria, Vonjo and Zejula during the three months ended December 31, 2021 as the Trust obtained control over the royalty assets in 2022, as described on page 5 of this MD&A.
(ii) Stelara, Simponi and Ilaris were previously referred to as the Autoimmune Portfolio. The three royalty assets include two royalty streams on each product, for a total of six royalty streams held directly and indirectly.
(iii) During the third quarter of 2021, the Trust recorded an other current liability of $718 with a corresponding charge to other items to reflect the obligation for excess royalty payments received in connection with Ilaris prior to the Trust’s acquisition of the asset. Royalties receivable of $190 was used to reduce the obligation during the three months ended December 31, 2021. Royalty income of $334 earned from Ilaris during 2022 was used to repay the remaining obligation. There is no remaining obligation as at December 31, 2022 (2021 – $334) related to the past overpayments.
(iv) Other Products 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.

Royalty income for the three months ended December 31, 2022 was $20,983 (2021 – $20,860). The decrease in royalty income was primarily a result of (i) the decline in the sales of FluMist due to increased vaccination programs in 2021 in the U.S. and the EU due to the impact of the COVID-19 pandemic; and (ii) the expected decrease in royalty entitlements for Zytiga in 2022 due to the entry of generic equivalents in certain non-U.S. geographies. The decrease in royalty income was partially offset by the inclusion of royalty income earned related to Empaveli, Omidria, Vonjo and Zejula, which were added to the portfolio subsequent to December 31, 2021, totalling $6,251.

Summary of quarterly results

The following table provides a summary of the Trust’s quarterly results since the date of formation and the weighted average number of Units outstanding:

	2022				2021			
	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31
Total income	$ 22,642	$ 26,471	$ 21,296	$ 22,625	$ 22,214	$ 23,409	$ 23,451	$ 12,691
Total expenses	(27,449)	(18,857)	(18,199)	(16,931)	(18,852)	(15,774)	(16,076)	(9,500)
Net earnings (loss) and comprehensive earnings (loss)	$ (4,807)	$ 7,614	$ 3,097	$ 5,694	$ 3,362	$ 7,635	$ 7,375	$ 3,191
Net earnings (loss) per Unit								
Basic	$ (0.13)	$ 0.20	$ 0.08	$ 0.15	$ 0.08	$ 0.19	$ 0.18	$ 0.17
Diluted	$ (0.13)	$ 0.20	$ 0.08	$ 0.15	$ 0.08	$ 0.19	$ 0.18	$ 0.17
Weighted average number of Units								
Basic	38,231,059	38,657,266	38,654,707	38,743,644	39,802,522	40,107,407	40,107,407	18,271,153
Diluted	38,270,508	38,694,492	38,666,241	38,743,769	39,810,526	40,107,407	40,107,407	18,271,153

(in thousands of U.S. dollars, unless otherwise noted)

FINANCIAL REVIEW: NON-GAAP FINANCIAL MEASURES

The Trust reports certain non-GAAP financial measures, including Total Cash Receipts, Total Cash Royalty Receipts and Adjusted EBITDA. The Trust also reports certain non-GAAP ratios, including Adjusted EBITDA Margin and Adjusted Cash Earnings per Unit. These measures and ratios are not standardized financial measures under IFRS and might not be comparable to similar financial measures disclosed by other issuers.

Total Cash Receipts and Total Cash Royalty Receipts

Total Cash Receipts refers to Total Cash Royalty Receipts plus cash receipts from all products (including cash receipts from interest and principal payments related to our loan receivable). Total Cash Royalty Receipts refers to aggregate cash royalty receipts from our portfolio of royalty assets and forms part of Total Cash Receipts. Because of the lag between when we record royalty income and receive the corresponding cash payments on our royalties, we believe Total Cash Receipts and Total Cash Royalty Receipts are useful measures when evaluating our operations, as they represent actual cash generated in respect of all royalty assets held during a period.

Pro forma cash receipts during the year ended December 31, 2021 include the Trust's entitlement to cash royalty receipts for the period from January 1, 2021 to February 18, 2021 related to the assets acquired in the Closing Transactions, as described on page 7 of this MD&A. Pro forma cash receipts during 2021 also include the Trust's entitlement to cash royalty receipts generated for the period from April 1, 2021 to June 30, 2021 related to the assets acquired in the Oracea Transaction, which were used to reduce the total cash compensation paid in the transaction, as described on page 7 of this MD&A. In the consolidated financial statements, the Trust has recorded cash royalties received and royalty income from royalty assets from the date on which the Trust obtained control of the royalty assets.

	Cash Receipts			Cash Receipts		
Product	Three months ended December 31, 2022	Three months ended December 31, 2021	% Change	Year ended December 31, 2022	Pro forma year ended December 31, 2021[i]	% Change
Royalty Assets						
Empaveli	$ **269**	$ —	n/a	$ **269**	$ —	n/a
Eylea I	**1,290**	6,710	(81)%	**5,399**	12,750	(58)%
Eylea II	**1,407**	2,972	(53)%	**5,881**	5,656	4 %
FluMist	**734**	910	(19)%	**2,952**	3,179	(7)%
Natpara	**575**	634	(9)%	**2,625**	2,208	19 %
Omidria	**1,670**	—	n/a	**1,670**	—	n/a
Oracea	**1,845**	2,303	(20)%	**7,662**	6,014	27 %
Rilpivirine Portfolio[ii]	**—**	—	n/a	**—**	14,368	(100)%
Rydapt	**2,226**	2,527	(12)%	**10,102**	11,297	(11)%
Spinraza	**3,879**	4,382	(11)%	**16,466**	19,631	(16)%
Stelara, Simponi and Ilaris[iii),(iv]	**597**	1,786	(67)%	**3,704**	9,387	(61)%
Vonjo	**1,751**	—	n/a	**3,155**	—	n/a
Xenpozyme[v]	**—**	—	n/a	**—**	—	n/a
Xolair	**3,019**	2,703	12 %	**9,646**	8,744	10 %
Zejula	**692**	—	n/a	**692**	—	n/a
Zytiga	**9,101**	9,020	1 %	**18,059**	18,518	(2)%
Other Products[vi),(vii]	**562**	540	4 %	**2,563**	2,101	22 %
Total Cash Royalty Receipts[ix]	**29,617**	**$ 34,487**	**(14)%**	**90,845**	**$ 113,853**	**(20)%**
Interest Receipts from Loan Receivable[viii]	**1,533**	1,791	(14)%	**5,387**	1,791	201 %
Total Cash Receipts[ix]	**$ 31,150**	**$ 36,278**	**(14)%**	**$ 96,232**	**$ 115,644**	**(17)%**

(i) Cash receipts for the year ended December 31, 2021 are presented on a pro forma basis and represent the cash that was received by the Trust's current subsidiaries prior to completion of the Trust's acquisition of those subsidiaries. The Trust was the beneficiary of royalty cash receipts from the assets acquired in the Closing Transactions from January 1, 2021 to February 18, 2021 and has recorded the increase of $2,269 in acquired cash and cash equivalents related to the royalty cash receipts within that period, as described on page 7 of this MD&A. Cash receipts for the year ended December 31, 2021 also include the Trust's entitlement to cash royalties received from the assets acquired in the Oracea Transaction, as described on page 7 of this MD&A.

(ii) The Rilpivirine Portfolio consists of an agreement to receive royalties on sales of Complera, Edurant, Odefsey and Juluca. The Trust's entitlement to royalties ended during the second quarter of 2021 in accordance with the terms of the royalty agreement.

(iii) Stelara, Simponi and Ilaris were previously referred to as the Autoimmune Portfolio. The royalty assets include two royalty streams on each product, for a total of six royalty streams.

(iv) During the third quarter of 2021, the Trust recorded an other current liability of $718 with a corresponding charge to other items to reflect the obligation for excess royalty payments received in connection with Ilaris prior to the Trust's acquisition of the asset. Royalties receivable of nil and $334 were used to reduce the obligation during the three months and year ended December 31, 2022. Royalties receivable of $190 and $384, respectively, were used to reduce the obligation during three months and year ended December 31, 2021. There is no remaining obligation as at December 31, 2022 (2021 – $334) related to the past overpayments.

(v) The Trust completed a transaction in respect of Xenpozyme during the fourth quarter of 2022. In accordance with the terms of the royalty agreements, cash royalty receipts are collected on a two-quarter lag from the respective half-year period.

(vi) Other Products includes royalty income from certain other royalty assets as well as royalty assets which are fully amortized and, where applicable, the entitlements to which have generally expired.

(vii) For the year ended December 31, 2022, the Trust received $750 related to the settlement of litigation on a royalty asset which predated the Trust's acquisition of royalty assets as part of the Closing Transactions, as described on page 7 of this MD&A. The entitlement to royalties on the royalty asset expired in the fourth quarter of 2018, and due to the uncertainty of the outcome of the litigation, no value was attributed to the asset as part of the Closing Transactions.

(viii) Interest receipts from loan receivable relates to the CTI loan, as described on page 7 of this MD&A. Interest is collected on a quarterly basis.

(ix) Total Cash Receipts and Total Cash Royalty Receipts are non-GAAP financial measures.

Fourth Quarter Total Cash Receipts

Total Cash Receipts during the three months ended December 31, 2022 were $31,150, representing a decrease of $5,128 or 14% compared to the same period in 2021. The Trust recorded royalty income and interest income on the loan receivable of $22,592 during the three months ended December 31, 2022 (2021 – $22,213).

Total Cash Royalty Receipts during the three months ended December 31, 2022 decreased by $4,870 or 14% compared to the same period in 2021. The decrease in cash royalty receipts was primarily driven by (i) fourth quarter cash receipts for Eylea I and Eylea II, which included entitlements for the third quarter of 2021 in addition to the entitlements for the fourth quarter; (ii) an expected decline in sales of Spinraza due to the evolving market conditions and increased competition in the treatment of spinal muscular atrophy; (iii) a decrease in royalties from Oracea due to lower sales; and (iv) the continued contractual expirations of royalty entitlements in certain geographies as expected for Stelara, Simponi and Ilaris. The decrease in Total Cash Royalty Receipts was partially offset by the inclusion of royalties for Empaveli, Omidria, Vonjo and Zejula, which were added to the portfolio subsequent to December 31, 2021, which contributed $4,382 during the current quarter.

Cash interest receipts from the loan receivable were $1,533 for the three months ended December 31, 2022 and represent interest payments received on the loan to CTI during the quarter, as described on page 7 of this MD&A. Cash interest receipts from the loan receivable were $1,791 for the three months ended December 31, 2021 and represent interest earned from August 25, 2021, the date on which the Trust entered into the loan agreement with CTI.

Year-to-Date Total Cash Receipts

Total Cash Receipts during the year ended December 31, 2022 were $96,232, representing a decrease of $19,412 or 17% compared to the same period in 2021. The Trust recorded royalty income and interest income on the loan receivable of $92,951 during the year ended December 31, 2022 (2021 – $81,757).

Total Cash Royalty Receipts during the year ended December 31, 2022 decreased by $23,008 or 20% compared to the same period in 2021. The decrease was primarily driven by (i) a decrease in royalty entitlement rates for Eylea I, as the royalty stream reached a contractual step down in royalty rates as expected in the first quarter of 2022; (ii) 2021 cash receipts for Rydapt which included a higher adjustment of royalty entitlements from prior periods; (iii) an expected decline in sales of Spinraza due to the evolving market conditions and increase in competition in the treatment of spinal muscular atrophy; (iv) the expiry of royalty entitlements from the Rilpivirine Portfolio during the second quarter of 2021; and (v) the continued contractual expirations of royalty entitlements in certain geographies as expected for Stelara, Simponi and Ilaris.

The decrease in Total Cash Royalty Receipts was partially offset by (i) the inclusion of royalties from assets added to the portfolio subsequent to December 31, 2021, which contributed $5,786 during the year ended December 31, 2022; ii) the inclusion of royalties from Oracea for four quarters in 2022 compared to two quarters in 2021 as the agreement for which was entered into on September 30, 2021; (iii) stronger market demand for Xolair; and (iv) the inclusion of $750 in 2022 related to the settlement of litigation on a royalty asset which predated the Trust's acquisition of royalty assets as part of the Closing Transactions, as described on page 9 of this MD&A.

Cash interest receipts from the loan receivable were $5,387 for the year ended December 31, 2022 and represented interest payments received for the year on the loan to CTI, as described on page 7 of this MD&A. In 2021, The Trust received interest payments of $1,791 for the period starting on August 25, 2021, the date on which the Trust entered into the loan agreement with CTI.

(in thousands of U.S. dollars, unless otherwise noted)

The reconciliation of Total Cash Receipts and Total Cash Royalty Receipts to the most directly comparable measures calculated in accordance with IFRS is presented below. Beginning with the first quarter of 2022, the Trust reconciles Total Cash Receipts and Total Cash Royalty Receipts to total income, rather than royalty income. Total income represents the sum of royalty income, interest income on loan receivable and other interest income. This results in the subtraction of non-cash interest income on loan receivable when reconciling to Total Cash Receipts. When reconciling to Total Cash Royalty Receipts, there is a corresponding subtraction to interest income on loan receivable and an addition of non-cash interest income on loan receivable, since Total Cash Royalty Receipts is a measure of the Trust's cash royalty receipts from all products, excluding income from the Trust's debt instruments. For purposes of complying with equal prominence requirements of applicable securities laws relating to non-GAAP financial measures, the Trust refers to royalty income plus interest income on loan receivable when referring to Total Cash Receipts and Total Cash Royalty Receipts.

	Three months ended December 31, 2022	Three months ended December 31, 2021	Year ended December 31, 2022	Pro forma year ended December 31, 2021
Total income	$ 22,642	$ 22,214	$ 93,034	$ 81,765
[-] Other interest income	(50)	(1)	(83)	(8)
[+] Royalties receivable, beginning of period	36,386	43,965	30,148	—
[-] Royalties receivable, end of period	(27,748)	(30,148)	(27,748)	(30,148)
[+] Acquired royalties receivable(i)	—	—	1,366	58,120
[+] Acquired cash royalties received(i)	—	—	—	6,405
[-] Non-cash royalty income(ii)	(4)	(190)	(194)	(384)
[+] Interest receivable, beginning of period	—	514	—	—
[-] Interest receivable, end of period	—	—	—	—
[-] Non-cash interest income on loan receivable(iii)	(76)	(76)	(291)	(106)
[=] Total Cash Receipts	**$ 31,150**	**$ 36,278**	**$ 96,232**	**$ 115,644**
[-] Interest income on loan receivable	(1,609)	(1,353)	(5,678)	(1,897)
[-] Interest receivable, beginning of period	—	(514)	—	—
[+] Interest receivable, end of period	—	—	—	—
[+] Non-cash interest income on loan receivable(iii)	76	76	291	106
[=] Total Cash Royalty Receipts	**$ 29,617**	**$ 34,487**	**$ 90,845**	**$ 113,853**

(i) Acquired royalties receivable and acquired cash royalties received were used to reduce the net purchase price paid for the assets acquired by the Trust, as described on page 5 of this MD&A.

(ii) Non-cash royalty income is related to excess royalty payments received in prior periods in which the Trust has an obligation to the royalty payers. Royalty income for the three months and year ended December 31, 2022 of nil and $334, respectively (2021 – $190 and $384, respectively), were used to reduce the obligation for excess royalty payments received in connection with Ilaris. There is no remaining obligation as at December 31, 2022 (2021 – $334) related to Ilaris. In the second quarter of 2022, the Trust recorded other current liabilities and a corresponding deduction to royalty income of $155 to reflect an additional obligation for excess royalty payments received related to other royalty assets. Royalty income of $4 and $15 were used to reduce the obligation during the three months and year ended December 31, 2022, respectively. Royalty income earned in future periods related to other royalty assets will be used to repay the remaining obligation of $140.

(iii) For the three months and year ended December 31, 2022, non-cash interest income on loan receivable represents the amortization of commitment fees of $25 and $97, respectively (2021 – $25 and $35, respectively) and the accretion of exit fees receivable of $51 and $194, respectively (2021 – $51 and $71, respectively).

(in thousands of U.S. dollars, unless otherwise noted)

Adjusted EBITDA

We believe Adjusted EBITDA provides meaningful information about our operating cash flows as it eliminates the effects of accruals and non-cash expenses recorded on the statement of income and comprehensive income. We refer to EBITDA when reconciling our net earnings and comprehensive earnings to Adjusted EBITDA, but we do not use EBITDA as a measure of our performance. The reconciliation for the comparative period has been adjusted to conform with the current period's composition.

The reconciliation of Adjusted EBITDA to its most directly comparable measures calculated in accordance with IFRS is presented below.

	Three months ended December 31, 2022	Three months ended December 31, 2021	Year ended December 31, 2022	Pro forma year ended December 31, 2021
Net earnings (loss) and comprehensive earnings (loss)	$ (4,807)	$ 3,362	$ 11,598	$ 21,563
[+] Amortization of royalty assets	19,078	12,914	59,266	41,837
[+] Amortization of other current assets[(i)]	146	—	260	—
[-] Other interest income	(50)	(1)	(83)	(8)
[+] Interest expense	4,013	1,125	6,630	2,236
EBITDA	18,380	17,400	77,671	65,628
[+] Royalties receivable, beginning of period	36,386	43,965	30,148	—
[-] Royalties receivable, end of period	(27,748)	(30,148)	(27,748)	(30,148)
[+] Interest receivable, beginning of period	—	514	—	—
[-] Interest receivable, end of period	—	—	—	—
[+] Acquired royalties receivable[(ii)]	—	—	1,366	58,120
[+] Acquired cash royalties received[(ii)]	—	—	—	6,405
[+] Unit-based compensation	342	448	1,191	473
[+] Board of trustees unit-based compensation[(iii)]	91	—	296	—
[+] Net gain on interest rate derivatives	—	(2)	—	(2)
[-] Net loss (gain) on foreign exchange derivatives	—	58	—	(77)
[+] Other items[(iv)]	—	—	—	718
[-] Non-cash royalty income[(v)]	(4)	(190)	(194)	(384)
[-] Non-cash interest income on loan receivable[(vi)]	(76)	(76)	(291)	(106)
[=] Adjusted EBITDA	$ 27,371	$ 31,969	$ 82,439	$ 100,627

(i) In connection with the Empaveli Transaction completed in 2022, the Trust acquired other current assets, as described on page 12 of this MD&A. The related amortization expense is recorded in other operating expenses.
(ii) Acquired royalties receivable and acquired cash royalties received were used to reduce the net purchase paid for the assets acquired by the Trust, as described on page 5 of this MD&A.
(iii) During 2022, certain members of the board of trustees elected to be compensated fully or partially in DUs under the Trust's Incentive Plan, as described on page 12 of this MD&A.
(iv) During the third quarter of 2021, 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 Ilaris prior to the Trust's acquisition of the asset.
(v) Non-cash royalty income is related to excess royalty payments received in prior periods in which the Trust has an obligation to the royalty payers. Royalty income for the three months and year ended December 31, 2022 of nil and $334, respectively, were used to reduce the obligation for excess royalty payments received in connection with Ilaris (2021 – $190 and $384, respectively). There is no remaining obligation as at December 31, 2022 (2021 – $334) related to Ilaris. In the second quarter of 2022, the Trust recorded other current liabilities and a corresponding deduction to royalty income of $155 to reflect an additional obligation for excess royalty payments received related to other royalty assets. Royalty income of $4 and $15 were used to reduce the obligation during the three months and year ended December 31, 2022, respectively. Royalty income earned in future periods related to other royalty assets will be used to repay the remaining obligation of $140.
(vi) For the three months and year ended December 31, 2022, non-cash interest income on loan receivable represents the amortization of commitment fees of $25 and $97, respectively (2021 – $25 and $35, respectively) and the accretion of exit fees receivable of $51 and $194, respectively (2021 – $51 and $71, respectively).

Adjusted EBITDA Margin

We believe that Adjusted EBITDA Margin is a useful supplemental measure to demonstrate the operating efficiency of our business on a cash basis.

The calculation of Adjusted EBITDA Margin is presented below. The comparative period reflects the impact of the adjustments made to Adjusted EBITDA to reflect the current period's composition.

	Three months ended December 31, 2022	Three months ended December 31, 2021	Year ended December 31, 2022	Pro forma year ended December 31, 2021
Adjusted EBITDA	$ 27,371	$ 31,969	$ 82,439	$ 100,627
[÷] Total Cash Receipts	$ 31,150	$ 36,278	$ 96,232	$ 115,644
[=] Adjusted EBITDA Margin	88 %	88 %	86 %	87 %

(in thousands of U.S. dollars, unless otherwise noted)

Adjusted Cash Earnings per Unit

We believe that Adjusted Cash Earnings per Unit provides meaningful information about our performance as it provides a measure of the cash generated by our assets on a per Unit basis. The reconciliation for the comparative period has been adjusted to conform with the current period's composition.

The calculation of Adjusted Cash Earnings per Unit is presented below:

	Three months ended December 31, 2022	Three months ended December 31, 2021	Year ended December 31, 2022	Year ended December 31, 2021
Net earnings (loss) and comprehensive earnings (loss)	$ (4,807)	$ 3,362	$ 11,598	$ 21,563
[+] Amortization of royalty assets	19,078	12,914	59,266	41,837
[+] Amortization of other current assets[(i)]	146	—	260	—
[+] Unit-based compensation	342	448	1,191	473
[+] Board of trustees unit-based compensation[(ii)]	91	—	296	—
[-] Net gain on interest rate derivatives	—	(2)	—	(2)
[-] Net gain on foreign exchange derivatives	—	58	—	(77)
[+] Other items[(iii)]	—	—	—	718
[-] Non-cash royalty income[(iv)]	(4)	(190)	(194)	(384)
[-] Non-cash interest income on loan receivable[(v)]	(76)	(76)	(291)	(106)
Adjusted Cash Earnings	$ 14,770	$ 16,514	$ 72,126	$ 64,022
[÷] Weighted average number of Units – basic	38,231,059	39,802,522	38,570,499	34,646,277
[=] Adjusted Cash Earnings per Unit – basic	$ 0.39	$ 0.41	$ 1.87	$ 1.85
[÷] Weighted average number of Units – diluted	38,270,508	39,810,526	38,591,392	34,654,282
[=] Adjusted Cash Earnings per Unit – diluted	$ 0.39	$ 0.41	$ 1.87	$ 1.85

(i) In connection with the Empaveli Transaction completed in 2022, the Trust acquired other current assets, as described on page 12 of this MD&A. The related amortization expense is recorded in other operating expenses.
(ii) During 2022, certain members of the board of trustees elected to be compensated fully or partially in DUs under the Trust's Incentive Plan, as described on page 12 of this MD&A.
(iii) During the third quarter of 2021, 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 Ilaris prior to the Trust's acquisition of the asset.
(iv) Non-cash royalty income is related to excess royalty payments received in prior periods in which the Trust has an obligation to the royalty payers. Royalty income for the three months and year ended December 31, 2022 of nil and $334, respectively, were used to reduce the obligation for excess royalty payments received in connection with Ilaris (2021 – $190 and $384, respectively). There is no remaining obligation as at December 31, 2022 (2021 – $334) related to Ilaris. In the second quarter of 2022, the Trust recorded other current liabilities and a corresponding deduction to royalty income of $155 to reflect an additional obligation for excess royalty payments received related to other royalty assets. Royalty income of $4 and $15 were used to reduce the obligation during the three months and year ended December 31, 2022, respectively. Royalty income earned in future periods related to other royalty assets will be used to repay the remaining obligation of $140.
(v) For the three months and year ended December 31, 2022, non-cash interest income on loan receivable represents the amortization of commitment fees of $25 and $97, respectively (2021 – $25 and $35, respectively) and the accretion of exit fees receivable of $51 and $194, respectively (2021 – $51 and $71, respectively).

(in thousands of U.S. dollars, unless otherwise noted) DRI HEALTHCARE TRUST

FINANCIAL REVIEW: FINANCIAL POSITION

As at December 31, 2022, the Trust had consolidated assets of $633,419 (2021 – $436,695) and consolidated liabilities of $261,078 (2021 – $57,710). The following table presents the components of consolidated assets and liabilities as at December 31, 2022 and December 31, 2021, followed by a discussion of significant categories of assets and liabilities.

	As at December 31, 2022	As at December 31, 2021
Assets		
Cash and cash equivalents	$ 36,686	$ 61,712
Royalties receivable	27,748	30,148
Other current assets	469	567
Current assets	64,903	92,427
Royalty assets, net of accumulated amortization	518,134	293,658
Loan receivable	49,897	49,606
Other non-current assets	485	1,004
Non-current assets	568,516	344,268
Total assets	$ 633,419	$ 436,695
Liabilities		
Accounts payable and accrued liabilities	$ 5,542	$ 1,557
Distributions payable to Unitholders	2,834	11,528
Current portion of long-term debt	34,571	5,321
Current portion of unit-based compensation liability	509	233
Other current liabilities	6,640	334
Current liabilities	50,096	18,973
Long-term debt	210,417	38,600
Unit-based compensation liability	269	137
Other non-current liabilities	296	—
Total liabilities	$ 261,078	$ 57,710

Royalty assets

As at December 31, 2022, the net book value of our royalty assets was $518,134 (2021 – $293,658), net of accumulated amortization of $99,147 (2021 – $41,837). During the three months and year ended December 31, 2022, the Trust recorded additions to the cost of its royalty assets totalling $31,705 and $283,742, respectively (2021 – nil and $335,495, respectively) related to the royalty transactions, as described on page 5 of this MD&A. In addition, the Trust wrote off the cost of royalty assets and related accumulated amortization of $1,956 and $1,956, respectively, related to fully amortized royalty assets as part of the dissolution of ROC Royalties S.à r.l., as described in note 1 to the Trust's consolidated financial statements. There was no change to the net book value of the royalty assets as a result of the write off.

Loan receivable

On August 25, 2021, the Trust entered into an agreement with CTI to provide $50,000 in secured debt, as described on page 7 of this MD&A. As at December 31, 2022, 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.

The carrying amount of the Trust's loan receivable is presented below:

	As at December 31, 2022	As at December 31, 2021
Principal loan receivable	$ 50,000	$ 50,000
Unamortized commitment fee	(368)	(465)
Exit fee receivable	265	71
Loan receivable	$ 49,897	$ 49,606

(in thousands of U.S. dollars, unless otherwise noted)

Distributions payable to Unitholders

As at December 31, 2022, the Trust had distributions payable of $2,834, representing a quarterly cash distribution declared on November 7, 2022 to Unitholders of record as at December 31, 2022, which was paid on January 20, 2023.

As at December 31, 2021, the Trust had distributions payable of $11,528, representing a quarterly cash distribution of $2,931 declared in November 2021 and a special cash distribution of $8,597 declared in December 2021 to Unitholders of record as at December 31, 2021, which were paid on January 20, 2022.

The Trust pays a quarterly distribution in accordance with its distribution policy, as described in note 9 to the consolidated financial statements.

Long-term debt

In February 2021, in connection with the acquisition of royalty assets, as described on page 7 of this MD&A, the Trust assumed secured notes payable totalling $69,924, and was required to hold certain royalty cash receipts in trust and maintain restricted cash accounts as security for the secured notes. On October 22, 2021, the Trust entered into a credit agreement and fully repaid the existing secured notes, as described on page 5 of this MD&A. Accordingly, the Trust was no longer required to hold royalty cash receipts in trust or maintain restricted cash accounts.

The credit agreement provided for credit facilities comprised of (i) a $175,000 senior secured revolving acquisition credit facility with the initial amounts drawn used to repay the balance of 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 (together with the acquisition credit facility, the "**credit facility**"), the proceeds from which are to be used for general business purposes or to finance future acquisitions.

On April 20, 2022, the Trust entered into an amended and restated credit agreement that added a new tranche to the credit facility consisting of a $150,000 delayed draw term loan ("**term credit facility**", together with the original credit facility, the "**amended credit facility**") which can be drawn against to fund future transactions. The interest rate on the amended credit facility was also revised from LIBOR plus a margin which may vary from 2.00% to 2.50% based on the Trust's leverage ratio to SOFR plus (i) a margin which may vary from 2.00% to 2.50% based on the Trust's leverage ratio; and (ii) a margin of 0.10% to 0.25% based on the term of the borrowing.

The unused portion of the amended credit facility is subject to standby fees of 0.40% to 0.50% based on the Trust's leverage ratio. Interest payments are due on a quarterly basis, and the borrowings mature on October 22, 2024. The maturity date may be extended by one-year increments subject to obtaining the lender's approval.

Principal repayments totalling 3.75% of the aggregate amount of borrowings made under the acquisition credit facility and term credit facility are due on a quarterly basis. Principal repayments on the working capital credit facility are due on maturity. Principal repayments do not result in a corresponding decrease in the borrowing capacity under the acquisition credit facility and working capital credit facility. Principal repayments result in a corresponding cancellation in the borrowing capacity under the term credit facility. Due to the drawings under the term credit facility described below, the remaining available credit under the term credit facility is nil as at December 31, 2022.

The carrying amount of the Trust's long-term debt is presented below:

	As at December 31, 2022			As at December 31, 2021
	Total Available Credit	Remaining Available Credit	Balance Outstanding	Balance Outstanding
Acquisition credit facility	$ 175,000	$ 72,446	$ 102,554	$ 45,526
Working capital credit facility	25,000	25,000	—	—
Term credit facility	150,000	—	144,375	—
Deferred transaction costs, net of amortization	n/a	n/a	(1,941)	(1,605)
Total long-term debt	$ 350,000	$ 97,446	$ 244,988	$ 43,921
Current portion of credit facility			34,571	$ 5,321
Long-term portion of credit facility			210,417	38,600
Total long-term debt			$ 244,988	$ 43,921

(in thousands of U.S. dollars, unless otherwise noted)

The increase in the carrying amount is attributed to drawings made to fund royalty transactions during the year ended December 31, 2022, as described on page 5 of this MD&A. The details of the draws are presented below:

	Draw Date	Facility	Amount
Vonjo	March 7, 2022	Acquisition credit facility	$ 60,000
Zejula	September 9, 2022	Term credit facility	35,000
Omidria	September 28, 2022	Term credit facility	115,000
Omidria	September 28, 2022	Acquisition credit facility	10,000
Xenpozyme	November 25, 2022	Acquisition credit facility	30,000
Total			**$ 250,000**

Additionally, during the year ended December 31, 2022, the Trust made regular principal repayments related to the amended credit facility of $18,072 (2021 – $1,774). During the year ended December 31, 2022, the Trust made total repayments related to the amended credit facility of $48,598, including a voluntary principal repayment of $30,526. Subsequent to year end, with an additional regular principal repayment of $11,149 made by the Trust on January 3, 2023, of which $5,524 is related to the acquisition credit facility and $5,625 is related to the term credit facility, which is not revolving, the total available credit under the amended credit facility is $102,970 as at March 1, 2023.

The following table presents expected principal repayments to be made until the maturity of the amended credit facility:

	Total
Full year: 2023	$ 44,595
Full year: 2024	202,334
	$ 246,929

The Trust is subject to certain financial as well as customary non-financial covenants under the amended and restated credit agreement. Substantially all of the assets of the Trust are pledged as collateral under the amended and restated credit agreement. As at December 31, 2022, the Trust was in compliance with all covenant requirements under the amended and restated credit agreement.

FINANCIAL REVIEW: CASH FLOWS

The Trust generated the following cash flows during the years ended December 31, 2022 and 2021.

	Year ended December 31, 2022	Year ended December 31, 2021
Cash and cash equivalents – beginning of period	**$ 61,712**	$ —
Cash provided by operating activities	**77,469**	91,864
Cash provided by financing activities	**171,173**	342,183
Cash used in investing activities	**(273,668)**	(372,335)
Change in cash and cash equivalents	**(25,026)**	61,712
Cash and cash equivalents – end of period	**$ 36,686**	$ 61,712

During the year ended December 31, 2022, the Trust generated cash flows provided by operating activities of $77,469 (2021 – $91,864) primarily related to cash royalties received.

For the year ended December 31, 2022, the Trust generated $171,173 in cash provided by financing activities. The Trust borrowed $201,402 from its amended credit facility, net of principal repayments, and used cash flows of $1,968 to make related interest payments and $773 to pay debt issuance costs. During the same period, the Trust also used cash flows of $7,263 to repurchase Trust Units under its NCIB plan, and paid cash distributions of $20,225 to Unitholders. For the year ended December 31, 2021, the Trust generated $342,183 in cash provided by financing activities. The Trust issued Units for proceeds totalling $400,000 and paid Unit issuance costs of $21,997 in connection with the completion of its initial public offering and concurrent private placement, as described on page 7 of this MD&A. During the same period, the Trust also used cash flows of $5,478 to repurchase Trust Units under its NCIB plan, paid cash distributions of $3,678 and used cash flows of $69,924 to fully repay its secured notes and drew $45,526 from its credit facility net of principal repayments.

For the year ended December 31, 2022, the Trust used cash flows of $273,668 in investing activities primarily related to the royalty asset transactions, as described on page 5 of this MD&A. The Trust also received cash interest of $5,387 related to the CTI secured debt, as described on page 7 of this MD&A. For the year ended December 31, 2021, the Trust used cash flows of $372,335 in investing activities primarily related to the royalty asset transactions and certain other net assets, as described on page 7 of this MD&A. During the same period, the Trust also used cash flows of $49,500 to provide CTI with secured debt.

(in thousands of U.S. dollars, unless otherwise noted)

EQUITY

Authorized equity

The Trust's authorized equity capital consists of: (i) an unlimited number of Units; and (ii) an unlimited number of Preferred Units, issuable in series. Issued and outstanding Units may be subdivided or consolidated from time to time by the Trust without notice to, or the approval of, the Unitholders.

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 discussed in further detail in note 9 to the consolidated financial statements. As at December 31, 2022, 37,790,395 Units (2021 – 39,079,680 Units) were outstanding at a cost of $373,577 (2021 – $374,034). During the period from January 1, 2023 to March 1, 2023, there were no changes to the aggregate number of Units outstanding.

The following table outlines the changes in the number of Units outstanding from December 31, 2020 to December 31, 2022:

	Units		Weighted Average Cost per Unit		Total Cost
Balance – December 31, 2020	**1**		**n/a**	**$**	**—**
Issuance of Units:					
Initial private offering	3,580,407	$	9.70		34,730
Initial public offering	36,527,000	$	10.00		365,270
Vesting of Restricted Units	15,343	$	6.70		103
Unit issuance costs	n/a		n/a		(21,997)
Repurchase and cancellation of Units:					
NCIB	(1,043,070)	$	5.25		(5,478)
Other	(1)	$	10.00		—
Unit distributions to Unitholders	271,515	$	5.18		1,406
Consolidation of Units	(271,515)		n/a		n/a
Balance – December 31, 2021	**39,079,680**		**n/a**		**374,034**
Issuance of Units:					
Units issued on the vesting of Restricted Units	**99,155**	**$**	**5.57**		**552**
Repurchase and cancellation of Units – NCIB	**(1,388,440)**	**$**	**5.23**		**(7,263)**
Unit distributions to Unitholders	**1,094,397**	**$**	**5.71**		**6,254**
Consolidation of Units	**(1,094,397)**		**n/a**		**n/a**
Balance – December 31, 2022	**37,790,395**		**n/a**	**$**	**373,577**

Vesting of Restricted Units

During the year ended December 31, 2022, the Trust issued 99,155 Units on the vesting of Restricted Units, 11,019 of which were granted on September 10, 2021, 53,051 of which were granted on October 8, 2021 and 35,085 of which were granted on November 30, 2021, as described on page 11 of this MD&A.

During 2021, the Trust issued 15,343 Units on the vesting of Restricted Units which were granted on October 1, 2021, as described on page 11 of this MD&A.

Normal course issuer bid

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, as described on page 5 of this MD&A. In connection with the September 2021 NCIB, the Trust established an automated unit repurchase plan ("**AUPP**"), whereby Units of the Trust may be repurchased at the discretion of a dealer to the AUPP using commercially reasonable efforts and subject to trading parameters defined in the AUPP.

On March 8, 2022, the Trust was granted approval by the Toronto Stock Exchange to amend its September 2012 NCIB and increase the total number of Units that can be repurchased under the September 2021 NCIB to 2,500,000 Units. The September 2021 NCIB expired on October 4, 2022.

On November 7, 2022, the Trust was granted approval by the Toronto Stock Exchange to acquire, from time to time, if considered advisable, up to 2,493,280 Units of the Trust for cancellation between November 14, 2022 and November 13, 2023. In connection with the November 2022 NCIB, the Trust established an AUPP whereby Units of the Trust may be repurchased at the discretion of a dealer to the AUPP using commercially reasonable efforts and subject to trading parameters defined in the AUPP. The AUPP in place with a dealer to the AUPP was inactive as at December 31, 2022.

(in thousands of U.S. dollars, unless otherwise noted)

During the year ended December 31, 2022, the Trust acquired and cancelled 1,388,440 Units at an average price of $5.23, totalling $7,263. During 2021, the Trust acquired 1,043,070 Units at an average price of $5.25, totalling $5,478. As at December 31, 2022, the Trust had cumulatively acquired and cancelled 2,431,510 Units at an average Unit price of $5.24, totalling $12,741 under the NCIB plan.

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. Preferred Units are discussed in further detail in note 9 to the consolidated financial statements. As at December 31, 2022, no Preferred Units had been issued or were outstanding (2021 – nil).

Distributions

The following table presents cash and Unit distributions made by the Trust:

	Record Date	Payment Date	Distribution per Unit	Total Distribution
2021				
Q1 2021 – Quarterly cash distribution	March 31, 2021	April 20, 2021	$ 0.0167	$ 670
Q2 2021 – Quarterly cash distribution	June 30, 2021	July 20, 2021	$ 0.0375	1,504
Q3 2021 – Quarterly cash distribution	September 30, 2021	October 20, 2021	$ 0.0375	1,504
Q4 2021 – Quarterly cash distribution	December 31, 2021	January 20, 2022	$ 0.0750	2,931
Q4 2021 – Special cash distribution	December 31, 2021	January 20, 2022	$ 0.2200	8,597
Q4 2021 – Unit distribution(i)	December 31, 2021	n/a	$ 0.0360	1,406
			$ 0.4227	16,612
2022				
Q1 2022 – Quarterly cash distribution	March 31, 2022	April 20, 2022	**$ 0.0750**	**2,898**
Q2 2022 – Quarterly cash distribution	June 30, 2022	July 20, 2022	**$ 0.0750**	**2,899**
Q3 2022 – Quarterly cash distribution	September 30, 2022	October 20, 2022	**$ 0.0750**	**2,900**
Q4 2022 – Quarterly cash distribution	December 31, 2022	January 20, 2023	**$ 0.0750**	**2,834**
Q4 2022 – Unit distribution(i)	December 31, 2022	n/a	**$ 0.1655**	**6,254**
			$ 0.4655	**$ 17,785**
Total			**$ 0.8882**	**$ 34,397**

(i) On December 21, 2022, the Trust declared a special Unit Distribution of $0.1655 per Unit, totalling $6,254 to Unitholders of record as at December 31, 2022, which was issued on December 31, 2022. On December 22, 2021, the Trust declared a special Unit distribution of $0.035979841 per Unit, totalling $1,406 to Unitholders of record as at December 31, 2021, which was issued on December 31, 2021. Immediately following the special Unit distributions, Units of the Trust were consolidated such that, after each consolidation, each Unitholder held the same number of Units that were held by the Unitholder immediately before the special Unit distribution.

During the year ended December 31, 2022, the Trust declared cash distributions totalling $17,785, comprised of cash distributions of $11,531 and a Unit distribution of $6,254. The Unit distribution represented 1,094,397 Units that were immediately consolidated and thus did not impact the total number of Units outstanding. During 2021, the Trust declared distributions totalling $16,612, comprised of cash distributions of $15,206 and a Unit distribution of $1,406. The Unit distribution represented 271,515 Units that were immediately consolidated and thus did not impact the total number of Units outstanding.

On March 1, 2023, the board of trustees declared a quarterly cash distribution of $0.0750 per Unit to Unitholders of record as at March 31, 2023 and payable on April 20, 2023.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2022, the Trust's capital was $620,506 (2021 – $419,560), and consisted of its Unitholders' capital of $373,577 (2021 – $374,034) and long-term debt of $246,929 (2021 – $45,526).

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.

The Trust has access to a number of capital sources, including: (i) cash on hand; (ii) internally generated cash flow; (iii) debt and other financing; (iv) the issuance of Trust Units to royalty sellers; and (v) future public equity issuances.

Our primary ongoing source of liquidity is cash provided by operating activities. The Trust generated $77,469 of cash provided by operating activities during the year ended December 31, 2022. Additionally, the Trust has issued, and may in the future issue, debt instruments. Details of the Trust's existing credit facility are provided on page 21 of this MD&A.

We believe our existing capital resources and cash provided by operating activities will continue to allow us to meet our operating and working capital requirements, and to meet externally imposed capital requirements and obligations, including the scheduled repayments of our credit facility for the foreseeable future.

As at December 31, 2022, the Trust was in compliance with all externally imposed capital requirements.

Subsequent to year end, the Trust completed a private placement (the "**Private Placement**") to a group of investors. The Private Placement provides gross proceeds to the Trust of $95,000 through the sale of $95,000 principal amount of Series A Preferred Securities and $19,760 principal amount of Series B Preferred Securities (the "**Preferred Securities**"), further increasing the Trust's capital.

OFF-BALANCE SHEET OBLIGATIONS AND COMMITMENTS

On August 25, 2021, the Trust entered into an agreement with CTI for a tiered royalty on sales of Vonjo, as described on page 5 of this MD&A. In accordance with the terms of the royalty agreement, CTI may be entitled to additional consideration of $18,500 in the event that Vonjo sales exceed certain thresholds within a predefined period of time.

On September 9, 2022, the Trust entered into the Zejula Transaction, as described on page 6 of this MD&A. In accordance with the terms of the royalty agreement, the Trust is committed to making a milestone payment of $10,000 should Zejula be approved by the FDA for the treatment of endometrial cancer on or before December 31, 2025.

On November 25, 2022, the Trust entered into the Xenpozyme Transaction, as described on page 6 of this MD&A. In accordance with the terms of the royalty agreement, the royalty seller may be entitled to additional consideration of up to $26,500 in the event that cumulative royalties received by the Trust on Xenpozyme sales exceed certain thresholds within a predefined period of time.

The Trust did not have any other off-balance sheet obligations or commitments, contingencies or guarantees at December 31, 2022.

RELATED-PARTY TRANSACTIONS

DRI Healthcare serves as manager for the Trust. Management fees and performance fees are payable by the Trust pursuant to the management agreement.

Management fees

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 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, as described in note 2(m) to the Trust's consolidated financial statements. During the year ended December 31, 2022, the Trust paid $6,532 in management fees (2021 – $6,275) to our manager.

Performance fees

Our manager is entitled to performance fees determined on a portfolio-by-portfolio basis pursuant to the terms of a management agreement, as described in note 2(n) to the Trust's consolidated financial statements. The Trust did not incur any performance fees for the year ended December 31, 2022 (2021 – nil).

Servicer fees

Our manager provided administrative services to the Trust for servicing the secured notes, for which it receives a fee of $400 per quarter. On October 22, 2021, the secured notes were fully repaid and the Trust entered into a new credit facility, as described on page 21 of this MD&A. Accordingly, the servicing agreement in connection with the secured notes was terminated. As a result, the Trust did not incur servicer fees for the year ended December 31, 2022 (2021 – $1,076).

Key management compensation

During the years ended December 31, 2022 and 2021, the Trust issued compensation to members of the board of trustees, as described on page 12 of this MD&A.

During 2021, the Trust issued compensation to certain officers of the Trust in the form of 20,000 RUs which vest equally over three years, and 2,584 Units which were issued on the vesting of RUs during the year. During the year ended December 31, 2022, the Trust issued an additional 3,376 Units on the vesting of the RUs granted in 2021. During the year ended December 31, 2022, the Trust recorded unit-based compensation expense of $70 related to the issuance of RUs and the accretion of the related distribution equivalent Units (2021 – $37).

CHANGES IN ACCOUNTING POLICIES

The Trust's accounting policies are discussed in detail in note 2 to the Trust's consolidated financial statements. There were no changes to the accounting policies in the current period.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the 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. Judgments, estimates and assumptions are reviewed by management on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates and such differences could be material to the consolidated financial statements.

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.

The following are the accounting policies subject to judgments and key sources of estimation uncertainty that the Trust believes could have the most significant impact on the amounts recognized in the consolidated financial statements.

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 the Trust's contractual entitlement to each royalty asset, 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 earned is known.

Classification of royalty assets

The classification and recognition of royalty assets as intangible assets are based on the judgment that the Trust's contractual rights derived from the assets are subject to successful production and sale of the underlying products by third parties. This judgment is based on the assessment that the Trust does not have contractual rights to force the development and sale of the underlying products, that the Trust does not have the right to royalty payments if the third party fails to sell the underlying products and that there is no certainty as to how much, if or when such sales will occur. As a result, the Trust is exposed to similar rights and risks as it would if it were the holder of the legal rights to the underlying products.

Useful life of royalty assets

Royalty revenue recognized and the 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 of 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 that are generally based on discounting future expected cash flows using appropriate discount rates.

RISK FACTORS

Certain financial and non-financial risks may adversely impact our business, financial performance, financial condition, cash flows and the trading price of our Units. Other risks and uncertainties that we do not currently consider to be material, or of which we are not currently aware, may also become important factors that affect our future business, financial condition, results of operations, cash flows and the trading price of our Units.

Our annual information form provides a comprehensive list of risks identified by management under "*Risk Factors*". In addition to those risks, management has identified financial risks described below.

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.

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 December 31, 2022, royalties receivable from the five largest royalties receivable counterparties represented 65% of total royalties receivable (2021 – 81%). The Trust monitors its exposure to counterparties of its royalty assets on a regular basis.

(in thousands of U.S. dollars, unless otherwise noted)

The counterparty to the Company'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, as described on page 7 of this MD&A. According to the terms of the credit facility, CTI is required to maintain minimum liquidity of at least $10,000 for the duration of the loan and is subject to certain non-financial covenants customary in lending arrangements. As at December 31, 2022, the gross principal balance of the loan receivable was $50,000 (2021 – $50,000).

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

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 credit facility.

Foreign exchange risk

Foreign exchange risk 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. 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 December 31, 2022.

Interest rate risk

Interest rate risk is the risk that the Trust will encounter financial loss arising from changes in interest rates. The Trust is exposed to changes in interest rates related to its loan receivable, as described on page 7 of this MD&A. The interest on the loan receivable is subject to a minimum interest rate, which substantially mitigates the Trust's exposure to decreases in interest rates.

The Trust is also exposed to changes in interest rates on its credit facility, as described on page 21 of this MD&A. As the interest rate on the credit facility is dependent on the Trust's leverage ratio, the Trust maintains a stable leverage ratio to mitigate fluctuations in the interest rate charged.

The Trust continuously monitors its exposure to fluctuating interest rates. A 50 basis point change in interest rates would have the following impact on the Trust's net earnings as at December 31, 2022:

	Change in net earnings (loss)	
Impact of 50 basis points increase in interest rate	$	(281)
Impact of 50 basis points decrease in interest rate	$	408

Additional risks

General global economic conditions, including, without limitation, public health crises (including the ongoing COVID-19 pandemic), changes to fiscal and monetary policies, fluctuations in the market prices of securities, global supply chain disruptions, national and international political circumstances, natural disasters and other events and circumstances in which the Trust does not have operational or financial control over, could potentially affect the Trust's financial position, financial performance and cash flows. However, the Trust does not anticipate that these events will have a material adverse impact on its long-term operations.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures

The Chief Executive Officer and the Chief Financial Officer of the Trust have designed or caused to be designed under their supervision disclosure controls and procedures to provide reasonable assurance that information required to be disclosed by the Trust is recorded, processed, summarized and reported within the time periods specified under the relevant securities legislation.

As at December 31, 2022, management had assessed, under the supervision of and with the participation of the Chief Executive Officer and the Chief Financial Officer, that the Trust's disclosure controls and procedures are effective in accordance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings.*

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting in accordance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. The Chief Executive Officer and the Chief Financial Officer of the Trust have designed or caused to be designed under their supervision internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS. However, due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

As at December 31, 2022, management had assessed, under the supervision of and with the participation of the Chief Executive Officer and the Chief Financial Officer, that the Trust's internal control over financial reporting is effective based on the criteria established in *Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.*

There were no changes to the internal control over financial reporting during the year ended December 31, 2022 that have materially affected or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

SUBSEQUENT EVENTS

Repayment of credit facility

On January 3, 2023, the Trust made a regular principal repayment of its amended credit facility totalling $11,149, as described on page 21 of this MD&A.

Vonjo Sales Milestone

In January 2023, CTI provided notice to the Trust that the sales of Vonjo had exceeded Net Sales Threshold I, as described on page 5 of this MD&A. The achievement triggered the funding of the milestone payment to CTI for $6,500, which occurred on January 25, 2023.

Preferred Securities

On February 8, 2023, the Trust completed a Private Placement to a group of investors. The Private Placement provides gross proceeds to the Trust of $95,000 through the sale of Preferred Securities, which are unsecured, subordinated debt securities of the Trust. The Preferred Securities will initially pay cash interest at a rate of 7.04% per annum on the principal amount of the Preferred Securities, payable semi-annually on June 30 and December 31 of each year.

The Series A Preferred Securities will mature on February 8, 2073 and the Series B Preferred Securities will mature on December 27, 2027. The Series A Preferred Securities can be redeemed at par, at the option of the Trust, at any time from and after December 27, 2027. The Preferred Securities will not be redeemable by the Trust prior to December 27, 2027, except in the event of a change of control of the Trust, in which case the Preferred Securities will be subject to a mandatory redemption.

The interest rate on the Series A Preferred Securities will increase to 10% per annum if any of the Series A Preferred Securities are outstanding on January 1, 2028 and will be subject to an annual increase of 1.5% per annum if any of the Preferred Securities remain outstanding on each one year anniversary of such date, up to a specified cap.

In connection with the Private Placement, the Trust also issued 6,369,180 warrants (the "**Warrants**") to the Private Placement investors. Each Warrant entitles the holder thereof to acquire one Unit of the Trust for an exercise price of $11.62 at any time until the expiry of the Warrant on February 8, 2028.

2023 first quarter distribution declared

On March 1, 2023, the board of trustees declared a quarterly distribution of $0.0750 per Unit to Unitholders of record as at March 31, 2023 and payable on April 20, 2023.