

Unaudited Condensed Interim Consolidated Financial Statements

HLS Therapeutics Inc.

For the Six Months Ended June 30, 2018

HLS THERAPEUTICS INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****Unaudited**

[in thousands of U.S. dollars]

	Notes	As at June 30, 2018	As at December 31, 2017
ASSETS			
Current			
Cash and cash equivalents		45,237	36,219
Accounts receivable	5	17,711	25,846
Inventories		1,895	1,354
Foreign currency forward contract	6	419	—
Prepaid expenses and other current assets		1,343	1,617
Total current assets		66,605	65,036
Property, plant and equipment		429	441
Intangible assets		289,463	312,659
Foreign currency forward contract	6	100	—
Restricted assets	7	10,573	5,555
Deferred tax asset		888	955
Total assets		368,058	384,646
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		10,911	12,596
Provisions	8	6,264	6,976
Other financial liabilities	9	11,421	14,160
Income taxes payable		380	870
Total current liabilities		28,976	34,602
Other financial liabilities	9	145,536	158,114
Deferred tax liability		9,016	11,548
Total liabilities		183,528	204,264
Shareholders' equity			
Share capital	10	211,148	192,743
Contributed surplus		11,690	12,330
Accumulated other comprehensive income (loss)		(2,247)	5,941
Deficit		(36,061)	(30,632)
Total shareholders' equity		184,530	180,382
Total liabilities and shareholders' equity		368,058	384,646

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

HLS THERAPEUTICS INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS****Unaudited**

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

	Notes	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Revenues	13	16,305	18,861	29,471	34,414
Expenses					
Cost of product sales		536	527	1,116	952
Selling and marketing		1,046	880	2,010	1,666
Medical, regulatory and patient support		1,176	828	2,153	1,734
General and administrative		2,508	2,025	4,561	3,913
Stock-based compensation	10	123	101	217	177
Amortization and depreciation		8,134	7,884	16,275	15,815
Operating income		2,782	6,616	3,139	10,157
Acquisition and transaction costs		98	18	533	18
Finance and related costs, net	9, 14	3,557	6,247	9,124	11,952
Income (loss) before income taxes		(873)	351	(6,518)	(1,813)
Income tax expense (recovery)	12	(310)	1,085	(1,079)	1,953
Net loss for the period		(563)	(734)	(5,439)	(3,766)
Net loss per share:					
Basic and diluted	10	\$(0.02)	\$(0.03)	\$(0.20)	\$(0.15)

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HLS THERAPEUTICS INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****Unaudited**

[in thousands of U.S. dollars]

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net loss for the period	(563)	(734)	(5,439)	(3,766)
Item that may be reclassified subsequently to net loss				
Unrealized foreign currency translation adjustment	(3,568)	3,091	(8,188)	4,453
Comprehensive income (loss) for the period	(4,131)	2,357	(13,627)	687

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HLS THERAPEUTICS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited

[in thousands of U.S. dollars]

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, December 31, 2017		192,743	12,330	5,941	(30,632)	180,382
Common shares issued	3	19,905	—	—	—	19,905
Share issuance costs		(1,252)	—	—	—	(1,252)
Shares repurchased	10	(248)	—	—	10	(238)
Share purchase obligation	10	—	(857)	—	—	(857)
Stock-based compensation	10	—	217	—	—	217
Net loss for the period		—	—	—	(5,439)	(5,439)
Unrealized foreign currency translation adjustment		—	—	(8,188)	—	(8,188)
Balance, June 30, 2018		211,148	11,690	(2,247)	(36,061)	184,530
Balance, December 31, 2016		192,743	11,967	(4,611)	(24,535)	175,564
Stock-based compensation	10	—	177	—	—	177
Net loss for the period		—	—	—	(3,766)	(3,766)
Unrealized foreign currency translation adjustment		—	—	4,453	—	4,453
Balance, June 30, 2017		192,743	12,144	(158)	(28,301)	176,428

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HLS THERAPEUTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

[in thousands of U.S. dollars]

	Notes	Six months ended June 30,	
		2018	2017
OPERATING ACTIVITIES			
Net loss for the period		(5,439)	(3,766)
Add (deduct) items not involving cash			
Stock-based compensation		217	177
Amortization and depreciation		16,275	15,815
Accreted interest	9	3,232	3,432
Fair value adjustment on financial assets and liabilities		(2,675)	898
Listing expense	3	435	—
Deferred income taxes	12	(1,668)	506
Net change in non-cash working capital balances	15	4,810	(8,137)
Cash provided by operating activities		15,187	8,925
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(90)	(36)
Additions to intangibles		(212)	—
Acquisitions	4, 9	(6,650)	(3,650)
Cash used in investing activities		(6,952)	(3,686)
FINANCING ACTIVITIES			
Common shares issued	3	19,470	—
Share issuance costs		(1,699)	—
Shares repurchased		(238)	—
Repayment of senior secured term loan	9	(13,381)	(5,401)
Increase in restricted cash		(2,500)	(1,702)
Lender royalty payment	9	(237)	(226)
Cash provided by (used in) financing activities		1,415	(7,329)
Net increase (decrease) in cash and cash equivalents during the period		9,650	(2,090)
Foreign exchange		(632)	(335)
Cash and cash equivalents, beginning of period		36,219	37,763
Cash and cash equivalents, end of period		45,237	35,338

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

HLS THERAPEUTICS INC.

Notes to the unaudited condensed interim consolidated financial statements

June 30, 2018

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

1. CORPORATE INFORMATION

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

The Company was incorporated as Heritage Life Sciences Inc. on June 5, 2014 under the *Business Corporations Act* (British Columbia). On December 18, 2014, the Company amended its articles to change its name to HLS Therapeutics Inc. As a result of the amalgamation described in note 3, on March 12, 2018, the Company continued under the *Business Corporations Act* (Ontario). The Company’s common shares are listed on the TSX Venture Exchange (the “Exchange”) under the symbol HLS.

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

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors on August 15, 2018.

2. BASIS OF PREPARATION

Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”). The IASB has not issued any significant new accounting standards that impact the Company since the preparation of the Company’s audited consolidated financial statements for the year ended December 31, 2017.

The accounting policies used in the preparation of these unaudited condensed interim consolidated financial statements conform with those used in the preparation of the Company’s audited consolidated financial statements for the year ended December 31, 2017, except for the newly adopted accounting policies discussed below.

These unaudited condensed interim consolidated financial statements do not include all the information and disclosures required in annual financial statements and, accordingly, should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2017.

Basis of measurement

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value. The Company’s presentation currency is the United States dollar. All values are rounded to the nearest thousand (\$000), except where otherwise indicated.

Accounting standards adopted in the period

IFRS 9, *Financial Instruments* (“IFRS 9”)

The Company has adopted IFRS 9 on a modified retroactive basis in accordance with the transitional provisions of IFRS 9. Results for reporting periods beginning after January 1, 2018 are presented under IFRS 9, while prior reporting period amounts have not been restated.

HLS THERAPEUTICS INC.

Notes to the unaudited condensed interim consolidated financial statements

June 30, 2018

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

IFRS 9 introduces new requirements for classifying and measuring financial instruments, the recognition of expected credit losses, and hedge accounting. The adoption of IFRS 9 had no impact on the Company's financial position or results of operations, and the Company's financial assets and financial liabilities continue to be measured on the same basis as was previously applied under IAS 39, *Financial Instruments: Recognition and Measurement*.

The classification of financial assets and liabilities (collectively, financial instruments) is typically determined at the time of initial recognition, within the following categories:

- Amortized cost
- Fair value through income or loss
- Fair value through other comprehensive income

Financial instruments carried at fair value through income or loss

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

Financial instruments carried at amortized cost

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

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

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

The Company has adopted IFRS 15 effective January 1, 2018 on a modified retrospective basis in accordance with the transitional provisions of IFRS 15. Results for reporting periods beginning after January 1, 2018 are presented under IFRS 15, while prior reporting period amounts have not been restated and continue to be reported under IAS 18, *Revenue*.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and outlines two approaches to recognizing revenue: at a point in time or over time. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Company has adopted the new standard using the modified retrospective application method with no restatement of comparative information. The adoption did not have an impact on the Company's financial position or results of operations.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties.

HLS THERAPEUTICS INC.

Notes to the unaudited condensed interim consolidated financial statements

June 30, 2018

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

In the case of product sales, the determination of the fair value of consideration received or receivable includes a deduction for discounts, allowances given, provisions for chargebacks, other price adjustments and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns include consideration of factors such as contractual terms and historical trends.

3. AMALGAMATION

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

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

HLS preferred shares were issued to former AMD shareholders to allow them to receive their pro rata share of proceeds from the settlement of AMD's pre-existing litigation and any residual funds that were in excess of AMD's commitment to deliver Cdn\$25,000 to HLS on closing of the Arrangement. Prior to closing the Arrangement, AMD announced that it had reached a settlement related to the litigation. The settlement proceeds were then received by AMD on March 8, 2018 and such funds, along with the residual funds and less any preferred share redemptions, are being held in escrow as at June 30, 2018.

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

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

The net assets acquired have been translated from Canadian dollars into United States dollars at an exchange rate of 0.7788.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2018**

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

4. ASSET ACQUISITIONS**Trinomia®**

On November 20, 2017, the Company entered into an exclusive agreement with Ferrer Internacional SA ("Ferrer") for the rights to distribute and commercialize Trinomia® capsules in Canada. Trinomia® has been approved for use outside of Canada for the secondary prevention of cardiovascular events but is not approved for use in Canada. The Company paid Cdn\$200 on signing with further obligations of up to an aggregate of C\$31,075 contingent upon achieving regulatory and sales-based milestones, the timing and achievability of which cannot be determined at this time. The Company will also pay a royalty on the net sales of Trinomia® in Canada. Ferrer is obligated to supply finished product to the Company under negotiated supply terms.

The transaction has been accounted for as an asset purchase. To date, the Company has capitalized \$400 to distribution rights in respect of this transaction.

Vascepa®

Effective September 25, 2017, the Company entered into an exclusive agreement with Amarin Corporation plc ("Amarin") to register, commercialize and distribute Vascepa® capsules in Canada. Vascepa® capsules are a single-molecule prescription product for the treatment of cardiovascular disease. Vascepa® is not approved for use in Canada, and the Company anticipates submitting an application to Canadian regulatory authorities to seek approval to commercialize Vascepa® in Canada.

Under the agreement, the Company will be responsible for regulatory and commercialization activities and associated costs. In addition to an initial payment of \$5,000 (of which \$2,500 was paid in March 2018), terms of the agreement include regulatory and sales-based milestone payments of up to an additional \$60,000, the timing and achievability of which cannot be determined at this time. Amarin is also entitled to a tiered double-digit royalty on net sales of Vascepa® in Canada. Amarin is obligated to supply finished product to the Company under negotiated supply terms.

The transaction has been accounted for as an asset purchase. To date, the Company has capitalized \$5,130 to distribution rights in respect of this transaction.

5. ACCOUNTS RECEIVABLE

	June 30, 2018	December 31, 2017
Trade accounts receivable	10,476	13,671
Royalty receivable	3,801	8,699
Other receivables	3,434	3,476
	<u>17,711</u>	<u>25,846</u>

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2018**

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

6. FOREIGN CURRENCY FORWARD CONTRACT

The Company has entered an agreement with a bank to sell Canadian dollars to the bank at specified Canadian to U.S. forward rates. The Company agreed to sell Cdn\$1,500 to the bank in July 2018 at the forward rate of \$1.3700, unless the spot rate on a settlement date is between \$1.3197 and \$1.3700 in which case the Company is relieved of its obligation for that settlement date. In each month from August 2018 to March 2019, the Company will sell to the bank at the forward rate of \$1.2672 either Cdn\$1,500 or Cdn\$2,000, depending on whether the spot rate on the settlement date is above or below \$1.2672. In each month from April 2019 to August 2019, the Company will sell to the bank at the forward rate of \$1.2445 either Cdn\$1,500 or Cdn\$2,000, depending on whether the spot rate on the settlement date is above or below \$1.2445.

This contract is not designated as a hedge for accounting purposes and is measured at fair value at each reporting date. Fair value is determined using prices referenced by the counterparty to the contract, taking into account the credit quality of the counterparty.

The Company recognized a realized loss of \$477 and an unrealized gain of \$1,595 for the period ended June 30, 2018 in respect of this foreign currency forward contract (2017 – realized gain of \$427 and unrealized loss of \$1,132). Both the realized loss and unrealized gain are included in finance and related costs in the consolidated statement of net loss.

The maturities of the foreign currency forward contract as at June 30, 2018 are as follows:

	Forward rate	Cdn\$	Fair value
July 2018	1.3700	1,500	(35)
August 2018 to March 2019	1.2672	12,000 to 16,000	295
April 2019 to June 2019	1.2445	4,500 to 6,000	159
			419
Non-current portion	1.2445	3,000 to 4,000	100
			519

7. RESTRICTED ASSETS

	June 30, 2018	December 31, 2017
Restricted cash for collateral	8,055	5,555
Escrow funds	2,518	—
	10,573	5,555

Restricted cash is used to collateralize letters of credit and performance bonds.

As described in note 3, escrow funds represent the net assets of AMD in excess of AMD's commitment to deliver Cdn\$25,000 to HLS on closing of the Arrangement. The escrow funds consist of cash as well as other legacy working capital items. The payment of expenses related to escrow activity will be funded by the escrow funds. The holders of the preferred shares are only entitled to distributions from the escrow funds.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2018**

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

8. PROVISIONS

	Chargebacks and rebates	Returns	Total
As at December 31, 2017	4,187	2,789	6,976
Charges	2,034	203	2,237
Utilization	(2,608)	(341)	(2,949)
As at June 30, 2018	3,613	2,651	6,264

9. OTHER FINANCIAL LIABILITIES

	June 30, 2018	December 31, 2017
Current		
Share purchase obligation (note 10)	857	—
Lender warrants	1,795	2,875
Foreign currency forward contract	—	991
Purchase consideration	8,769	10,294
	11,421	14,160
Non-current		
Foreign currency forward contract	—	85
Senior secured term loan	125,254	136,706
Lender royalty	3,415	3,507
Purchase consideration	14,349	17,816
Preferred shares	2,518	—
	145,536	158,114
	156,957	172,274

Lender warrants

On August 11, 2015, the Company issued lender warrants to the lenders under the senior secured term loan. These lender warrants give the lenders the right to acquire 1,164,000 common shares at an exercise price of \$11 per share until August 11, 2020. On April 1, 2016, an additional 100,008 lender warrants were issued and the exercise price of all the lender warrants was reduced to \$10.13 per share. As a result of the amalgamation described in note 3, the term of the lender warrants was extended to August 11, 2021 and an additional 32,000 lender warrants were issued for no consideration.

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

As at June 30, 2018, the total fair value of the 1,296,008 lender warrants was determined to be \$1,795 and the Company recorded income of \$1,080 in fiscal 2018 (2017 – income of \$234) related to the revaluation of the lender warrants. Fair value at issuance and at subsequent remeasurement dates was determined using the Black-Scholes option pricing model with a volatility assumption of 42%.

Fair value as at December 31, 2017	2,875
Change in fair value	(1,080)
Fair value as at June 30, 2018	1,795

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2018**

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

Senior secured term loan

On August 11, 2015, the Company entered into a senior secured term loan with a syndicate of private lenders. The aggregate principal amount of the initial term loan was \$185,000. The Company may request to be provided with incremental loans, for a maximum additional loan amount of \$150,000. The maturity date is August 11, 2021. Interest on the loan accrues at a rate per annum equal to the sum of (i) 9.0% plus (ii) the higher of (a) the LIBOR rate for the applicable interest period and (b) 1.0%.

Under the terms of the senior secured term loan, the lenders have security over substantially all of the assets of the Company. At the discretion of the lenders, the Company may be required to make quarterly principal repayments based on the operating cash flows received in the previous quarter. The Company may make additional principal repayments subject to a repayment premium.

Under the terms of the senior secured term loan, the Company is required to comply with financial covenants related to the maintenance of minimum revenue, liquidity and leverage ratios, and to place a maximum on capital expenditures. Throughout the period ended June 30, 2018, the Company was in compliance with the financial covenants.

The fair value of lender warrants issued and transaction costs associated with the senior secured term loan has been included as a reduction to the carrying amount of the liability and will be amortized through interest expense using the effective interest rate method.

Carrying amount as at December 31, 2017	136,706
Repayment	(13,381)
Accreted interest	1,929
Carrying amount as at June 30, 2018	125,254

Subsequent to June 30, 2018, the Company entered into a new senior secured term loan with a syndicate of bank lenders, and the principal balance of the existing senior secured term loan was repaid in full (note 17).

Lender royalty

On August 11, 2015, the Company entered into a royalty agreement with an investor who was both a member of the lending syndicate and a participant in the private placement. This agreement entitles the investor to receive a royalty on net sales from both current and future products for a period of up to 14 years commencing in August 2016.

The Company ascribed a fair value, based on existing products as at August 11, 2015, of \$3,481 to this agreement, which amount was accounted for as a proportionate reduction to (i) the carrying amount of the senior secured term loan; and (ii) the proceeds of the private placement. Fair value was determined by using a discounted cash flow methodology.

Carrying amount as at December 31, 2017	3,507
Payment	(237)
Accreted interest	145
Carrying amount as at June 30, 2018	3,415

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2018**

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

Subsequent to June 30, 2018, the royalty obligation was extinguished for a settlement of \$6,000 to be paid in cash.

Purchase consideration

As part of the consideration for the acquisition of Absorica[®], the Company is obligated to make fixed quarterly and semi-annual payments of approximately \$38,850 during the period from July 2016 through 2020. This obligation has been recorded at the present value of deferred payments using a discount rate of 10%. Interest expense on this obligation amounted to \$1,158 for the period ended June 30, 2018 (2017 – \$1,393).

As part of the consideration for the acquisition of the Vascepa[®] rights in fiscal 2017, the Company made a further non-refundable upfront payment of \$2,500 in March 2018.

Carrying amount as at December 31, 2017	28,110
Additions	500
Payment	(6,650)
Accreted interest	1,158
Carrying amount as at June 30, 2018	23,118
Less current portion	8,769
Non-current portion	14,349

Preferred shares

Under the Arrangement described in note 3, the Company issued 12,976,227 preferred shares to the former shareholders of AMD.

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

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

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

Issued on amalgamation	7,111
Redemption	(4,345)
Other escrow fund activity	(139)
Foreign exchange	(109)
Fair value as at June 30, 2018	2,518

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2018**

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

10. SHARE CAPITAL

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

Issued and outstanding

The issued and outstanding common shares as at June 30, 2018 are as follows:

	#	\$
Balance as at December 31, 2017	25,277,997	192,743
Common shares issued on amalgamation	2,151,900	18,653
Shares repurchased	(32,300)	(248)
Balance as at June 30, 2018	27,397,597	211,148

Performance share units ("PSUs")

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

As a result of the amalgamation described in note 3, the ability of the holders to exercise the PSUs is suspended while the Company is listed on an exchange that does not permit price-based vesting.

In May 2018, the PSU plan was amended such that 780,000 of the PSUs will be settled for their cash value, provided the existing terms and conditions of the PSU plan are met. Management has again determined that the fair value of the amended PSUs on the date of amendment and at June 30, 2018 was not significant, and thus has recorded no expense or liability in respect of the amended PSUs.

Stock option plan

Under the Company's Stock Option Plan (the "Plan"), the Company may grant options to purchase common shares to eligible officers, directors and employees of, or consultants to, the Company. The number of common shares that the Company is authorized to issue under the Plan is 10% of the issued and outstanding common shares. All options granted are for terms not to exceed 10 years from the grant date. Options granted under the Plan vest over four years from the date of grant, with the exception of certain options granted to senior management in fiscal 2015, which vested immediately upon grant.

A summary of the changes to the stock options outstanding is presented as follows:

	Number of options (#)	Weighted average exercise price per share (\$)
Outstanding as at December 31, 2017	1,299,475	10.00
Granted	90,995	9.25
Outstanding as at June 30, 2018	1,390,470	9.95

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2018**

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

As at June 30, 2018, the options outstanding and exercisable consist of the following:

Exercise price (\$)	Options outstanding		Options exercisable	
	Number outstanding (#)	Weighted average remaining contractual life (years)	Number outstanding (#)	Weighted average exercise price (\$)
9.25	90,995	9.7	—	—
10.00	1,299,475	7.3	1,114,709	10.00
	1,390,470	7.4	1,114,709	10.00

The fair value of each option granted since inception of the Plan was estimated on the date of the grant using the Black-Scholes option pricing model. The estimated fair value of the options is amortized to income over the options' vesting period on a straight-line basis. In fiscal 2018, the Company has recorded stock-based compensation expense of \$217 (2017 – \$177). This charge has been credited to contributed surplus. Unrecognized stock-based compensation expense as at June 30, 2018 related to the Plan was \$656.

Warrants

On August 11, 2015, the Company issued additional lender warrants to a member of the lending syndicate. These lender warrants give the lender the right to acquire 1,164,000 common shares at an exercise price of \$0.01 per share if the share price hits certain targets prior to their expiry on August 11, 2020. On April 1, 2016, an additional 99,844 lender warrants were issued and the exercise price of the total 1,263,844 additional lender warrants was reduced to \$0.009 per share.

The additional lender warrants are exercisable as follows:

Number of additional lender warrants (#)	Share price target (\$)	Expiry date
315,961	12.50	August 11, 2020
315,961	15.00	August 11, 2020
315,961	17.50	August 11, 2020
315,961	20.00	August 11, 2020
1,263,844		

As a result of the amalgamation described in note 3, the ability of lenders to exercise the additional lender warrants is suspended while the Company is listed on an exchange that does not permit price-based vesting. The expiry date of the additional lender warrants is to be extended by one year, to August 11, 2021, if the Company is still listed on the Exchange on August 11, 2020.

Dividends

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

No dividends have been declared or paid up to June 30, 2018.

Subsequent to June 30, 2018, the Company's Board of Directors established a dividend policy that will result in a quarterly dividend of Cdn\$0.05 per share payable to holders of common shares.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2018**

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

Loss per share

Basic loss per share is calculated by dividing net loss for the period by the weighted average number of common shares outstanding during the period.

Diluted loss per share is calculated by dividing the net loss for the period by the weighted average number of common shares outstanding during the period plus the weighted average number of common shares that would be issued on conversion of all dilutive potential securities into common shares.

The following is a reconciliation of the numerator and denominator used for the computation of the basic and diluted loss per share amounts:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net loss for the period	(563)	(734)	(5,439)	(3,766)
Weighted average number of common shares outstanding – basic	27,426,394	25,277,997	26,584,020	25,277,997
Effect of dilutive securities	—	—	—	—
Weighted average number of common shares outstanding – diluted	27,426,394	25,277,997	26,584,020	25,277,997

The calculation of diluted loss per share in fiscal 2018 excludes 4,782,628 (2017 – 5,896,558) weighted average number of common shares issuable upon the exercise of lender and broker warrants and options because the effect of their issuance would be anti-dilutive.

Normal course issuer bid

On May 9, 2018, the Company announced that the Exchange had approved the Company's Notice of Intention to Make a Normal Course Issuer Bid under which the Company may, if considered advisable, purchase for cancellation, from time to time over the next 12 months, up to an aggregate of 1,371,495 of its issued and outstanding common shares, being 5% of the issued and outstanding common shares as of May 7, 2018.

During the period ended June 30, 2018, the Company purchased for cancellation 32,300 common shares at an average price of C\$9.73 per common share. The carrying value of the shares repurchased exceeded the total cash consideration paid by \$10, which was credited to retained earnings.

As at June 30, 2018, a share purchase obligation of \$857, with a corresponding adjustment to equity, was recorded representing the maximum amount authorized to be spent by a designated broker under an automatic share purchase plan during a blackout period from July 1 to August 17, 2018.

Subsequent to June 30, 2018, a further 68,200 common shares have been purchased for cancellation for total consideration of \$471.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2018**

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

11. CAPITAL MANAGEMENT

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

Managed capital is set out in the following table:

	June 30, 2018	December 31, 2017
Non-current financial liabilities	145,536	158,114
Shareholders' equity	184,530	180,382
	330,066	338,496

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Company may elect to issue or repay long-term debt, issue shares, repurchase shares, pay dividends (where permitted) or undertake any other activity as deemed appropriate under specific circumstances.

The Company is not subject to any externally imposed capital requirements, other than a prohibition under the senior secured term loan from paying dividends, and there has been no change in the Company's capital management approach during the year.

12. INCOME TAXES

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

	Six months ended	
	June 30, 2018	June 30, 2017
Current income tax	589	1,447
Deferred income tax expense (recovery) resulting from temporary differences	(1,668)	506
	(1,079)	1,953

The difference between the amount of the income tax expense (recovery) and the amount computed by multiplying loss before income taxes by the statutory Canadian, United States, and Barbados income tax rates is reconciled as follows:

	Six months ended	
	June 30, 2018	June 30, 2017
Loss before income taxes	(6,518)	(1,813)
Tax recovery at Canadian corporate tax rate of 26.7%	(1,740)	(484)
Expenses not deductible for tax purposes	(7)	1,637
Income subject to tax in foreign jurisdictions	668	800
	(1,079)	1,953

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2018**

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

13. SEGMENTED INFORMATION

The Company is composed of a single reportable segment.

Revenues are generated from the following sources:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Product sales	12,504	12,028	24,135	22,652
Royalties	3,801	6,833	5,336	11,762
	16,305	18,861	29,471	34,414

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Canada	7,772	7,428	14,531	13,763
United States	8,533	11,433	14,940	20,651
	16,305	18,861	29,471	34,414

14. FINANCE AND RELATED COSTS, NET

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Interest on senior secured term loan	4,037	4,116	8,112	8,271
Accreted interest	1,603	1,704	3,232	3,432
Total interest expense	5,640	5,820	11,344	11,703
Interest income	(100)	(39)	(179)	(62)
Foreign exchange loss (gain)	41	(348)	157	(427)
Realized loss (gain) on foreign currency forward contract	201	(74)	477	(160)
Fair value adjustment on financial assets and liabilities	(2,225)	888	(2,675)	898
	3,557	6,247	9,124	11,952

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2018**

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

15. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Six months ended June 30,	
	2018	2017
Accounts receivable	7,629	(8,992)
Inventories	(592)	(43)
Prepaid expenses and other current assets	234	(226)
Accounts payable and accrued liabilities	(1,259)	2,330
Provisions	(712)	(1,220)
Income taxes payable	(490)	14
	4,810	(8,137)

Interest of \$8,112 (2017 – \$8,271) and income taxes of \$1,079 (2017 – \$1,433) were paid during the six months ended June 30, 2018.

16. RELATED PARTY DISCLOSURES

The following table sets out the compensation of the Company's key management personnel, defined as the four founders of the Company:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Short-term employee benefits	621	679	1,179	1,287

17. SUBSEQUENT EVENTS**New Senior Secured Term Loan**

On August 15, 2018, the Company entered into a new senior secured term loan with a syndicate of bank lenders co-led by JPMorgan Chase Bank, N.A. and Silicon Valley Bank. The principal amount of the new senior secured term loan is \$100,000. In addition, there is a \$25,000 revolving facility that is undrawn at closing. The Company may also request to be provided with incremental loans, for a maximum additional loan amount of \$100,000 to support acquisitions and other growth opportunities. The maturity date is August 15, 2023. Interest on the new senior secured term loan accrues at a rate per annum equal to the sum of LIBOR plus a range of 2.75% to 3.25% depending on the leverage ratio of the Company at the time.

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

The Company will be required to repay principal starting at 5% of the principal amount in the first full year and increasing to 10% in the fifth year of the term. The Company may also be required to make additional payments from surplus cash-flow or the Company could choose to repay some or all of the amount outstanding at any time during the term.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2018**

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

Under the terms of the senior secured term loan, the Company is required to comply with financial covenants related to the maintenance of liquidity and coverage ratios.

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

On closing, the proceeds from the new senior secured term loan and available cash balances were used to repay the Company's existing senior secured term loan in full. The existing senior secured term loan was scheduled to expire August 11, 2021 and carried interest at a rate per annum equal to the sum of (i) 9.0% plus (ii) the higher of (a) the LIBOR rate for the applicable interest period and (b) 1.0%. Repayment of the existing senior secured term loan ahead of expiration resulted in a repayment premium of \$4,137.

Concurrent with the repayment of the existing senior secured term loan, the Company extinguished its royalty obligation to a member of the original lending syndicate for a settlement of \$6,000 to be paid in cash.

Dividend policy and declaration

On August 15, 2018, the Company's Board of Directors established a dividend policy providing for the payment of quarterly dividends of Cdn\$0.05 per common share.

At the same time, the Company's Board of Directors declared an initial dividend of Cdn\$0.05 per outstanding common share to be paid on December 14, 2018 to shareholders of record as of October 24, 2018.