

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED MARCH 31, 2019

HLS Therapeutics Inc. (“**HLS**” or the “**Company**”) was formed on March 12, 2018 by the amalgamation of HLS Therapeutics Inc. (“**former HLS**”) and Automodular Corporation (“**AMD**”). The following management’s discussion and analysis (“**MD&A**”) should be read in conjunction with the unaudited condensed interim consolidated financial statements of HLS for the three months ended March 31, 2019. References to “**HLS**” and the “**Company**” in this MD&A also refer to former HLS, as the context requires.

This discussion is presented as of May 8, 2019 and is current to that date unless otherwise stated.

The financial information presented in this MD&A is derived from the above noted financial statements prepared in accordance with International Financial Reporting Standards (“**IFRS**”), with the exception of the Selected Quarterly Information. All amounts are in thousands of United States (“**U.S.**”) dollars unless otherwise stated.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking statements within the meaning of applicable securities laws. The use of any of the words “**expect**”, “**anticipate**”, “**continue**”, “**estimate**”, “**objective**”, “**ongoing**”, “**may**”, “**will**”, “**project**”, “**should**”, “**believe**”, “**plans**”, “**intends**”, “**potential**” and similar expressions are intended to identify forward-looking statements or information. More particularly and without limitation, this MD&A contains forward-looking statements and information concerning: statements with respect to future prospects for Company products, including Vascepa and Clozaril; statements with respect to HLS’s pursuit of additional product and pipeline opportunities in certain therapeutic markets; withdrawal of the competing Absorica product in the U.S. market; and HLS’s anticipated cash needs and its need for additional financing.

The forward-looking statements and information included in this MD&A are based on certain key expectations and assumptions made by HLS and although HLS believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because HLS can give no assurance that they will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. Factors and risks which could cause actual results or events to differ materially from those expressed in its forward-looking statements are discussed in HLS’s materials filed with the Canadian securities regulatory authorities from time to time, including, without limitation, the Company’s Annual Information Form dated April 1, 2019, which has been filed on SEDAR and can be accessed at www.sedar.com.

The forward-looking statements and information contained in this MD&A are made as of the date hereof and HLS undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

CAUTIONARY NOTE REGARDING NON-IFRS MEASURES

This MD&A refers to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of HLS's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of HLS's financial information reported under IFRS. HLS uses non-IFRS measures to provide investors with supplemental measures of its operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. HLS also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. HLS's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess HLS's ability to meet its future debt service, capital expenditure and working capital requirements.

In particular, management uses Adjusted EBITDA as a measure of HLS's performance. To reconcile net loss for the year with Adjusted EBITDA, each of (i) "stock-based compensation", (ii) "amortization and depreciation", (iii) "acquisition and transaction costs", (iv) "finance and related costs", and (v) "income tax recovery" appearing in the Selected Consolidated Financial Information presented below are added to net loss for the period to determine Adjusted EBITDA. Adjusted EBITDA does not have any standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other companies. Adjusted EBITDA should not be considered in isolation or as a substitute for net income (loss) prepared in accordance with IFRS as issued by the IASB.

	Three months ended	
	March 31, 2019	March 31, 2018
Net loss for the period	(3,703)	(4,876)
Stock-based compensation	597	94
Amortization and depreciation	8,118	8,141
Acquisition and transaction costs	421	435
Finance and related costs, net	3,217	5,567
Income tax recovery	(393)	(769)
Adjusted EBITDA	8,257	8,592

OVERVIEW

HLS is a Canadian-based North American-focused specialty pharmaceutical company focused on acquiring (either through acquisitions, in-licensing or similar arrangements) and commercializing clinically differentiated pharmaceutical products in the specialty central nervous system ("CNS") and cardiovascular ("CV") markets. As at March 31, 2019, HLS's lead product is Clozaril® (an atypical antipsychotic indicated in the management of symptoms of treatment-resistant schizophrenia) for the Canadian and U.S. markets. On March 14, 2019, the Company announced that the CSAN® Pronto™ capillary point-of-care medical device designed to help enhance and simplify the mandatory safety blood monitoring process for patients that are prescribed Clozaril had been accepted for review by Health Canada. HLS has the exclusive rights to the device in the field of schizophrenia.

In 2017, the Company entered into a license agreement with Amarin Corporation plc ("Amarin") to register, commercialize and distribute Vascepa® capsules in Canada. In 2018, Amarin announced that its REDUCE-IT™ Cardiovascular Outcomes Study of Vascepa® capsules met its primary endpoint,

demonstrating an approximately 25% relative risk reduction, to a high degree of statistical significance ($p < 0.001$), in the primary endpoint composite of the first occurrence of major adverse CV events (“MACE”), including CV death, nonfatal myocardial infarction, nonfatal stroke, coronary revascularization, or unstable angina requiring hospitalization. Also, in 2018, Amarin presented more granular results of the REDUCE-IT Cardiovascular Outcomes Study in which Vascepa, taken as an add-on to a statin in a population presenting a residual cardiovascular risk, demonstrated a 20% reduction in cardiovascular death, a 31% reduction in heart attacks and a 28% reduction in strokes among other results when compared to a placebo add-on to a statin. On March 29, 2019, the Company announced that Health Canada had granted priority review status for Vascepa. This fast-track approval process could reduce the time to approval for Vascepa by more than four months in recognition of the potential that Vascepa could address a serious, life-threatening condition for which there is no other treatment in market and that there is substantial evidence of the clinical effectiveness of the treatment. On April 29, 2019, the Company announced that it had filed a New Drug Submission with Health Canada for Vascepa.

In 2017, the Company entered into a license agreement to commercialize and distribute in Canada a second product related to the treatment of cardiovascular disease contingent on achieving certain regulatory milestones. HLS also holds the U.S. marketing rights to Absorica® (a commercial stage dermatology product) which, in effect, provides HLS with income based on U.S. sales of Absorica by a third party.

HLS intends to pursue additional product and pipeline opportunities in the central nervous system and cardiovascular therapeutic markets, and potentially in other therapeutic areas, through targeted business development efforts.

AMALGAMATION AND LISTING

On March 12, 2018, the Company completed a plan of arrangement (the “Arrangement”) to amalgamate with AMD in accordance with Section 183 of the *Business Corporations Act* (Ontario). Pursuant to the Arrangement, the Company and AMD amalgamated to form a new entity named HLS Therapeutics Inc., operating in the life sciences industry. The completion of the Arrangement resulted in a reverse takeover of AMD as defined in the policies of the TSX Venture Exchange (the “TSX-V”).

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.

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

KEY PERFORMANCE INDICATORS

HLS measures the success of its strategies using several key performance indicators. These include Revenue, and Adjusted EBITDA, as described above. HLS believes these are important measures as they allow the company to evaluate its operating performance and identify financial and business trends relating to its financial condition and results of operations.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	Three months ended	
	March 31, 2019	March 31, 2018
Revenue	13,172	13,166
Expenses		
Cost of product sales	387	580
Selling and marketing	1,193	964
Medical, regulatory and patient support	1,213	977
General and administrative	2,122	2,053
Adjusted EBITDA ⁽¹⁾	8,257	8,592
Stock-based compensation	597	94
Amortization and depreciation	8,118	8,141
Operating income	(458)	357
Acquisition and transaction costs	421	435
Finance and related costs, net	3,217	5,567
Loss before income taxes	(4,096)	(5,645)
Income tax recovery	(393)	(769)
Net loss for the period	(3,703)	(4,876)
Net loss per share:		
Basic and diluted	\$(0.14)	\$(0.19)
	As at	As at
	March 31, 2019	December 31, 2018
Cash and cash equivalents	12,812	10,930
Total assets	299,820	306,425
Total long-term debt and financial liabilities	101,476	104,459
Total shareholders' equity	156,956	158,489

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

RESULTS OF OPERATIONS

The following section provides management's analysis of operating results, including key performance indicators.

Revenue

	Three months ended	
	March 31, 2019	March 31, 2018
Product sales		
Canada	6,387	6,759
United States	4,275	4,872
	10,662	11,631
Royalty revenue	2,510	1,535
	13,172	13,166

In the Canadian market, Clozaril is actively promoted and supported by a team of HLS employees who are supporting a growing number of patients. Following seasonally strong results in the fourth quarter of 2018, Clozaril results in the first quarter of 2019 were in-line with expectations and essentially flat compared to a year ago in Canadian dollar terms. As a result of fluctuations in exchange rates, Clozaril product sales decreased by 5.5% for the quarter when the results were translated to U.S. dollars.

Clozaril continued to experience modest volume declines in the U.S. market, mitigated by a nominal price increase, resulting in a modest increase in Clozaril gross revenues in the first quarter of 2019 compared to the same period a year earlier. However, overall product sales in the U.S. market decreased by 12.3% year-over-year in the first quarter of 2019, as the comparison period benefitted from an adjustment to government rebate accruals and there were no authorized generic supplies in the current period, which were partially off-set by lower than projected returns for expired products reaching the end of their eligibility period for credit in early 2019.

Royalty revenues increased by \$1.0 million in the first quarter of 2019 compared to royalty revenues in the year ago period that reflected the significant trade inventory adjustment to lower stock levels in early 2018 following the end of the positive impact of a promotional campaign undertaken by the distributor of Absorica in the U.S., which ran from early 2017 through November 2017 during a period of competitive disruption. Due to temporarily higher sales levels in 2017, trade inventory levels had expanded by the end of the promotional period, resulting in a period of trade inventory destocking in the first quarter of 2018.

Operating expenses

	Three months ended	
	March 31, 2019	March 31, 2018
Cost of product sales	387	580
Selling and marketing	1,193	964
Medical, regulatory and patient support	1,213	977
General and administrative	2,122	2,053
	4,915	4,574

Cost of product sales decreased in the first quarter of 2019 in-line with reduced authorized generic supplies and improved manufacturing costs as a result of the completion of the manufacturing transition for the US market.

The year-over-year increase in other operating expenses was driven primarily by higher patient registry program costs, following a temporary reduction in these costs in the earlier period, additional commercial activity to prepare and support the planned introductions of Vascepa and CSAN Pronto to the Canadian market, and additional public company costs.

Adjusted EBITDA ⁽¹⁾

	Three months ended	
	March 31, 2019	March 31, 2018
Adjusted EBITDA ⁽¹⁾	8,257	8,592

⁽¹⁾ See “Cautionary Note Regarding Non-IFRS Measures” section of this MD&A.

While total revenues were flat versus the prior year, the decrease in Adjusted EBITDA can be attributed to higher levels of selling marketing, and medical, regulatory and patient support costs, partially off-set by lower cost of product sales.

Stock-based compensation

Stock-based compensation relates to the Company’s Performance Share Unit plan and Stock Option plan.

Amortization and depreciation

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

Finance and related costs, net

Finance and related costs consist primarily of interest on the senior secured term, accreted interest related to debt issuance costs and long-term purchase consideration, and fair value adjustments related to financial instruments.

Interest on the senior secured term loan decreased from \$4.1 million in the first quarter of fiscal 2018 to \$1.6 million in fiscal 2019. The reduction in interest is primarily due to the refinancing of the Company’s debt in August 2018. The Company’s current debt structure has both a lower principal amount outstanding and a lower interest rate than its original debt facility.

LIQUIDITY AND CAPITAL RESOURCES

Capital structure

The Company’s stated strategy is to acquire rights to late stage, post-clinical and commercial stage branded pharmaceutical products for the North American market. This includes acquisition or in-licensing of soon-to-be fileable or promotional stage branded pharmaceutical products in selected therapeutic areas and the acquisition of select established pharmaceutical products that meet certain financial criteria. This may occur through direct rights acquisitions or through the acquisition of specialty pharmaceutical companies. To execute this strategy, the Company may need to access the additional capacity under its senior secured term loan facility or seek other sources of financing.

The Company financed its initial acquisitions through a portion of the net proceeds of each of (i) a subscription receipt financing of \$170.0 million, (ii) a common share financing of \$30.0 million, and (iii) a senior secured term facility of \$185.0 million.

Senior secured term loan

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

The new senior secured term loan is with a syndicate of bank lenders co-led by JPMorgan Chase Bank, N.A. and Silicon Valley Bank. The principal amount of the new senior secured term loan was \$100.0 million. In addition, there is a \$25.0 million revolving facility that is undrawn at March 31, 2019. The Company may also request to be provided with incremental loans, for a maximum additional loan amount of \$100.0 million to support acquisitions and other growth opportunities. The maturity date is August 15, 2023. Interest on the new senior secured term loan accrues at a rate per annum equal to the sum of LIBOR plus a range of 2.75% to 3.25% depending on the leverage ratio of the Company at the time.

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

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

Under the terms of the new senior secured term loan, the Company is required to comply with financial covenants related to the maintenance of liquidity and coverage ratios. Throughout the period ended March 31, 2019, the Company was in compliance with the financial covenants.

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

As at March 31, 2019, the principal debt balance outstanding under the new senior secured term facility was \$97.5 million.

Equity

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

On March 20, 2019, the Company's Board of Directors declared a dividend of C\$0.05 per outstanding common share to be paid on June 14, 2019, to shareholders of record as of April 30, 2019.

On May 8, 2019, the Company's Board of Directors declared a dividend of C\$0.05 per outstanding common share to be paid on September 13, 2019, to shareholders of record as of July 31, 2019.

Cash flow

Cash flow from operating activities was \$8.3 million for fiscal 2019 compared with \$13.5 million in fiscal 2018. The reduction is attributable to lower Absorica royalty receipts in the first quarter of fiscal 2019 compared to the first quarter of fiscal 2018. Continued stable cash-flows from the Clozaril business and the reduction in interest expense following the August 2018 refinancing will lead to continued positive operating cash flows.

Investing activities for the current year relate to ongoing quarterly payments associated with the acquisition of the Absorica marketing rights. The prior year period includes a quarterly payment associated with the Absorica acquisition as well as the second half of the up-front payment associated with the acquisition of the Vascepa distribution rights.

Financing activities in fiscal 2019 include a quarterly dividend, a quarterly repayment of the senior secured term loan and the final payment associated with the debt refinancing from August 2018. Financing activities in fiscal 2018 include the issuance of common shares as a result of the amalgamation noted above as well as a quarterly repayment of the original senior secured term loan.

Financial position

As at March 31, 2019, the Company has cash of \$12.8 million and a working capital deficit of \$7.8 million. The Company believes that its cash balances and cash flow from operations will be sufficient to fund its operating activities for the ensuing twelve-month period, particularly considering a significant reduction in interest expense expected because of the lower borrowing cost under the new senior secured term loan and the reduced principal outstanding. In addition, the currently undrawn revolver facility is available to the Company if needed.

The decrease in accounts receivable from year-end reflects the seasonality of revenues, with the first quarter generally being the quarter with the lowest revenues. The increase in property, plant and equipment reflect the recognition of right-to-use assets associated with the new lease accounting standards. The decrease in debt and other financial liabilities reflect the ongoing quarterly debt repayments and quarterly Absorica purchase consideration payments.

SUBSEQUENT EVENTS

On May 8, 2019, the Company entered into an exclusive agreement for the rights to register and commercialize Perseris™ in Canada. Perseris, which was developed by Indivior PLC, is a novel subcutaneous risperidone-containing, long-acting injectable for the treatment of schizophrenia and will complement the Company's CNS portfolio in Canada. Perseris has been approved by the US Food and Drug Administration ("FDA") but it is not approved for use in Canada. Under the terms of the agreement, the Company will pay \$1.0 million upon signing and \$4.0 million contingent on achievement of regulatory and pre-commercial milestones along with tiered double-digit sales royalties.

RELATED PARTY TRANSACTIONS

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

	Three months ended	
	March 31, 2019	March 31, 2018
Short-term employee benefits	695	558
Stock-based compensation	283	—

Originally defined as the four founders of the Company, effective 2019, the definition of key management changed to become five of the Company's key management personnel.

COMMITMENTS

There have no material changes in the commitments undertaken by the Company since the year ended December 31, 2018.

OFF-BALANCE SHEET ARRANGEMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

The Company has entered foreign currency forward contracts to manage its exposure to fluctuations in value between the Canadian dollar and the United States dollar. As at March 31, 2019, the fair value of the remaining outstanding transactions was \$0.4 million, which is recognized as an asset on the balance sheet. The Company recognized a realized gain of \$0.2 million and an unrealized loss of \$0.4 million for the period ended March 31, 2019 in respect of these foreign currency forward contracts. Both the realized gain and unrealized loss are included in finance and related costs in the consolidated statement of net loss.

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

SELECTED QUARTERLY INFORMATION

	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Product sales				
Canada	7,772	7,130	8,065	6,387
United States	4,732	5,584	4,909	4,275
	12,504	12,714	12,974	10,662
Royalty revenue	3,801	2,569	3,687	2,510
Revenues	16,305	15,283	16,661	13,172
Adjusted EBITDA ⁽¹⁾	11,039	10,274	11,191	8,257
Net income (loss)	(563)	(19,736)	369	(3,703)
	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Product sales				
Canada	7,428	7,274	7,600	6,759
United States	4,600	5,835	4,077	4,872
	12,028	13,109	11,677	11,631
Royalty revenue	6,833	7,184	8,698	1,535
Revenues	18,861	20,293	20,375	13,166
Adjusted EBITDA ⁽¹⁾	14,601	14,271	15,461	8,592
Net loss	(734)	(1,910)	(421)	(4,876)

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

For much of fiscal 2017, Absorica royalties benefited from temporary disruption in the market and a successful marketing program that has since ended.

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

OUTSTANDING SHARE DATA

As at the date of this discussion, the Company had: 27,614,531 common shares outstanding; 3,654,736 preferred shares outstanding; 1,915,961 stock options outstanding (resulting in a maximum issuance of 1,915,961 common shares); 2,240,389 warrants outstanding (resulting in a maximum issuance of 2,240,389 common shares); and 260,000 equity-settled performance share units outstanding (resulting in a maximum issuance of 260,000 common shares).

RISK MANAGEMENT

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has the overall responsibility for the oversight of these risks and reviews the Company's policies on an ongoing basis to ensure that these risks are appropriately managed, including through the use of financial instruments where appropriate. Further discussion of the management of such risks is included in note 16 to the audited consolidated financial statements for the year ended December 31, 2018.

For a discussion of the risks and uncertainties facing the Company, please see the Company's Annual Information Form ("AIF") dated April 1, 2019 filed on SEDAR. There have been no material changes in the risks or uncertainties facing the Company since the date of the AIF.

SIGNIFICANT ACCOUNTING POLICIES

A description of the Company's significant accounting policies is included in note 2 of the Company's audited consolidated financial statements for the year ended December 31, 2018 and are unchanged as of the date of this MD&A, except for the adoption of IFRS 16, *Leases* ("IFRS 16") discussed below.

International Financial Reporting Standard 16, *Leases* ("IFRS 16")

The Company adopted IFRS 16 on January 1, 2019 in accordance with the transitional provisions outlined in the standard and updated its accounting policies for leases to align with the requirements of the standard. IFRS 16 supersedes previous accounting standards for leases and introduces a single accounting model for leases unless the underlying asset is of low value or for a lease term of 12 months or less.

A lessee is required to recognize, on its statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. The right-of-use asset and the associated lease liability is initially measured at the present value of the future lease payments. Subsequent to initial measurement, a lessee is required to separately recognize interest expense on the lease liability and depreciation expense on the right-of-use asset. A lessee is also required to remeasure the lease liability upon the occurrence of certain events such as a change in the lease term. The amount of the remeasurement of the lease liability will generally be recognized as an adjustment to the right-of-use asset.

The Company adopted IFRS 16 using the modified retrospective transition approach and elected to use the exemptions proposed by the standard on leases where the underlying asset is of low value or the term is 12 months or less. The adoption of IFRS 16 has resulted in an increase in the Company's property, plant and equipment and an increase in lease obligations of \$1.0 million at January 1, 2019. The lease liability was recognized based on the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at the date of initial application. The comparative period has not been restated.

CONTROLS AND PROCEDURES

Disclosure controls and procedures

The Company's management is responsible for establishing and maintaining disclosure controls and procedures, as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") and have designed such disclosure controls and procedures to provide reasonable assurance that material information with respect to the Company is made known to them and information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal controls over financial reporting

The Company's management is responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), as defined in NI 52-109 and have designed such ICFR to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with IFRS.

The control framework the Company's management used to design the Company's ICFR is set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

There have been no changes in the Company's ICFR during the period ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Annual Information Form, can be found in SEDAR at www.sedar.com.