

Unaudited Condensed Interim Consolidated Financial Statements

HLS Therapeutics Inc.

For the Three and Six Months Ended June 30, 2019

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

[in thousands of U.S. dollars]

	Notes	As at June 30, 2019	As at December 31, 2018
ASSETS			
Current			
Cash and cash equivalents		52,308	10,930
Accounts receivable	3	11,075	17,509
Inventories		1,831	1,505
Foreign currency forward contract		116	755
Prepaid expenses and other current assets		1,529	919
Total current assets		66,859	31,618
Property, plant and equipment		1,210	363
Intangible assets		263,378	271,153
Restricted assets		2,256	2,290
Deferred income tax asset		1,015	1,001
Total assets		334,718	306,425
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		13,393	12,405
Provisions	4	6,533	6,574
Debt and other financial liabilities	5	19,128	18,920
Income taxes payable		212	369
Total current liabilities		39,266	38,268
Debt and other financial liabilities	5	98,780	104,459
Deferred income tax liability		3,602	5,209
Total liabilities		141,648	147,936
Shareholders' equity			
Share capital	6	245,313	210,360
Contributed surplus		13,956	12,973
Accumulated other comprehensive loss		(1,287)	(7,455)
Deficit		(64,912)	(57,389)
Total shareholders' equity		193,070	158,489
Total liabilities and shareholders' equity		334,718	306,425

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]

		Three months ended June 30,		Six months ended June 30,	
	Notes	2019	2018	2019	2018
Revenue	9	13,625	16,305	26,797	29,471
Expenses					
Cost of product sales		523	536	910	1,116
Selling and marketing		1,435	1,046	2,628	2,010
Medical, regulatory and patient support		1,398	1,176	2,611	2,153
General and administrative		2,164	2,508	4,286	4,561
Stock-based compensation	6	471	123	1,068	217
Amortization and depreciation		8,103	8,134	16,221	16,275
Operating income (loss)		(469)	2,782	(927)	3,139
Acquisition and transaction costs		178	98	599	533
Finance and related costs, net	5, 10	1,096	3,557	4,313	9,124
Loss before income taxes		(1,743)	(873)	(5,839)	(6,518)
Income tax recovery	8	(112)	(310)	(505)	(1,079)
Net loss for the period		(1,631)	(563)	(5,334)	(5,439)
Net loss per share:					
Basic and diluted	6	\$(0.06)	\$(0.02)	\$(0.19)	\$(0.20)

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

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

[in thousands of U.S. dollars]

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Net loss for the period	(1,631)	(563)	(5,334)	(5,439)
Item that may be reclassified subsequently to net loss				
Unrealized foreign currency translation adjustment	3,210	(3,568)	6,168	(8,188)
Comprehensive income (loss) for the period	1,579	(4,131)	834	(13,627)

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

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, 2018		210,360	12,973	(7,455)	(57,389)	158,489
Common shares issued	6	37,329	—	—	—	37,329
Share issuance costs	6	(2,411)	—	—	—	(2,411)
Warrants exercised	6	35	—	—	—	35
Warrants granted	6	—	470	—	—	470
Stock option expense	6	—	513	—	—	513
Net loss for the period		—	—	—	(5,334)	(5,334)
Dividends declared		—	—	—	(2,189)	(2,189)
Unrealized foreign currency translation adjustment		—	—	6,168	—	6,168
Balance, June 30, 2019		245,313	13,956	(1,287)	(64,912)	193,070
Balance, December 31, 2017		192,743	12,330	5,941	(30,632)	180,382
Common shares issued		19,905	—	—	—	19,905
Share issuance costs		(1,252)	—	—	—	(1,252)
Shares repurchased		(248)	—	—	10	(238)
Share purchase obligation		—	(857)	—	—	(857)
Stock option expense	6	—	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

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

HLS THERAPEUTICS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

[in thousands of U.S. dollars]

	Notes	Six months ended June 30, 2019	2018
OPERATING ACTIVITIES			
Net loss for the period		(5,334)	(5,439)
Adjustments to reconcile net loss to cash provided by operating activities			
Stock option expense		513	217
Amortization and depreciation		16,221	16,275
Accreted interest	5	1,098	3,232
Fair value adjustment on financial assets and liabilities		1,443	(2,675)
Listing expense		—	435
Deferred income taxes	8	(1,104)	(1,668)
Net change in non-cash working capital balances related to operations	11	4,401	4,810
Cash provided by operating activities		17,238	15,187
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(94)	(90)
Acquisitions		(4,650)	(6,650)
Other additions to intangible assets		(688)	(212)
Cash used in investing activities		(5,432)	(6,952)
FINANCING ACTIVITIES			
Common shares issued	6	37,329	19,470
Common share issuance costs	6	(2,277)	(1,699)
Warrants exercised	6	35	—
Common shares repurchased	6	—	(238)
Dividends paid	6	(2,023)	—
Repayment of senior secured term loan	5	(2,500)	(13,381)
Cash portion of debt refinancing costs		(1,000)	—
Increase in restricted cash		—	(2,500)
Lease payments		(223)	—
Lender royalty payment		—	(237)
Cash provided by financing activities		29,341	1,415
Net increase in cash and cash equivalents during the period		41,147	9,650
Foreign currency translation		231	(632)
Cash and cash equivalents, beginning of period		10,930	36,219
Cash and cash equivalents, end of period		52,308	45,237

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HLS THERAPEUTICS INC.

Notes to the unaudited condensed interim consolidated financial statements

June 30, 2019

(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. On March 12, 2018, the Company continued under the *Business Corporations Act* (Ontario). The Company’s common shares are listed on the Toronto Stock Exchange 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 7, 2019.

2. BASIS OF PREPARATION

Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 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, 2018.

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, 2018, except for the newly adopted accounting policy 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, 2018.

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 dollar amounts are rounded to the nearest thousand (\$000), except where otherwise indicated.

Accounting standards adopted in the period

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

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2019**

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

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 \$1,020 as 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 periods have not been restated.

3. ACCOUNTS RECEIVABLE

	June 30, 2019	December 31, 2018
Trade accounts receivable	6,960	11,876
Royalty receivable	2,232	3,687
Other receivables	1,883	1,946
	<u>11,075</u>	<u>17,509</u>

4. PROVISIONS

	Chargebacks and rebates	Returns	Total
As at December 31, 2018	4,611	1,963	6,574
Charges	2,387	229	2,616
Utilization	(2,487)	(170)	(2,657)
As at June 30, 2019	<u>4,511</u>	<u>2,022</u>	<u>6,533</u>

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2019**

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

5. DEBT AND OTHER FINANCIAL LIABILITIES

	June 30, 2019	December 31, 2018
Current		
Senior secured term loan	5,000	5,000
Lender warrants	4,703	3,931
Lender royalty	—	1,000
Purchase consideration	8,989	8,989
Foreign currency forward contract	32	—
Lease obligation	404	—
	19,128	18,920
Non-current		
Senior secured term loan	89,460	91,707
Purchase consideration	6,609	10,462
Preferred shares	2,256	2,290
Lease obligation	455	—
	98,780	104,459
	117,908	123,379

Lender warrants

In fiscal 2015, the Company issued lender warrants to the lenders under the original senior secured term loan. These lender warrants give the lenders the right to acquire 1,296,008 common shares at an exercise price of \$10.13 per share until August 11, 2021.

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

On April 26, 2019, 3,502 lender warrants were exercised resulting in the issuance of 3,502 common shares for proceeds of \$35.

As at June 30, 2019, the total fair value of the remaining 1,292,506 lender warrants was determined to be \$4,703 and the Company recorded income of \$147 and an expense of \$772 for the three and six months ended June 30, 2019, respectively (2018 – income of \$1,493 and \$1,080, respectively) 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, 2018	3,931
Change in fair value	772
Fair value as at June 30, 2019	4,703

Senior secured term loan

On August 15, 2018, the Company entered into a senior secured term loan with a syndicate of bank lenders co-led by JPMorgan Chase Bank, N.A. and Silicon Valley Bank. The principal amount of the senior secured term loan is \$100,000. In addition, there is a \$25,000 revolving facility, available under similar terms, that is undrawn as at June 30, 2019. 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 senior secured term loan accrues at a rate per annum equal to the sum of the

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2019**

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

London Inter-bank Offered Rate 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 senior secured term loan, the lenders have security over substantially all the assets of the Company.

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

Under the terms of the senior secured term loan, the Company is required to comply with financial covenants related to the maintenance of liquidity and coverage ratios. As at June 30, 2019, the Company was in compliance with all covenants.

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

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

Carrying amount as at December 31, 2018	96,707
Repayment of senior secured term loan	(2,500)
Accreted interest	253
Carrying amount as at June 30, 2019	94,460
Less current portion	5,000
Non-current portion as at June 30, 2019	89,460

Purchase consideration

As part of the consideration for the acquisition of Absorica[®], the Company is obligated to make fixed quarterly and semi-annual payments totalling approximately \$38,850 for 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 for the three and six months ended June 30, 2019 amounted to \$380 and \$797, respectively (2018 – \$563 and \$1,158, respectively).

Carrying amount as at December 31, 2018	19,451
Payment	(4,650)
Accreted interest	797
Carrying amount as at June 30, 2019	15,598
Less current portion	8,989
Non-current portion as at June 30, 2019	6,609

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

6. SHARE CAPITAL**Authorized**

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, 2019 are as follows:

	#	\$
Balance as at December 31, 2018	27,295,297	210,360
Issued by public offering	3,126,563	34,918
Issued on exercise of warrants	319,234	35
Balance as at June 30, 2019	30,741,094	245,313

On June 5, 2019, the Company closed an offering whereby 3,126,563 common shares were sold at a price of C\$16.00 per common share for aggregate gross proceeds of approximately C\$50,000.

Broker warrants

On June 5, 2019, the Company issued 171,960 broker warrants to the agents involved in the offering noted above. The exercise of these broker warrants would result in the issuance of 171,960 common shares at an exercise price of C\$16.00 per common share. The broker warrants expire on June 5, 2021. The fair value of the broker warrants was determined to be \$470 using the Black-Scholes option pricing model and is accounted for as a reduction in the proceeds from the issuance of share capital and is credited to contributed surplus.

Additional lender warrants

In fiscal 2015, the Company issued additional lender warrants to a member of the original lending syndicate giving the lender the right to acquire 1,263,844 common shares in four equal tranches at an exercise price of \$0.009 per share if the share price hits certain targets prior to their expiry on August 11, 2020.

In April 2019, the share price target was met for the first tranche. The warrant holders then exercised their warrants resulting in 315,732 common shares being issued on April 4, 2019.

The remaining additional lender warrants are exercisable as follows:

Number of additional lender warrants (#)	Share price target (\$)	Expiry date
315,961	15.00	August 11, 2020
315,961	17.50	August 11, 2020
315,961	20.00	August 11, 2020
947,883		

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

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

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, 2018	1,928,985	8.88
Granted	549,515	11.90
Cancelled	(19,032)	7.15
Outstanding as at June 30, 2019	2,459,468	9.63

As at June 30, 2019, the options outstanding and exercisable consist of the following:

Exercise price (\$)	Options outstanding		Options exercisable	
	Number (#)	Weighted average remaining contractual life (years)	Number (#)	Weighted average exercise price (\$)
6.38	522,701	6.2	—	—
9.25	89,777	8.7	22,555	9.25
10.00	1,299,475	6.3	1,186,268	10.00
11.90	547,515	6.9	—	—
	2,459,468	6.5	1,208,823	9.99

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. For options granted in fiscal 2019, the following assumptions were used: volatility of 44%; risk-free interest rate of 1.42%; dividend yield of 1.29%; and an estimated life of four to seven years.

The estimated fair value of the options is amortized to income over the options' vesting period on a straight-line basis. The Company has recorded stock-based compensation expense in respect of the options for the three and six months ended June 30, 2019 of \$279 and \$513, respectively (2018 – \$123 and \$217, respectively). This charge has been credited to contributed surplus. Unrecognized stock-based compensation expense as at June 30, 2019 related to the Plan was \$3,280.

Founder performance share units ("Founder PSUs")

In fiscal 2015, the Company issued 1,040,000 Founder PSUs to founding members of senior management. Each Founder PSU entitles the holder to receive one common share if the terms and conditions of the Founder 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 Founder PSUs.

In May 2018, the Founder PSU plan was amended such that 780,000 of the Founder PSUs will be settled for their cash value, provided the existing terms and conditions of the Founder PSU plan are met. Management determined that the fair value of the amended Founder PSUs on the date of amendment and at June 30, 2019 was not significant, and thus has recorded no expense or liability in respect of the amended Founder PSUs.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2019**

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

On June 25, 2019, 195,000 of the equity-settled Founder PSUs and 585,000 of the cash-settled PSUs expired unexercised.

Performance share units (“PSUs”)

On August 17, 2018, the Company issued 600,000 PSUs to selected employees of the Company. Each PSU entitles the holder to receive a cash payout if the terms and conditions of the PSU plan are met. These terms include share price targets to be achieved prior to expiry on the third anniversary of the date of grant on August 17, 2021, provided that, on or before the vesting date, the Company is listed on an exchange that permits price-based vesting.

The fair value of the PSUs was determined using a risk-neutral Monte Carlo simulation and is accounted for as a liability. The Company has recorded stock-based compensation expense in respect of the PSUs for the three and six months ended June 30, 2019 of \$192 and \$555, respectively (2018 – nil).

Dividends

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.

On August 7, 2019, the Company’s Board of Directors declared a dividend of C\$0.05 per outstanding common share to be paid on December 13, 2019, to shareholders of record as of October 31, 2019.

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,	
	2019	2018	2019	2018
Net loss for the period	(1,631)	(563)	(5,334)	(5,439)
Weighted average number of common shares outstanding – basic	28,461,952	27,426,394	27,881,847	26,584,020
Effect of dilutive securities	—	—	—	—
Weighted average number of common shares outstanding – diluted	28,461,952	27,426,394	27,881,847	26,584,020

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

The calculation of diluted loss per share in fiscal 2019 excludes 4,677,024 (2018 – 4,782,628) 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 the commencement of a Normal Course Issuer Bid under which the Company may, if considered advisable, purchase for cancellation, from time to time over the following 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.

The Normal Course Issuer Bid expired on May 8, 2019 and no shares were purchased during the six-month period ended June 30, 2019.

7. 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, 2019	December 31, 2018
Non-current financial liabilities	98,780	104,459
Shareholders' equity	193,070	158,489
	291,850	262,948

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

The Company is not subject to any externally imposed capital requirements, other than restrictions in the senior secured term loan limiting the payment of dividends, and there has been no change in the Company's capital management approach during the period.

8. INCOME TAXES

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

	Six months ended	
	June 30, 2019	June 30, 2018
Current income tax expense	599	589
Deferred income tax recovery resulting from temporary differences	(1,104)	(1,668)
	(505)	(1,079)

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

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

	Six months ended	
	June 30, 2019	June 30, 2018
Loss before income taxes	(5,839)	(6,518)
Tax recovery at Canadian corporate tax rate of 26.7%	(1,559)	(1,740)
Expenses not deductible for income tax purposes	358	(7)
Income subject to tax in foreign jurisdictions	696	668
	(505)	(1,079)

9. SEGMENTED INFORMATION

The Company is composed of a single reportable segment.

Revenue is generated from the following sources:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Product sales	11,393	12,504	22,055	24,135
Royalties	2,232	3,801	4,742	5,336
	13,625	16,305	26,797	29,471

Revenue is generated from the following geographic sources, by location of customer:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Canada	6,898	7,772	13,285	14,531
United States	6,727	8,533	13,512	14,940
	13,625	16,305	26,797	29,471

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2019**

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

10. FINANCE AND RELATED COSTS, NET

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Interest on senior secured term loan	1,513	4,037	3,094	8,112
Accreted interest	530	1,603	1,098	3,232
Total interest expense	2,043	5,640	4,192	11,344
Interest income	(40)	(100)	(81)	(179)
Foreign exchange loss (gain)	(825)	41	(822)	157
Realized loss (gain) on foreign currency forward contract	(252)	201	(419)	477
Fair value adjustment on financial assets and liabilities	170	(2,225)	1,443	(2,675)
	1,096	3,557	4,313	9,124

11. CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Six months ended	
	June 30,	
	2019	2018
Accounts receivable	6,808	7,629
Inventories	(287)	(592)
Prepaid expenses and other current assets	(551)	234
Accounts payable and accrued liabilities	(1,371)	(1,259)
Provisions	(41)	(712)
Income taxes payable	(157)	(490)
	4,401	4,810

Interest of \$1,477 and \$2,968 (2018 – \$4,037 and \$8,112) and income taxes of \$376 and \$756 (2018 – \$242 and \$1,079) were paid during the three and six months ended June 30, 2019, respectively.

12. RELATED PARTY DISCLOSURES

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

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Short-term employee benefits	671	621	1,366	1,179
Stock-based compensation	254	—	537	—

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

HLS THERAPEUTICS INC.

Notes to the unaudited condensed interim consolidated financial statements

June 30, 2019

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

13. COMMITMENTS

In-license agreement

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 make an initial upfront payment of \$1,000 in the third quarter of 2019 and a further \$4,000 contingent on achievement of regulatory and pre-commercial milestones along with tiered double-digit sales royalties.