

Unaudited Condensed Interim Consolidated Financial Statements

HLS Therapeutics Inc.

For the Three Months Ended March 31, 2020

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

[in thousands of U.S. dollars]

	Notes	As at March 31, 2020	As at December 31, 2019
ASSETS			
Current			
Cash and cash equivalents		41,649	47,078
Accounts receivable	3	13,477	11,858
Inventories		8,690	2,055
Derivative financial instruments		660	271
Prepaid expenses and other current assets		2,048	1,838
Total current assets		66,524	63,100
Property, plant and equipment		1,154	1,276
Intangible assets		235,669	252,050
Restricted assets		1,971	2,188
Deferred income tax asset		1,090	1,057
Total assets		306,408	319,671
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		22,087	13,466
Provisions	4	5,383	5,471
Debt and other financial liabilities	5	21,012	27,855
Income taxes payable		426	347
Total current liabilities		48,908	47,139
Debt and other financial liabilities	5	87,060	91,822
Deferred income tax liability		948	2,511
Total liabilities		136,916	141,472
Shareholders' equity			
Share capital	6	256,250	248,687
Contributed surplus		10,301	11,517
Accumulated other comprehensive loss		(14,581)	(537)
Deficit		(82,478)	(81,468)
Total shareholders' equity		169,492	178,199
Total liabilities and shareholders' equity		306,408	319,671

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

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

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

	Notes	Three months ended March 31,	
		2020	2019
Revenue	8	13,890	13,172
Expenses			
Cost of product sales		819	387
Selling and marketing		3,616	1,193
Medical, regulatory and patient support		1,246	1,213
General and administrative		2,140	2,122
Stock-based compensation	6	(164)	597
Amortization and depreciation		8,559	8,118
Operating loss		(2,326)	(458)
Acquisition and transaction costs		89	421
Finance and related costs, net	5, 9	(1,490)	3,217
Loss before income taxes		(925)	(4,096)
Income tax recovery	7	(1,079)	(393)
Net income (loss) for the period		154	(3,703)
Net income (loss) per share:			
Basic and diluted	6	\$0.00	\$(0.14)

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

[in thousands of U.S. dollars]

	Three months ended	
	March 31,	
	2020	2019
Net income (loss) for the period	154	(3,703)
Item that may be reclassified subsequently to net loss		
Unrealized foreign currency translation adjustment	(14,044)	2,958
Comprehensive loss for the period	(13,890)	(745)

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, 2019		248,687	11,517	(537)	(81,468)	178,199
Warrants exercised	6	7,544	(1,652)	—	—	5,892
Stock options exercised	6	19	(5)	—	—	14
Stock option expense	6	—	441	—	—	441
Net income for the period		—	—	—	154	154
Dividends declared		—	—	—	(1,164)	(1,164)
Unrealized foreign currency translation adjustment		—	—	(14,044)	—	(14,044)
Balance, March 31, 2020		256,250	10,301	(14,581)	(82,478)	169,492
Balance, December 31, 2018		210,360	12,973	(7,455)	(57,389)	158,489
Stock option expense	6	—	234	—	—	234
Net loss for the period		—	—	—	(3,703)	(3,703)
Dividends declared		—	—	—	(1,022)	(1,022)
Unrealized foreign currency translation adjustment		—	—	2,958	—	2,958
Balance, March 31, 2019		210,360	13,207	(4,497)	(62,114)	156,956

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	Three months ended March 31,	
		2020	2019
OPERATING ACTIVITIES			
Net income (loss) for the period		154	(3,703)
Adjustments to reconcile net loss to cash provided by operating activities			
Stock-based compensation		(164)	597
Amortization and depreciation		8,559	8,118
Accreted interest	5	356	568
Fair value adjustment on financial assets and liabilities		(3,471)	1,273
Foreign exchange		176	—
Deferred income taxes	7	(1,411)	(655)
Net change in non-cash working capital balances related to operations	10	1,150	2,084
Cash provided by operating activities		5,349	8,282
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(26)	(37)
Asset acquisitions		(6,575)	(2,825)
Other additions to intangible assets		(448)	(213)
Cash used in investing activities		(7,049)	(3,075)
FINANCING ACTIVITIES			
Stock options exercised	6	14	—
Warrants exercised	6	1,590	—
Dividends paid	6	(1,141)	(1,001)
Repayment of senior secured term loan	5	(1,382)	(1,250)
Cash portion of debt refinancing costs		—	(1,000)
Lease payments		(121)	(113)
Cash used in financing activities		(1,040)	(3,364)
Net increase (decrease) in cash and cash equivalents during the period		(2,740)	1,843
Foreign currency translation		(2,689)	39
Cash and cash equivalents, beginning of period		47,078	10,930
Cash and cash equivalents, end of period		41,649	12,812

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HLS THERAPEUTICS INC.

Notes to the unaudited condensed interim consolidated financial statements

March 31, 2020

(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’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 May 6, 2020.

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, 2019.

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, 2019.

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, 2019.

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.

Global pandemic

In early 2020, the coronavirus (“COVID-19”) was confirmed in multiple countries throughout the world and on March 11, 2020, the World Health Organization declared a global pandemic.

As a result of the continued and uncertain economic and business impact of the COVID-19 pandemic, the Company has reviewed the estimates, judgments and assumptions used in the preparation of its financial statements, including with respect to the determination of whether indicators of impairment exist for its tangible and intangible assets and the credit risk of its counterparties.

Although the Company has determined that no significant revisions to such estimates, judgments or assumptions were required for the first quarter of fiscal 2020, revisions may be required in future periods. Any such revision (due to COVID-19 or otherwise) could have a material impact on

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****March 31, 2020**

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

the Company's results of operations and financial condition. Further, in the event that such a material impact were to occur, the Company may need to consider requesting modifications to the covenants in its credit facility and there can be no assurance that such modifications would be provided.

While the Company believes the current conditions related to the COVID-19 pandemic to be temporary, the situation is dynamic and the impact of COVID-19 on its results of operations and financial condition cannot be reasonably estimated at this time. The Company continues to evaluate the situation and monitor any impacts or potential impacts to its business.

3. ACCOUNTS RECEIVABLE

	March 31, 2020	December 31, 2019
Trade accounts receivable	9,273	7,750
Royalty receivable	2,264	2,508
Other receivables	1,940	1,600
	13,477	11,858

4. PROVISIONS

	Chargebacks and rebates	Returns	Total
As at December 31, 2019	3,370	2,101	5,471
Charges	1,455	115	1,570
Utilization	(1,561)	(97)	(1,658)
As at March 31, 2020	3,264	2,119	5,383

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****March 31, 2020**

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

5. DEBT AND OTHER FINANCIAL LIABILITIES

	March 31, 2020	December 31, 2019
Current		
Senior secured term loan	6,250	5,625
Lender warrants	2,362	12,772
Purchase consideration	8,941	8,989
Derivative financial instruments	3,085	51
Lease obligation	374	418
	21,012	27,855
Non-current		
Senior secured term loan	84,696	86,582
Purchase consideration	—	2,559
Preferred shares	1,971	2,188
Derivative financial instruments	—	8
Lease obligation	393	485
	87,060	91,822
	108,072	119,677

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 new senior secured term loan was \$100,000. In addition, there is a \$25,000 revolving facility, available under similar terms, that is undrawn at March 31, 2020. 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.

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 March 31, 2020, the Company was in compliance with the financial covenants.

Transaction costs associated with the new 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, 2019	92,207
Repayment of senior secured term loan	(1,382)
Accreted interest	121
Carrying amount as at March 31, 2020	90,946
Less current portion	6,250
Non-current portion as at March 31, 2020	84,696

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, of which 1,292,506 were outstanding as at December 31, 2019.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****March 31, 2020**

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

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

During fiscal 2020, 560,787 lender warrants were exercised, resulting in the issuance of 262,160 common shares for proceeds of \$358.

As at March 31, 2020, the total fair value of the remaining 731,719 lender warrants was determined to be \$2,362 and the Company recorded income of \$6,108 for the three months ended March 31, 2020 (2019 – expense of \$919) 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, 2019	12,772
Transfer to share capital on exercise	(4,302)
Change in fair value	(6,108)
Fair value as at March 31, 2020	2,362

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%. Payments of \$2,825 have been made in fiscal 2020. Interest expense on this obligation for the three ended March 31, 2020 amounted to \$218 (2019 – \$417).

As part of the consideration for the acquisition of the Vascepa rights in fiscal 2017, the Company made a milestone payment of \$3,750 in the first quarter of fiscal 2020.

Carrying amount as at December 31, 2019	11,548
Addition	3,750
Payment	(6,575)
Accreted interest	218
Carrying amount as at March 31, 2020	8,941
Less current portion	8,941
Non-current portion as at March 31, 2020	—

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****March 31, 2020**

(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 March 31, 2020 are as follows:

	#	\$
Balance as at December 31, 2019	31,059,138	248,687
Issued on exercise of warrants	678,571	7,544
Issued on exercise of stock options	1,916	19
Balance as at March 31, 2020	31,739,625	256,250

Broker warrants

On June 5, 2019, the Company issued 171,960 broker warrants. 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, is accounted for as a reduction in the proceeds from the issuance of share capital and is credited to contributed surplus. At December 31, 2019, 171,788 were outstanding.

In fiscal 2020, 100,596 broker warrants have been exercised for proceeds of \$1,232, and 71,192 broker warrants remain outstanding as at March 31, 2020.

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 fiscal 2019, the share price target was met for the first and second tranche. The warrant holders then exercised their warrants, resulting in 631,482 common shares being issued.

In fiscal 2020, the share price target was met for the third tranche. The warrant holders then exercised their warrants, resulting in 315,815 common shares being issued.

The remaining additional lender warrants are exercisable as follows:

Number of additional lender warrants (#)	Share price target (\$)	Expiry date
315,964	20.00	August 11, 2020

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****March 31, 2020**

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

Stock option plan

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, 2019	2,491,697	9.62
Exercised	(1,916)	7.52
Cancelled	(2,235)	10.18
Outstanding as at March 31, 2020	2,487,546	9.63

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 months ended March 31, 2020 of \$441 (2019 – \$234). This charge has been credited to contributed surplus. Unrecognized stock-based compensation expense as at March 31, 2020 related to the Plan was \$2,093.

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.

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 recovery in respect of the PSUs for the three months ended March 31, 2020 of \$605 (2019 – expense of \$363). As at March 31, 2020, the liability recorded in the consolidated balance sheet in respect of PSUs is \$1,975.

Dividends

In the first quarter of fiscal 2020, a quarterly dividend of C\$0.05 per common share was declared on March 18.

On May 6, 2020, the Company's Board of Directors declared a dividend of C\$0.05 per outstanding common share to be paid on September 15, 2020, to shareholders of record as of July 31, 2020.

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.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****March 31, 2020**

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

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	
	March 31,	
	2020	2019
Net loss for the period	154	(3,703)
Weighted average number of common shares outstanding – basic	31,605,529	27,295,297
Effect of dilutive securities	3,901,285	—
Weighted average number of common shares outstanding – diluted	35,506,814	27,295,297

The calculation of diluted loss per share in fiscal 2019 excludes 4,748,316 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.

7. INCOME TAXES

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

	Three months ended	
	March 31, 2020	March 31, 2019
Current income tax expense	332	262
Deferred income tax recovery resulting from temporary differences	(1,411)	(655)
	(1,079)	(393)

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:

	Three months ended	
	March 31, 2020	March 31, 2019
Loss before income taxes	(925)	(4,096)
Tax recovery at Canadian corporate tax rate	(247)	(1,094)
Items not included or deducted for income tax purposes	(1,213)	364
Income subject to tax in foreign jurisdictions	381	337
	(1,079)	(393)

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****March 31, 2020**

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

8. SEGMENTED INFORMATION

The Company is composed of a single reportable segment.

Revenue is generated from the following sources:

	Three months ended March 31,	
	2020	2019
Product sales	11,626	10,662
Royalties	2,264	2,510
	13,890	13,172

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

	Three months ended March 31,	
	2020	2019
Canada	7,479	6,387
United States	6,411	6,785
	13,890	13,172

9. FINANCE AND RELATED COSTS, NET

	Three months ended March 31,	
	2020	2019
Interest on senior secured term loan	1,165	1,581
Accreted interest	356	568
Total interest expense	1,521	2,149
Interest income	(217)	(41)
Foreign exchange loss (gain)	743	3
Realized loss (gain) on foreign currency forward contract	(66)	(167)
Fair value adjustment on financial assets and liabilities		
Derivative financial instruments	2,637	354
Lender warrants	(6,108)	919
	(1,490)	3,217

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****March 31, 2020**

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

10. CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Three months ended	
	March 31,	
	2020	2019
Accounts receivable	(2,114)	4,425
Inventories	(7,140)	(35)
Prepaid expenses and other current assets	(368)	75
Accounts payable and accrued liabilities	10,781	(2,428)
Provisions	(88)	165
Income taxes payable	79	(118)
	1,150	2,084

Interest of \$1,165 (2019 – \$1,490) and income taxes of \$253 (2019 – \$380) were paid during the three months ended March 31, 2020.

11. RELATED PARTY DISCLOSURES

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

	Three months ended	
	March 31,	
	2020	2019
Short-term benefits	727	695
Stock-based compensation	(109)	283

12. SUBSEQUENT EVENTS**Base shelf prospectus**

On May 6, 2020, the Company's Board of Directors approved the filing of a preliminary short-form base shelf prospectus. Upon issuance of a receipt for the corresponding final base shelf prospectus, the base shelf prospectus would enable the Company to raise up to C\$250,000 over the 25-month period that the base shelf prospectus is effective.