

Unaudited Condensed Interim Consolidated Financial Statements

HLS Therapeutics Inc.

For the Three Months Ended March 31, 2021

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

[in thousands of U.S. dollars]

	Notes	As at March 31, 2021	As at December 31, 2020
ASSETS			
Current			
Cash and cash equivalents		23,203	20,612
Accounts receivable	3	11,135	12,497
Inventories		10,205	10,630
Prepaid expenses and other current assets		2,347	2,172
Total current assets		46,890	45,911
Property, plant and equipment		1,263	1,384
Intangible assets		247,612	253,404
Restricted assets	5	—	2,034
Deferred income tax asset		967	1,173
Total assets		296,732	303,906
Current			
Accounts payable and accrued liabilities		16,126	14,223
Provisions	4	4,837	4,516
Debt and other financial liabilities	5	13,740	16,358
Income taxes payable		393	545
Total current liabilities		35,096	35,642
Debt and other financial liabilities	5	94,178	99,015
Total liabilities		129,274	134,657
Shareholders' equity			
Share capital	6	259,825	257,411
Contributed surplus		11,772	11,393
Accumulated other comprehensive income		3,463	2,020
Deficit		(107,602)	(101,575)
Total shareholders' equity		167,458	169,249
Total liabilities and shareholders' equity		296,732	303,906

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]

		Three months ended	
		March 31,	
	Notes	2021	2020
Revenue	8	14,314	13,890
Expenses			
Cost of product sales		774	819
Selling and marketing		3,168	3,616
Medical, regulatory and patient support		1,333	1,246
General and administrative		2,371	2,140
Stock-based compensation	6	2,347	(164)
Amortization and depreciation		7,367	8,559
Operating loss		(3,046)	(2,326)
Acquisition and transaction costs		84	89
Finance and related costs, net	9	1,349	(1,490)
Loss before income taxes		(4,479)	(925)
Income tax expense (recovery)	7	274	(1,079)
Net income (loss) for the period		(4,753)	154
Net income (loss) per share:			
Basic and diluted	6	\$(0.15)	\$0.00

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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,	
	2021	2020
Net income (loss) for the period	(4,753)	154
Item that may be reclassified subsequently to net loss		
Unrealized foreign currency translation adjustment	1,443	(14,044)
Comprehensive loss for the period	(3,310)	(13,890)

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, 2020		257,411	11,393	2,020	(101,575)	169,249
Warrants exercised	6	1,857	(1)	—	—	1,856
Stock options exercised	6	557	(150)	—	—	407
Stock option expense	6	—	530	—	—	530
Net loss for the period		—	—	—	(4,753)	(4,753)
Dividends declared		—	—	—	(1,274)	(1,274)
Unrealized foreign currency translation adjustment		—	—	1,443	—	1,443
Balance, March 31, 2021		259,825	11,772	3,463	(107,602)	167,458
Balance, December 31, 2019		248,687	11,517	(537)	(81,468)	178,199
Warrants exercised		7,544	(1,652)	—	—	5,892
Stock options exercised		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

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,	
		2021	2020
OPERATING ACTIVITIES			
Net income (loss) for the period		(4,753)	154
Adjustments to reconcile net income (loss) to cash provided by operating activities			
Stock-based compensation		2,347	(164)
Amortization and depreciation		7,367	8,559
Accreted interest	5	186	356
Fair value adjustment on financial assets and liabilities		(311)	(3,471)
Foreign exchange		—	176
Deferred income taxes	7	206	(1,411)
Net change in non-cash working capital balances related to operations	10	2,143	1,150
Cash provided by operating activities		7,185	5,349
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(6)	(26)
Rights acquisitions	5	(1,320)	(6,575)
Other additions to intangible assets		(28)	(448)
Cash used in investing activities		(1,354)	(7,049)
FINANCING ACTIVITIES			
Stock options exercised	6	407	14
Warrants exercised	6	5	1,590
Dividends paid	6	(1,267)	(1,141)
Repayment of senior secured term loan	5	(2,250)	(1,382)
Lease payments		(155)	(121)
Cash used in financing activities		(3,260)	(1,040)
Net increase (decrease) in cash and cash equivalents during the period		2,571	(2,740)
Foreign currency translation		20	(2,689)
Cash and cash equivalents, beginning of period		20,612	47,078
Cash and cash equivalents, end of period		23,203	41,649

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HLS THERAPEUTICS INC.

Notes to the unaudited condensed interim consolidated financial statements

March 31, 2021

[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 (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 May 5, 2021.

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, 2020.

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, 2020.

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, 2020.

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 2021, revisions may be required in

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future periods. Any such revision (due to COVID-19 or otherwise) could have a material impact on its 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, 2021	December 31, 2020
Trade accounts receivable	6,693	6,086
Royalties receivable	2,536	4,834
Other receivables	1,906	1,577
	11,135	12,497

4. PROVISIONS

	Chargebacks and rebates	Returns	Total
As at December 31, 2020	2,364	2,152	4,516
Charges	1,129	15	1,144
Utilization	(794)	(29)	(823)
As at March 31, 2021	2,699	2,138	4,837

5. DEBT AND OTHER FINANCIAL LIABILITIES

	March 31, 2021	December 31, 2020
Current		
Senior secured term loan	10,500	9,750
Lender warrants	279	2,009
Purchase consideration	—	1,320
Derivative financial instruments	2,455	2,887
Lease obligation	506	392
	13,740	16,358
Non-current		
Senior secured term loan	93,380	96,205
Performance share unit obligation	218	—
Preferred shares	—	2,034
Lease obligation	580	776
	94,178	99,015
	107,918	115,373

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Notes to the unaudited condensed interim consolidated financial statements

March 31, 2021

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

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 was \$100,000. In September 2020, the Company and its lenders amended the terms of the senior secured credit facility to provide an additional \$20,000 in borrowing. In addition, there is a \$35,000 revolving facility, available under similar terms, that is undrawn at March 31, 2021. The Company may also request to be provided with incremental loans, for a maximum additional loan amount of \$70,000 to support acquisitions and other growth opportunities. The maturity date is August 15, 2023. The principal amount of the senior secured term loan outstanding as at March 31, 2021 was \$105,368.

Under the terms of the senior secured term loan, the Company is required to comply with financial covenants related to the maintenance of liquidity, operational results and coverage ratios. As at March 31, 2021, 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, 2020	105,955
Repayment of senior secured term loan	(2,250)
Accreted interest	175
Carrying amount as at March 31, 2021	103,880
Less current portion	10,500
Non-current portion as at March 31, 2021	93,380

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 460,047 were outstanding as at December 31, 2020.

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

During the first quarter of fiscal 2021, 407,507 lender warrants were exercised, resulting in the issuance of 126,113 common shares for proceeds of nil.

As at March 31, 2021, the total fair value of the remaining 52,540 lender warrants was determined to be \$279 and the Company recorded an expense of \$121 (note 9) for the three months then ended (2020 – income of \$6,108) 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, 2020	2,009
Transfer to share capital on exercise	(1,851)
Change in fair value	121
Fair value as at March 31, 2021	279

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****March 31, 2021**

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Purchase consideration

Carrying amount as at December 31, 2020	1,320
Payment	(1,320)
Carrying amount as at March 31, 2021	—

In fiscal 2021, the Company made the final payment of \$1,320 related to the acquisition of Absorica® marketing rights in fiscal 2016.

Preferred shares

In January 2021, the Company redeemed all its outstanding preferred shares at a price of C\$0.70 per preferred share for a total redemption payment of approximately C\$2,600. The redemption was financed by the balance remaining in the escrow funds presented in the consolidated balance sheet as restricted assets.

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, 2021 are as follows:

	#	\$
Balance as at December 31, 2020	31,822,406	257,411
Issued on exercise of warrants	126,543	1,857
Issued on exercise of stock options	46,159	557
Balance as at March 31, 2021	31,995,108	259,825

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.

During fiscal 2021, 430 broker warrants were exercised for proceeds of \$5. At March 31, 2021, 70,762 broker warrants remain outstanding.

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, 2020	2,978,431	10.02
Exercised	(46,159)	8.64
Cancelled	(7,335)	9.59
Outstanding as at March 31, 2021	2,924,937	10.04

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

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Notes to the unaudited condensed interim consolidated financial statements

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of the options for the three months ended March 31, 2021 of \$530 (2020 – \$441). This charge has been credited to contributed surplus. Unrecognized stock-based compensation expense as at March 31, 2021 related to the stock option plan was \$2,813.

Performance share units (“PSUs”)

On August 17, 2018, the Company issued 600,000 PSUs (the “2018 PSUs”) to selected employees of the Company. Each 2018 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 2018 PSUs was determined using a risk-neutral Monte Carlo simulation with a volatility assumption of 42% and is accounted for as a liability.

On November 9, 2020, the Company issued 337,000 PSUs to selected employees of the Company (the “2020 PSUs”). Each 2020 PSU entitles the holder to receive a cash payout if the terms and conditions of the PSU plan are met. These terms include relative total shareholder return (“TSR”) performance compared to relevant market indices to be achieved prior to expiry of the three-year term on November 8, 2023. The fair value of the 2020 PSUs was determined using a risk-neutral Monte Carlo simulation to develop a probabilistic correlation matrix for the Company’s TSR and the relevant comparators and is accounted for as a liability.

In fiscal 2021, the Company has recorded stock-based compensation expense of \$1,817 (2020 – income of \$605) in respect of the PSUs. As at March 31, 2021, the liability recorded in the consolidated balance sheet in respect of PSUs is \$5,641, of which \$218 is classified as non-current.

Base shelf prospectus

On May 15, 2020, the Company filed a short-form base shelf prospectus. The base shelf prospectus enables the Company to raise up to C\$250,000 over the 25-month period that the base shelf prospectus is effective.

Dividends

In fiscal 2021, quarterly dividends of C\$0.05 per common share were declared in March and May.

Income (loss) per share

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

Diluted income (loss) per share is calculated by dividing the net income (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, 2021**

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

	Three months ended	
	March 31,	
	2021	2020
Net income (loss) for the period	(4,753)	154
Weighted average number of common shares outstanding – basic	31,893,055	31,605,529
Effect of dilutive securities	—	3,901,285
Weighted average number of common shares outstanding – diluted	31,893,055	35,506,814

The calculation of diluted loss per share in fiscal 2021 excludes 3,342,903 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 November 5, 2020, the Company announced that the Exchange had accepted 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 1,587,193 of its issued and outstanding common shares, being 5% of the issued and outstanding common shares as of October 30, 2020.

No common shares have been purchased under the normal course issuer bid in fiscal 2021 to date.

7. INCOME TAXES

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

	Three months ended	
	March 31,	
	2021	2020
Current income tax expense	68	332
Deferred income tax recovery resulting from temporary differences	206	(1,411)
	274	(1,079)

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****March 31, 2021**

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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,	
	2021	2020
Loss before income taxes	(4,479)	(925)
Tax recovery at Canadian corporate tax rate	(1,196)	(247)
Items not included or deducted for income tax purposes	629	(1,213)
Income subject to tax in foreign jurisdictions	(187)	381
Tax losses not recognized	1,028	—
	274	(1,079)

8. SEGMENTED INFORMATION

The Company is composed of a single reportable segment.

Revenue is generated from the following sources:

	Three months ended	
	March 31,	
	2021	2020
Product sales	11,768	11,626
Royalties	2,546	2,264
	14,314	13,890

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

	Three months ended	
	March 31,	
	2021	2020
Canada	7,852	7,479
United States	5,157	6,411
Rest of world	1,305	—
	14,314	13,890

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****March 31, 2021**

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

9. FINANCE AND RELATED COSTS, NET

	Three months ended	
	March 31,	
	2021	2020
Interest on senior secured term loan	1,420	1,165
Accreted interest	186	356
Total interest expense	1,606	1,521
Interest income	(13)	(217)
Foreign exchange loss (gain)	(8)	743
Realized loss (gain) on foreign currency forward contract	75	(66)
Fair value adjustment on financial assets and liabilities		
Derivative financial instruments	(432)	2,637
Lender warrants	121	(6,108)
	1,349	(1,490)

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,	
	2021	2020
Accounts receivable	1,425	(2,114)
Inventories	525	(7,140)
Prepaid expenses and other current assets	(157)	(368)
Accounts payable and accrued liabilities	181	10,781
Provisions	321	(88)
Income taxes payable	(152)	79
	2,143	1,150

Interest of \$1,420 (2020 – \$1,165) and income taxes of \$220 (2020 – \$253) were paid during the three months ended March 31, 2021.