

Unaudited Condensed Interim Consolidated Financial Statements

HLS Therapeutics Inc.

For the Three and Six Months Ended June 30, 2021

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

[in thousands of U.S. dollars]

	Notes	As at June 30, 2021	As at December 31, 2020
ASSETS			
Current			
Cash and cash equivalents		21,347	20,612
Accounts receivable	3	12,867	12,497
Inventories		10,063	10,630
Prepaid expenses and other current assets		3,010	2,172
Total current assets		47,287	45,911
Property, plant and equipment		1,172	1,384
Intangible assets		246,737	253,404
Restricted assets	6	—	2,034
Deferred income tax asset		908	1,173
Total assets		296,104	303,906
Current			
Accounts payable and accrued liabilities	4	15,321	14,223
Provisions	5	4,123	4,516
Debt and other liabilities	6	14,078	16,358
Income taxes payable		112	545
Total current liabilities		33,634	35,642
Debt and other liabilities	6	92,640	99,015
Total liabilities		126,274	134,657
Shareholders' equity			
Share capital	7	263,275	257,411
Contributed surplus		11,474	11,393
Accumulated other comprehensive income		6,200	2,020
Deficit		(111,119)	(101,575)
Total shareholders' equity		169,830	169,249
Total liabilities and shareholders' equity		296,104	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 LOSS****Unaudited**

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

		Three months ended		Six months ended	
		June 30,		June 30,	
	Notes	2021	2020	2021	2020
Revenue	9	14,945	12,605	29,259	26,495
Expenses					
Cost of product sales		896	671	1,670	1,490
Selling and marketing		3,731	3,177	6,899	6,793
Medical, regulatory and patient support		1,501	1,699	2,834	2,945
General and administrative		2,256	2,244	4,627	4,384
Stock-based compensation	7, 10	(409)	918	1,938	754
Amortization and depreciation		7,480	8,198	14,847	16,757
Operating loss		(510)	(4,302)	(3,556)	(6,628)
Acquisition and transaction costs		—	234	84	323
Finance and related costs, net	11	1,510	2,636	2,859	1,146
Loss before income taxes		(2,020)	(7,172)	(6,499)	(8,097)
Income tax expense (recovery)	8	177	(698)	451	(1,777)
Net loss for the period		(2,197)	(6,474)	(6,950)	(6,320)
Net loss per share:					
Basic and diluted	7	\$(0.07)	\$(0.20)	\$(0.22)	\$(0.20)

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

[in thousands of U.S. dollars]

	Three months ended		Six months ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Net loss for the period	(2,197)	(6,474)	(6,950)	(6,320)
Item that may be reclassified subsequently to net loss				
Unrealized foreign currency translation adjustment	2,737	6,306	4,180	(7,738)
Comprehensive income (loss) for the period	540	(168)	(2,770)	(14,058)

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HLS THERAPEUTICS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited

[in thousands of U.S. dollars]

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, December 31, 2020		257,411	11,393	2,020	(101,575)	169,249
Warrants exercised	7	2,963	(192)	—	—	2,771
Stock options exercised	7	2,901	(770)	—	—	2,131
Stock option expense	7	—	1,043	—	—	1,043
Net loss for the period		—	—	—	(6,950)	(6,950)
Dividends declared		—	—	—	(2,594)	(2,594)
Unrealized foreign currency translation adjustment		—	—	4,180	—	4,180
Balance, June 30, 2021		263,275	11,474	6,200	(111,119)	169,830
Balance, December 31, 2019		248,687	11,517	(537)	(81,468)	178,199
Warrants exercised		7,544	(1,652)	—	—	5,892
Stock options exercised		52	(14)	—	—	38
Stock option expense	7	—	839	—	—	839
Net loss for the period		—	—	—	(6,320)	(6,320)
Dividends declared		—	—	—	(2,334)	(2,334)
Unrealized foreign currency translation adjustment		—	—	(7,738)	—	(7,738)
Balance, June 30, 2020		256,283	10,690	(8,275)	(90,122)	168,576

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

[in thousands of U.S. dollars]

	Notes	Six months ended June 30,	
		2021	2020
OPERATING ACTIVITIES			
Net loss for the period		(6,950)	(6,320)
Adjustments to reconcile net loss to cash provided by operating activities			
Stock-based compensation		1,938	754
Amortization and depreciation		14,847	16,757
Accreted interest	6	368	668
Fair value adjustment on financial assets and liabilities		(695)	(2,099)
Foreign exchange		—	176
Deferred income taxes	8	265	(2,338)
Net change in non-cash working capital balances related to operations	12	(873)	(6,465)
Cash provided by operating activities		8,900	1,133
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(15)	(27)
Rights acquisitions	6	(3,820)	(8,400)
Other additions to intangible assets		(51)	(759)
Cash used in investing activities		(3,886)	(9,186)
FINANCING ACTIVITIES			
Stock options exercised	7	2,131	38
Warrants exercised	7	920	1,590
Dividends paid	7	(2,577)	(2,310)
Repayment of senior secured term loan	6	(4,500)	(2,632)
Debt costs		—	(176)
Lease payments		(317)	(244)
Cash used in financing activities		(4,343)	(3,734)
Net increase (decrease) in cash and cash equivalents during the period		671	(11,787)
Foreign currency translation		64	(1,629)
Cash and cash equivalents, beginning of period		20,612	47,078
Cash and cash equivalents, end of period		21,347	33,662

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HLS THERAPEUTICS INC.

Notes to the unaudited condensed interim consolidated financial statements

June 30, 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 August 4, 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 two quarters of fiscal 2021, revisions may be required

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2021**

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

in 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 improving, the situation is dynamic and the impact of COVID-19 on its future 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

	June 30, 2021	December 31, 2020
Trade accounts receivable	6,537	6,086
Royalties receivable	4,397	4,834
Other receivables	1,933	1,577
	<u>12,867</u>	<u>12,497</u>

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2021	December 31, 2020
Trade accounts payable and accrued liabilities	9,482	9,182
Dividend payable	1,301	1,247
Performance share unit obligation (note 7)	4,538	3,794
	<u>15,321</u>	<u>14,223</u>

5. PROVISIONS

	Chargebacks and rebates	Returns	Total
As at December 31, 2020	2,364	2,152	4,516
Charges	1,860	48	1,908
Utilization	(2,185)	(116)	(2,301)
As at June 30, 2021	<u>2,039</u>	<u>2,084</u>	<u>4,123</u>

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2021**

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

6. DEBT AND OTHER LIABILITIES

	June 30, 2021	December 31, 2020
Current		
Senior secured term loan	11,250	9,750
Lender warrants	185	2,009
Purchase consideration	—	1,320
Derivative financial instruments	2,165	2,887
Lease obligation	478	392
	14,078	16,358
Non-current		
Senior secured term loan	90,551	96,205
Purchase consideration	1,231	—
Performance share unit obligation	305	—
Preferred shares	—	2,034
Lease obligation	553	776
	92,640	99,015
	106,718	115,373

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 June 30, 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 June 30, 2021 was \$103,118.

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 June 30, 2021, the Company was in compliance with the financial covenants.

Transaction costs associated with the senior secured term loan have been included as a reduction to the carrying amount of the liability and are 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	(4,500)
Accreted interest	346
Carrying amount as at June 30, 2021	101,801
Less current portion	11,250
Non-current portion as at June 30, 2021	90,551

HLS THERAPEUTICS INC.

Notes to the unaudited condensed interim consolidated financial statements

June 30, 2021

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

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

As at June 30, 2021, the total fair value of the remaining 52,540 lender warrants was determined to be \$185 and the Company recorded an expense of \$27 (note 11) for the six months then ended (2020 – income of \$5,354) 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 37%.

Fair value as at December 31, 2020	2,009
Transfer to share capital on exercise	(1,851)
Change in fair value	27
Fair value as at June 30, 2021	185

Purchase consideration

Carrying amount as at December 31, 2020	1,320
Additions	3,731
Payments	(3,820)
Carrying amount as at June 30, 2021	1,231

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

A regulatory and pre-commercial milestone was achieved in the second quarter of fiscal 2021 with respect to the fiscal 2019 acquisition of the commercial rights to PERSERIS™ in Canada, resulting in a payment of \$2,500 in the second quarter of fiscal 2021, with a remaining payment of \$1,500 by fiscal 2023.

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 statements of financial condition as restricted assets.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2021**

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7. 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, 2021 are as follows:

	#	\$
Balance as at December 31, 2020	31,822,406	257,411
Issued on exercise of warrants	196,359	2,963
Issued on exercise of stock options	227,107	2,901
Balance as at June 30, 2021	32,245,872	263,275

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. At December 31, 2020, 71,192 broker warrants were outstanding.

During fiscal 2021, 70,246 broker warrants were exercised for proceeds of \$920. The remaining 946 broker warrants expired unexercised on June 5, 2021.

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	(227,107)	9.29
Cancelled	(22,127)	9.71
Outstanding as at June 30, 2021	2,729,197	10.08

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, 2021 of \$513 and \$1,043 (2020 – \$398 and \$839), respectively. This charge has been credited to contributed surplus. Unrecognized stock-based compensation expense as at June 30, 2021 related to the stock option plan was \$2,306.

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 37% and is accounted for as a liability.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2021**

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

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.

The Company has recorded a recovery in respect of the PSUs for the three months ended June 30, 2021 of \$922 and an expense in respect of the PSUs for the six months ended June 30, 2021 of \$895 (2020 – expense of \$520 and a recovery of \$85, respectively). As at June 30, 2021, the liability recorded in the consolidated statements of financial position in respect of PSUs is \$4,843, of which \$305 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, May and August.

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		Six months ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Net loss for the period	(2,197)	(6,474)	(6,950)	(6,320)
Weighted average number of common shares outstanding – basic	32,037,832	31,741,184	31,965,844	31,673,356
Effect of dilutive securities	—	—	—	—
Weighted average number of common shares outstanding – diluted	32,037,832	31,741,184	31,965,844	31,673,356

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2021**

[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 2021 excludes 3,172,362 (2020 – 3,781,004) weighted average number of common shares issuable upon the exercise of 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.

8. INCOME TAXES

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Current income tax expense	118	229	186	561
Deferred income tax recovery resulting from temporary differences	59	(927)	265	(2,338)
	177	(698)	451	(1,777)

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		Six months ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Loss before income taxes	(2,020)	(7,172)	(6,499)	(8,097)
Tax recovery at Canadian corporate tax rate	(539)	(1,915)	(1,735)	(2,162)
Items not included or deducted for income tax purposes	115	241	744	(972)
Income subject to tax in foreign jurisdictions	(85)	466	(272)	847
Tax losses not recognized	686	510	1,714	510
	177	(698)	451	(1,777)

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2021**

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

9. SEGMENTED INFORMATION

The Company is composed of a single reportable segment.

Revenue is generated from the following sources:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Product sales	12,773	10,807	24,541	22,433
Royalties	2,172	1,798	4,718	4,062
	14,945	12,605	29,259	26,495

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Canada	8,936	6,875	16,788	14,354
United States	4,866	5,730	10,023	12,141
Rest of world	1,143	—	2,448	—
	14,945	12,605	29,259	26,495

10. STOCK-BASED COMPENSATION

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
PSU expense (recovery)	(922)	520	895	(85)
Stock option expense	513	398	1,043	839
	(409)	918	1,938	754

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****June 30, 2021**

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

11. FINANCE AND RELATED COSTS, NET

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Interest on senior secured term loan	1,521	1,215	2,941	2,380
Accreted interest	182	312	368	668
Total interest expense	1,703	1,527	3,309	3,048
Interest income	(10)	(50)	(23)	(267)
Foreign exchange loss (gain)	14	(57)	6	686
Realized loss (gain) on foreign currency forward contract	187	(156)	262	(222)
Fair value adjustment on financial assets and liabilities				
Derivative financial instruments	(290)	618	(722)	3,255
Lender warrants	(94)	754	27	(5,354)
	1,510	2,636	2,859	1,146

12. 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,	
	2021	2020
Accounts receivable	(148)	1,028
Inventories	852	(9,199)
Prepaid expenses and other current assets	(786)	(784)
Accounts payable and accrued liabilities	35	2,977
Provisions	(393)	(268)
Income taxes payable	(433)	(219)
	(873)	(6,465)

Interest of \$2,941 (2020 – \$2,380) and income taxes of \$619 (2020 – \$780) were paid during the six months ended June 30, 2021.