

Unaudited Condensed Interim Consolidated Financial Statements

**HLS Therapeutics Inc.**

For the Three Months Ended March 31, 2022

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

[in thousands of U.S. dollars]

	Notes	As at March 31, 2022	As at December 31, 2021
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		22,664	21,179
Accounts receivable	3	10,423	11,511
Inventories		8,604	8,925
Income taxes recoverable		247	—
Prepaid expenses and other current assets		1,985	2,136
Total current assets		43,923	43,751
Property, plant and equipment		1,433	1,569
Intangible assets		223,282	229,181
Deferred tax asset	8	586	690
Other non-current assets		1,300	714
Total assets		270,524	275,905
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	4	10,937	10,596
Provisions	5	2,835	3,472
Debt and other liabilities	6	12,595	13,507
Income taxes payable		—	97
Total current liabilities		26,367	27,672
Debt and other liabilities	6	84,170	86,844
Deferred tax liability	8	958	653
Total liabilities		111,495	115,169
<b>Shareholders' equity</b>			
Share capital	7	266,129	265,917
Contributed surplus		12,264	11,717
Accumulated other comprehensive income		5,397	2,959
Deficit		(124,761)	(119,857)
Total shareholders' equity		159,029	160,736
Total liabilities and shareholders' equity		270,524	275,905

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

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

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

	<b>Notes</b>	<b>Three months ended March 31,</b>	
		<b>2022</b>	<b>2021</b>
<b>Revenue</b>	9	14,556	14,314
<b>Expenses</b>			
Cost of product sales		953	774
Selling and marketing		3,829	3,168
Medical, regulatory and patient support		1,276	1,333
General and administrative		2,182	2,371
Stock-based compensation	7, 10	815	2,347
Amortization and depreciation		8,387	7,367
Operating loss		(2,886)	(3,046)
Acquisition and transaction costs		345	84
Finance and related costs, net	11	320	1,349
Loss before income taxes		(3,551)	(4,479)
Income tax expense	8	65	274
<b>Net loss for the period</b>		<b>(3,616)</b>	<b>(4,753)</b>
<b>Net loss per share:</b>			
Basic and diluted	7	\$(0.11)	\$(0.15)

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

[in thousands of U.S. dollars]

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Net loss for the period</b>	(3,616)	(4,753)
Item that may be reclassified subsequently to net loss		
Unrealized foreign currency translation adjustment	2,438	1,443
<b>Comprehensive loss for the period</b>	<b>(1,178)</b>	<b>(3,310)</b>

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

**Unaudited**

[in thousands of U.S. dollars]

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
<b>Balance, December 31, 2021</b>		265,917	11,717	2,959	(119,857)	160,736
Stock options exercised	7	227	(62)	—	—	165
Shares repurchased	7	(15)	—	—	(6)	(21)
Stock option expense	7	—	609	—	—	609
Net loss for the period		—	—	—	(3,616)	(3,616)
Dividends declared		—	—	—	(1,282)	(1,282)
Unrealized foreign currency translation adjustment		—	—	2,438	—	2,438
<b>Balance, March 31, 2022</b>		266,129	12,264	5,397	(124,761)	159,029
<b>Balance, December 31, 2020</b>		257,411	11,393	2,020	(101,575)	169,249
Warrants exercised		1,857	(1)	—	—	1,856
Stock options exercised		557	(150)	—	—	407
Stock option expense	7	—	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
<b>Balance, March 31, 2021</b>		259,825	11,772	3,463	(107,602)	167,458

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

[in thousands of U.S. dollars]

		<b>Three months ended</b>	
	<b>Notes</b>	<b>March 31,</b>	
		<b>2022</b>	<b>2021</b>
<b>OPERATING ACTIVITIES</b>			
Net loss for the period		(3,616)	(4,753)
Adjustments to reconcile net loss to cash provided by operating activities			
Stock-based compensation		815	2,347
Amortization and depreciation		8,387	7,367
Accreted interest		207	186
Fair value adjustment on financial assets and liabilities	11	(1,474)	(311)
Deferred income taxes	8	409	206
Net change in non-cash working capital balances related to operations	12	1,030	2,143
<b>Cash provided by operating activities</b>		<b>5,758</b>	<b>7,185</b>
<b>INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment		(9)	(6)
Rights acquisitions	6	—	(1,320)
Other additions to intangible assets		(26)	(28)
<b>Cash used in investing activities</b>		<b>(35)</b>	<b>(1,354)</b>
<b>FINANCING ACTIVITIES</b>			
Stock options exercised	7	165	407
Warrants exercised	7	—	5
Shares repurchased	7	(21)	—
Dividends paid	7	(1,282)	(1,267)
Repayment of senior secured term loan	6	(3,000)	(2,250)
Lease payments		(159)	(155)
<b>Cash used in financing activities</b>		<b>(4,297)</b>	<b>(3,260)</b>
<b>Net increase in cash and cash equivalents during the period</b>		<b>1,426</b>	<b>2,571</b>
Foreign currency translation		59	20
Cash and cash equivalents, beginning of period		21,179	20,612
Cash and cash equivalents, end of period		22,664	23,203

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## **HLS THERAPEUTICS INC.**

### **Notes to the unaudited condensed interim consolidated financial statements**

**March 31, 2022**

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

#### **1. CORPORATE INFORMATION**

HLS Therapeutics Inc. (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 4, 2022.

#### **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, 2021.

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, 2021.

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, 2021.

##### **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 2022, revisions may be required in

**HLS THERAPEUTICS INC.****Notes to the unaudited condensed interim consolidated financial statements****March 31, 2022**

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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 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**

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Trade accounts receivable	5,649	7,226
Royalties receivable	2,711	2,545
Other receivables	2,063	1,740
	<b>10,423</b>	<b>11,511</b>

**4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Trade accounts payable and accrued liabilities	9,633	9,316
Dividend payable	1,304	1,280
	<b>10,937</b>	<b>10,596</b>

**5. PROVISIONS**

	<b>Chargebacks and rebates</b>	<b>Returns</b>	<b>Total</b>
As at December 31, 2021	1,442	2,030	3,472
Charges	850	(330)	520
Utilization	(1,146)	(11)	(1,157)
<b>As at March 31, 2022</b>	<b>1,146</b>	<b>1,689</b>	<b>2,835</b>



**HLS THERAPEUTICS INC.****Notes to the unaudited condensed interim consolidated financial statements****March 31, 2022**

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**6. DEBT AND OTHER LIABILITIES**

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
<b>Current</b>		
Senior secured term loan	12,000	12,000
Derivative financial instruments	—	901
Lease obligation	595	606
	<b>12,595</b>	<b>13,507</b>
<b>Non-current</b>		
Senior secured term loan	81,295	84,134
Purchase consideration	1,326	1,294
Performance share unit obligation	605	549
Deferred share unit obligation	205	41
Lease obligation	739	826
	<b>84,170</b>	<b>86,844</b>
	<b>96,765</b>	<b>100,351</b>

**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, 2022. 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, 2022 was \$94,118.

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 March 31, 2022, 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, 2021	96,134
Repayment of senior secured term loan	(3,000)
Accreted interest	161
<b>Carrying amount as at March 31, 2022</b>	<b>93,295</b>
Less current portion	12,000
<b>Non-current portion as at March 31, 2022</b>	<b>81,295</b>

**HLS THERAPEUTICS INC.****Notes to the unaudited condensed interim consolidated financial statements****March 31, 2022**

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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 March 31, 2022 are as follows:

	#	\$
Balance as at December 31, 2021	32,451,193	265,917
Issued on exercise of stock options	18,931	227
Shares repurchased	(1,800)	(15)
<b>Balance as at March 31, 2022</b>	<b>32,468,324</b>	<b>266,129</b>

**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, 2021	3,092,035	10.47
Exercised	(18,931)	9.31
Cancelled	(16,997)	11.83
<b>Outstanding as at March 31, 2022</b>	<b>3,056,107</b>	<b>10.48</b>

The estimated fair value of the options is amortized to income over the options' vesting period. The Company has recorded stock-based compensation expense in respect of the options for the three months ended March 31, 2022 of \$609 (2021 – \$530). This charge has been credited to contributed surplus. Unrecognized stock-based compensation expense as at March 31, 2022 related to the stock option plan was \$3,448.

**Performance share units ("PSUs")**

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.

On December 8, 2021, the Company issued 328,460 PSUs to selected employees of the Company (the "2021 PSUs"). Each 2021 PSU entitles the holder to receive a cash payout if the terms and conditions of the PSU plan are met. These terms include relative TSR performance compared to relevant market indices to be achieved prior to expiry of the three-year term on December 7, 2024.

The fair value of the 2020 and 2021 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.

For the three months ended March 31, 2022, the Company has recorded stock-based compensation expense of \$44 in respect of the PSUs (2021 – \$1,817). As at March 31, 2022, the

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liability recorded in the consolidated statement of financial position in respect of PSUs is \$605, which is classified as non-current.

**Deferred share units (“DSUs”)**

On December 8, 2021, the Company issued 104,685 DSUs to non-employee directors. These DSUs vest over four years and can be redeemed only after the holder has left the Board. Each DSU entitles the holder to receive the cash equivalent of the Company’s share price at the time of redemption.

For the three months ended March 31, 2022, the Company has recorded stock-based compensation expense of \$162 in respect of the DSUs. As at March 31, 2022, the liability recorded in the consolidated statement of financial position in respect of DSUs is \$205, which 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 2022, quarterly dividends of C\$0.05 per common share were declared in March and May.

**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:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2022</b>	<b>2021</b>
Net loss for the period	(3,616)	(4,753)
Weighted average number of common shares outstanding – basic	32,460,591	31,893,055
Effect of dilutive securities	—	—
Weighted average number of common shares outstanding – diluted	32,460,591	31,893,055

The calculation of diluted loss per share in fiscal 2022 excludes 3,006,594 (2021 – 3,342,903) weighted average number of common shares issuable upon the exercise of warrants and options because the effect of their issuance would be anti-dilutive.

**HLS THERAPEUTICS INC.****Notes to the unaudited condensed interim consolidated financial statements****March 31, 2022**

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**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 (the "NCIB"). On November 4, 2021, the Company announced that the Exchange had accepted the Company's notice of intention to renew its NCIB, 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 1,622,559 of its issued and outstanding common shares, being 5% of the issued and outstanding common shares as of October 26, 2021.

During the three months ended March 31, 2022, the Company purchased for cancellation 1,800 common shares at an average price of C\$14.28 per common share. The weighted average carrying value of the shares repurchased exceeded the total cash consideration paid by \$6, which was credited to deficit.

**8. INCOME TAXES**

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2022</b>	<b>2021</b>
Current income tax expense (recovery)	(344)	68
Deferred income tax recovery resulting from temporary differences	409	206
	65	274

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:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2022</b>	<b>2021</b>
Loss before income taxes	(3,551)	(4,479)
Tax recovery at Canadian corporate tax rate	(948)	(1,196)
Items not included or deducted for income tax purposes	125	629
Income subject to tax in foreign jurisdictions	4	(187)
Tax losses not recognized	884	1,028
	65	274

**HLS THERAPEUTICS INC.****Notes to the unaudited condensed interim consolidated financial statements****March 31, 2022**

[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 March 31,	
	2022	2021
Product sales	11,846	11,768
Royalties	2,710	2,546
	14,556	14,314

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

	Three months ended March 31,	
	2022	2021
Canada	8,449	7,852
United States	4,617	5,157
Rest of world	1,490	1,305
	14,556	14,314

**10. STOCK-BASED COMPENSATION**

	Three months ended March 31,	
	2022	2021
PSU expense	44	1,817
DSU expense	162	—
Stock option expense	609	530
	815	2,347

**HLS THERAPEUTICS INC.****Notes to the unaudited condensed interim consolidated financial statements****March 31, 2022**

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

**11. FINANCE AND RELATED COSTS, NET**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2022</b>	<b>2021</b>
Interest on senior secured term loan	1,595	1,420
Accreted interest	207	186
Total interest expense	1,802	1,606
Interest income	(5)	(13)
Foreign exchange gain	(3)	(8)
Realized loss on foreign currency forward contract	—	75
Fair value adjustment on financial assets and liabilities		
Derivative financial instruments	(1,474)	(432)
Lender warrants	—	121
	320	1,349

**12. CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2022</b>	<b>2021</b>
Accounts receivable	1,253	1,425
Inventories	468	525
Income tax recoverable	(247)	—
Prepaid expenses and other current assets	183	(157)
Accounts payable and accrued liabilities	107	181
Provisions	(637)	321
Income taxes payable	(97)	(152)
	1,030	2,143

Interest of \$1,595 (2021 – \$1,420) and income taxes of \$nil (2021 – \$220) were paid during the three months ended March 31, 2022.