Unaudited Condensed Interim Consolidated Financial Statements

HLS Therapeutics Inc.

For the Three and Nine Months Ended September 30, 2020

HLS THERAPEUTICS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

[in thousands of U.S. dollars]

	Notes	As at September 30, 2020	As at December 31, 2019
ASSETS			
Current			
Cash and cash equivalents		20,890	47,078
Accounts receivable	4	12,535	11,858
Inventories		11,146	2,055
Derivative financial instruments		104	271
Prepaid expenses and other current assets		2,255	1,838
Total current assets		46,930	63,100
Property, plant and equipment		1,328	1,276
Intangible assets		254,705	252,050
Restricted assets		1,987	2,188
Deferred income tax asset		1,042	1,057
Total assets		305,992	319,671
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		14,565	13,466
Provisions	5	4,978	5,471
Debt and other financial liabilities	6	15,713	27,855
Income taxes payable		172	347
Total current liabilities		35,428	47,139
Debt and other financial liabilities	6	101,721	91,822
Deferred income tax liability		—	2,511
Total liabilities		137,149	141,472
Shareholders' equity			
Share capital	7	256,292	248,687
Contributed surplus		10,972	11,517
Accumulated other comprehensive loss		(5,365)	(537)
Deficit		(93,056)	(81,468)
Total shareholders' equity		168,843	178,199
Total liabilities and shareholders' equity		305,992	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 LOSS

Unaudited

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

	Notes	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Revenue	9	13,129	13,426	39,624	40,223
Expenses					
Cost of product sales		824	538	2,314	1,448
Selling and marketing		2,847	1,600	9,640	4,228
Medical, regulatory and patient support		1,238	1,156	4,183	3,767
General and administrative		3,700	2,087	8,084	6,373
Stock-based compensation	7	(643)	659	111	1,727
Amortization and depreciation		6,916	8,135	23,673	24,356
Operating loss		(1,753)	(749)	(8,381)	(1,676)
Acquisition and transaction costs		234	31	557	630
Finance and related costs, net	10	(506)	1,068	640	5,381
Loss before income taxes		(1,481)	(1,848)	(9,578)	(7,687)
Income tax expense (recovery)	8	252	150	(1,525)	(355)
Net loss for the period		(1,733)	(1,998)	(8,053)	(7,332)
Net loss per share:					
Basic and diluted	7	$(0.05)	$(0.06)	$(0.25)	$(0.25)

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 September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Net loss for the period	(1,733)	(1,998)	(8,053)	(7,332)
Item that may be reclassified subsequently to net loss				
Unrealized foreign currency translation adjustment	2,910	(1,848)	(4,828)	4,320
Comprehensive income (loss) for the period	1,177	(3,846)	(12,881)	(3,012)

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 loss	Deficit	Total
Balance, December 31, 2019		248,687	11,517	(537)	(81,468)	178,199
Warrants exercised	7	7,544	(1,652)	—	—	5,892
Stock options exercised	7	61	(16)	—	—	45
Stock option expense	7	—	1,123	—	—	1,123
Net loss for the period		—	—	—	(8,053)	(8,053)
Dividends declared		—	—	—	(3,535)	(3,535)
Unrealized foreign currency translation adjustment		—	—	(4,828)	—	(4,828)
Balance, September 30, 2020		256,292	10,972	(5,365)	(93,056)	168,843
Balance, December 31, 2018		210,360	12,973	(7,455)	(57,389)	158,489
Common shares issued		37,329	—	—	—	37,329
Shares issuance costs		(2,411)	—	—	—	(2,411)
Warrants exercised		35	—	—	—	35
Stock options exercised		1				1
Warrants granted		—	470	—	—	470
Stock option expense	7	—	991	—	—	991
Net loss for the period		—	—	—	(7,332)	(7,332)
Dividends declared		—	—	—	(3,349)	(3,349)
Unrealized foreign currency translation adjustment		—	—	4,320	—	4,320
Balance, September 30, 2019		245,314	14,434	(3,135)	(68,070)	188,543

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	Nine months ended September 30, 2020	2019
OPERATING ACTIVITIES			
Net loss for the period		(8,053)	(7,332)
Adjustments to reconcile net loss to cash provided by operating activities			
Stock-based compensation		111	1,727
Amortization and depreciation		23,673	24,356
Accreted interest	6	912	1,554
Fair value adjustment on financial assets and liabilities		(3,885)	655
Foreign exchange		176	—
Deferred income taxes	8	(2,352)	(1,322)
Net change in non-cash working capital balances related to operations	11	(7,084)	4,425
Cash provided by operating activities		3,498	24,063
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(32)	(139)
Royalty acquisition	3	(30,837)	—
Rights acquisitions		(10,225)	(7,475)
Other additions to intangible assets		(761)	(2,663)
Cash used in investing activities		(41,855)	(10,277)
FINANCING ACTIVITIES			
Common shares issued		—	37,329
Common share issuance costs		—	(2,579)
Stock options exercised	7	45	1
Warrants exercised	7	1,590	35
Dividends paid	7	(3,511)	(3,189)
Repayment of senior secured term loan	6	(3,882)	(3,750)
Drawdown of senior secured term loan	6	20,000	—
Debt costs	6	(658)	(1,000)
Lease payments		(374)	(321)
Cash provided by financing activities		13,210	26,526
Net increase (decrease) in cash and cash equivalents during the period		(25,147)	40,312
Foreign currency translation		(1,041)	101
Cash and cash equivalents, beginning of period		47,078	10,930
Cash and cash equivalents, end of period		20,890	51,343

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

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 November 4, 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 three quarters 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 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. ROYALTY ACQUISITION

Effective September 30, 2020, the Company acquired certain entities that hold the rights to a diversified portfolio of royalty interests on global sales of four different products for upfront cash consideration of $30,837. In addition to the upfront payment, the Company has contingent obligations of up to $10,000 for regulatory milestones and $18,500 for commercial performance milestones, the timing and achievability of which cannot be determined at this time.

The transaction has been accounted for as an asset purchase. The Company capitalized costs of $942 related to the transaction. Under the terms of the agreement, the Company is entitled to the royalties related to the quarter ended September 30, 2020, which are estimated to be $2,010. The purchase price has been allocated as follows:

Accounts receivable	2,010
Intangible assets	29,769
	31,779

4. ACCOUNTS RECEIVABLE

	September 30, 2020	**December 31, 2019**
Trade accounts receivable	7,310	7,750
Royalties receivable	3,768	2,508
Other receivables	1,457	1,600
	12,535	11,858

5. PROVISIONS

	Chargebacks and rebates	Returns	Total
As at December 31, 2019	3,370	2,101	5,471
Charges	3,893	284	4,177
Utilization	(4,462)	(208)	(4,670)
As at September 30, 2020	2,801	2,177	4,978

6. DEBT AND OTHER FINANCIAL LIABILITIES

	September 30, 2020	December 31, 2019
Current		
Senior secured term loan	9,000	5,625
Lender warrants	1,454	12,772
Purchase consideration	1,895	8,989
Derivative financial instruments	3,023	51
Lease obligation	341	418
	15,713	27,855
Non-current		
Senior secured term loan	99,027	86,582
Purchase consideration	—	2,559
Preferred shares	1,987	2,188
Derivative financial instruments	—	8
Lease obligation	707	485
	101,721	91,822
	117,434	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 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 September 30, 2020. 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.

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 September 30, 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
Debt costs	(658)
Repayment of senior secured term loan	(3,882)
Drawdown of senior secured term loan	20,000
Accreted interest	360
Carrying amount as at September 30, 2020	108,027
Less current portion	9,000
Non-current portion as at September 30, 2020	99,027

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.

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 September 30, 2020, the total fair value of the remaining 731,719 lender warrants was determined to be $1,454 and the Company recorded income of $7,016 (note 10) for the nine months ended September 30, 2020 (2019 – income of $24) 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 50%.

Fair value as at December 31, 2019	12,772
Transfer to share capital on exercise	(4,302)
Change in fair value	(7,016)
Fair value as at September 30, 2020	1,454

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 $6,475 have been made in fiscal 2020. Interest expense on this obligation for the nine months ended September 30, 2020 amounted to $508 (2019 – $1,115). In the second quarter of fiscal 2020, the Company amended the agreement with the vendor, which may reduce final purchase price by as much as $3,686 depending on the performance of Absorica from April to December 2020. The Company has accounted for this as a reduction to the purchase consideration payable, with a corresponding reduction to the intangible asset.

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	(10,225)
Reduction related to amendment	(3,686)
Accreted interest	508
Carrying amount as at September 30, 2020	1,895
Less current portion	1,895
Non-current portion as at September 30, 2020	—

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 September 30, 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	6,151	61
Balance as at September 30, 2020	31,743,860	256,292

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 September 30, 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. In August 2020, the remaining 315,964 additional lender warrants expired unexercised.

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	(6,151)	7.44
Cancelled	(9,910)	9.56
Outstanding as at September 30, 2020	2,475,636	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 and nine months ended September 30, 2020 of $284 and $1,123 (2019 – $478 and $991, respectively). This charge has been credited to contributed surplus. Unrecognized stock-based compensation expense as at September 30, 2020 related to the Plan was $1,410.

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 nine months ended September 30, 2020 of $1,012 (2019 – expense of $736). As at September 30, 2020, the liability recorded in the consolidated balance sheet in respect of PSUs is $1,698.

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 2020, quarterly dividends of C$0.05 per common share were declared on March 18, May 6, August 5 and November 4.

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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net loss for the period	(1,733)	(1,998)	(8,053)	(7,332)
Weighted average number of common shares outstanding – basic	31,743,283	30,741,101	31,696,835	28,845,405
Effect of dilutive securities	—	—	—	—
Weighted average number of common shares outstanding – diluted	31,743,283	30,741,101	31,696,835	28,845,405

The calculation of diluted loss per share in fiscal 2020 excludes 3,660,922 (2019 – 4,764,572) 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.

8. INCOME TAXES

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

	Nine months ended	
	September 30, 2020	September 30, 2019
Current income tax expense	827	967
Deferred income tax recovery resulting from temporary differences	(2,352)	(1,322)
	(1,525)	(355)

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:

	Nine months ended	
	September 30, 2020	September 30, 2019
Loss before income taxes	(9,578)	(7,687)
Tax recovery at Canadian corporate tax rate	(2,557)	(2,052)
Items not included or deducted for income tax purposes	(1,255)	577
Income subject to tax in foreign jurisdictions	777	1,120
Tax losses not recognized	1,510	—
	(1,525)	(355)

9. SEGMENTED INFORMATION

The Company is composed of a single reportable segment.

Revenue is generated from the following sources:

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Product sales	11,371	11,108	33,804	33,163
Royalties	1,758	2,318	5,820	7,060
	13,129	13,426	39,624	40,223

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Canada	7,383	6,851	21,737	20,136
United States	5,746	6,575	17,887	20,087
	13,129	13,426	39,624	40,223

10. FINANCE AND RELATED COSTS, NET

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Interest on senior secured term loan	1,184	1,440	3,564	4,534
Accreted interest	244	456	912	1,554
Total interest expense	1,428	1,896	4,476	6,088
Interest income	(39)	(289)	(306)	(370)
Foreign exchange loss (gain)	(41)	397	645	(425)
Realized gain on foreign currency forward contract	(68)	(148)	(290)	(567)
Fair value adjustment on financial assets and liabilities				
Derivative financial instruments	(124)	8	3,131	679
Lender warrants	(1,662)	(796)	(7,016)	(24)
	(506)	1,068	640	5,381

11. CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Nine months ended September 30,	
	2020	**2019**
Accounts receivable	1,157	8,198
Inventories	(9,113)	(300)
Prepaid expenses and other current assets	(458)	(826)
Accounts payable and accrued liabilities	1,998	(1,798)
Provisions	(493)	(774)
Income taxes payable	(175)	(75)
	(7,084)	4,425

Interest of $3,564 (2019 – $4,534) and income taxes of $1,002 (2019 – $1,042) were paid during the nine months ended September 30, 2020.

12. RELATED PARTY DISCLOSURES

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Short-term benefits	2,062	697	3,547	2,063
Stock-based compensation	(380)	359	23	896

Short-term benefits for the three and nine months ended September 30, 2020 include a retirement allowance of $1,313 paid to the Company's chief executive officer.

13. COMMITMENTS AND CONTINGENCIES

Royalty acquisition

Pursuant to the royalty acquisition described in note 3, the Company has contingent obligations of up to $10,000 for regulatory milestones and $18,500 for commercial performance milestones, the timing and achievability of which cannot be determined at this time.

14. SUBSEQUENT EVENT

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.