

Unaudited Condensed Interim Consolidated Financial Statements

HLS Therapeutics Inc.

For the Three and Nine Months Ended September 30, 2024

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

[in thousands of U.S. dollars]

	Notes	As at September 30, 2024	As at December 31, 2023
ASSETS			
Current			
Cash		17,540	21,952
Accounts receivable	3	10,487	10,608
Inventories		7,683	9,534
Income taxes recoverable		98	86
Other current assets		1,766	1,915
Total current assets		37,574	44,095
Property, plant and equipment		897	965
Intangible assets		132,043	162,344
Deferred tax asset		619	1,037
Other non-current assets		607	619
Total assets		171,740	209,060
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		13,482	14,107
Provisions	4	5,649	5,424
Debt and other liabilities	5	4,811	6,876
Income taxes payable		149	281
Total current liabilities		24,091	26,688
Debt and other liabilities	5	64,543	84,233
Deferred tax liability		3,777	442
Total liabilities		92,411	111,363
Shareholders' equity			
Share capital	6	260,595	262,127
Contributed surplus		14,907	13,865
Accumulated other comprehensive loss		(5,016)	(2,838)
Deficit		(191,157)	(175,457)
Total shareholders' equity		79,329	97,697
Total liabilities and shareholders' equity		171,740	209,060

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]

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2024	2023	2024	2023
Revenue	8	14,085	16,037	41,077	47,211
Expenses					
Cost of product sales		2,235	1,870	6,312	5,091
Selling and marketing		4,208	5,048	13,295	15,180
Medical, regulatory and patient support		1,439	1,675	4,124	4,188
General and administrative		2,077	2,316	6,255	7,040
Stock-based compensation	6, 9	511	(19)	1,194	63
Amortization and depreciation		5,508	8,207	17,283	24,892
Finance and related costs, net	10	2,389	4,223	7,998	9,128
Other costs (income)	11	621	42	(2,740)	4,106
Loss before income taxes		(4,903)	(7,325)	(12,644)	(22,477)
Income tax expense (recovery)	7	(59)	(424)	3,988	(347)
Net loss for the period		(4,844)	(6,901)	(16,632)	(22,130)
Net loss per share:					
Basic and diluted	6	\$(0.15)	\$(0.21)	\$(0.52)	\$(0.68)

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

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

[in thousands of U.S. dollars]

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Net loss for the period	(4,844)	(6,901)	(16,632)	(22,130)
Item that may be reclassified subsequently to net loss				
Unrealized foreign currency translation adjustment	1,158	(2,154)	(2,178)	236
Comprehensive loss for the period	(3,686)	(9,055)	(18,810)	(21,894)

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

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

Unaudited

[in thousands of U.S. dollars]

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance, December 31, 2023		262,127	13,865	(2,838)	(175,457)	97,697
Shares repurchased	6	(1,532)	—	—	932	(600)
Share purchase obligation	5	—	300	—	—	300
Stock option expense	6, 9	—	742	—	—	742
Net loss for the period		—	—	—	(16,632)	(16,632)
Unrealized foreign currency translation adjustment		—	—	(2,178)	—	(2,178)
Balance, September 30, 2024		260,595	14,907	(5,016)	(191,157)	79,329
Balance, December 31, 2022		265,206	13,821	(5,260)	(148,449)	125,318
Stock options exercised		178	(44)	—	—	134
Shares repurchased		(1,798)	—	—	826	(972)
Share purchase obligation		—	(295)	—	—	(295)
Stock option expense	6, 9	—	693	—	—	693
Net loss for the period		—	—	—	(22,130)	(22,130)
Dividends declared		—	—	—	(1,182)	(1,182)
Unrealized foreign currency translation adjustment		—	—	236	—	236
Balance, September 30, 2023		263,586	14,175	(5,024)	(170,935)	101,802

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

HLS THERAPEUTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

[in thousands of U.S. dollars]

	Notes	Nine months ended September 30,	
		2024	2023
OPERATING ACTIVITIES			
Net loss for the period		(16,632)	(22,130)
Adjustments to reconcile net loss to cash provided by operating activities			
Stock-based compensation	9	1,194	63
Amortization and depreciation		17,283	24,892
Gain on royalty sale	11	(3,381)	—
Impairment charges	11	—	2,352
Accreted interest	10	912	580
Fair value adjustment on financial assets and liabilities	10	523	3,151
Deferred income taxes	7	3,753	(803)
Net change in non-cash working capital balances related to operations	12	1,146	3,950
Cash provided by operating activities		4,798	12,055
INVESTING ACTIVITIES			
Proceeds from royalty sale	11	13,250	—
Payment of purchase consideration		(1,500)	—
Additions to property, plant and equipment		(2)	(27)
Additions to intangible assets		—	(148)
Cash provided by (used in) investing activities		11,748	(175)
FINANCING ACTIVITIES			
Stock options exercised		—	134
Shares repurchased	6	(600)	(972)
Dividends paid		—	(2,398)
Repayment of credit agreement borrowing	5	(18,533)	(5,683)
Debt costs	5	(1,191)	(1,360)
Lease payments		(386)	(474)
Cash used in financing activities		(20,710)	(10,753)
Net increase (decrease) in cash during the period		(4,164)	1,127
Foreign currency translation		(248)	(42)
Cash, beginning of period		21,952	20,723
Cash, end of period		17,540	21,808

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

HLS THERAPEUTICS INC.

Notes to the unaudited condensed interim consolidated financial statements

For the three and nine months ended September 30, 2024

[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 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 Company’s Board of Directors on November 6, 2024.

2. BASIS OF PREPARATION

Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board.

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, 2023.

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, 2023.

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.

Significant estimates, judgments and assumptions

The unaudited condensed interim consolidated financial statements have been prepared on a going concern basis. The preparation of the Company’s unaudited condensed interim consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these estimates, judgments and assumptions could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected, and corresponding revenues and expenses, in future periods.

In the Company’s unaudited condensed interim consolidated financial statements for the three months ended March 31, 2024, the Company noted that it had made the assumption that it would be able to mitigate any potential future breach in its covenants under its credit agreement. In the

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****For the three and nine months ended September 30, 2024**

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

second quarter of fiscal 2024, the Company completed an amendment to its credit agreement and expects to comply with its amended covenants during the next 12 months.

Commitments and contingencies

There have been no material changes in the commitments undertaken or contingencies faced by the Company since the year ended December 31, 2023, except:

Contingent obligations of up to \$18,500 for commercial performance milestones were disposed of in a sale of royalty rights in the second quarter of fiscal 2024 (note 11).

On May 1, 2024, the Company provided Pfizer Inc. with a notice of termination of the existing promotional services agreement between the two companies. The terms of the promotional services agreement provided for a wind-down period during which the Company would continue to compensate Pfizer for services performed under the agreement. The wind-down period ended on August 31, 2024.

Accounting standards adopted in fiscal 2024**Amendments to IAS 1, *Presentation of Financial Statements***

The amendments clarify how to classify debt and other liabilities as current or non-current. In addition, the amendments require entities to disclose information to enable users of the financial statements to understand the risk that non-current liabilities with covenants could become repayable within 12 months. The amendments were applied effective January 1, 2024 and did not have a material impact on the Company's unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2024.

3. ACCOUNTS RECEIVABLE

	September 30, 2024	December 31, 2023
Trade accounts receivable	8,234	7,781
Royalties receivable	1,013	1,859
Other receivables	1,240	968
	10,487	10,608

4. PROVISIONS

	Chargebacks and rebates	Returns	Total
As at December 31, 2023	4,819	605	5,424
Charges	9,551	181	9,732
Utilization	(9,095)	(412)	(9,507)
As at September 30, 2024	5,275	374	5,649

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****For the three and nine months ended September 30, 2024**

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

5. DEBT AND OTHER LIABILITIES

	September 30, 2024	December 31, 2023
Current		
Credit agreement borrowing	4,345	4,692
Performance share units	—	27
Purchase consideration	—	1,393
Share purchase obligation	—	300
Lease obligation	466	464
	4,811	6,876
Non-current		
Credit agreement borrowing	63,432	82,045
Performance share units	50	32
Deferred share units	685	275
Lease obligation	376	420
Fair value of contingent consideration	—	1,461
	64,543	84,233
	69,354	91,109

Credit agreement

The Company has a credit agreement with a syndicate of bank lenders led by JPMorgan Chase Bank, N.A. The maturity date of the credit agreement is August 11, 2026. The credit agreement comprises a senior secured term loan, a revolver facility and an expansion facility.

The principal amount of the senior secured term loan outstanding as at September 30, 2024 was \$69,951, of which \$4,345 is classified as current.

The amount available under the undrawn revolver facility is \$17,500, while an expansion facility of up to \$70,000 is available under certain conditions to support acquisitions and other growth opportunities.

Interest on borrowing under the credit agreement accrues at a rate per month equal to the sum of the Adjusted Secured Overnight Financing Rate plus a range of 2.75% to 5.00% depending on the leverage ratio of the Company at the time.

The Company may be required to make additional payments from surplus cash flows or the Company could choose to repay some or all of the amount outstanding at any time during the term.

Under the terms of the credit agreement, the lenders have security over substantially all of the assets of the Company.

Under the terms of the credit agreement, the Company is required to comply with financial covenants related to the maintenance of liquidity, operational results and coverage ratios. In the first and second quarters of fiscal 2024, the Company completed amendments to its credit agreement to modify certain covenants. As at September 30, 2024, the Company was in compliance with the covenants.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****For the three and nine months ended September 30, 2024**

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

The Company has accounted for the amendments as modifications to the original credit agreement. Transaction costs associated with the credit agreement 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.

The terms of the credit agreement permit the Company, under certain conditions, to return capital to shareholders through dividends and share repurchases.

Carrying amount as at December 31, 2023	86,737
Repayments	(18,533)
Debt costs	(1,191)
Accreted interest	764
Carrying amount as at September 30, 2024	67,777
Less current portion	4,345
Non-current portion as at September 30, 2024	63,432

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 are as follows:

	#	\$
Balance as at December 31, 2023	31,979,954	262,127
Shares repurchased	(186,907)	(1,532)
Balance as at September 30, 2024	31,793,047	260,595

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, 2023	3,658,178	7.98
Granted	750,000	2.88
Forfeited	(798,630)	8.18
Outstanding as at September 30, 2024	3,609,548	6.55

The fair value of each option granted since inception of the Plan was estimated on the date of the grant using the Black-Scholes option pricing model. The weighted average fair value per stock option granted in fiscal 2024 was \$1.42. Significant assumptions used in determining the fair value of options granted in fiscal 2024 are a weighted average volatility rate of 50%, and an expected option life of between four and seven years. The estimated fair value of the options is amortized to income over the options' vesting period (note 9) and is credited to contributed surplus.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****For the three and nine months ended September 30, 2024**

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

Return of capital

During the first two quarters of fiscal 2024, the Company purchased for cancellation 186,907 common shares at an average price of C\$4.36 per common share for total consideration of \$600. The weighted average carrying value of the shares repurchased exceeded the total cash consideration paid by \$932, which was adjusted to deficit.

As a result of amendments to covenants under the credit agreement referenced in note 5, the Company has temporarily suspended purchases under its normal course issuer bid.

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		Nine months ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Net loss for the period	(4,844)	(6,901)	(16,632)	(22,130)
Weighted average number of common shares outstanding – basic	31,793,047	32,250,388	31,855,062	32,319,671
Effect of dilutive securities	—	—	—	—
Weighted average number of common shares outstanding – diluted	31,793,047	32,250,388	31,855,062	32,319,671

The calculation of diluted loss per share in the first three quarters of fiscal 2024 excludes 3,646,710 (2023 – 3,401,475) weighted average number of common shares issuable upon the exercise of options because the effect of their issuance would be anti-dilutive.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****For the three and nine months ended September 30, 2024**

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

7. INCOME TAXES

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

	Three months ended September 30, 2024		Nine months ended September 30, 2024	
	2024	2023	2024	2023
Current income tax expense (recovery)	(12)	117	235	456
Deferred income tax expense (recovery) resulting from temporary differences	(47)	(541)	3,753	(803)
	(59)	(424)	3,988	(347)

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 September 30, 2024		Nine months ended September 30, 2024	
	2024	2023	2024	2023
Loss before income taxes	(4,903)	(7,325)	(12,644)	(22,477)
Tax recovery at Canadian corporate tax rate	(1,309)	(1,955)	(3,376)	(6,001)
Items not included or deducted for income tax purposes	101	196	326	428
Income subject to tax in foreign jurisdictions	97	277	464	382
Tax losses not recognized	1,052	1,058	3,458	4,844
Impact of rate change on opening balance of taxable temporary differences	—	—	3,116	—
	(59)	(424)	3,988	(347)

In the second quarter of fiscal 2024, the Government of Barbados passed tax measures to increase the Barbados corporate tax rate to 9% effective January 1, 2024. This change resulted in an increase of \$3,116 to the Company's deferred tax liability.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****For the three and nine months ended September 30, 2024**

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

8. SEGMENTED INFORMATION

The Company is composed of a single reportable segment.

Revenue is generated from the following sources:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Product sales				
Canada	11,087	10,153	30,878	28,755
United States	2,803	3,289	8,907	9,680
	13,890	13,442	39,785	38,435
Royalties	195	2,595	1,292	8,776
	14,085	16,037	41,077	47,211

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

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Canada	11,090	10,190	30,910	28,809
United States	2,867	4,553	9,481	13,875
Rest of world	128	1,294	686	4,527
	14,085	16,037	41,077	47,211

9. STOCK-BASED COMPENSATION

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
PSU recovery	—	(47)	(7)	(505)
DSU expense (recovery)	202	14	459	(125)
Stock option expense	309	14	742	693
	511	(19)	1,194	63

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****For the three and nine months ended September 30, 2024**

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

10. FINANCE AND RELATED COSTS, NET

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Interest expense	2,099	2,093	6,872	5,555
Accreted interest	353	199	912	580
Interest income	(49)	(98)	(283)	(137)
Net interest expense	2,403	2,194	7,501	5,998
Foreign exchange gain	(32)	(1)	(26)	(21)
Fair value adjustment on financial assets and liabilities	18	2,030	523	3,151
	2,389	4,223	7,998	9,128

11. OTHER COSTS (INCOME)

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Gain on royalty sale	—	—	(3,381)	—
Reorganization costs	—	—	—	1,469
Impairment charge	—	—	—	2,352
Other costs	621	42	641	285
	621	42	(2,740)	4,106

Gain on royalty sale

In the second quarter of fiscal 2024, the Company completed a sale of its royalty interest and milestone payment obligations in the global sales of olipudase alfa (marketed as Xenpozyme®).

The proceeds consisted of (i) an upfront cash payment of \$13,250; (ii) \$14,000 in potential sales-based milestone payments; and (iii) the purchaser's assumption of the \$18,500 of potential future milestone payment obligations.

The transaction was accounted for as an asset sale and resulted in a gain of \$3,381, calculated as follows:

Intangible assets	11,504
Fair value of contingent consideration	(1,985)
Costs	350
Net assets	9,869
Proceeds	13,250
Gain on royalty sale	3,381

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****For the three and nine months ended September 30, 2024**

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

Reorganization costs

In the second quarter of fiscal 2023, the Company recorded a charge of \$1,469 associated with changes to the leadership of the Company.

Impairment charge

In the second quarter of fiscal 2023, the Company recorded an impairment charge of \$2,352, which represented the remaining carrying amount of the intangible asset associated with the rights to PERSERIS.

12. INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Nine months ended September 30,	
	2024	2023
Accounts receivable	(46)	415
Inventories	1,637	(48)
Income taxes recoverable	(12)	102
Other assets	111	(146)
Accounts payable and accrued liabilities	(637)	2,370
Provisions	225	933
Income taxes payable	(132)	324
	<u>1,146</u>	<u>3,950</u>

Net interest of \$6,589 (2023 – \$5,418) and income taxes of \$379 (2023 – \$30) were paid during the nine months ended September 30, 2024.