

Notice to Reader

An Independent Auditor's Report that inadvertently omitted the description "Chartered Professional Accountants, Licensed Public Accountants" within the signature of the auditor, was filed on March 13, 2024, with the Consolidated Financial Statements for the year ended December 31, 2023. We are therefore refiling the Consolidated Financial Statements to include the Independent Auditor's Report with the correct signature of the auditor, including the description that was originally omitted. There are no other changes to the Consolidated Financial Statements that were filed on March 13, 2024.

Consolidated Financial Statements

HLS Therapeutics Inc.

December 31, 2023 and 2022

Independent Auditor's Report

To the Shareholders of HLS Therapeutics Inc.

Opinion

We have audited the consolidated financial statements of HLS Therapeutics Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of loss, consolidated statements of comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and the notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



Accrued gross-to-net adjustments relating to product revenue

Description of key audit matter	How our audit addressed the key audit matter
<p>Product revenue is reduced by various gross-to-net adjustments, including rebates, chargebacks and returns. The methodology and assumptions used to estimate returns, rebates and chargebacks include consideration of factors such as contractual terms and historical trends.</p> <p>For the year ended December 31, 2023, the Company recorded product sales of \$52.7 million as disclosed in note 15 of the Company’s consolidated financial statements. Product sales includes a reduction of revenue for rebates and chargebacks of \$8.9 million and a partial reversal of the estimated returns provision of \$0.1 million, as disclosed in note 9 of the Company’s consolidated financial statements. The ending provision for estimated returns, rebates and chargebacks was \$5.4 million as at December 31, 2023.</p> <p>Determining an appropriate provision for returns, rebates, and chargebacks requires judgment and estimation by management, particularly for new or acquired products where the Company has no access to historical trends. Management’s estimate includes consideration of factors such as contractual terms and historical trends, where available. This process requires judgment due to the timeframe between a sale to a wholesaler and a settlement of the rebate or chargeback owed under a government program or under the terms of a customer’s right of return.</p>	<p>To test the accrued gross-to-net adjustments as at December 31, 2023, our audit procedures included, among others:</p> <ul style="list-style-type: none"> • We obtained an understanding of the revenue estimation process, specifically gross-to-net adjustments relating to the deductions made to product sales for chargebacks, rebates and returns, and the tracking of settlements of the provisions. • We obtained management’s calculations for the provisions, recalculated the amounts and, with the assistance of professionals with specialized skills and knowledge where applicable, evaluated the assumptions used by reference to internal and external sources including the terms of the applicable contracts, government pricing information, and historical information on chargebacks and returns, where available. • We considered industry returns data in similar markets for similar products, where available, and compared industry data to the inputs made by the Company. • We compared the additional charges to provisions recorded throughout the current fiscal year to prior year provision amounts, to current year product revenue, and to current year settlement amounts. • We considered the adequacy of the Company’s revenue recognition accounting policies, including the recognition and measurement of deductions to product sales relating to chargebacks, rebates and sales returns and related disclosures.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe the matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Paula J Smith.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 13, 2024



HLS THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
[in thousands of U.S. dollars]

	Notes	As at December 31, 2023	As at December 31, 2022
ASSETS			
Current			
Cash		21,952	20,723
Accounts receivable	4	10,608	10,999
Inventories		9,534	8,902
Income taxes recoverable		86	195
Other current assets	5	1,915	3,555
Total current assets		44,095	44,374
Property, plant and equipment	6	965	1,127
Intangible assets	7	162,344	195,018
Deferred tax asset	13	1,037	465
Other non-current assets		619	668
Total assets		209,060	241,652
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	8	14,107	12,785
Provisions	9	5,424	2,934
Debt and other liabilities	10	6,876	15,471
Income taxes payable		281	—
Total current liabilities		26,688	31,190
Debt and other liabilities	10	84,233	84,578
Deferred tax liability	13	442	566
Total liabilities		111,363	116,334
Shareholders' equity			
Share capital	11	262,127	265,206
Contributed surplus		13,865	13,821
Accumulated other comprehensive loss		(2,838)	(5,260)
Deficit		(175,457)	(148,449)
Total shareholders' equity		97,697	125,318
Total liabilities and shareholders' equity		209,060	241,652

Commitments, contingencies and guarantees 22

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

On behalf of the Board of Directors:

“signed”
John Welborn
Director

“signed”
Rodney Hill
Director

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

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

	Notes	Year ended December 31, 2023	Year ended December 31, 2022
Revenues	15	63,074	61,467
Expenses			
Cost of product sales		7,624	4,981
Selling and marketing		19,896	17,846
Medical, regulatory and patient support		5,574	5,727
General and administrative		8,928	9,086
Stock-based compensation	11, 17	(538)	2,922
Amortization and depreciation	6, 7	31,939	34,402
Finance and related costs, net	18	11,237	5,040
Other costs	19	6,217	5,185
Loss before income taxes		(27,803)	(23,722)
Income tax recovery	13	(272)	(124)
Net loss for the year		(27,531)	(23,598)
Net loss per share:			
Basic and diluted	11	\$(0.85)	\$(0.73)

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

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

[in thousands of U.S. dollars]

	Year ended December 31, 2023	Year ended December 31, 2022
Net loss for the year	(27,531)	(23,598)
Item that may be reclassified subsequently to net loss		
Unrealized foreign currency translation adjustment	2,422	(8,219)
Comprehensive loss for the year	(25,109)	(31,817)

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

HLS THERAPEUTICS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[in thousands of U.S. dollars]

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, December 31, 2021		265,917	11,717	2,959	(119,857)	160,736
Stock options exercised		251	(67)	—	—	184
Shares repurchased		(962)	—	—	(36)	(998)
Share purchase obligation		—	(185)	—	—	(185)
Stock option expense		—	2,356	—	—	2,356
Net loss for the year		—	—	—	(23,598)	(23,598)
Dividends declared		—	—	—	(4,958)	(4,958)
Unrealized foreign currency translation adjustment		—	—	(8,219)	—	(8,219)
Balance, December 31, 2022		265,206	13,821	(5,260)	(148,449)	125,318
Stock options exercised	11	178	(44)	—	—	134
Shares repurchased	11	(3,257)	—	—	1,705	(1,552)
Share purchase obligation		—	(115)	—	—	(115)
Stock option expense	11, 17	—	203	—	—	203
Net loss for the year		—	—	—	(27,531)	(27,531)
Dividends declared		—	—	—	(1,182)	(1,182)
Unrealized foreign currency translation adjustment		—	—	2,422	—	2,422
Balance, December 31, 2023		262,127	13,865	(2,838)	(175,457)	97,697

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

HLS THERAPEUTICS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

[in thousands of U.S. dollars]

	Notes	Year ended December 31, 2023	Year ended December 31, 2022
OPERATING ACTIVITIES			
Net loss for the year		(27,531)	(23,598)
Adjustments to reconcile net loss to cash provided by operating activities			
Stock-based compensation	17	(538)	2,922
Amortization and depreciation	6, 7	31,939	34,402
Impairment charges	7	3,893	3,051
Accreted interest	10, 18	797	810
Fair value adjustment on financial assets and liabilities	18	2,888	(2,330)
Deferred income taxes	13	(696)	138
Net change in non-cash working capital balances related to operations	20	5,037	1,547
Cash provided by operating activities		15,789	16,942
INVESTING ACTIVITIES			
Additions to property, plant and equipment	6	(41)	(45)
Royalty milestone payment	7	—	(10,000)
Other additions to intangible assets	7	(148)	(103)
Cash used in investing activities		(189)	(10,148)
FINANCING ACTIVITIES			
Stock options exercised	11	134	184
Shares repurchased	11	(1,552)	(998)
Dividends paid	11	(2,398)	(4,962)
Drawdown under credit agreement	10	—	10,000
Repayment of borrowing under credit agreement	10	(8,855)	(9,778)
Debt costs	10	(1,360)	(639)
Lease payments		(608)	(663)
Cash used in financing activities		(14,639)	(6,856)
Net increase (decrease) in cash during the year		961	(62)
Effect of foreign exchange on cash		268	(394)
Cash, beginning of year		20,723	21,179
Cash, end of year		21,952	20,723

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

HLS THERAPEUTICS INC.

Notes to the consolidated financial statements

December 31, 2023 and 2022

[all amounts are in thousands of U.S. dollars, except per share information, 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 was incorporated as Heritage Life Sciences Inc. on June 5, 2014 under the *Business Corporations Act* (British Columbia). On December 18, 2014, the Company amended its articles to change its name to HLS Therapeutics Inc. On March 12, 2018, the Company continued under the *Business Corporations Act* (Ontario). 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 consolidated financial statements were authorized for issuance by the Board of Directors on March 13, 2024.

2. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. The Company’s presentation currency is the United States dollar. All dollar amounts are rounded to the nearest thousand (\$000), except per share information or where otherwise indicated.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiaries as at December 31, 2023. These subsidiaries are: Heritage Life Sciences (Barbados) Inc.; Heritage R&D (Barbados) Ltd.; HLS Therapeutics (USA), Inc.; HLS Therapeutics (USA Holdings), Inc.; HLS Therapeutics (USA R&D), Inc. and HLS Therapeutics Royalty Sub LLC.

Subsidiaries are entities over which the Company is exposed, or has rights, to variable returns from its involvement in the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. The Company controls 100% of the voting rights for all its subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

All intercompany balances, revenues and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full upon consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

HLS THERAPEUTICS INC.

Notes to the consolidated financial statements

December 31, 2023 and 2022

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

If the Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity. Any investment retained is recognized at fair value, while any resulting gain or loss is recognized in net income or loss.

Business combinations and asset acquisitions

Business combinations are accounted for using the acquisition method whereby the cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the acquired net assets do not constitute a business under the acquisition method of accounting, the transaction is accounted for as an asset acquisition. The cost of an asset acquisition comprises its purchase price and any directly attributable cost of preparing the asset for its intended use.

Foreign currency translation

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity generates and expends cash. A foreign currency is any currency other than an entity's functional currency. Each entity in the Company's consolidated group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. The Company has determined that the functional currency of each entity in the consolidated group is the United States dollar, except that the functional currency of the Canadian distribution activities is determined to be the Canadian dollar.

Transactions that are not in the entity's functional currency are initially recorded at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate at the reporting date. All differences are recorded in the consolidated statements of loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

On consolidation, for entities where the functional currency is not the United States dollar, the assets and liabilities are translated into United States dollars at the rate of exchange prevailing at the reporting date, and their statements of income or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation purposes are recognized in other comprehensive income or loss.

Cash and cash equivalents

Cash and cash equivalents include business savings accounts and short-term, highly liquid investments that are readily convertible to known amounts of cash, with remaining maturities at the date of acquisition or purchase of 90 days or less, and that are not subject to significant risk of changes in value.

HLS THERAPEUTICS INC.

Notes to the consolidated financial statements

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

As at December 31, 2023 and 2022, there were no cash equivalents.

Inventories

Inventories primarily consist of finished goods. Inventories are valued at the lower of cost based on weighted average price and net realizable value. Net realizable value is the estimated selling price less applicable selling expenses. If the carrying value exceeds the net realizable value, a write-down is recognized. Reversals of previous write-downs to net realizable value are required when there is a subsequent increase in the net realizable value of the inventories.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is recorded as follows:

Furniture and equipment	Straight-line over three to five years
Right-of-use assets	Straight-line over the lease term

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is recorded as follows:

Product rights	Straight-line over 15 years
Distribution rights	Straight-line over 8 years
Acquired royalties	Straight-line between 2 and 10 years

Depending on the terms of the acquisition, contingent consideration in connection with the purchase of individual intangible assets is either capitalized to the cost of the intangible asset when it is determined that the obligation is no longer contingent, or classified as a financial liability under IFRS 9, *Financial Instruments*, with the initial fair value capitalized to the cost of the intangible asset and subsequent changes in value recorded through the consolidated statements of loss.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets that have not yet reached commercial stage are not amortized and are tested for impairment annually or when impairment indicators are identified. As at December 31, 2023, there are no intangible assets that are not being amortized.

Provisions

Provisions are recognized when present (legal or constructive) obligations as a result of a past event are expected to lead to a probable outflow of economic resources and amounts can be estimated reliably. Provisions are measured at management's best estimate of the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

Chargebacks and rebates are estimated based on historical experience, relevant statutes with respect to government pricing programs, and contractual sales terms.

HLS THERAPEUTICS INC.

Notes to the consolidated financial statements

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

Provisions for returns are estimated based on historical return levels.

The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. At initial recognition, the Company classifies its financial instruments as one of the following:

Financial instruments carried at fair value through profit or loss

A financial asset or liability is classified in this category if it is a derivative or if it is acquired principally for the purpose of selling or repurchasing in the near term. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of loss. Gains and losses arising from changes in fair value are presented in the consolidated statements of loss in the period in which they arise.

Financial instruments in this category include cash and cash equivalents, derivative financial instruments and certain types of contingent consideration.

Financial instruments carried at amortized cost

Financial instruments in this category are recorded initially at fair value and adjusted for directly attributable transaction costs and, when material, a discount to reduce the asset or liability to fair value. Financial instruments in this category are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate accretion is included in finance and related costs, net in the consolidated statements of loss.

Financial instruments in this category include trade and other accounts receivable, accounts payable and accrued liabilities, purchase consideration and borrowings under the credit facility.

All financial assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2	Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For financial assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

For the purpose of fair value disclosures, the Company has determined classes of financial assets and liabilities on the basis of the nature, characteristics and risks of the financial asset or liability and the level of the fair value hierarchy, as explained above.

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

Revenue recognition

Revenue is recognized in the consolidated statements of loss to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties.

In the case of product sales, the determination of the fair value of consideration received or receivable includes a deduction for discounts, allowances given, chargebacks, other price adjustments and accruals and provisions for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns include consideration of factors such as contractual terms and historical trends.

Royalty revenue is recognized on an accrual basis when collection is reasonably assured.

Cost of product sales

Cost of product sales includes the cost of finished goods, royalties to license holders, and inventory provisions. The amount of inventory recognized as an expense in cost of product sales in fiscal 2023 is \$5,338 (2022 – \$4,168).

Stock-based compensation

The Company has a stock option plan, a performance share unit (“PSU”) plan and a deferred share unit (“DSU”) plan as described in note 11 that allow for the issuance of stock options, PSUs and DSUs to employees, directors, officers, and others as determined by the Board of Directors. Each option, PSU and DSU installment is treated as a separate grant with graded-vesting features. Forfeitures are estimated at the time of grant and revised if actual forfeitures are likely to differ from previous estimates.

The fair value of stock option, PSU and DSU grants is recognized as compensation expense over their respective vesting period. For stock options, a related credit is recorded as contributed surplus. For PSUs and DSUs, which are cash-settled, a liability is recognized. Contributed surplus is reduced as options are exercised through a credit to share capital. The consideration paid by option holders is credited to share capital when the options are exercised.

Options granted to parties other than employees, directors and officers are measured at their fair value on the date goods or services are received. The fair value of the goods and services received is determined indirectly by reference to the fair value of the instrument granted, unless the fair value of the goods and services received is reliably determinable.

HLS THERAPEUTICS INC.

Notes to the consolidated financial statements

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

Finance and related costs

Finance and related costs include interest expense on long-term liabilities, interest income on cash balances, realized and unrealized foreign exchange gains and losses, and fair value adjustments on financial assets and liabilities.

Interest expense on long-term liabilities is recognized using the effective interest rate method.

Impairment of long-lived assets

The Company reviews long-lived assets such as property, plant and equipment and intangible assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Intangible assets not currently being amortized or with indefinite lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows or cash-generating units ("CGUs"). An impairment loss is recognized for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the relevant asset or CGU), as determined by management.

Any impairment losses are recognized immediately in the consolidated statements of loss. Non-financial assets, other than goodwill, that suffer an impairment are reviewed for possible reversal of the impairment at each subsequent reporting date.

Leases

The Company assesses whether a contract is or contains a lease at the inception of a contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses a lease-specific incremental borrowing rate.

The lease liability is subsequently measured by increasing its carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect lease payments made. The right-of-use asset is depreciated over the shorter of the lease term and the useful life of the underlying asset.

Income taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction, either in other comprehensive income or loss or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in net income or loss.

3. SIGNIFICANT ESTIMATES, JUDGMENTS AND ASSUMPTIONS

The preparation of the Company's 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.

Revenue recognition

Gross product sales are reduced by rebates, discounts, allowances and product returns given or expected to be given. These arrangements with purchasing organizations and other private and public payers are dependent upon the submission of claims after the initial recognition of the revenue. Provisions are made at the time of sale for the estimated rebates, discounts or allowances payable or returns to be made, based on historical trends, contractual terms, past experience and projected market conditions. Because the amounts are estimated, they may not fully reflect the final outcome and the amounts are subject to change. Market conditions are evaluated using wholesaler and other third-party analyses, market research data and internally generated information. The remaining eligibility period for expired product returns is used to update the estimated provision for returns on a lot-by-lot basis. Future events could cause the assumptions on which the accruals are based to change and could affect the future results.

The recognition of royalty revenue may involve the use of estimates. In such cases, management will base its estimates on available market information and historical experience.

Impairment of long-lived assets

The Company tests the recoverability of its long-lived assets either: (i) when events or circumstances indicate that the carrying values may not be recoverable, or (ii) annually in the case of long-lived assets not yet brought into use. When such a test is performed, management must make certain estimates regarding the Company's cash flow projections that include assumptions about growth rates and other future events. Changes in certain assumptions could result in an impairment loss being charged in future periods.

Income taxes

Tax regulations and legislation and the interpretations thereof in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred tax assets are recognized to the extent that it is probable that the deductible temporary differences will be recoverable in future periods. The recoverability assessment involves a significant amount of estimation including an evaluation

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of when the temporary differences will reverse, an analysis of the amount of future taxable income, the availability of cash flow to offset the tax assets when the reversal occurs and the application of tax laws. To the extent that the assumptions used in the recoverability assessment change, there may be a significant impact on the consolidated financial statements of future periods.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position, which include derivative financial instruments, cannot be derived from active markets, the fair value is determined using valuation techniques, which include discounted cash flow models. The inputs to these models are taken from observable markets where possible. Where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4. ACCOUNTS RECEIVABLE

	December 31, 2023	December 31, 2022
Trade accounts receivable	7,781	6,292
Royalties receivable	1,859	2,613
Other receivables	968	2,094
	10,608	10,999

5. OTHER CURRENT ASSETS

	December 31, 2023	December 31, 2022
Prepaid expenses	1,913	2,126
Derivative financial instruments	2	1,429
	1,915	3,555

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6. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets	Furniture and equipment	Total
Cost			
As at December 31, 2021	2,440	1,078	3,518
Additions – purchased	—	45	45
Additions – right-of-use	252	—	252
Disposals	(420)	—	(420)
Foreign exchange	(128)	—	(128)
As at December 31, 2022	2,144	1,123	3,267
Additions – purchased	—	41	41
Additions – right-of-use	419	—	419
Disposals	(680)	—	(680)
Foreign exchange	36	2	38
As at December 31, 2023	1,919	1,166	3,085
Depreciation			
As at December 31, 2021	1,031	918	1,949
Depreciation	608	108	716
Disposals	(420)	—	(420)
Foreign exchange	(60)	(45)	(105)
As at December 31, 2022	1,159	981	2,140
Depreciation	554	66	620
Disposals	(680)	—	(680)
Foreign exchange	22	18	40
As at December 31, 2023	1,055	1,065	2,120
Net book value			
As at December 31, 2022	985	142	1,127
As at December 31, 2023	864	101	965

7. INTANGIBLE ASSETS

	Product rights	Distribution rights	Acquired royalties	Total
Cost				
As at December 31, 2021	324,857	24,018	29,682	378,557
Additions	—	103	10,000	10,103
Foreign exchange	(12,141)	(1,452)	—	(13,593)
As at December 31, 2022	312,716	22,669	39,682	375,067
Additions	—	148	—	148
Foreign exchange	4,310	518	—	4,828
As at December 31, 2023	317,026	23,335	39,682	380,043

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Amortization				
As at December 31, 2021	138,359	4,225	6,792	149,376
Amortization	21,343	2,515	9,828	33,686
Impairment	—	3,051	—	3,051
Foreign exchange	(5,665)	(399)	—	(6,064)
As at December 31, 2022	154,037	9,392	16,620	180,049
Amortization	20,893	1,049	9,377	31,319
Impairment	—	3,695	—	3,695
Foreign exchange	2,365	271	—	2,636
As December 31, 2023	177,295	14,407	25,997	217,699
Net book value				
As at December 31, 2022	158,679	13,277	23,062	195,018
As at December 31, 2023	139,731	8,928	13,685	162,344

Product rights

Product rights relate to the Company's acquisition of the United States and Canada rights to Clozaril® in August 2015.

As at December 31, 2023, the remaining unamortized costs on this asset are \$139,731. The product rights have 6.5 years remaining in their amortization period.

Distribution rights*Vascepa*®

Effective September 25, 2017, the Company entered into an exclusive agreement with Amarin Corporation plc ("Amarin") to register, commercialize and distribute Vascepa capsules in Canada. Vascepa capsules are a single-molecule prescription product for the treatment of cardiovascular disease.

On December 30, 2019, Health Canada approved Vascepa for use in Canada to reduce the risk of cardiovascular events (cardiovascular death, non-fatal myocardial infarction, non-fatal stroke, coronary revascularization, or hospitalization for unstable angina) in statin-treated patients with elevated triglycerides, who are at high risk of cardiovascular events due to established cardiovascular disease, or diabetes, and at least one other cardiovascular risk factor. The Company introduced Vascepa to the Canadian market in February 2020.

Under the agreement, the Company is responsible for regulatory and commercialization activities and associated costs. The Company has paid upfront and milestone payments totalling \$13,750. In addition to these payments, the terms of the agreement include sales-based milestone payments of up to an additional \$50,000.

Amarin is also entitled to a tiered double-digit royalty on net sales of Vascepa in Canada. Amarin is obligated to supply finished product to the Company under negotiated supply terms.

In fiscal 2023, the Company determined that the useful life of the intangible asset associated with the Vascepa distribution rights was longer than originally estimated when amortization commenced in fiscal 2020. The Company determined that the expected pattern of consumption of future economic benefit extends to at least fiscal 2039. Accordingly, the Company concluded that there are at least 17 years of useful life remaining in the Vascepa distribution rights from the

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start of fiscal 2023. The impact of this change in estimate is to reduce amortization expense by approximately \$1,300 on an annual basis.

As at December 31, 2023, the remaining unamortized costs on this asset are \$8,928. This asset has 16 years remaining in its amortization period.

Trinomia[®]

On November 20, 2017, the Company entered into an exclusive agreement with Ferrer Internacional SA (“Ferrer”) for the rights to distribute and commercialize Trinomia capsules in Canada. Trinomia has been approved for use outside of Canada for the secondary prevention of cardiovascular events but is not approved for use in Canada. The Company paid a nominal amount on signing with further contingent obligations of up to an aggregate of C\$30,675 contingent upon achieving regulatory and sales-based milestones. The Company will also pay a royalty on the net sales of Trinomia in Canada. Ferrer is obligated to supply finished product to the Company under negotiated supply terms.

In the fourth quarter of fiscal 2023, the Company concluded that it was no longer commercially viable to pursue bringing this product to market. Accordingly, the Company recorded an impairment charge of \$1,541, representing the unamortized carrying amount of the intangible asset.

PERSERIS[®]

On May 8, 2019, the Company entered into an exclusive agreement for the rights to register and commercialize PERSERIS in Canada. PERSERIS was approved by Health Canada for use in Canada on November 19, 2020. Under the terms of the agreement, the Company made an initial upfront payment of \$1,000 in fiscal 2019 and a further payment of \$2,500 in fiscal 2021 resulting from the achievement of a regulatory and pre-commercial milestone, with a remaining payment of \$1,500 by fiscal 2024. The terms of the agreement also call for the Company to pay a tiered double-digit sales royalty on the net sales of PERSERIS in Canada.

In June 2022, negotiations with the pan-Canadian Pharmaceutical Alliance for public market reimbursement for PERSERIS concluded unsuccessfully. The Company determined that this delay in the expected timing for public market reimbursement represented an indicator of an impairment to its intangible asset related to PERSERIS. The Company performed an impairment analysis and concluded that the carrying amount of PERSERIS exceeded its fair value. This resulted in an impairment charge of \$3,051 in the second quarter of fiscal 2022.

The impairment analysis in fiscal 2022 assumed that the Company would be successful in obtaining public listing agreements with specific provinces. In the second quarter of fiscal 2023, the Company concluded that it was no longer likely that it would succeed in obtaining these agreements on commercially viable terms. As a result, the Company decided to not pursue commercialization of PERSERIS any further and recorded an impairment charge of \$2,352, of which \$2,154 represented the remaining carrying amount of the intangible asset.

Acquired royalties

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 \$30,750. In fiscal 2022, the Company made a regulatory milestone payment of

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\$10,000. In addition, the Company has contingent obligations of up to \$18,500 for commercial performance milestones. As these obligations are contingent upon events that are beyond the Company's control, they are classified as a financial liability under IFRS 9, *Financial Instruments*, with the initial fair value capitalized to the cost of the intangible asset and subsequent changes in value recorded through the consolidated statements of loss. As at December 31, 2023, the fair value of this contingent consideration is \$1,461 (2022 – nil), and a fair value adjustment of \$1,461 is included in finance and related costs for the year ended December 31, 2023 (2022 – nil). Fair value was determined using a discounted cash flow model. The discounted cash flow model considers historical results of the related product, based on publicly available information, forecasted through 2030 using a probability weighted trendline to determine the likelihood of achieving future sales milestone targets. The future estimated cash outflows are discounted at 12%. Uncertainty about these estimates, judgments and assumptions, including the likelihood or timing of when future sales milestones may be achieved, could result in outcomes that could change the fair value significantly.

As at December 31, 2023, two of the acquired royalties have reached the end of their useful lives. The unamortized costs on the two remaining acquired royalty intangible assets are \$13,685. These assets have between approximately seven and nine years remaining in their amortization periods.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2023	December 31, 2022
Trade accounts payable and accrued liabilities	14,107	11,591
Dividends payable	—	1,194
	14,107	12,785

9. PROVISIONS

	Chargebacks and rebates	Returns	Total
As at December 31, 2021	1,442	2,030	3,472
Charges	4,431	374	4,805
Reversals	—	(1,480)	(1,480)
Utilization	(3,686)	(177)	(3,863)
As at December 31, 2022	2,187	747	2,934
Charges	8,603	256	8,859
Reversals	—	(54)	(54)
Utilization	(5,971)	(344)	(6,315)
As at December 31, 2023	4,819	605	5,424

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10. DEBT AND OTHER LIABILITIES

	December 31, 2023	December 31, 2022
Current		
Credit agreement borrowing	4,692	13,056
Performance share unit obligation	27	274
Purchase consideration	1,393	1,428
Share purchase obligation	300	185
Lease obligation	464	528
	6,876	15,471
Non-current		
Credit agreement borrowing	82,045	83,279
Performance share unit obligation	32	375
Deferred share unit obligation	275	442
Lease obligation	420	482
Contingent consideration (note 7)	1,461	—
	84,233	84,578
	91,109	100,049

Credit agreement

On August 15, 2018, the Company entered into a credit agreement with a syndicate of bank lenders administered by JPMorgan Chase Bank, N.A. The original maturity date of the credit agreement was August 15, 2023. In September 2022, the Company and its lenders amended the terms of the credit agreement to extend the maturity date of the senior secured term loan portion of the credit agreement by one year to August 15, 2024.

On August 14, 2023, the Company entered into an extension to this credit agreement, which comprises a senior secured term loan, a revolver facility and an expansion facility (the "Amended Agreement") with a syndicate of bank lenders still led by JPMorgan Chase Bank, N.A.

Under the terms of the Amended Agreement, the maturity date has been extended to August 11, 2026. The balance on the revolver facility at the time of the amendment was combined with the principal amount remaining on the existing senior secured term loan for a new senior secured term loan balance of \$93,830. In addition, there is a new revolver facility of \$30,000 and an expansion facility of up to \$70,000 to support acquisitions and other growth opportunities.

Interest on borrowings under the Amended Agreement accrues at a rate per month equal to the sum of the Adjusted Secured Overnight Financing Rate ("SOFR") plus a range of 2.75% to 4.25% depending on the leverage ratio of the Company at the time. In fiscal 2019, the Company entered into a swap agreement to fix what was at the time the LIBOR portion of the rate on the remainder of the initial principal amount at 1.453%. The swap agreement expired in August 2023.

The required annual principal repayment under the Amended Agreement is a 5% amortization based on the new principal balance of \$93,830.

The principal amount of the senior secured term loan outstanding as at December 31, 2023 was \$88,484.

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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. As at December 31, 2023, the Company was in compliance with the financial covenants.

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

The Company concluded that the terms of the amended credit agreement were not substantially different from the terms of 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.

Carrying amount as at December 31, 2021	96,134
Additional borrowing	10,000
Repayment	(9,778)
Debt costs	(639)
Accreted interest	618
Carrying amount as at December 31, 2022	96,335
Repayment	(8,855)
Debt costs	(1,360)
Accreted interest	617
Carrying amount as at December 31, 2023	86,737
Less current portion	4,692
Non-current portion as at December 31, 2023	82,045

Subsequent to year-end, the Company amended the terms of its credit agreement to modify certain covenant ratios.

Under the terms of this amendment, the Company's revolving facility has been reduced to \$25,000 from \$30,000. Interest on borrowings under the Amended Agreement accrues at a rate per month equal to the sum of the SOFR plus a range of 2.75% to 4.75% depending on the leverage ratio of the Company at the time. The Company's expansion facility of up to \$70,000 remains in place.

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11. SHARE CAPITAL

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, 2021	32,451,193	265,917
Issued on exercise of stock options	21,825	251
Shares repurchased	(117,400)	(962)
Balance as at December 31, 2022	32,355,618	265,206
Issued on exercise of stock options	21,605	178
Shares repurchased	(397,269)	(3,257)
Balance as at December 31, 2023	31,979,954	262,127

Stock option plan

Under the Company's Stock Option Plan (the "Plan"), the Company may grant options to purchase common shares to eligible officers and employees of, or consultants to, the Company. The number of common shares that the Company is authorized to issue under the Plan is 15% of the issued and outstanding common shares, until June 16, 2026, after which such number may not exceed 10% of the issued and outstanding common shares. All options granted are for terms not to exceed 10 years from the grant date. Options granted under the Plan vest over four years from the date of grant, with the exception of certain options granted to senior management in fiscal 2015, which vested immediately upon grant.

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
Granted	190,853	7.82
Exercised	(21,825)	8.32
Forfeited	(113,437)	11.74
Outstanding as at December 31, 2022	3,147,626	10.02
Granted	1,197,500	3.43
Exercised	(21,605)	6.39
Forfeited	(665,343)	10.11
Outstanding as at December 31, 2023	3,658,178	7.98

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As at December 31, 2023, the options outstanding and exercisable consist of the following:

Exercise price (\$)	Options outstanding		Options exercisable	
	Number outstanding (#)	Weighted average remaining contractual life (years)	Number outstanding (#)	Weighted average exercise price (\$)
3.46	600,000	6.4	—	—
3.55	589,500	6.6	—	—
6.31	319,093	1.6	319,093	6.31
8.01	154,464	6.0	38,592	8.01
9.25	16,370	4.2	16,370	9.25
10.00	874,624	1.7	874,624	10.00
11.39	20,458	2.9	20,458	11.39
11.42	342,923	4.9	222,137	11.42
11.76	740,746	3.1	677,996	11.76
	3,658,178		2,169,270	10.12

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 2023 was \$1.66 (2022 – \$3.06). Significant assumptions used in determining the fair value of options granted in fiscal 2023 are a weighted average volatility rate of 49% (2022 – 48%), and an expected option life of between four and seven years (2022 – between four and seven years). The estimated fair value of the options is amortized to income over the options' vesting period. In fiscal 2023, the Company has recorded stock-based compensation expense of \$203 (2022 – \$2,356) in respect of options. This charge has been credited to contributed surplus. Unrecognized stock-based compensation expense as at December 31, 2023 related to the Plan is \$1,943.

Performance share units

The Company issues PSUs to certain of its employees. Each 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 of each PSU.

As at December 31, 2023, the outstanding PSUs are as follows:

Issued in fiscal 2021	273,151
Issued in fiscal 2022	163,240

The fair value of the 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.

In fiscal 2023, the Company has recorded a stock-based compensation recovery of \$590 (2022 – expense of \$147) in respect of the PSUs. As at December 31, 2023, the liability recorded in the consolidated statements of financial position in respect of PSUs is \$59, of which \$32 is classified as non-current.

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Deferred share units

The Company grants DSUs to non-employee members of the Board of Directors. Each DSU entitles the holder to receive the cash equivalent of the Company's share price at the time of redemption. These DSUs vest over four years and can be redeemed only after the holder has left the Board of Directors. On December 8, 2021, the Company issued 104,685 DSUs and on December 12, 2022, the Company issued 167,615 DSUs. As at December 31, 2023, the number of DSUs that remain outstanding are 140,902.

In fiscal 2023, the Company has recorded a stock-based compensation recovery of \$151 (2022 – expense of \$419) in respect of the DSUs. As at December 31, 2023, the liability recorded in the consolidated statements of financial position in respect of DSUs is \$275, which is classified as non-current.

Return of capital

The Company's capital management objectives include the flexibility to return capital to shareholders through the Company's dividend policy and its Normal Course Issuer Bid ("NCIB").

On November 9, 2023, the Company announced that the Exchange had approved the renewal of the Company's NCIB under which the Company may, if considered advisable, purchase for cancellation, from time to time over the subsequent 12 months, up to an aggregate of 1,607,892 of its issued and outstanding common shares, being 5% of the issued and outstanding common shares as of October 31, 2023.

During fiscal 2023, the Company purchased for cancellation 397,269 common shares at an average price of C\$5.27 per common share for total consideration of \$1,552. The weighted average carrying value of the shares repurchased exceeded the total cash consideration paid by \$1,705, which was adjusted to deficit.

The Company has entered into an automatic share purchase plan ("ASPP") with a designated broker that allows for the purchase of common shares under the NCIB at any time, including during blackout periods. As at December 31, 2023, a share purchase obligation of \$300, with a corresponding adjustment to equity, was recorded with respect to this ASPP.

The Company's dividend policy has been to declare quarterly dividends of C\$0.05 per common share. In fiscal 2023, a quarterly dividend of C\$0.05 per common share was declared in March and paid on June 15, 2023.

On May 10, 2023, the Company's Board of Directors cancelled the Company's dividend policy.

Loss per share

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

Diluted loss per share is calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year, plus the weighted average number of common shares that would be issued on conversion of all dilutive potential securities into common shares.

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

	Year ended December 31, 2023	Year ended December 31, 2022
Net loss for the year	(27,531)	(23,598)
Weighted average number of common shares outstanding – basic	32,263,297	32,432,851
Effect of dilutive securities	—	—
Weighted average number of common shares outstanding – diluted	32,263,297	32,432,851

The calculation of diluted loss per share in fiscal 2023 excludes 3,502,364 (2022 – 3,036,552) weighted average number of common shares issuable upon the exercise of stock options, because the effect of their issuance would be anti-dilutive.

12. CAPITAL MANAGEMENT

The Company's capital management objectives are to maintain financial flexibility to pursue its acquisitive strategy of expanding its portfolio of commercial-stage pharmaceutical products consisting of established brands and promotional stage products in selected therapeutic areas. The Company defines capital as the aggregate of non-current debt and other liabilities and shareholders' equity.

Managed capital is set out in the following table:

	December 31, 2023	December 31, 2022
Non-current debt and other liabilities	84,233	84,578
Shareholders' equity	97,697	125,318
	181,930	209,896

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Company may elect to issue or repay long-term debt, issue shares, repurchase shares, pay dividends (where permitted) or undertake any other activity as deemed appropriate under specific circumstances.

The Company is not subject to any externally imposed capital requirements, other than as described in note 10. There has been no change in the Company's capital management approach during the year, other than as described in note 11.

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13. INCOME TAXES

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

	Year ended December 31, 2023	Year ended December 31, 2022
Current income tax	424	(262)
Deferred income tax resulting from temporary differences	(696)	138
	(272)	(124)

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:

	Year ended December 31, 2023	Year ended December 31, 2022
Loss before income taxes	(27,803)	(23,722)
Tax recovery at Canadian corporate tax rate	(7,423)	(6,334)
Items not included or deducted for income tax purposes	150	(425)
Income subject to tax in foreign jurisdictions	338	60
Tax losses not recognized	6,663	6,575
	(272)	(124)

A reconciliation of net deferred tax liability (asset) is as follows:

	December 31, 2023	December 31, 2022
Balance, beginning of year	101	(37)
Tax expense (recovery) recognized	(696)	138
Balance, end of year	(595)	101

The significant components of the Company's net deferred tax liability (asset) are as follows:

	December 31, 2023	December 31, 2022
Tax differences related to product rights	1,697	4,350
Unused tax loss carryforwards	(1,268)	(3,707)
Tax benefit of share issuance costs	—	(155)
Tax treatment of debt issuance costs	33	43
Tax treatment of derivative contracts	—	381
Tax treatment of accruals and provisions	(558)	(642)
Other timing differences	(499)	(169)
	(595)	101

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The net deferred tax liability (asset) is reflected in the consolidated statements of financial position as follows:

	December 31, 2023	December 31, 2022
Deferred tax asset	(1,037)	(465)
Deferred tax liability	442	566
	<u>(595)</u>	<u>101</u>

As at December 31, 2023, the Company had approximately \$94,000 (2022 – \$76,000) of non-capital loss carryforwards available in Canada, which expire between the years 2034 and 2043.

The Company has taxable temporary differences associated with its investments in its subsidiaries. No deferred income tax liabilities have been provided with respect to such temporary differences as the Company is able to control the timing of the reversal and such reversal is not probable in the foreseeable future.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The following tables set out the classification of financial and non-financial assets and liabilities:

As at December 31, 2023	Fair value through profit or loss	Amortized cost	Non- financial	Total carrying amount
Cash	21,952	—	—	21,952
Accounts receivable	—	10,608	—	10,608
Other assets	2	—	176,498	176,500
Total assets	21,954	10,608	176,498	209,060

Accounts payable and accrued liabilities	—	14,107	—	14,107
Provisions	—	—	5,424	5,424
Debt and other liabilities	1,461	88,130	1,518	91,109
Income tax liabilities	—	—	723	723
Total liabilities	1,461	102,237	7,665	111,363

As at December 31, 2022	Fair value through profit or loss	Amortized cost	Non- financial	Total carrying amount
Cash	20,723	—	—	20,723
Accounts receivable	—	10,999	—	10,999
Other assets	1,429	—	208,501	209,930
Total assets	22,152	10,999	208,501	241,652

Accounts payable and accrued liabilities	—	12,785	—	12,785
Provisions	—	—	2,934	2,934
Debt and other liabilities	—	97,763	2,286	100,049
Income tax liabilities	—	—	566	566
Total liabilities	—	110,548	5,786	116,334

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Fair values

The carrying amounts of the Company's current receivables and payables are a reasonable approximation of their fair values due to the short-term nature of these instruments.

The fair values of all other financial instruments carried within the Company's consolidated statements of financial position are not materially different from their carrying amounts.

The following table presents information related to the Company's financial assets and liabilities measured at fair value on a recurring basis and the level within the fair value guidance hierarchy in which the fair value measurements fall as at December 31, 2023:

Description	Level 1	Level 2	Level 3
Derivative financial instruments	—	2	—
Fair value of contingent consideration	—	—	(1,461)

In fiscal 2023, the Company recorded unrealized losses of \$1,427 (2022 – unrealized gain of \$2,330) related to the change in fair value of derivative financial instruments and an expense of \$1,461 (2022 – nil) related to the change in the fair value of contingent consideration.

There have been no transfers into and out of Level 3 for the years presented.

Credit risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts has not been significant. The requirement for impairment is analyzed at each reporting date on an individual basis for major clients. Virtually all of the trade accounts receivable as at both December 31, 2023 and 2022 were current.

For the year ended December 31, 2023, two counterparties accounted for 25% and 12%, respectively, of revenues.

As at December 31, 2023, three counterparties accounted for 26%, 12% and 10%, respectively, of the outstanding accounts receivable balance.

With respect to credit risk arising from the other financial assets of the Company, which as at December 31, 2023 comprise cash, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

The Company monitors its availability of funds by monitoring its working capital and the maturity dates of existing debt.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank balances, operating cash flow, working capital management and loans.

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The table below summarizes the maturity profile of the Company's financial liabilities as at December 31, 2023 based on contractual undiscounted payments.

	On demand	Less than one year	One to five years	Greater than five years	Total
Accounts payable and accrued liabilities	—	14,107	—	—	14,107
Purchase consideration	—	1,500	—	—	1,500
Credit facility	—	4,692	83,792	—	88,484
Lease obligation	—	466	506	—	972
	—	20,765	84,298	—	105,063

In addition to the contractual payments in the table above, the Company will also pay interest on its borrowing under the credit agreement. Assuming no change in interest rates and using the principal balance as at December 31, 2023, the annual interest expense would be approximately \$8,360 over the remaining term of the loan.

The Company may also be required to pay contingent consideration related to the acquisition of intangible assets, as discussed in notes 7 and 22.

Other risks

As described in note 10, interest on the borrowing under the credit agreement accrues at a rate per annum equal to the sum of the SOFR, plus a range of 2.75% to 4.75% depending on the leverage ratio of the Company at the time. In fiscal 2019, the Company entered into an interest rate swap to fix a portion of the interest rate on the remainder of the initial principal amount. That swap expired in August 2023.

The Company is exposed to foreign exchange risk through its Canadian dollar denominated cash balances and cash flows generated through its business in the Canadian market. The Company has at times used foreign currency forward contracts to manage its operational exposure to fluctuations in value between the Canadian dollar and the United States dollar. An assumed 10% increase in the value of the Canadian dollar relative to the United States dollar as at December 31, 2023 would not result in a material change in net loss for the fiscal year.

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15. SEGMENTED INFORMATION

The Company is composed of a single reportable segment.

Revenues are generated from the following sources:

	Year ended December 31, 2023	Year ended December 31, 2022
Product sales		
Canada	39,219	36,942
United States	13,515	14,742
	52,734	51,684
Royalties	10,340	9,783
	63,074	61,467

Revenues are generated from the following geographic sources, by location of customer:

	Year ended December 31, 2023	Year ended December 31, 2022
Canada	39,292	37,021
United States	18,470	19,563
Rest of world	5,312	4,883
	63,074	61,467

The Company has operations in Canada, Barbados and the United States. Non-current operating assets by geographic location are set forth in the following table:

	December 31, 2023	December 31, 2022
Canada	89,536	103,949
Barbados	60,030	69,078
United States	13,743	23,118
	163,309	196,145

Non-current assets for this purpose consist of property, plant and equipment and intangible assets.

16. EMPLOYEE BENEFITS

	Year ended December 31, 2023	Year ended December 31, 2022
Selling and marketing	6,054	6,089
Medical, regulatory and patient support	2,048	1,972
General and administrative	5,328	5,296
	13,430	13,357

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17. STOCK-BASED COMPENSATION

	Year ended December 31, 2023	Year ended December 31, 2022
PSU expense (recovery)	(590)	147
DSU expense (recovery)	(151)	419
Stock option expense	203	2,356
	(538)	2,922

18. FINANCE AND RELATED COSTS, NET

	Year ended December 31, 2023	Year ended December 31, 2022
Interest expense	7,951	6,507
Accreted interest	797	810
Total interest expense	8,748	7,317
Interest income	(350)	(57)
Foreign exchange loss (gain)	(49)	110
Fair value adjustment on financial assets and liabilities		
Derivative financial instruments	1,427	(2,330)
Contingent consideration (note 7)	1,461	—
	11,237	5,040

19. OTHER COSTS

	Year ended December 31, 2023	Year ended December 31, 2022
Transaction costs	302	794
Reorganization costs	2,022	1,340
Impairment charges (note 7)	3,893	3,051
	6,217	5,185

Reorganization costs

In fiscal 2023, the Company recorded a charge of \$2,022 associated with changes to the leadership of the Company.

Reorganization costs in fiscal 2022 represent amounts paid to the former executive chair of the Company.

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20. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended December 31, 2023	Year ended December 31, 2022
Accounts receivable	629	(71)
Inventories	(661)	(622)
Income taxes recoverable	109	(195)
Other assets	199	(169)
Accounts payable and accrued liabilities	1,990	3,239
Provisions	2,490	(538)
Income taxes payable	281	(97)
	5,037	1,547

Interest of \$7,951 (2022 – \$6,507) and income taxes of \$34 (2022 – \$30) were paid during the year ended December 31, 2023.

21. RELATED PARTY DISCLOSURES

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

	Year ended December 31, 2023	Year ended December 31, 2022
Short-term benefits	2,045	2,154
Stock-based compensation	184	1,434
Reorganization costs	2,022	1,340
	4,251	4,928

22. COMMITMENTS, CONTINGENCIES AND GUARANTEES**Lease commitments**

The Company leases its premises in Canada, Barbados and the United States and leases vehicles for use by its sales representatives. The leases typically run for periods up to five years. The following table sets forth the Company's undiscounted obligations under leases:

	Minimum lease payments
2024	466
2025	298
2026	198
2027	10
	972

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Contingencies

Pursuant to the acquisition of the Vascepa rights described in note 7, the Company has contingent obligations for sales-based milestone payments of up to an additional \$50,000.

Pursuant to the acquisition of the Trinomia rights described in note 7, the Company has contingent obligations for regulatory and sales-based milestones of up to an additional C\$30,675.

Pursuant to the royalty acquisition described in note 7, the Company has contingent obligations of up to \$18,500 for commercial performance milestones.

Pursuant to the in-licensing of the exclusive Canadian rights for the *Athelas One* device from Athelas Inc. ("Athelas"), Athelas will earn performance-based fees and commercial milestones contingent on commercial success.

Guarantees

All directors and officers of the Company, and each of the Company's various subsidiaries, are indemnified by the Company for various items including, but not limited to, all costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future lawsuits or actions.

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts, license agreements, information technology agreements and various product, service, data hosting and network access agreements. These indemnification arrangements may require the Company to compensate counterparties for losses incurred by the counterparties as a result of breaches in representations, covenants and warranties provided by the Company or as a result of litigation or other third-party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction.