

Unaudited Condensed Interim Consolidated Financial Statements

**HLS Therapeutics Inc.**

For the Three Months Ended March 31, 2023

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

[in thousands of U.S. dollars]

	Notes	As at March 31, 2023	As at December 31, 2022
<b>ASSETS</b>			
<b>Current</b>			
Cash		21,214	20,723
Accounts receivable	3	10,096	10,999
Inventories		10,709	8,902
Income taxes recoverable		58	195
Other current assets		2,966	3,555
Total current assets		45,043	44,374
Property, plant and equipment		936	1,127
Intangible assets		186,984	195,018
Deferred tax asset		537	465
Other non-current assets		655	668
Total assets		234,155	241,652
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	4	14,433	12,785
Provisions	5	3,167	2,934
Debt and other liabilities	6	12,798	15,471
Total current liabilities		30,398	31,190
Debt and other liabilities	6	84,405	84,578
Deferred tax liability		461	566
Total liabilities		115,264	116,334
<b>Shareholders' equity</b>			
Share capital	7	265,165	265,206
Contributed surplus		14,281	13,821
Accumulated other comprehensive loss		(5,167)	(5,260)
Deficit		(155,388)	(148,449)
Total shareholders' equity		118,891	125,318
Total liabilities and shareholders' equity		234,155	241,652

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

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

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

		<b>Three months ended</b>	
		<b>March 31,</b>	
	<b>Notes</b>	<b>2023</b>	<b>2022</b>
<b>Revenue</b>	9	14,757	14,556
<b>Expenses</b>			
Cost of product sales		1,444	953
Selling and marketing		4,807	3,829
Medical, regulatory and patient support		1,076	1,276
General and administrative		2,351	2,182
Stock-based compensation	7, 10	(55)	815
Amortization and depreciation		8,319	8,387
Finance and related costs, net	11	2,434	320
Transaction and other costs		213	345
Loss before income taxes		(5,832)	(3,551)
Income tax expense (recovery)	8	(40)	65
<b>Net loss for the period</b>		<b>(5,792)</b>	<b>(3,616)</b>
<b>Net loss per share:</b>			
Basic and diluted	7	\$(0.18)	\$(0.11)

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]

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Net loss for the period</b>	(5,792)	(3,616)
Item that may be reclassified subsequently to net loss		
Unrealized foreign currency translation adjustment	93	2,438
<b>Comprehensive loss for the period</b>	<b>(5,699)</b>	<b>(1,178)</b>

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

**Unaudited**

[in thousands of U.S. dollars]

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
<b>Balance, December 31, 2022</b>		265,206	13,821	(5,260)	(148,449)	125,318
Stock options exercised	7	178	(44)	—	—	134
Shares repurchased	7	(219)	—	—	35	(184)
Share purchase obligation		—	185	—	—	185
Stock option expense	7, 10	—	319	—	—	319
Net loss for the period		—	—	—	(5,792)	(5,792)
Dividends declared		—	—	—	(1,182)	(1,182)
Unrealized foreign currency translation adjustment		—	—	93	—	93
<b>Balance, March 31, 2023</b>		265,165	14,281	(5,167)	(155,388)	118,891
<b>Balance, December 31, 2021</b>		265,917	11,717	2,959	(119,857)	160,736
Stock options exercised		227	(62)	—	—	165
Shares repurchased		(15)	—	—	(6)	(21)
Stock option expense		—	609	—	—	609
Net loss for the period		—	—	—	(3,616)	(3,616)
Dividends declared		—	—	—	(1,282)	(1,282)
Unrealized foreign currency translation adjustment		—	—	2,438	—	2,438
<b>Balance, March 31, 2022</b>		266,129	12,264	5,397	(124,761)	159,029

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]

		<b>Three months ended</b>	
	<b>Notes</b>	<b>March 31,</b>	<b>2022</b>
		<b>2023</b>	
<b>OPERATING ACTIVITIES</b>			
Net loss for the period		(5,792)	(3,616)
Adjustments to reconcile net loss to cash provided by operating activities			
Stock-based compensation	7, 10	(55)	815
Amortization and depreciation		8,319	8,387
Accreted interest	11	191	207
Fair value adjustment on financial assets and liabilities	11	551	(1,474)
Deferred income taxes	8	(177)	409
Net change in non-cash working capital balances related to operations	12	983	1,030
<b>Cash provided by operating activities</b>		<b>4,020</b>	<b>5,758</b>
<b>INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment		—	(9)
Additions to intangible assets		—	(26)
<b>Cash used in investing activities</b>		<b>—</b>	<b>(35)</b>
<b>FINANCING ACTIVITIES</b>			
Stock options exercised	7	134	165
Shares repurchased	7	(184)	(21)
Dividends paid	7	(1,182)	(1,282)
Repayment of credit agreement borrowing	6	(2,121)	(3,000)
Lease payments		(161)	(159)
<b>Cash used in financing activities</b>		<b>(3,514)</b>	<b>(4,297)</b>
<b>Net increase in cash during the period</b>		<b>506</b>	<b>1,426</b>
Foreign currency translation		(15)	59
Cash, beginning of period		20,723	21,179
Cash, end of period		21,214	22,664

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 months ended March 31, 2023**

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

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

HLS Therapeutics Inc. (the “Company”) is a specialty pharmaceutical company, which acquires and commercializes pharmaceutical products for the North American markets.

The Company’s common shares are listed on the Toronto Stock Exchange (the “Exchange”) under the symbol HLS.

The registered office, head office and principal address of the Company is located at 10 Carlson Court, Suite 701, Toronto, Ontario, M9W 6L2.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Company’s Board of Directors on May 10, 2023.

#### **2. BASIS OF PREPARATION**

##### **Statement of compliance**

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”). The IASB has not issued any significant new accounting standards that impact the Company since the preparation of the Company’s audited consolidated financial statements for the year ended December 31, 2022.

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, 2022, except as noted below.

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, 2022.

There have been no material changes in the commitments undertaken or contingencies faced by the Company since the year ended December 31, 2022.

##### **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.

##### **Change in useful life of intangible asset**

The Company has determined that the useful life of the intangible asset associated with the Vascepa distribution rights is longer than originally estimated when amortization commenced in fiscal 2020. The Company has determined that the expected pattern of consumption of future economic benefit extends to at least fiscal 2039. Accordingly, the Company has concluded that there are at least 17 years of useful life remaining in the Vascepa distribution rights. The Company will continue to review this assumption as additional information becomes available. The impact

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of this change in estimate is to reduce amortization expense by \$323 in the first quarter of fiscal 2023 and by approximately \$1,300 on an annual basis.

**3. ACCOUNTS RECEIVABLE**

	<b>March 31, 2023</b>	<b>December 31, 2022</b>
Trade accounts receivable	5,535	6,292
Royalties receivable	3,020	2,613
Other receivables	1,541	2,094
	<b>10,096</b>	<b>10,999</b>

**4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>March 31, 2023</b>	<b>December 31, 2022</b>
Trade accounts payable and accrued liabilities	13,238	11,591
Dividend payable	1,195	1,194
	<b>14,433</b>	<b>12,785</b>

**5. PROVISIONS**

	<b>Chargebacks and rebates</b>	<b>Returns</b>	<b>Total</b>
As at December 31, 2022	2,187	747	2,934
Charges	1,673	93	1,766
Reversals	—	(54)	(54)
Utilization	(1,356)	(123)	(1,479)
<b>As at March 31, 2023</b>	<b>2,504</b>	<b>663</b>	<b>3,167</b>



**HLS THERAPEUTICS INC.****Notes to the unaudited condensed interim consolidated financial statements****For the three months ended March 31, 2023**

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**6. DEBT AND OTHER LIABILITIES**

	<b>March 31, 2023</b>	<b>December 31, 2022</b>
<b>Current</b>		
Credit agreement borrowing	12,306	13,056
Performance share unit obligation	—	274
Purchase consideration	—	1,428
Share purchase obligation	—	185
Lease obligation	492	528
	<b>12,798</b>	<b>15,471</b>
<b>Non-current</b>		
Credit agreement borrowing	82,057	83,279
Performance share unit obligation	297	375
Deferred share unit obligation	416	442
Purchase consideration	1,293	—
Lease obligation	342	482
	<b>84,405</b>	<b>84,578</b>
	<b>97,203</b>	<b>100,049</b>

**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 principal amount of the senior secured term loan under the credit agreement was \$100,000. In September 2020, the Company and its lenders amended the terms of the credit agreement to provide an additional \$20,000 in borrowing. The Company may also request to be provided with incremental loans, for a maximum additional loan amount of \$70,000 to support acquisitions and other growth opportunities. The principal amount of the senior secured term loan outstanding as at March 31, 2023 was \$87,469.

The original maturity date of the senior secured term loan 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 by one year to August 15, 2024. The Company concluded that the terms of the amended credit agreement were not substantially different from the terms of the original credit agreement.

In addition to the senior secured term loan, there is a revolving facility, available under similar terms, with a maturity date of August 15, 2023. In July 2022, the Company drew \$10,000 on the revolving facility to finance a royalty milestone payment. The balance on the revolving facility as at March 31, 2023 was \$7,750, with \$26,500 remaining available.

Under the original terms of the credit agreement, the Company was required to repay principal starting at 5% of the principal amount in the first full year and increasing to 10% in the fifth year of the term. Under the amended terms noted above, the required annual principal repayment returns to a 5% amortization to be based on the September 2022 principal balance.

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.

Interest on the borrowing under the credit agreement accrues at a rate per annum equal to the sum of the London Inter-bank Offered Rate ("LIBOR"), or its replacement, plus a range of 2.75%

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to 4.00% depending on the leverage ratio of the Company at the time. In fiscal 2019, the Company entered into a swap agreement to fix the LIBOR portion of the rate on the remainder of the initial principal amount at 1.453% for the remainder of the credit agreement.

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 March 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.

Transaction costs associated with the senior secured term loan have been included as a reduction to the carrying amount of the liability and will be amortized through interest expense using the effective interest rate method.

Carrying amount as at December 31, 2022	96,335
Repayments	(2,121)
Accreted interest	149
<b>Carrying amount as at March 31, 2023</b>	<b>94,363</b>
Less current portion	12,306
<b>Non-current portion as at March 31, 2023</b>	<b>82,057</b>

**7. SHARE CAPITAL****Authorized**

The Company is authorized to issue an unlimited number of common shares.

**Issued and outstanding**

The issued and outstanding common shares are as follows:

	#	\$
Balance as at December 31, 2022	32,355,618	265,206
Issued on exercise of stock options	21,605	178
Shares repurchased	(26,700)	(219)
<b>Balance as at March 31, 2023</b>	<b>32,350,523</b>	<b>265,165</b>

**Stock option plan**

A summary of the changes to the stock options outstanding is presented as follows:

	Number of options (#)	Weighted average exercise price per share (\$)
Outstanding as at December 31, 2022	3,147,626	10.02
Exercised	(21,605)	6.39
Forfeited	(57,050)	10.66
<b>Outstanding as at March 31, 2023</b>	<b>3,068,971</b>	<b>10.03</b>

**HLS THERAPEUTICS INC.****Notes to the unaudited condensed interim consolidated financial statements****For the three months ended March 31, 2023**

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The estimated fair value of the options is amortized to income over the options' vesting period. The Company has recorded stock-based compensation expense in respect of the options for the three months ended March 31, 2023 of \$319 (2022 – \$609), respectively. This charge has been credited to contributed surplus.

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

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 March 31, 2023, the outstanding PSUs are as follows:

Issued in fiscal 2020	301,000
Issued in fiscal 2021	291,457
Issued in fiscal 2022	547,972

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 the first quarter of fiscal 2023, the Company has recorded stock-based compensation recovery of \$348 (2022 – expense of \$44) in respect of the PSUs. As at March 31, 2023, the liability recorded in the interim consolidated statements of financial position in respect of PSUs is \$297, which is classified as non-current.

Subsequent to the end of the first quarter of fiscal 2023, 327,779 of the PSUs issued in fiscal 2022 were forfeited on the retirement of the Company's chief executive officer.

**Deferred share units ("DSUs")**

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.

In the first quarter of fiscal 2023, the Company has recorded stock-based compensation recovery of \$26 (2022 – expense of \$162) in respect of the DSUs. As at March 31, 2023, the liability recorded in the interim consolidated statements of financial position in respect of DSUs is \$416, 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").

During the first quarter of fiscal 2023, the Company purchased for cancellation 26,700 common shares at an average price of C\$9.28 per common share for total consideration of \$184. The weighted average carrying value of the shares repurchased exceeded the total cash consideration paid by \$35, which was adjusted to deficit.

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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 for payment on June 15, 2023.

On May 10, 2023, the Company's Board of Directors cancelled the Company's dividend policy such that share repurchases, through the NCIB, are the Company's vehicle for returning capital to shareholders.

**Loss per share**

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

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

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

	<b>Three months ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Net loss for the period	(5,792)	(3,616)
Weighted average number of common shares outstanding – basic	32,363,820	32,460,591
Effect of dilutive securities	—	—
Weighted average number of common shares outstanding – diluted	32,363,820	32,460,591

The calculation of diluted loss per share in the first quarter of fiscal 2023 excludes 3,083,137 (2022 – 3,073,407) weighted average number of common shares issuable upon the exercise of warrants and options because the effect of their issuance would be anti-dilutive.

**8. INCOME TAXES**

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

	<b>Three months ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Current income tax expense (recovery)	137	(344)
Deferred income tax expense (recovery) resulting from temporary differences	(177)	409
	(40)	65

**HLS THERAPEUTICS INC.****Notes to the unaudited condensed interim consolidated financial statements****For the three months ended March 31, 2023**

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The difference between the amount of the income tax expense (recovery) and the amount computed by multiplying loss before income taxes by the statutory Canadian, United States and Barbados income tax rates is reconciled as follows:

	<b>Three months ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Loss before income taxes	(5,832)	(3,551)
Tax recovery at Canadian corporate tax rate	(1,557)	(948)
Items not included or deducted for income tax purposes	64	125
Income subject to tax in foreign jurisdictions	71	4
Tax losses not recognized	1,382	884
	(40)	65

**9. SEGMENTED INFORMATION**

The Company is composed of a single reportable segment.

Revenue is generated from the following sources:

	<b>Three months ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Product sales	12,023	11,846
Royalties	2,734	2,710
	14,757	14,556

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

	<b>Three months ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Canada	8,811	8,449
United States	4,597	4,617
Rest of world	1,349	1,490
	14,757	14,556

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**10. STOCK-BASED COMPENSATION**

	<b>Three months ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
PSU expense (recovery)	(348)	44
DSU expense (recovery)	(26)	162
Stock option expense	319	609
	(55)	815

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

	<b>Three months ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Interest on credit agreement borrowing	1,722	1,595
Accreted interest	191	207
Total interest expense	1,913	1,802
Interest income	(21)	(5)
Foreign exchange income	(9)	(3)
Fair value adjustment on financial assets and liabilities	551	(1,474)
	2,434	320

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

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

	<b>Three months ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Accounts receivable	927	1,253
Inventories	(1,764)	468
Income taxes recoverable	137	(247)
Other assets	30	183
Accounts payable and accrued liabilities	1,420	107
Provisions	233	(637)
Income taxes payable	—	(97)
	983	1,030

Interest of \$1,722 (2022 – \$1,595) and income taxes of \$nil (2022 – \$nil) were paid during the three months ended March 31, 2023.