Unaudited Condensed Interim Consolidated Financial Statements

HLS Therapeutics Inc.

For the Three and Six Months Ended June 30, 2023

HLS THERAPEUTICS INC.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

[in thousands of U.S. dollars]

	Notes	As at June 30, 2023	As at December 31, 2022
ASSETS			
Current			
Cash		20,932	20,723
Accounts receivable	3	11,950	10,999
Inventories		9,965	8,902
Income taxes recoverable		118	195
Other current assets		2,700	3,555
Total current assets		45,665	44,374
Property, plant and equipment		1,059	1,127
Intangible assets	4	178,802	195,018
Deferred tax asset		624	465
Other non-current assets		668	668
Total assets		226,818	241,652
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	5	12,925	12,785
Provisions	6	5,367	2,934
Debt and other liabilities	7	13,009	15,471
Income taxes payable		232	—
Total current liabilities		31,533	31,190
Debt and other liabilities	7	83,386	84,578
Deferred tax liability		463	566
Total liabilities		115,382	116,334
Shareholders’ equity			
Share capital	8	264,761	265,206
Contributed surplus		14,151	13,821
Accumulated other comprehensive loss		(2,870)	(5,260)
Deficit		(164,606)	(148,449)
Total shareholders’ equity		111,436	125,318
Total liabilities and shareholders’ equity		226,818	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]

		Three months ended June 30,		Six months ended June 30,	
	Notes	**2023**	**2022**	**2023**	**2022**
Revenue	10	16,417	15,532	31,174	30,088
Expenses					
Cost of product sales		1,777	1,154	3,221	2,107
Selling and marketing		5,325	4,542	10,132	8,371
Medical, regulatory and patient support		1,437	1,347	2,513	2,623
General and administrative		2,373	2,331	4,724	4,513
Stock-based compensation	8, 11	137	1,230	82	2,045
Amortization and depreciation		8,366	8,489	16,685	16,876
Finance and related costs, net	12	2,471	1,043	4,905	1,363
Other costs	13	3,851	4,542	4,064	4,887
Loss before income taxes		(9,320)	(9,146)	(15,152)	(12,697)
Income tax expense (recovery)	9	117	(3)	77	62
Net loss for the period		(9,437)	(9,143)	(15,229)	(12,759)
Net loss per share:					
Basic and diluted	8	$(0.29)	$(0.28)	$(0.47)	$(0.39)

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

HLS THERAPEUTICS INC.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Unaudited

[in thousands of U.S. dollars]

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Net loss for the period	(9,437)	(9,143)	(15,229)	(12,759)
Item that may be reclassified subsequently to net loss				
Unrealized foreign currency translation adjustment	2,297	(4,424)	2,390	(1,986)
Comprehensive loss for the period	(7,140)	(13,567)	(12,839)	(14,745)

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

HLS THERAPEUTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Unaudited
[in thousands of U.S. dollars]

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, December 31, 2022		265,206	13,821	(5,260)	(148,449)	125,318
Stock options exercised	8	178	(44)	—	—	134
Shares repurchased	8	(623)	—	—	254	(369)
Share purchase obligation		—	(305)	—	—	(305)
Stock option expense	8, 11	—	679	—	—	679
Net loss for the period		—	—	—	(15,229)	(15,229)
Dividends declared		—	—	—	(1,182)	(1,182)
Unrealized foreign currency translation adjustment		—	—	2,390	—	2,390
Balance, June 30, 2023		264,761	14,151	(2,870)	(164,606)	111,436
Balance, December 31, 2021		265,917	11,717	2,959	(119,857)	160,736
Stock options exercised		236	(64)	—	—	172
Shares repurchased		(146)	(191)	—	(41)	(378)
Share purchase obligation		—	(272)	—	—	(272)
Stock option expense	8, 11	—	1,435	—	—	1,435
Net loss for the period		—	—	—	(12,759)	(12,759)
Dividends declared		—	—	—	(2,549)	(2,549)
Unrealized foreign currency translation adjustment		—	—	(1,986)	—	(1,986)
Balance, June 30, 2022		266,007	12,625	973	(135,206)	144,399

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

HLS THERAPEUTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited
[in thousands of U.S. dollars]

	Notes	Six months ended June 30, 2023	2022
OPERATING ACTIVITIES			
Net loss for the period		(15,229)	(12,759)
Adjustments to reconcile net loss to cash provided by operating activities			
Stock-based compensation	8, 11	82	2,045
Amortization and depreciation		16,685	16,876
Impairment charge	13	2,352	3,051
Accreted interest	12	381	412
Fair value adjustment on financial assets and liabilities	12	1,121	(2,170)
Deferred income taxes	9	(262)	429
Net change in non-cash working capital balances related to operations	14	1,558	1,386
Cash provided by operating activities		6,688	9,270
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(27)	(24)
Additions to intangible assets		(108)	(92)
Cash used in investing activities		(135)	(116)
FINANCING ACTIVITIES			
Stock options exercised		134	172
Shares repurchased		(369)	(378)
Dividends paid		(2,398)	(2,549)
Repayment of credit agreement borrowing	7	(3,510)	(6,000)
Lease payments		(319)	(339)
Cash used in financing activities		(6,462)	(9,094)
Net increase in cash during the period		91	60
Foreign currency translation		118	(79)
Cash, beginning of period		20,723	21,179
Cash, end of period		20,932	21,160

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

1. CORPORATE INFORMATION

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

The Company's common shares are listed on the Toronto Stock Exchange under the symbol HLS.

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

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Company's Board of Directors on August 9, 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.

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.

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

In the first quarter of 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 start of fiscal 2023. The impact of this change in estimate is to reduce amortization expense by $700 in the first two quarters of fiscal 2023 and by approximately $1,400 on an annual basis.

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

Contingencies

In the second quarter of fiscal 2023, the Company determined that the possible claim by one of the Company's commercial marketing services partners noted in the Company's audited consolidated financial statements for the year ended December 31, 2022 will not materialize.

3. ACCOUNTS RECEIVABLE

	June 30, 2023	December 31, 2022
Trade accounts receivable	6,787	6,292
Royalties receivable	3,840	2,613
Other receivables	1,323	2,094
	11,950	10,999

4. INTANGIBLE ASSETS

	Product rights	Distribution rights	Acquired royalties	Total
Cost				
As at December 31, 2022	312,716	22,669	39,682	375,067
Additions	—	108	—	108
Foreign exchange	4,023	482	—	4,505
As at June 30, 2023	316,739	23,259	39,682	379,680
Amortization				
As at December 31, 2022	154,037	9,392	16,620	180,049
Amortization	10,454	703	5,208	16,365
Impairment	—	2,154	—	2,154
Foreign exchange	2,086	224	—	2,310
As at June 30, 2023	166,577	12,473	21,828	200,878
Net book value				
As at December 31, 2022	158,679	13,277	23,062	195,018
As at June 30, 2023	150,162	10,786	17,854	178,802

Product rights

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

The product rights have 7.0 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.

As at June 30, 2023, the remaining unamortized costs on this asset is $9,189. This asset has 16.5 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.

Amortization on this asset has not commenced as at June 30, 2023 as it has not reached the commercial stage. As at June 30, 2023, the unamortized cost on this asset is $1,520.

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 Heath 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 (“pCPA”) 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 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 has decided to not pursue commercialization of PERSERIS any further and has recorded an impairment charge of $2,352, of which $2,154 represents the remaining carrying amount of the intangible asset.

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

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 $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 statement of loss. As at June 30, 2023, the fair value of this contingent consideration is nil.

As at June 30, 2023, the unamortized cost on the acquired royalty intangible assets is $17,854. These assets have between less than one year and 8.5 years remaining in their amortization periods.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2023	December 31, 2022
Trade accounts payable and accrued liabilities	12,925	11,591
Dividend payable	—	1,194
	12,925	12,785

6. PROVISIONS

	Chargebacks and rebates	Returns	Reorganization costs (note 13)	Total
As at December 31, 2022	2,187	747	—	2,934
Charges	3,821	142	1,469	5,432
Reversals	—	(54)	—	(54)
Utilization	(2,395)	(223)	(327)	(2,945)
As at June 30, 2023	3,613	612	1,142	5,367

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7. DEBT AND OTHER LIABILITIES

	June 30, 2023	December 31, 2022
Current		
Credit agreement borrowing	12,056	13,056
Performance share units	—	274
Purchase consideration	—	1,428
Share purchase obligation	490	185
Lease obligation	463	528
	13,009	15,471
Non-current		
Credit agreement borrowing	81,065	83,279
Performance share units	194	375
Deferred share units	311	442
Purchase consideration	1,326	—
Lease obligation	490	482
	83,386	84,578
	96,395	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 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 June 30, 2023 was $86,330.

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.

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 June 30, 2023 was $7,500, 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% 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.

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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 June 30, 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 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, 2022	96,335
Repayments	(3,510)
Accreted interest	296
Carrying amount as at June 30, 2023	93,121
Less current portion	12,056
Non-current portion as at June 30, 2023	81,065

8. 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	(75,969)	(623)
Balance as at June 30, 2023	32,301,254	264,761

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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
Granted	600,000	3.45
Exercised	(21,605)	6.39
Forfeited	(116,073)	11.11
Outstanding as at June 30, 2023	3,609,948	9.05

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 $1.60. Significant assumptions used in determining the fair value of options granted in fiscal 2023 are a weighted average volatility rate of 48%, and an expected option life of between four and seven years.

The estimated fair value of the options is amortized to income over the options' vesting period. The Company has recorded stock-based compensation expense in respect of the options for the three and six months ended June 30, 2023 of $360 and $679 (2022 – $826 and $1,435), 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 June 30, 2023, the outstanding PSUs are as follows:

Issued in fiscal 2020	250,333
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.

For the three and six months ended June 30, 2023, the Company has recorded stock-based compensation recovery of $110 and $458 (2022 – expense of $315 and $359), respectively, in respect of the PSUs. As at June 30, 2023, the liability recorded in the interim consolidated statements of financial position in respect of PSUs is $194, which is classified as non-current.

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. As at June 30, 2023, there are 147,337 DSUs outstanding.

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

For the three and six months ended June 30, 2023, the Company has recorded stock-based compensation recovery of $113 and $139 (2022 – expense of $89 and $251), respectively, in respect of the DSUs. As at June 30, 2023, the liability recorded in the interim consolidated statements of financial position in respect of DSUs is $311, 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 six months of fiscal 2023, the Company purchased for cancellation 75,969 common shares at an average price of C$6.51 per common share for total consideration of $369. The weighted average carrying value of the shares repurchased exceeded the total cash consideration paid by $254, which was adjusted to deficit.

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 such that share repurchases through the NCIB is 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:

	Three months ended June 30,		**Six months ended June 30,**	
	2023	**2022**	**2023**	**2022**
Net loss for the period	(9,437)	(9,143)	(15,229)	(12,759)
Weighted average number of common shares outstanding – basic	32,346,051	32,464,754	32,354,886	32,462,788
Effect of dilutive securities	—	—	—	—
Weighted average number of common shares outstanding – diluted	32,346,051	32,464,754	32,354,886	32,462,788

The calculation of diluted loss per share in the first two quarters of fiscal 2023 excludes 3,217,374 (2022 – 3,057,885) weighted average number of common shares issuable upon the exercise of options because the effect of their issuance would be anti-dilutive.

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

9. INCOME TAXES

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

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Current income tax expense (recovery)	202	(23)	339	(367)
Deferred income tax expense (recovery) resulting from temporary differences	(85)	20	(262)	429
	117	(3)	77	62

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:

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Loss before income taxes	(9,320)	(9,146)	(15,152)	(12,697)
Tax recovery at Canadian corporate tax rate	(2,489)	(2,442)	(4,046)	(3,390)
Items not included or deducted for income tax purposes	168	(788)	232	(663)
Income subject to tax in foreign jurisdictions	34	85	105	89
Tax losses not recognized	2,404	3,142	3,786	4,026
	117	(3)	77	62

10. SEGMENTED INFORMATION

The Company is composed of a single reportable segment.

Revenue is generated from the following sources:

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Product sales	12,970	13,245	24,993	25,091
Royalties	3,447	2,287	6,181	4,997
	16,417	15,532	31,174	30,088

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

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

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Canada	9,808	9,545	18,619	17,994
United States	4,725	4,924	9,322	9,541
Rest of world	1,884	1,063	3,233	2,553
	16,417	15,532	31,174	30,088

11. STOCK-BASED COMPENSATION

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
PSU expense (recovery)	(110)	315	(458)	359
DSU expense (recovery)	(113)	89	(139)	251
Stock option expense	360	826	679	1,435
	137	1,230	82	2,045

12. FINANCE AND RELATED COSTS, NET

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Interest on credit agreement borrowing	1,740	1,532	3,462	3,127
Accreted interest	190	205	381	412
Total interest expense	1,930	1,737	3,843	3,539
Interest income	(18)	(13)	(39)	(18)
Foreign exchange loss (income)	(11)	15	(20)	12
Fair value adjustment on financial assets and liabilities	570	(696)	1,121	(2,170)
	2,471	1,043	4,905	1,363

13. OTHER COSTS

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Transaction costs	30	151	243	496
Reorganization costs	1,469	1,340	1,469	1,340
Impairment charge (note 4)	2,352	3,051	2,352	3,051
	3,851	4,542	4,064	4,887

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

Reorganization costs

In the second quarter of fiscal 2023, the Company recorded a charge of $1,469 associated with changes to the leadership of the Company. As at June 30, 2023, $1,142 of the reorganization costs remains unpaid.

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

14. INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Six months ended June 30,	
	2023	**2022**
Accounts receivable	(714)	678
Inventories	(1,068)	(1,327)
Income taxes recoverable	77	(272)
Other assets	(301)	(607)
Accounts payable and accrued liabilities	899	3,724
Provisions	2,433	(713)
Income taxes payable	232	(97)
	1,558	1,386

Interest of $3,462 (2022 – $3,127) and income taxes of $30 (2022 – $2) were paid during the six months ended June 30, 2023.