

Unaudited Condensed Interim Consolidated Financial Statements

HLS Therapeutics Inc.

For the Three and Nine Months Ended September 30, 2022

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

[in thousands of U.S. dollars]

	Notes	As at September 30, 2022	As at December 31, 2021
ASSETS			
Current			
Cash and cash equivalents		21,279	21,179
Accounts receivable	3	10,167	11,511
Inventories		10,075	8,925
Income taxes recoverable		167	—
Prepaid expenses and other current assets		3,903	2,136
Total current assets		45,591	43,751
Property, plant and equipment		1,266	1,569
Intangible assets	12	202,267	229,181
Deferred tax asset		551	690
Other non-current assets		660	714
Total assets		250,335	275,905
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	4	13,285	10,596
Provisions	5	2,751	3,472
Debt and other liabilities	6	15,139	13,507
Income taxes payable		—	97
Total current liabilities		31,175	27,672
Debt and other liabilities	6	86,967	86,844
Deferred tax liability		747	653
Total liabilities		118,889	115,169
Shareholders' equity			
Share capital	7	265,629	265,917
Contributed surplus		13,325	11,717
Accumulated other comprehensive income (loss)		(6,605)	2,959
Deficit		(140,903)	(119,857)
Total shareholders' equity		131,446	160,736
Total liabilities and shareholders' equity		250,335	275,905

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

HLS THERAPEUTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF LOSS
Unaudited

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

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Revenue	9	15,704	15,060	45,792	44,319
Expenses					
Cost of product sales		1,357	1,180	3,464	2,850
Selling and marketing		4,306	3,354	12,677	10,253
Medical, regulatory and patient support		1,498	1,337	4,121	4,171
General and administrative		2,527	2,266	7,040	6,893
Stock-based compensation	7, 10	125	(113)	2,170	1,825
Amortization and depreciation		8,834	7,372	25,710	22,219
Finance and related costs, net	11	1,489	1,448	2,852	4,307
Transaction and other costs	12	69	8	4,956	92
Loss before income taxes		(4,501)	(1,792)	(17,198)	(8,291)
Income tax expense (recovery)	8	(91)	187	(29)	638
Net loss for the period		(4,410)	(1,979)	(17,169)	(8,929)
Net loss per share:					
Basic and diluted	7	\$(0.14)	\$(0.06)	\$(0.53)	\$(0.28)

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		Nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Net loss for the period	(4,410)	(1,979)	(17,169)	(8,929)
Item that may be reclassified subsequently to net loss				
Unrealized foreign currency translation adjustment	(7,578)	(4,039)	(9,564)	141
Comprehensive loss for the period	(11,988)	(6,018)	(26,733)	(8,788)

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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
Balance, December 31, 2021		265,917	11,717	2,959	(119,857)	160,736
Stock options exercised	7	251	(67)	—	—	184
Shares repurchased	7	(539)	—	—	(109)	(648)
Share purchase obligation		—	(255)	—	—	(255)
Stock option expense	7, 10	—	1,930	—	—	1,930
Net loss for the period		—	—	—	(17,169)	(17,169)
Dividends declared		—	—	—	(3,768)	(3,768)
Unrealized foreign currency translation adjustment		—	—	(9,564)	—	(9,564)
Balance, September 30, 2022		265,629	13,325	(6,605)	(140,903)	131,446
Balance, December 31, 2020		257,411	11,393	2,020	(101,575)	169,249
Warrants exercised		3,203	(192)	—	—	3,011
Stock options exercised		4,976	(1,314)	—	—	3,662
Shares repurchased		(29)	—	—	(18)	(47)
Stock option expense	7, 10	—	1,490	—	—	1,490
Net loss for the period		—	—	—	(8,929)	(8,929)
Dividends declared		—	—	—	(3,878)	(3,878)
Unrealized foreign currency translation adjustment		—	—	141	—	141
Balance, September 30, 2021		265,561	11,377	2,161	(114,400)	164,699

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HLS THERAPEUTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

[in thousands of U.S. dollars]

	Notes	Nine months ended September 30,	
		2022	2021
OPERATING ACTIVITIES			
Net loss for the period		(17,169)	(8,929)
Adjustments to reconcile net loss to cash provided by operating activities			
Stock-based compensation	7, 10	2,170	1,825
Amortization and depreciation		25,710	22,219
Impairment charge	12	3,051	—
Accreted interest	11	612	577
Fair value adjustment on financial assets and liabilities	11	(2,567)	(1,173)
Deferred income taxes	8	233	519
Net change in non-cash working capital balances related to operations	13	1,381	(2,587)
Cash provided by operating activities		13,421	12,451
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(36)	(25)
Royalty milestone payment	6	(10,000)	—
Rights acquisitions		—	(3,820)
Other additions to intangible assets		(92)	(243)
Cash used in investing activities		(10,128)	(4,088)
FINANCING ACTIVITIES			
Stock options exercised	7	184	3,662
Warrants exercised		—	986
Shares repurchased	7	(648)	(47)
Dividends paid	7	(3,769)	(3,853)
Revolver drawdown	6	10,000	—
Repayment of credit agreement borrowing	6	(7,389)	(7,500)
Debt costs		(639)	—
Lease payments		(501)	(476)
Cash used in financing activities		(2,762)	(7,228)
Net increase in cash and cash equivalents during the period		531	1,135
Foreign currency translation		(431)	(11)
Cash and cash equivalents, beginning of period		21,179	20,612
Cash and cash equivalents, end of period		21,279	21,736

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

HLS THERAPEUTICS INC.

Notes to the unaudited condensed interim consolidated financial statements

For the three and nine months ended September 30, 2022

[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 Board of Directors on November 9, 2022.

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, 2021.

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, 2021, except for the newly adopted accounting policy discussed 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, 2021.

Basis of measurement

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value. The Company’s presentation currency is the United States dollar. All dollar amounts are rounded to the nearest thousand (\$000), except where otherwise indicated.

Global pandemic

While the Company believes the current conditions related to the COVID-19 pandemic to be improving, the situation is dynamic, and the impact of COVID-19 on its future results of operations and financial condition cannot be reasonably estimated at this time. The Company continues to evaluate the situation and monitor any impacts or potential impacts to its business.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****For the three and nine months ended September 30, 2022**

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

Accounting standards adopted in the period**Amendments to IFRS 9, *Financial Instruments* (“IFRS 9”) – Fees in the “10 per cent test for Derecognition of Financial Liabilities**

The amendments to IFRS 9 clarify which fees an entity includes when it applies the “10 per cent test” in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

The Company adopted the amendments to IFRS 9 in the third quarter of fiscal 2022 when performing the 10 per cent test on the amendment to the credit agreement noted in note 6. The Company concluded that the terms of the amended credit agreement were not substantially different from the terms of the original financial liability.

3. ACCOUNTS RECEIVABLE

	September 30, 2022	December 31, 2021
Trade accounts receivable	5,689	7,226
Royalties receivable	2,604	2,545
Other receivables	1,874	1,740
	10,167	11,511

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2022	December 31, 2021
Trade accounts payable and accrued liabilities	12,103	9,316
Dividend payable	1,182	1,280
	13,285	10,596

5. PROVISIONS

	Chargebacks and rebates	Returns	Total
As at December 31, 2021	1,442	2,030	3,472
Charges	2,917	(508)	2,409
Utilization	(3,030)	(100)	(3,130)
As at September 30, 2022	1,329	1,422	2,751

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****For the three and nine months ended September 30, 2022**

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6. DEBT AND OTHER LIABILITIES

	September 30, 2022	December 31, 2021
Current		
Credit agreement borrowing	14,306	12,000
Share purchase obligation	255	—
Derivative financial instruments	—	901
Lease obligation	578	606
	15,139	13,507
Non-current		
Credit agreement borrowing	84,268	84,134
Purchase consideration	1,393	1,294
Performance share unit obligation	464	549
Deferred share unit obligation	291	41
Lease obligation	551	826
	86,967	86,844
	102,106	100,351

Credit agreement

On August 15, 2018, the Company entered into a credit agreement with a syndicate of bank lenders co-led by JPMorgan Chase Bank, N.A. and Silicon Valley Bank. 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 original maturity date 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 principal amount of the senior secured term loan outstanding as at September 30, 2022 was \$89,979.

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 the royalty milestone payment noted below. The balance on the revolving facility as at September 30, 2022 was \$9,750, with \$25,000 remaining available.

Under the original terms, 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.

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 September 30, 2022, the Company was in compliance with the financial covenants.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****For the three and nine months ended September 30, 2022**

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Transaction costs associated with the credit agreement have been included as a reduction to the carrying amount of the liability and are amortized through interest expense using the effective interest rate method.

Carrying amount as at December 31, 2021	96,134
Revolver drawdown	10,000
Repayments	(7,389)
Debt costs	(639)
Accreted interest	468
Carrying amount as at September 30, 2022	98,574
Less current portion	14,306
Non-current portion as at September 30, 2022	84,268

Purchase consideration

A regulatory milestone was achieved in the second quarter of fiscal 2022 with respect to the fiscal 2020 acquisition of the royalty portfolio, resulting in an obligation of \$10,000, which was paid in the third quarter of fiscal 2022.

Carrying amount as at December 31, 2021	1,294
Addition	10,000
Payments	(10,000)
Accreted interest	99
Carrying amount as at September 30, 2022	1,393

7. SHARE CAPITAL**Authorized**

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

Issued and outstanding

The issued and outstanding common shares as at September 30, 2022 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	(65,700)	(539)
Balance as at September 30, 2022	32,407,318	265,629

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, 2021	3,092,035	10.47
Exercised	(21,825)	8.32
Forfeited	(52,831)	11.53
Outstanding as at September 30, 2022	3,017,379	10.47

HLS THERAPEUTICS INC.

Notes to the unaudited condensed interim consolidated financial statements

For the three and nine months ended September 30, 2022

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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 and nine months ended September 30, 2022 of \$495 and \$1,930 (2021 – \$447 and \$1,490), respectively. This charge has been credited to contributed surplus.

Performance share units (“PSUs”)

On November 9, 2020, the Company issued 337,000 PSUs to selected employees of the Company (the “2020 PSUs”). Each 2020 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 on November 8, 2023.

On December 8, 2021, the Company issued 328,460 PSUs to selected employees of the Company (the “2021 PSUs”). Each 2021 PSU entitles the holder to receive a cash payout if the terms and conditions of the PSU plan are met. These terms include relative TSR performance compared to relevant market indices to be achieved prior to expiry of the three-year term on December 7, 2024.

The fair value of the 2020 and 2021 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 nine months ended September 30, 2022, the Company has recorded stock-based compensation recovery of \$391 and \$32, respectively, in respect of the PSUs (2021 – recovery of \$560 and expense of \$335). As at September 30, 2022, the liability recorded in the interim consolidated statement of financial position in respect of PSUs is \$464, which is classified as non-current.

Deferred share units (“DSUs”)

On December 8, 2021, the Company issued 104,685 DSUs to non-employee directors. These DSUs vest over four years and can be redeemed only after the holder has left the Board. Each DSU entitles the holder to receive the cash equivalent of the Company's share price at the time of redemption.

For the three and nine months ended September 30, 2022, the Company has recorded stock-based compensation expense of \$21 and \$272, respectively, in respect of the DSUs. As at September 30, 2022, the liability recorded in the interim consolidated statement of financial position in respect of DSUs is \$291, which is classified as non-current.

Dividends

In fiscal 2022, quarterly dividends of C\$0.05 per common share were declared in March, May, August and November.

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

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common shares that would be issued on conversion of all dilutive potential securities into common shares.

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

	Three months ended September 30, 2022		Nine months ended September 30, 2021	
Net loss for the period	(4,410)	(1,979)	(17,169)	(8,929)
Weighted average number of common shares outstanding – basic	32,422,241	32,347,552	32,449,124	32,094,478
Effect of dilutive securities	—	—	—	—
Weighted average number of common shares outstanding – diluted	32,422,241	32,347,552	32,449,124	32,094,478

The calculation of diluted loss per share in fiscal 2022 excludes 3,046,289 (2021 – 2,998,660) weighted average number of common shares issuable upon the exercise of warrants and options because the effect of their issuance would be anti-dilutive.

Normal course issuer bid

On November 5, 2020, the Company announced that the Exchange had accepted the Company's notice of intention to make a normal course issuer bid (the "NCIB"). On November 4, 2021, the Company announced that the Exchange had accepted the Company's notice of intention to renew its NCIB, under which the Company may, if considered advisable, purchase for cancellation, from time to time over the next 12 months, up to an aggregate of 1,622,559 of its issued and outstanding common shares, being 5% of the issued and outstanding common shares as of October 26, 2021.

During the nine months ended September 30, 2022, the Company purchased for cancellation 65,700 common shares at an average price of C\$12.65 per common share for total consideration of \$648. The weighted average carrying value of the shares repurchased exceeded the total cash consideration paid by \$109, which was credited 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 September 30, 2022, a share purchase obligation of \$255, with a corresponding adjustment to equity, was recorded with respect to this ASPP.

On November 9, 2022, the Company filed a Notice of Intention to renew its Normal Course Issuer Bid 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 1,620,366 of its issued and outstanding common shares, being 5% of the issued and outstanding common shares as of October 31, 2022.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****For the three and nine months ended September 30, 2022**

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

8. INCOME TAXES

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Current income tax expense (recovery)	105	(67)	(262)	119
Deferred income tax expense (recovery) resulting from temporary differences	(196)	254	233	519
	(91)	187	(29)	638

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 September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Loss before income taxes	(4,501)	(1,792)	(17,198)	(8,291)
Tax recovery at Canadian corporate tax rate	(1,202)	(479)	(4,592)	(2,214)
Items not included or deducted for income tax purposes	145	620	(518)	1,364
Income subject to tax in foreign jurisdictions	(20)	225	69	(47)
Tax losses not recognized	986	(179)	5,012	1,535
	(91)	187	(29)	638

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****For the three and nine months ended September 30, 2022**

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

9. SEGMENTED INFORMATION

The Company is composed of a single reportable segment.

Revenue is generated from the following sources:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Product sales	13,160	12,833	38,251	37,374
Royalties	2,544	2,227	7,541	6,945
	15,704	15,060	45,792	44,319

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Canada	9,585	8,639	27,579	25,427
United States	5,007	5,250	14,548	15,273
Rest of world	1,112	1,171	3,665	3,619
	15,704	15,060	45,792	44,319

10. STOCK-BASED COMPENSATION

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
PSU expense (recovery)	(391)	(560)	(32)	335
DSU expense	21	—	272	—
Stock option expense	495	447	1,930	1,490
	125	(113)	2,170	1,825

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****For the three and nine months ended September 30, 2022**

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

11. FINANCE AND RELATED COSTS, NET

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Interest on credit agreement borrowing	1,627	1,650	4,754	4,591
Accreted interest	200	209	612	577
Total interest expense	1,827	1,859	5,366	5,168
Interest income	(14)	(9)	(32)	(32)
Foreign exchange loss (income)	73	(21)	85	(15)
Realized loss on foreign currency forward contract	—	97	—	359
Fair value adjustment on financial assets and liabilities				
Derivative financial instruments	(397)	(467)	(2,567)	(1,189)
Lender warrants	—	(11)	—	16
	1,489	1,448	2,852	4,307

12. TRANSACTION AND OTHER COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Transaction costs	69	8	565	92
Restructuring costs	—	—	1,340	—
Impairment charge	—	—	3,051	—
	69	8	4,956	92

Restructuring costs

Restructuring costs represent amounts paid to the former executive chair of the Company in the second quarter of fiscal 2022, as this role has been eliminated.

Impairment charge

In June 2022, negotiations with the pan-Canadian Pricing Alliance (“pCPA”) for public market reimbursement for PERSERIS concluded unsuccessfully. The Company intends to pursue public listing agreements directly with provincial drug plans. 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. A change in the disclosed assumptions could result in a material change to the impairment charge as significant as the remaining carrying amount.

The impairment analysis was performed using a discounted cash flow, using estimates, judgements and assumptions related to market dynamics such as pricing, market size and market share; operating costs; and a discount rate of 10%. The forecast assumes that the Company is successful in obtaining provincial public listing agreements on commercially viable terms.

HLS THERAPEUTICS INC.**Notes to the unaudited condensed interim consolidated financial statements****For the three and nine months ended September 30, 2022**

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Uncertainty about these estimates, judgements and assumptions, including the Company's ability to reach provincial public listing agreements, could result in outcomes that make it necessary to perform further impairment tests in future periods.

The Company commenced amortization of the intangible asset related to PERSERIS in the third quarter of fiscal 2022. The carrying amount of the intangible asset at September 30, 2022 was \$2,525.

13. INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Nine months ended	
	September 30,	
	2022	2021
Accounts receivable	664	493
Inventories	(1,860)	898
Income taxes recoverable	(167)	—
Prepaid expenses and other current assets	(318)	(450)
Accounts payable and accrued liabilities	3,880	(1,748)
Provisions	(721)	(1,280)
Income taxes payable	(97)	(500)
	1,381	(2,587)

Interest of \$4,754 (2021 – \$4,591) and income taxes of \$2 (2021 – \$619) were paid during the nine months ended September 30, 2022.