

Unaudited Condensed Interim Consolidated Financial Statements

HLS Therapeutics Inc.

For the Three and Six Months Ended June 30, 2022

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

[in thousands of U.S. dollars]

	Notes	As at June 30, 2022	As at December 31, 2021
ASSETS			
Current			
Cash and cash equivalents		21,160	21,179
Accounts receivable	3	10,710	11,511
Inventories		10,130	8,925
Income taxes recoverable		272	—
Prepaid expenses and other current assets		2,702	2,136
Total current assets		44,974	43,751
Property, plant and equipment		1,294	1,569
Intangible assets	12	217,857	229,181
Deferred tax asset		530	690
Other non-current assets		1,973	714
Total assets		266,628	275,905
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	4	14,097	10,596
Provisions	5	2,759	3,472
Debt and other liabilities	6	22,832	13,507
Income taxes payable		—	97
Total current liabilities		39,688	27,672
Debt and other liabilities	6	81,619	86,844
Deferred tax liability		922	653
Total liabilities		122,229	115,169
Shareholders' equity			
Share capital	7	266,007	265,917
Contributed surplus		12,625	11,717
Accumulated other comprehensive income		973	2,959
Deficit		(135,206)	(119,857)
Total shareholders' equity		144,399	160,736
Total liabilities and shareholders' equity		266,628	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]

		Three months ended June 30,		Six months ended June 30,	
	Notes	2022	2021	2022	2021
Revenue	9	15,532	14,945	30,088	29,259
Expenses					
Cost of product sales		1,154	896	2,107	1,670
Selling and marketing		4,542	3,731	8,371	6,899
Medical, regulatory and patient support		1,347	1,501	2,623	2,834
General and administrative		2,331	2,256	4,513	4,627
Stock-based compensation	7, 10	1,230	(409)	2,045	1,938
Amortization and depreciation		8,489	7,480	16,876	14,847
Finance and related costs, net	11	1,043	1,510	1,363	2,859
Transaction and other costs	12	4,542	—	4,887	84
Loss before income taxes		(9,146)	(2,020)	(12,697)	(6,499)
Income tax expense (recovery)	8	(3)	177	62	451
Net loss for the period		(9,143)	(2,197)	(12,759)	(6,950)
Net loss per share:					
Basic and diluted	7	\$(0.28)	\$(0.07)	\$(0.39)	\$(0.22)

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

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

[in thousands of U.S. dollars]

	Three months ended		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Net loss for the period	(9,143)	(2,197)	(12,759)	(6,950)
Item that may be reclassified subsequently to net loss				
Unrealized foreign currency translation adjustment	(4,424)	2,737	(1,986)	4,180
Comprehensive income (loss) for the period	(13,567)	540	(14,745)	(2,770)

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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	Deficit	Total
Balance, December 31, 2021		265,917	11,717	2,959	(119,857)	160,736
Stock options exercised	7	236	(64)	—	—	172
Shares repurchased	7	(146)	(191)	—	(41)	(378)
Share purchase obligation		—	(272)	—	—	(272)
Stock option expense	7	—	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
Balance, December 31, 2020		257,411	11,393	2,020	(101,575)	169,249
Warrants exercised		2,963	(192)	—	—	2,771
Stock options exercised		2,901	(770)	—	—	2,131
Stock option expense	7	—	1,043	—	—	1,043
Net loss for the period		—	—	—	(6,950)	(6,950)
Dividends declared		—	—	—	(2,594)	(2,594)
Unrealized foreign currency translation adjustment		—	—	4,180	—	4,180
Balance, June 30, 2021		263,275	11,474	6,200	(111,119)	169,830

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HLS THERAPEUTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

[in thousands of U.S. dollars]

	Notes	Six months ended June 30, 2022	2021
OPERATING ACTIVITIES			
Net loss for the period		(12,759)	(6,950)
Adjustments to reconcile net loss to cash provided by operating activities			
Stock-based compensation	7, 10	2,045	1,938
Amortization and depreciation		16,876	14,847
Impairment charge	12	3,051	—
Accreted interest		412	368
Fair value adjustment on financial assets and liabilities	11	(2,170)	(695)
Deferred income taxes	8	429	265
Net change in non-cash working capital balances related to operations	13	1,386	(873)
Cash provided by operating activities		9,270	8,900
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(24)	(15)
Rights acquisitions		—	(3,820)
Other additions to intangible assets		(92)	(51)
Cash used in investing activities		(116)	(3,886)
FINANCING ACTIVITIES			
Stock options exercised	7	172	2,131
Warrants exercised		—	920
Shares repurchased	7	(378)	—
Dividends paid	7	(2,549)	(2,577)
Repayment of senior secured term loan	6	(6,000)	(4,500)
Lease payments		(339)	(317)
Cash used in financing activities		(9,094)	(4,343)
Net increase in cash and cash equivalents during the period		60	671
Foreign currency translation		(79)	64
Cash and cash equivalents, beginning of period		21,179	20,612
Cash and cash equivalents, end of period		21,160	21,347

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HLS THERAPEUTICS INC.

Notes to the unaudited condensed interim consolidated financial statements

For the three and six months ended June 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 August 10, 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.

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

In early 2020, the coronavirus (“COVID-19”) was confirmed in multiple countries throughout the world and on March 11, 2020, the World Health Organization declared a global pandemic.

As a result of the continued and uncertain economic and business impact of the COVID-19 pandemic, the Company has reviewed the estimates, judgments and assumptions used in the preparation of its financial statements, including with respect to the determination of whether indicators of impairment exist for its tangible and intangible assets and the credit risk of its counterparties.

Although the Company has determined that no significant revisions to such estimates, judgments or assumptions were required for the first two quarters of fiscal 2022, revisions may be required

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in future periods. Any such revision (due to COVID-19 or otherwise) could have a material impact on the Company's results of operations and financial condition. Further, in the event that such a material impact were to occur, the Company may need to consider requesting modifications to the covenants in its credit facility and there can be no assurance that such modifications would be provided.

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.

3. ACCOUNTS RECEIVABLE

	June 30, 2022	December 31, 2021
Trade accounts receivable	6,238	7,226
Royalties receivable	2,589	2,545
Other receivables	1,883	1,740
	<u>10,710</u>	<u>11,511</u>

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2022	December 31, 2021
Trade accounts payable and accrued liabilities	12,837	9,316
Dividend payable	1,260	1,280
	<u>14,097</u>	<u>10,596</u>

5. PROVISIONS

	Chargebacks and rebates	Returns	Total
As at December 31, 2021	1,442	2,030	3,472
Charges	1,656	(458)	1,198
Utilization	(1,848)	(63)	(1,911)
As at June 30, 2022	<u>1,250</u>	<u>1,509</u>	<u>2,759</u>

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

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6. DEBT AND OTHER LIABILITIES

	June 30, 2022	December 31, 2021
Current		
Senior secured term loan	12,000	12,000
Purchase consideration	10,000	—
Share purchase obligation	272	—
Derivative financial instruments	—	901
Lease obligation	560	606
	<u>22,832</u>	<u>13,507</u>
Non-current		
Senior secured term loan	78,450	84,134
Purchase consideration	1,359	1,294
Performance share unit obligation	898	549
Deferred share unit obligation	288	41
Lease obligation	624	826
	<u>81,619</u>	<u>86,844</u>
	<u>104,451</u>	<u>100,351</u>

Senior secured term loan

On August 15, 2018, the Company entered into a senior secured term loan 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 was \$100,000. In September 2020, the Company and its lenders amended the terms of the senior secured credit facility 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 maturity date is August 15, 2023. The principal amount of the senior secured term loan outstanding as at June 30, 2022 was \$91,118.

In addition to the senior secured term loan, there is a \$35,000 revolving facility, available under similar terms, that is undrawn at June 30, 2022. Subsequent to the end of the second quarter, the Company used \$10,000 of the revolver facility to settle the regulatory milestone noted below.

Under the terms of the senior secured term loan, the Company is required to comply with financial covenants related to the maintenance of liquidity, operational results and coverage ratios. As at June 30, 2022, the Company was in compliance with the financial covenants.

Transaction costs associated with the senior secured term loan 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
Repayment of senior secured term loan	(6,000)
Accreted interest	316
Carrying amount as at June 30, 2022	90,450
Less current portion	12,000
Non-current portion as at June 30, 2022	78,450

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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 to be paid in the third quarter of fiscal 2022.

Carrying amount as at December 31, 2021	1,294
Addition	10,000
Accreted interest	65
Carrying amount as at June 30, 2022	11,359
Less current portion	10,000
Non-current portion as at June 30, 2022	1,359

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 June 30, 2022 are as follows:

	#	\$
Balance as at December 31, 2021	32,451,193	265,917
Issued on exercise of stock options	20,089	236
Shares repurchased	(17,900)	(146)
Balance as at June 30, 2022	32,453,382	266,007

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	(20,089)	8.48
Cancelled	(41,904)	11.74
Outstanding as at June 30, 2022	3,030,042	10.47

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, 2022 of \$826 and \$1,435 (2021 – \$513 and \$1,043), respectively. This charge has been credited to contributed surplus. Included in stock option expense for the three and six months ended June 30, 2022 is \$229 in accelerated expense related to the elimination of the executive chair role as noted in note 12.

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")

HLS THERAPEUTICS INC.

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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 six months ended June 30, 2022, the Company has recorded stock-based compensation expense of \$315 and \$359, respectively, in respect of the PSUs (2021 – recovery of \$922 and expense of \$895). As at June 30, 2022, the liability recorded in the consolidated statement of financial position in respect of PSUs is \$898, which is classified as non-current.

Included in PSU expense for the three and six months ended June 30, 2022 is \$188 in accelerated expense related to the elimination of the executive chair role as noted in note 12.

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 six months ended June 30, 2022, the Company has recorded stock-based compensation expense of \$89 and \$251, respectively, in respect of the DSUs. As at June 30, 2022, the liability recorded in the consolidated statement of financial position in respect of DSUs is \$288, which is classified as non-current.

Dividends

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

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.

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

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

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		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Net loss for the period	(9,143)	(2,197)	(12,759)	(6,950)
Weighted average number of common shares outstanding – basic	32,464,754	32,037,832	32,462,788	31,965,844
Effect of dilutive securities	—	—	—	—
Weighted average number of common shares outstanding – diluted	32,464,754	32,037,832	32,462,788	31,965,844

The calculation of diluted loss per share in fiscal 2022 excludes 3,057,885 (2021 – 3,172,362) 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 six months ended June 30, 2022, the Company purchased for cancellation 17,900 common shares at an average price of C\$13.27 per common share for total consideration of \$187. The weighted average carrying value of the shares repurchased exceeded the total cash consideration paid by \$41, which was credited to deficit.

In addition, in June 2022 the Company purchased 19,000 common shares at an average price of C\$12.87 per common share that were not yet cancelled as at June 30, 2022. The total consideration of \$191 was debited to contributed surplus as at June 30, 2022.

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 June 30, 2022, a share purchase obligation of \$272, with a corresponding adjustment to equity, was recorded with respect to this ASPP.

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

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8. 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,	
	2022	2021	2022	2021
Current income tax expense (recovery)	(23)	118	(367)	186
Deferred income tax expense resulting from temporary differences	20	59	429	265
	(3)	177	62	451

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,	
	2022	2021	2022	2021
Loss before income taxes	(9,146)	(2,020)	(12,697)	(6,499)
Tax recovery at Canadian corporate tax rate	(2,442)	(539)	(3,390)	(1,735)
Items not included or deducted for income tax purposes	(788)	115	(663)	744
Income subject to tax in foreign jurisdictions	85	(85)	89	(272)
Tax losses not recognized	3,142	686	4,026	1,714
	(3)	177	62	451

9. 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,	
	2022	2021	2022	2021
Product sales	13,245	12,773	25,091	24,541
Royalties	2,287	2,172	4,997	4,718
	15,532	14,945	30,088	29,259

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Canada	9,545	8,936	17,994	16,788
United States	4,924	4,866	9,541	10,023
Rest of world	1,063	1,143	2,553	2,448
	15,532	14,945	30,088	29,259

10. STOCK-BASED COMPENSATION

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
PSU expense	315	(922)	359	895
DSU expense	89	—	251	—
Stock option expense	826	513	1,435	1,043
	1,230	(409)	2,045	1,938

11. FINANCE AND RELATED COSTS, NET

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Interest on senior secured term loan	1,532	1,521	3,127	2,941
Accreted interest	205	182	412	368
Total interest expense	1,737	1,703	3,539	3,309
Interest income	(13)	(10)	(18)	(23)
Foreign exchange loss	15	14	12	6
Realized loss on foreign currency forward contract	—	187	—	262
Fair value adjustment on financial assets and liabilities				
Derivative financial instruments	(696)	(290)	(2,170)	(722)
Lender warrants	—	(94)	—	27
	1,043	1,510	1,363	2,859

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

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12. TRANSACTION AND OTHER COSTS

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Transaction costs	151	—	496	84
Restructuring costs	1,340	—	1,340	—
Impairment charge	3,051	—	3,051	—
	4,542	—	4,887	84

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, leaving a carrying amount of \$2,848 as at June 30, 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. 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.

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

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13. 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,	
	2022	2021
Accounts receivable	678	(148)
Inventories	(1,327)	852
Income taxes recoverable	(272)	—
Prepaid expenses and other current assets	(607)	(786)
Accounts payable and accrued liabilities	3,724	35
Provisions	(713)	(393)
Income taxes payable	(97)	(433)
	<u>1,386</u>	<u>(873)</u>

Interest of \$3,127 (2021 – \$2,941) and income taxes of \$2 (2021 – \$619) were paid during the six months ended June 30, 2022.