Condensed Interim Consolidated Financial Statements of

WILLOW BIOSCIENCES INC.

For the Three and Nine Months Ended September 30, 2020 and September 30, 2019

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

	September 30, 2020	December 31, 2019
Assets		
Current		
Cash and cash equivalents	$ 9,091,894	$ 19,643,939
Accounts receivable	368,935	654,244
Term deposits	-	90,926
Deposits and prepaid expenses	562,710	201,342
Inventory	282,839	189,220
	10,306,378	20,779,671
Property, plant and equipment – Note 6	4,398,326	5,488,628
Patents – Note 8	641,454	6,334,582
Right-of-use assets – Note 7	575,820	1,169,312
Long-term deposits	91,085	111,432
Deferred share issuance costs	35,439	-
	$ 16,048,502	$ 33,883,625
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 875,979	$ 1,100,656
Current portion of lease liability – Note 7	367,353	748,265
	1,243,332	1,848,921
Warrant liability – Note 9(d)	10,963,186	9,575,474
Lease liability – Note 7	214,731	450,401
	12,421,249	11,874,796
Shareholders' equity		
Share capital and warrants – Note 9	72,600,708	72,600,708
Contributed surplus	4,113,493	3,335,385
Accumulated other comprehensive loss	(251,343)	(170,945)
Deficit	(72,835,605)	(53,756,319)
Total shareholders' equity	3,627,253	22,008,829
	$ 16,048,502	$ 33,883,625

See accompanying notes to these condensed interim consolidated financial statements.

Approved by the Board of Directors and authorized for issue on November 12, 2020.

Condensed Interim Consolidated Statements of Comprehensive Loss (Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2020	**2019**	**2020**	**2019**
Revenues				
Consulting revenue and other	$ 200	$ -	$ 2,360	$ 4,584
	200	-	2,360	4,584
Operating Expenses				
General and administrative – Note 11	1,367,505	1,422,624	4,076,696	3,084,792
Research and development, net of recoveries	1,562,211	1,391,700	4,872,061	1,710,875
Stock based compensation – Note 9(f)	202,940	565,135	778,108	2,032,327
Depreciations and amortizations – Notes 6, 7 and 8	757,136	791,502	2,445,672	1,304,588
Impairment of patents – Note 8	-	-	5,517,571	-
Goodwill impairment – Note 5	-	-	-	31,739,103
Transaction and listing costs	-	-	-	1,892,126
(Gain)loss on fair value adjustments – Note 9(d)	3,709,267	(3,166,918)	1,387,712	1,180,881
Net finance (income) expense	(10,749)	(12,890)	(76,724)	1,803
Loss on disposal of equipment	6,618	-	117,449	-
Impairment of inventory and accounts receivable	35,728	-	35,728	-
Realized loss on foreign exchange	6,773	108,168	6,773	108,168
Gain on derecognition of right-of-use asset	-	-	(36,914)	-
Gain on sale of patents	(42,486)	-	(42,486)	-
Total operating expenses	7,594,943	1,099,321	19,081,646	43,054,663
Net loss before income taxes	(7,594,743)	(1,099,321)	(19,079,286)	(43,050,079)
Deferred income tax recovery	-	-	-	1,580,374
Net loss	(7,594,743)	(1,099,321)	(19,079,286)	(41,469,705)
Foreign exchange gain (loss) on translation of foreign operations	(55,943)	(3,752)	(80,398)	7,028
Net comprehensive loss	$ (7,650,686)	$ (1,103,073)	$ (19,159,684)	$ (41,462,677)
Loss per share: Basic and diluted – Note 10	$ (0.10)	$ (0.01)	$ (0.24)	$ (0.59)

See accompanying notes to these condensed interim consolidated financial statements.

	Number of Common Shares	Share Capital and Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
	(Note 9)	(Note 9)	(Note 9)			
January 1, 2019	58,450,444	$ 9,260,291	$ 764,472	$ -	$ (9,189,729)	$ 835,034
Exercise of options	250,000	43,252	(18,252)	-	-	25,000
Share-based compensation	-	-	2,589,165	-	-	2,589,165
Shares exchanged on reverse takeover	(58,700,444)	-	-	-	-	-
Existing shares of Makena	1,409,847	-	-	-	-	-
Shares issued to BioCan shareholders	17,142,878	1,096,125	-	-	-	1,096,125
Common shares and units issued from private placement	33,371,428	15,763,196	-	-	-	15,763,196
Share issue costs	-	(1,841,909)	-	-	-	(1,841,909)
Common shares issued on acquisition of Epimeron	17,143,199	36,429,298	-	-	-	36,429,298
Common shares issued on exercise of warrants	9,219,390	8,066,952	-	-	-	8,066,952
Common shares issued on exercise of performance warrants	584,080	400,000	-	-	-	400,000
Transfer of warrant liability to common shares and warrants	-	3,365,078	-	-	-	3,365,078
Common shares and units issued from private placement	21,057	18,425	-	-	-	18,425
Foreign exchange loss on translation of foreign operations	-	-	-	(170,945)	-	(170,945)
Net loss for the year	-	-	-	-	(44,566,590)	(44,566,590)
December 31, 2019	78,891,879	$ 72,600,708	$ 3,335,385	$ (170,945)	$ (53,756,319)	$ 22,008,829
Share-based compensation	-	-	778,108	-	-	778,108
Foreign exchange loss on translation of foreign operations	-	-	-	(80,398)	-	(80,398)
Net loss for the period	-	-	-	-	(19,079,286)	(19,079,286)
September 30, 2020	78,891,879	$ 72,600,708	$ 4,113,493	$ (251,343)	$ (72,835,605)	$3,627,253

January 1, 2019	58,450,444	$ 9,260,291	$ 764,472	$ -	$ (9,189,729)	$ 835,034
Exercise of options	250,000	43,252	(18,252)	-	-	25,000
Share-based compensation	-	-	2,032,327	-	-	2,032,327
Shares exchanged on reverse takeover	(58,700,444)	-	-	-	-	-
Existing shares of Makena	1,409,847	-	-	-	-	-
Shares issued to BioCan shareholders	17,142,878	1,096,125	-	-	-	1,096,125
Common shares and units issued from private placement	33,371,429	15,763,196	-	-	-	15,763,196
Share issue costs	-	(1,841,909)	-	-	-	(1,841,909)
Common shares issued on acquisition of Epimeron	17,143,199	36,429,298	-	-	-	36,429,298

Common shares issued on exercise of warrants	9,803,470	8,466,952	-	-	-	8,466,952
Transfer of warrant liability to common shares and warrants	-	3,365,078	-	-	-	3,365,078
Common shares and units issued from private placement	21,057	18,425	-	-	-	18,425
Foreign exchange gain on translation of foreign operations	-	-	-	7,028		7,028
Net loss for the period	-	-	-	-	(41,469,705)	(41,469,705)
September 30, 2019	78,891,879	$ 72,600,708	$ 2,778,547	$ 7,028	$ (50,659,434)	$ 24,726,849

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended September 30 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Cash provided by (used for):				
Operating activities				
Net loss	$ (7,594,743)	$ (1,099,321)	$ (19,079,286)	$ (41,469,705)
Items not affecting cash and cash equivalents:				
Depreciations and amortizations – Notes 6, 7 and 8	757,136	791,502	2,445,672	1,304,588
Goodwill impairment	-	-	-	31,739,103
Impairment of patents – Note 8	-	-	5,517,571	-
(Gain) loss on fair value of warrant liability – Note 9(d)	3,709,267	(3,166,918)	1,387,712	1,180,881
Stock based compensation – Note 9(f)	202,940	565,135	778,108	2,032,327
Share listing expense	-	-	-	1,288,296
Deferred income tax recovery	-	-	-	(1,580,374)
Impairment on disposal of equipment and inventory	6,618	-	117,449	-
Gain on derecognition of right-of-use asset – Note 7	-	-	(36,914)	-
Interest on lease liabilities – Note 7	6,866	-	33,106	-
Gain on sale of patents– Note 8	(42,486)	-	(42,486)	-
Funds used in operations	(2,954,402)	(2,909,602)	(8,879,068)	(5,504,884)
Net change in non-cash working capital – Note 12	141,086	1,434,416	(225,562)	709,068
	(2,813,316)	(1,475,186)	(9,104,630)	(4,795,816)
Financing activities				
Issuance of common shares and warrants – private placement net of share issue costs – Note 9	-	18,425	-	27,379,827
Stock option exercise	-	-	-	25,000
Funds held in trust	-	472,987	-	-
Exercise of warrants	-	400,000	-	8,466,952
Lease payments – Note 7	(138,766)	-	(494,279)	-
Long-term deposits	3,117	-	24,333	-
Deferred share issuance costs	(35,439)	-	(35,439)	-
	(171,088)	891,412	(505,385)	35,871,779
Investing activities				
Expenditures on property, plant and equipment – Note 6	(114,615)	(3,188,143)	(948,495)	(6,390,298)
Proceeds on disposal of property, plant and equipment- Note 6	17,124	-	53,673	-
Principle portion of right-of-use assets	-	(145,415)	-	(269,518)
Proceeds on sale of patents – Note 8	110,831	-	110,831	-
Cash acquired from acquisitions	-	-	-	57,856
Net change in non-cash working capital – Note 12	(185,604)	(804,015)	(162,640)	(804,015)
	(172,264)	(4,137,573)	(946,631)	(7,405,975)
(Decrease) in cash and cash equivalents	(3,156,668)	(4,721,347)	(10,556,646)	23,669,988
Effect of foreign exchange on cash and cash equivalents	4,222	-	4,601	-
Cash and cash equivalents, beginning of period	12,244,340	28,763,678	19,643,939	372,343
Cash and cash equivalents, end of period	$ 9,091,894	$ 24,042,331	$ 9,091,894	$ 24,042,331

Supplementary cash flow information – Note 12

See accompanying notes to these condensed interim consolidated financial statements.

Note 1 - Reporting Entity

Willow Biosciences Inc. ("Willow" or the "Company") is a biotechnology company that produces high purity, plant derived compounds that provide building blocks for the global pharmaceutical, health and wellness, and consumer packaged goods industries. The Company is an Alberta corporation with a head office in Calgary, Alberta and operations in Burnaby, British Columbia and Mountain View, California. The Company's head office and registered office is located at 202, 1201-5th Street SW, Calgary AB, T2R 0Y6.

The condensed interim consolidated financial statements comprise the Company and its wholly owned subsidiaries. Willow Analytics Inc. ("Analytics") is incorporated under the laws of Alberta and Epimeron USA, Inc. is incorporated under the laws of Delaware, USA.

The Company's shares are listed on the Toronto Stock Exchange ("TSX") under the trading symbol "WLLW", and under the trading symbol "CANSF" on the OTCQB® Market.

The Company is considered to be in the development stage, as most of its efforts have been devoted to research and development and it has not earned material revenue to date.

On April 12, 2019, Makena Resources Inc. ("Makena"), BioCan Technologies Inc. ("BioCan") and Epimeron Inc. ("Epimeron") completed an Arrangement Agreement (the "Arrangement"). Pursuant to the Arrangement, each BioCan share or warrant was transferred to Makena, and each holder thereof was entitled to receive from Makena the consideration comprised of such number of Makena shares or warrants determined in the exchange ratio of 7.301 (the "BioCan Exchange Ratio") Makena shares or warrants for each BioCan share or warrant. This transaction resulted in a reverse takeover of Makena by BioCan. For accounting purposes, BioCan is considered the acquirer and Makena the acquiree. Since BioCan was the acquirer the comparative numbers on these financial statements are that of BioCan's. On April 30, 2020 BioCan changed its name to Willow Analytics Inc.

Note 2 - Basis of Presentation

Statement of Compliance

The condensed interim consolidated financial statements of the Company as at and for the three and nine months ended September 30, 2020 have been prepared in accordance with IAS 34, Interim Financial Reporting of International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board ("IASB"), on a basis consistent with those accounting policies followed by the Company in the most recent audited consolidated annual financial statements. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Company's December 31, 2019 annual financial statements which have been prepared in accordance with IFRS.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 12, 2020.

Basis of Measurement

The financial statements have been prepared on a historical cost basis except for the revaluation of financial liabilities recorded at fair value, if any.

Functional and Presentation Currency

Unless otherwise stated, these financial statements are presented in Canadian (CAD) dollars. The Company's functional currency is the Canadian dollar. The functional currency for the Company's wholly owned United States subsidiary is the United States (USD) dollar.

Use of Estimates and Judgements

The preparation of these condensed interim consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates. These estimates and judgements include impairment indicators for patents, amortization period for patents and property, plant and equipment, compensation costs accrued for the share-based compensation plan and warrant valuation which are subject to the estimation of what the ultimate payout will be using the Black-Scholes pricing model which is based on assumptions such as the future volatility of the market price of the Company's shares and expected term of the issued stock options, warrants and performance warrants.

The global outbreak of COVID-19 has had only a minimal impact to the Company's research and development activity as employees have been able to work remotely effectively. The results of the potential economic downturn and any potential resulting direct and indirect impact to the Company has been considered in management's estimates described above at the period end. The Company does not expect the COVID-19 outbreak to have a significant impact to the Company's ability to achieve its goals within the planned timelines.

Note 3 - Capital Management

The Company considers all components of shareholders' equity as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to complete research, obtain patents, commercialize products and generate positive operational cash flow and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company is not exposed to any externally imposed capital requirements.

Note 4 - Financial Instruments and Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments at September 30, 2020 include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities.

a) Fair Values of Financial Instruments

The fair value of cash and cash equivalents, accounts receivable, term deposit and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of those instruments.

b) Risks Associated with Financial Assets and Liabilities

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk includes cash and cash equivalents, term deposits and accounts receivable. The Company reduces its credit risk on cash and cash equivalents and term deposits by maintaining its bank accounts at large international financial institutions. Accounts receivable consists of the Scientific Research Experimental and Developmental tax refund and GST receivable. As such, management has concluded that the Company has no significant credit risk. The maximum exposure to credit risk is equal to the value of the financial assets.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Cash and cash equivalents are held in bank accounts and is available on demand.

As at September 30, 2020, the Company had working capital of $9.1 million including cash and cash equivalents of approximately $9.1 million.

As at September 30, 2020, the Company has no cash generating assets and is using cash in operations.

As a development stage company, the Company's primary capital requirements relate to funding research and development activities and for general working capital purposes. The Company's operations have been financed primarily through the issuance of common shares or units (consisting of common shares and warrants) and the Company intends to finance future research and development activities by the issuance of equity. The COVID-19 pandemic has had a significant impact on capital markets and may negatively impact the Company's ability to raise capital on terms that are acceptable to the Company. The Company's primary objective when managing capital is to ensure it has sufficient funds available to carry out its research, development and commercialization programs based, in part, on continuous monitoring. In addition to issuing equity, the Company intends to finance at least a portion of its commercialization programs by finding partners, whereby the Company completes the majority of the early stage research and development and the partner completes the majority of the commercialization portion of the project.

On October 29, 2020, the Company closed its offering of 17,692,307 Units at $0.65 per Unit, for total gross proceeds of $11.5 million (Note 13).

Market risk

Market risk is the risk that fluctuations in interest rates and foreign currency rates will affect the Company's net loss and comprehensive loss or the value of its financial assets and liabilities. The Company has no significant market risk exposure at September 30, 2020 other than currency risk, as discussed below.

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates and the degree of volatility of those rates. Currency risk is limited to the portion of the Company's business transactions denominated in USD, primarily cash and expenses incurred in USD.

Exchange rate fluctuations for foreign currency transactions can cause cash flows as well as amounts recorded in the consolidated statements of comprehensive loss to vary from period to period and not necessarily correspond to those forecasted in operating budgets and projections. Additional earnings variability arises from the translation of monetary assets and liabilities denominated in currencies other than the CAD at the rates of exchange at each consolidated statement of financial position date, the impact of which is reported as foreign exchange gain or loss in the consolidated statements of comprehensive loss. The Company does not believe a sudden change in foreign exchange rates would impair or enhance its ability to pay its USD denominated obligations.

The following table presents the significant items in the original currencies exposed to currency risk as at September 30, 2020 and December 31, 2019:

(in USD)	**September 30, 2020**	**December 31, 2019**
Cash and cash equivalents	$ 164,750	$ 400,405
Deposits and prepaid expenses	-	127,023
Long-term deposits	54,299	-
Accounts payable and accrued liabilities	(252,290)	(174,006)
Lease liability	(157,082)	(314,344)
Net holdings	$ (190,323)	$ 39,078
Impact of 5% strengthening of USD based on above exposure	CAD$ 12,734	CAD$ 2,553

Note 5 – Acquisition

On March 22, 2019, the Company entered into a definitive agreement to acquire 100% of the outstanding shares of Epimeron Inc. in exchange for 17,143,199 common shares of the Corporation. The transaction, the "Epimeron Acquisition" closed on April 12, 2019.

The following table summarizes the purchase consideration and estimated provisional purchase price allocation for the acquisition and the valuation of the fair value of the acquired assets and liabilities at the date of acquisition:

Total consideration, payable in common shares	$ 36,429,298

Assets and liabilities acquired	
Current assets	$ 264,461
Right-of-use assets – leases	667,903
Property, plant and equipment	25,974
Patents	6,599,316
Current liabilities	(619,266)
Deferred tax liability	(1,580,374)
Lease liability	(667,819)
Goodwill	31,739,103
Net assets acquired	$ 36,429,298

Concurrent with the Epimeron Acquisition, the Company recognized goodwill of $31,739,103, which the Company subsequently impaired as a charge to profit or loss during the period.

Goodwill impairment review is carried out at the level of a CGU, defined as the smallest identifiable group of assets, liabilities and associated goodwill that generates cash inflows that are largely independent of other cash flows from other assets or groups of assets. Since the Company does not have a cash generating unit yet the goodwill balance has been impaired.

Note 6 – Property, Plant and Equipment

	Leasehold improvements	Lab equipment	Software and IT	Office furniture and equipment	Total
Cost					
As at December 31, 2018	$ 17,100	$ 178,859	$ 104,658	$ 94,655	$ 395,272
Acquisition of Epimeron	-	25,974	-	-	25,974
Additions	137,534	6,288,020	240,474	151,050	6,817,078
Disposals	-	-	(104,658)	-	(104,658)
As at December 31, 2019	$154,634	$ 6,492,853	$ 240,474	$ 245,705	$ 7,133,666
Additions	74,506	834,135	39,854	-	948,495
Disposals	(41,664)	(161,850)	(42,500)	-	(246,014)
As at September 30, 2020	$ 187,476	$ 7,165,138	$ 237,828	$ 245,705	$ 7,836,147

	Leasehold improvements	Lab equipment	Software and IT	Office furniture and equipment	Total

Accumulated depreciation					
As at December 31, 2018	$ 1,366	$ 26,695	$ 104,658	$ 83,158	$ 215,877
Depreciation	15,714	1,445,948	63,819	8,338	1,533,819
Disposals	-	-	(104,658)	-	(104,658)
As at December 31, 2019	$ 17,080	$ 1,472,643	$ 63,819	$ 91,496	$ 1,645,038
Depreciation	33,484	1,725,630	98,180	10,381	1,867,675
Disposals	(10,416)	(63,418)	(1,058)	-	(74,892)
As at September 30, 2020	$ 40,148	$ 3,134,855	$ 160,941	$ 101,877	$ 3,437,821

	Leasehold improvements	Lab equipment	Software and IT	Office furniture and equipment	Total
Net Book Value					
As at December 31, 2019	$ 137,554	$ 5,020,210	$ 176,655	$ 154,209	$ 5,488,628
As at September 30, 2020	$ 147,328	$ 4,030,283	$ 76,887	$ 143,828	$ 4,398,326

Note 7 – Leases

During the quarter ended June 30, 2020, the Company made the decision to consolidate its lab based in Calgary, Alberta with its lab based in Burnaby, British Columbia. Due to this decision the lease in Calgary, Alberta was terminated. In Q2, a gain of $23,020 has been recognized on the derecognition of right-of-use asset and the respective lease liabilities.

Right-of-use asset

	Total
Cost	
Balance at January 1, 2019	$ 278,116
Acquisition of Epimeron	667,903
Additions	697,565
Balance at December 31, 2019	$ 1,643,584
Additions	270,925
Termination	(622,314)
Balance at September 30, 2020	$ 1,292,195

Accumulated depreciation	
Balance at January 1, 2019	$ -
Charge for the year	(474,272)
Balance at December 31, 2019	$ (474,272)
Charge during the period	(470,785)
Termination	228,682
Balance at September 30, 2020	$ (716,375)

Net book value	
As at December 31, 2019	$ 1,169,312
As at September 30, 2020	$ 575,820

Lease liabilities

	Total
Lease liability at January 1, 2019	$ 278,116
Acquisition of Epimeron	667,819
Additions	697,649
Interest expense on lease liability	48,139
Payments on lease liability	(493,057)
Lease liability at December 31, 2019	$ 1,198,666
Additions	262,673
Interest expense on lease liability	33,106
Payments on lease liability	(494,279)
Foreign exchange movements	12,464
Termination	(430,546)
Lease liability at September 30, 2020	$ 582,084

Lease liabilities in the statement of financial position at September 30, 2020	
Current	$ 367,353
Non-current	214,731
Balance at September 30, 2020	$ 582,084

Note 8 - Patents

The Company has valued the patents based on costs that were acquired as a part of the Epimeron acquisition. These costs include salaries, benefits, consulting, equipment and legal costs. No other costs are capitalized as there is no reasonable assurance of commerciality when other research and development and patent filing expenditures were made.

The cost of the patents are being amortized over their useful lives of 16 – 21 years.

As at March 31, 2020, the Company made a decision not to pursue one of the non-cannabinoid patents any further and an impairment charge of $335,343 was recorded. All non-cannabinoid patents the Company holds are Opioid patents.

As at June 30, 2020, the Company made the decision to consolidate its lab based in Calgary, Alberta with its lab based in Burnaby, British Columbia. This resulted in a reduced headcount of approximately twelve employees, including all of the research and development employees who were involved with developing the non-cannabinoid portfolio. Concurrent with the closing of the Calgary lab, the Company made the decision not to pursue any more work with respect to its non-cannabinoid intellectual property portfolio. Management believes the opiate market is depressed therefore, the Company began a sales process during the quarter for thirteen of the fourteen patents in the non-cannabinoid portfolio. Due to a number of factors, including the currently depressed opiate market and the worldwide recession as a result of the COVID-19 pandemic, management believed the ultimate price it will receive for the non-cannabinoid portfolio will be significantly less than its existing net book value. As a result, management made the decision to impair the net book value of the non-cannabinoid portfolio to reflect the amount it ultimately expected to receive. This resulted in an impairment of the entire value on eleven of the fourteen patents. Two of the remaining patents were valued at a total price of US$50,000 (CAD$68,345). The total impairment recorded for the non-cannabinoid portfolio was $5,182,228 which was taken into income during the quarter. There were no impairment triggers identified on the remaining patent in the portfolio as there are uses for the patent beyond the opioid space.

During the quarter ended September 30, 2020, the Company signed a purchase and sale agreement with a third party for the sale of the two remaining patents noted above. The total agreed upon sale price is US$50,000 plus US$32,250 for reimbursement of past expenses related to the maintenance of the patents.

As of September 30, 2020, the carrying value of the remaining non-cannabinoid patent portfolio is $318,787.

As at September 30, 2020, the carrying value of the cannabinoid patent is $322,667. The cannabinoid patent has not been impaired as there were no triggers identified which would lead to impairment. The cannabinoid market has not been negatively impacted to the same extent as the opioids market has been and has widely been viewed as a beneficiary of the decrease in the use of opioids. Cannabinoid sales have increased during COVID-19 and are viewed as a non-addictive, more mild solution to chronic pain.

The impairment of the opioid patent portfolio will not have an impact on other parts of the business and on future developments.

Cost	
Balance at December 31, 2018	$ -
Acquisition of Epimeron	6,599,316
Balance at December 31, 2019	$ 6,599,316
Disposal	(2,847,004)
Balance at September 30, 2020	$ 3,752,312

Accumulated amortization and impairment	
Balance at December 31, 2018	$ -
Charge for the year	(264,734)
Balance at December 31, 2019	$ (264,734)
Charge for the period	(107,212)
Impairment	(5,517,571)
Disposal	2,778,659
Balance at September 30, 2020	$ (3,110,858)

Net book value	
As at December 31, 2019	$ 6,334,582
As at September 30, 2020	$ 641,454

Note 9 - Share Capital

(a) Authorized

Unlimited number of common shares without par value.
Unlimited number of preferred shares issuable in series.

(b) Issued and Outstanding

	Number of Common Shares	Share Capital and Warrants
January 1, 2019	58,450,444	$ 9,260,291
Exercise of options	250,000	43,252
Shares exchanged on reverse takeover	(58,700,444)	-
Existing shares of Makena	1,409,847	-
Shares issued to BioCan shareholders	17,142,878	1,096,125
Common shares and units issued from private placement	33,371,428	15,763,196
Share issue costs	-	(1,841,909)
Common shares issued on acquisition of Epimeron	17,143,199	36,429,298

Common shares issued on exercise of performance warrants	9,219,390	8,066,952
Common shares issued on exercise of warrants	584,080	400,000
Transfer of warrant liability to common shares and warrants	-	3,365,078
Common shares and units issued from private placement	21,057	18,425
December 31, 2019	78,891,879	$ 72,600,708
September 30, 2020	78,891,879	$ 72,600,708

On February 4, 2019, 250,000 shares were issued at a price of $0.10 per share upon the exercise of 250,000 stock options.

On April 12, 2019, the Company received approval from the CSE and completed a private placement raising $29.2 million by the issuance of an aggregate 33,371,428 common shares and units at $0.875 each. Each unit consists of one common share and one performance warrant. A total of 9,201,706 common shares and 24,169,722 units were issued. Also, on April 12, 2019, the Company completed the acquisition of Epimeron Inc. by issuance of 17,143,199 common shares and a reverse takeover of Makena by issuance of 17,142,878 common shares to BioCan shareholders.

On May 13, 2019, 9,219,390 common shares were issued at $0.875 for exercise of performance warrants.

On August 21, 2019, 584,080 common shares were issued at $ 0.68 for exercise of warrants.

On September 9, 2019, the Company issued an additional 21,057 units at $ 0.875 with the same expiry date, vesting conditions and exercise price as the units which were issued on April 12, 2019 for gross proceeds of $18,425.

(c) Issued and outstanding warrants

	Number of Warrants	**Weighted Average Exercise Price $**
Warrants at December 31, 2018	2,444,764	$ 1.18
Issued from the reverse takeover of Makena	729,748	8.33
Exercised	(584,080)	0.68
Expired	(451,560)	0.68
Warrants at December 31, 2019	2,138,872	$ 3.71
Expired	(1,443,424)	$ 1.88
Warrants at September 30, 2020	695,448	$ 7.51

Warrants outstanding and the weighted average remaining life of the warrants at September 30, 2020 are as follows:

	Warrants Outstanding		Warrants Vested	
Exercise Price $	Number of Warrants	Weighted Average Remaining Life (years)	Number of Warrants	Weighted Average Remaining Life (years)
25.00	13,960	0.1	13,960	0.1
25.00	65,000	0.5	65,000	0.5
25.00	37,175	0.7	37,175	0.7

4.00	579,313	2.1	579,313	2.1
	695,448	1.82	695,448	1.82

(d) Issued and outstanding performance warrants

	Number of Performance Warrants	Weighted Average Exercise Price $
Performance warrants at December 31, 2018	949,130	$ 1.06
Issued	24,190,779	0.875
Exercised	(9,219,390)	0.875
Cancelled	(365,050)	0.856
Performance warrants at December 31, 2019	15,555,469	$ 0.89
Expired	(584,080)	$ 1.20
Performance warrants at September 30, 2020	14,971,389	$ 0.875

On April 12, 2019, the Company received approval from the CSE and completed a private placement raising gross proceeds of $29.2 million by the issuance of an aggregate 33,371,428 common shares and units at $0.875 each. Each unit consists of one common share and one performance warrant. A total of 9,201,706 common shares and 24,169,722 units were issued. The units were issued to the new management team, employees, directors and certain strategic investors as identified by the new management team. Each performance warrant entitles the holder to purchase one common share at a price of $0.875 for a period of 5 years, after certain vesting requirements. The performance warrants vest and become exercisable as to one-third upon the 20-day volume weighted average trading price of the common shares (the “Market Price”) equalling or exceeding $1.31, an additional one-third upon the Market Price equalling or exceeding $1.75 and a final one-third upon the Market Price equalling or exceeding $2.19. In addition, in the event the Market Price equals or exceeds $3.50, each performance warrant shall be exercisable for 1.5 common shares, provided that, at the time of exercise in respect of the additional 0.5 of a common share per performance warrant (the “Performance Incentive”), the common shares are listed on the facilities of a recognized stock exchange (other than the CSE or the TSX-Venture) or the common shares are acquired for cash or for the securities of a corporation listed on a recognized stock exchange (other than the CSE or the TSX-Venture). If these conditions are met, then an additional 12,095,359 common shares will be issued.

On September 9, 2019, the Company issued an additional 21,057 units with the same expiry date, vesting conditions and exercise price as the units which were issued on April 12, 2019 for gross proceeds of $18,425.

The performance warrants issued on April 12, 2019 and September 9, 2019 were initially accounted for as a derivative liability and measured at fair value with subsequent changes in fair value each reporting period accounted for through profit and loss. The performance warrants satisfy the derivative liability classification on the date of issuance, as the number of common shares to be issued per warrant is dependent on market price conditions. Should the warrants expire prior to the market performance conditions being met, the related decrease in warrant liability is recognized in profit or loss.

Once the market conditions are met, the warrants would meet equity classification criteria on this date, as the holder will receive a fixed number of common shares for each warrant when exercised, and the fair value will be reclassified to equity.

The Company valued the performance warrants issued in connection with this private placement using the Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rate of 1.60 - 1.80%; volatility of 82%; dividend yield of 0% and approximate expected lives of 3.5 - 5 years, inclusive of incremental Performance Incentive. At initial valuation, $13,436,804 was recognized as warranty liability. On May 23, 2019, 9,219,390 warrants were exercised and $3,365,078 has been recognized in equity under common shares and warrants, as the Market Price vesting conditions have been met, and the remainder which has not yet vested has been recorded as warrant liability.

At September 30, 2020, the warrants have been fair valued at $10,963,186 and (December 31, 2019 - $9,575,474) using the Black-Scholes Option Pricing Model with the following updated assumptions: risk-free interest rate of 0.21%-0.28%; volatility of 90.11%; dividend yield of 0% and approximate expected lives of 1.5-3.5 years, inclusive of incremental Performance Incentive. The difference of $1,387,712 has been recorded as loss on fair value adjustments on the condensed interim consolidated statement of comprehensive loss.

Performance warrants outstanding and the weighted average remaining life of the performance warrants at September 30, 2020 are as follows:

	Performance Warrants Outstanding		Performance Warrants Vested	
Exercise Price $	Number of Performance Warrants	Weighted Average Remaining Life (years)	Number of Performance Warrants	Weighted Average Remaining Life (years)
$ 0.875	14,971,389	3.5	6,907,796	3.5

(e) Issued and outstanding employee stock options

	Number of Employee Stock Options	Weighted Average Exercise Price $
Options at December 31, 2018	73,010	$ 0.34
Issued from Makena reverse takeover	37,490	4.75
Expired	(37,490)	4.75
Exercised	(73,010)	0.34
Cancelled	(90,000)	1.18
Issued	5,422,800	1.50
Options at December 31, 2019	5,332,800	$ 1.51
Forfeited	(1,045,000)	1.01
Issued	1,625,920	0.56
Options at September 30, 2020	5,913,720	$1.33

The following table summarizes information about the options outstanding and exercisable at September 30, 2020.

Outstanding	Exercise Price	Remaining life (years)	Exercisable
3,224,800	$ 1.75	3.59	2,149,867
693,000	0.60	3.95	462,000
370,000	0.66	4.16	123,333
981,920	0.41	4.68	-
644,000	0.79	4.89	-
5,913,720		3.98	2,735,200

During the three and nine months ended September 30, 2020, the Company recorded stock-based compensation expense of $202,940 and $778,108 respectively (September 30, 2019 – $565,135 and $2,032,327 respectively) recognizing the stock option activity for the period based on the fair value of options issued amortized using a graded vesting calculation.

The fair value of options granted during the period ended September 30, 2020 has been estimated according to the Black-Scholes option pricing model and based on the weighted average of the following assumptions:

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Weighted average exercise price	$ 0.56	$1.47
Share price	$ 0.74	$0.70
Dividend	-	-
Risk-free interest	0.29%-0.36%	1.34%-1.60%
Estimated life (years)	3	3
Expected volatility	83.54%-87.43%	82.38%

(f) Share-based compensation expense

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Stock options	$ 202,940	$ 565,135	$ 778,108	$ 2,000,559
Performance warrants	-	-	-	31,768
Total	$ 202,940	$ 565,135	$ 778,108	$ 2,032,327

Note 10 - Per Share Amounts

The following table summarizes the weighted average number of common shares used in calculating basic and diluted loss per share.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net loss	$ (7,594,743)	$ (1,099,321)	$ (19,079,286)	$ (41,469,705)
Weighted average common share adjustments				
Weighted average common shares outstanding, basic and diluted	78,891,879	78,634,377	78,891,879	69,656,580

As the Company incurred a loss, outstanding warrants, performance warrants and options were excluded from diluted loss per share as they are anti-dilutive.

Note 11 - Statements of Comprehensive Loss Supplementary Information

General and Administrative Expenses

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Consulting and technical services	$ 76,655	$ 250,924	$ 206,928	$ 470,210
Salaries, wages and benefits	496,654	355,842	1,742,450	795,839
Legal, audit and accounting	174,705	208,642	481,052	379,829
Investor relations	136,483	230,158	322,529	635,069
Corporate and office	483,008	377,058	1,323,737	803,845
	$ 1,367,505	$ 1,422,624	$4,076,696	$ 3,084,792

Note 12 - Statements of Cash Flows Supplementary Information

(a) Net change in non-cash working capital

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Accounts receivable	$ 154,723	$ 178,933	$ 285,308	$ (381,950)
Term deposits	91,065	(60,000)	90,926	(60,254)
Deposits and prepaid expenses	67,070	902,928	(361,874)	(255,065)
Inventory	(65,026)	-	(104,084)	-
Accounts payable and accrued liabilities	(292,350)	(390,785)	(298,478)	602,322
Amount due to related party	-	(675)	-	-
	$ (44,518)	$ 630,401	$ (388,202)	$ (94,947)
Relating to:				
Investing activities	$ (185,604)	$ (804,015)	$ (162,640)	$ (804,015)
Operating activities	141,086	1,434,416	(225,562)	709,068
	$ (44,518)	$ 630,401	$ (388,202)	$ (94,947)

(b) Supplementary cash flow information

Aside from lease interest, there were no other interest or taxes that were paid or received during the three and nine months ended September 30, 2020 or September 30, 2019. Cash and cash equivalents at September 30, 2020 and September 30, 2019 consists of cash held in the Company's bank accounts and does not include any short-term investments.

Note 13 - Subsequent Event

On October 29, 2020, the Company closed its offering of 17,692,307 Units at $0.65 per Unit, for total gross proceeds of $11.5 million. Each Unit consists of one common share (a "Common Share") in the capital of the Company and one half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder to acquire one common share at a price of $0.85 for a period of 24 months from the closing date of the Offering; provided that if, at any time prior to the expiry date of the Warrants, the volume weighted average trading price of the Common Shares on the Toronto Stock Exchange (the " TSX "), or other principal exchange on which the Common Shares are listed, is greater than $1.20 for 20 consecutive trading days, the Company may, within 10 business days of the occurrence of such event, deliver a notice to the holders of Warrants accelerating the expiry date of the Warrants to the date that is 30 days following the date of such notice (the "Accelerated Exercise Period "). Any unexercised Warrants will automatically expire at the end of the Accelerated Exercise Period.