CONSOLIDATED FINANCIAL STATEMENTS OF WILLOW BIOSCIENCES INC.

For the Year Ended December 31, 2021 and 2020

(in thousands of Canadian dollars)

TSX: WLLW
OTCQB: CANSF
www.willowbio.com

MANAGEMENT'S REPORT

The accompanying financial statements of Willow Biosciences Inc. (the "Company") are the responsibility of management. The financial statements have been prepared by management in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include certain estimates that reflect management's best judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

Management has the overall responsibility for internal controls and maintains a system of internal controls over financial reporting that provides reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are properly accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility with the assistance of the Audit Committee. This Committee, consisting of non-management directors, meets with management and independent auditors to ensure that each group is properly discharging its responsibilities and to discuss adequacy of internal controls, accounting policies and financial reporting matters. The Audit Committee has reviewed the financial statements and has reported thereon to the Board of Directors. The Board of Directors has approved the financial statements and authorized them for issuance to shareholders.

KPMG LLP, an independent firm of Chartered Professional Accountants, has been engaged, as approved by the shareholders of the Company, to provide an independent audit opinion on the Company's financial statements. Their report, contained herein, outlines the nature of their audit and expresses an unqualified opinion on the financial statements.

(Signed)

Trevor Peters
President and Chief Executive Officer
March 29, 2022

(Signed)

Travis Doupe
Chief Financial Officer
March 29, 2022

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Willow Biosciences Inc.

Opinion

We have audited the consolidated financial statements of Willow Biosciences Inc. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity (deficit) for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

Evaluation of the fair value of the warrant liability

Description of the matter

We draw attention to note 3, note 4 and note 9 to the financial statements. The Company has recognized a warrant liability of $3.8 million at December 31, 2021 regarding issued and outstanding performance warrants. The warranty liability has been classified as a derivative liability, initially measured at fair value, with subsequent changes in fair value at each reporting period end recognized through profit and loss. Determining the estimated fair value measurement at each reporting period end requires significant management judgment to determine certain significant assumptions to the valuation model, including expected life and volatility rate.

Why the matter is a key audit matter

We identified the evaluation of the fair value of the warranty liability as a key audit matter. This matter represented an area of higher risk of material misstatement as the fair value measurement was subject to a higher degree of estimation uncertainty. Specialized skills and knowledge were required to apply and evaluate the results of audit procedures regarding the estimated fair value of the warrant liability.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- evaluating the appropriateness of the expected life and volatility rate assumptions by comparing to an expected life and volatility rate independently developed using the Company's historic share trading activity and market and other external data
- assessing the reasonableness of the estimated fair value of the warrant liability by comparing to an estimate independently developed using the Company's historic share trading activity and market and other external data.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is David Yung.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 29, 2022

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	Note	As at December 31, 2021	2020
Assets			
Current			
Cash and cash equivalents		$ 30,119	$ 15,895
Accounts receivable	5	89	289
Deposits and prepaid expenses		679	561
Inventory		384	289
		31,271	17,034
Property, plant and equipment	6	2,783	3,859
Right-of-use assets	7	867	878
Other non-current assets		95	93
		$ 35,016	$ 21,864
Liabilities			
Current			
Accounts payable and accrued liabilities		$ 757	$ 978
Current portion of lease liability	7	641	587
Deferred revenue		10	-
		1,408	1,565
Warrant liability	9	3,765	20,576
Lease liability	7	161	282
		5,334	22,423
Shareholders' equity (deficiency)			
Share capital and warrants	9,10	118,029	83,172
Contributed surplus		5,905	4,286
Accumulated other comprehensive loss		(410)	(315)
Deficit		(93,842)	(87,702)
Total shareholders' equity (deficiency)		29,682	(559)
		$ 35,016	$ 21,864

Contingencies – Note 20

See accompanying notes to these consolidated financial statements.

Approved by the Board of Directors:

(Signed) *(Signed)*

Peter Seufer-Wasserthal
Director

Sadiq Lalani
Director

Willow Biosciences Inc.

In thousands of Canadian dollars except per share data	Note	Year Ended December 31, 2021	2020
Revenues			
Revenue		$ 133	$ 10
		133	10
Operating Expenses			
General and administrative	11	6,901	5,466
Research and development, net of recoveries		11,511	7,257
Stock based compensation	10	1,703	951
Depreciation and amortization	6,7	3,192	3,182
Patent impairment	8	-	6,159
Gain on derecognition of right-of use asset	7	-	(38)
Gain on sale of patent	8	-	(42)
Loss on disposal of equipment	6	88	121
Inventory and accounts receivable impairment		22	-
Foreign exchange loss		46	15
Total operating expenses		23,463	23,071
Loss from operating activities		(23,330)	(23,061)
Gain (loss) on fair value adjustments	9	16,803	(11,000)
Net finance income	14	387	115
Net loss		(6,140)	(33,946)
Foreign exchange loss on translation of foreign operations		(95)	(144)
Net comprehensive loss		$ (6,235)	$ (34,090)
Loss per share: Basic and diluted	12	$ (0.05)	$ (0.41)

See accompanying notes to these consolidated financial statements.

In thousands of Canadian dollars, except for share information	**Number of Common Shares**	**Share capital and Warrants**	**Contributed Surplus**	**Accumulated Other Comprehensive Loss**	**Deficit**	**Total**
	(Note 9,10)	(Note 9,10)	(Note 10)			
December 31, 2020	96,584,186	$ 83,172	$ 4,286	$ (315)	$ (87,702)	$ (559)
Common shares issued	17,424,800	28,751	-	-	-	28,751
Share issue costs	-	(2,806)	-	-	-	(2,806)
Compensation warrants issued	-	785	-	-	-	785
Exercise of warrants	8,785,080	7,467	-	-	-	7,467
Exercise of compensation warrants	474,324	403	-	-	-	403
Exercise of performance warrants	7,600	7	-	-	-	7
Transfer of warrant liability to common shares	-	8	-	-	-	8
Exercise of options	269,333	242	(84)	-	-	158
Share-based compensation		-	1,703	-	-	1,703
Foreign exchange loss on translation of foreign operations	-	-	-	(95)	-	(95)
Net loss for the year	-	-	-	-	(6,140)	(6,140)
December 31, 2021	123,545,323	$ 118,029	$ 5,905	$ (410)	$ (93,842)	$ 29,682

In thousands of Canadian dollars, except for share information	**Number of Common Shares**	**Share capital and Warrants**	**Contributed Surplus**	**Accumulated Other Comprehensive Loss**	**Deficit**	**Total**
December 31, 2019	78,891,879	$ 72,601	$ 3,335	$ (171)	$ (53,756)	$ 22,009
Share-based compensation	17,692,307	-	951	-	-	951
Common shares and units issued	-	11,500	-	-	-	11,500
Share issue costs	-	(984)	-	-	-	(984)
Foreign exchange loss on translation of foreign operations	-	-	-	(144)	-	(144)
Compensation warrants issued	-	55	-	-	-	55
Net loss for the year	-	-	-	-	(33,946)	(33,946)
December 31, 2020	96,584,186	$ 83,172	$ 4,286	$ (315)	$ (87,702)	$ (559)

See accompanying notes to these consolidated financial statements.

		Year Ended December 31,	
In thousands of Canadian dollars	Note	2021	2020
Cash provided by (used for):			
Operating activities			
Net loss		$ (6,140)	$ (33,946)
Items not affecting cash and cash equivalents:			
Stock based compensation	10	1,703	951
Depreciation and amortization	6,7	3,192	3,182
Patent impairment	8	-	6,159
Gain on sale of patents	8	-	(42)
Loss (gain) on fair value of warrant liability	9	(16,803)	11,000
Loss on disposal on equipment	6	88	121
Inventory and accounts receivable impairment		22	-
Gain on derecognition of right-of-use asset	7	-	(38)
Interest on lease liabilities	7	27	40
Unrealized loss on foreign exchange		-	4
Funds used in operations		(17,911)	(12,569)
Net change in non-cash working capital	15	(316)	(211)
		(18,227)	(12,780)
Financing activities			
Proceeds from issuance of common shares net of share issue cost	9,10	26,730	10,516
Stock option exercise	10	158	-
Exercise of warrants and compensation warrants	9	7,870	-
Exercise of performance warrants	9	7	-
Lease payments	7	(637)	(651)
Long-term deposit		(2)	25
		34,126	9,890
Investing activities			
Expenditures on property, plant and equipment	6	(1,766)	(997)
Proceeds on disposal of property, plant and equipment	6	119	54
Proceeds on sale of patents	8	-	111
Net change in non-cash working capital	15	(27)	(5)
		(1,674)	(837)
Increase (decrease) in cash and cash equivalents		14,225	(3,727)
Effect of foreign exchange on cash and cash equivalents		(1)	(22)
Cash and cash equivalents, beginning of year		15,895	19,644
Cash and cash equivalents, end of year		$ 30,119	$ 15,895

Supplementary cash flow information – Note 15

See accompanying notes to these consolidated financial statements.

1. Reporting Entity

Willow Biosciences Inc. ("Willow" or the "Company") is a biotechnology company that develops and produces high-purity, plant derived ingredients for consumer care, food and beverage, and pharmaceutical products. The Company is an Alberta corporation with its 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 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.

2. Basis of Presentation

Statement of Compliance

The consolidated financial statements of the Company, including comparatives have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved and authorized for issuance on March 29, 2022.

Basis of Measurement

The financial statements have been prepared on a historical cost basis as modified, when applicable, by 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 consolidated financial statements in conformity with IFRS 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 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 significant 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.

Fair Value Measurement

Fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. In determining the fair value measurement of the Company's financial instruments, the related inputs used in measuring fair value are prioritized according to the following hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable;

Level 3 – Unobservable inputs in which little or no market activity exists, therefore requiring the Company to develop its own assumptions.

Impact of COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) a global pandemic. The global outbreak of COVID-19 has had only a minimal impact to the Company's research and development activity to date as employees have been able to work remotely effectively. The situation is dynamic and the ultimate duration and magnitude of the impact of COVID-19 on the economy and the financial effect on our business, financial position and operating results remain unknown at this time. Such impact could include a material adverse impact on the management's estimates described above. The Company is closely monitoring the impact of the pandemic.

3. Significant accounting policies

a) Consolidation

These consolidated financial statements include the accounts of the Company's subsidiaries, Epimeron USA, Inc. and Willow Analytics Inc.

Subsidiaries:

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, substantive potential voting rights are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

b) Foreign currencies

Transactions in foreign currencies are translated to the functional currency at exchange rates in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate in effect at that date. The foreign currency gain or loss on monetary items has been recognized in net income or loss.

The Company's foreign operations that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency at period end exchange rates for assets and liabilities and at the average rate over the period for revenues and expenses. Translation gains and losses relating to the foreign operations are included as a component of shareholder' equity in Other Comprehensive Income/Loss.

c) Financial Instruments

i. Financial assets

The Company initially recognizes accounts receivable and deposits on the date that they originate. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following financial assets:

Financial instrument	Initial measurement	Subsequent measurement
Cash and cash equivalents	Fair value	Amortized cost
Accounts receivable	Fair value	Amortized cost

Cash and Cash Equivalents

Cash and cash equivalents includes cash-on-hand, demand deposits with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

ii. Financial Liabilities

Accounts payable and accrued liabilities are initially measured at fair value net any transaction costs directly attributable to the issuance of the instrument and are subsequently measured at amortized cost. The warrant liability has been classified as a derivative liability, initially measured at fair value, with subsequent changes in fair value at each reporting period end recognized through profit and loss (FVTPL).

The Company has the following financial liabilities:

Financial instrument	Initial measurement	Subsequent measurement
Accounts payable and accrued liabilities	Fair value	Amortized cost
Warrant liability	Fair value	FVTPL

d) Inventory

Inventory consists of chemicals, consumables, labware, general supplies and yeast for use primarily in our labs. Expenditures on lab supplies are initially capitalized when incurred, and the expense is recognized at a future date when the supplies are used. They are carried at cost, and these costs are recognized as the lab supplies are consumed in research and development activities in the statement of comprehensive loss or when the lab supplies are no longer expected to be used.

At each reporting date the Company assesses whether that inventory is impaired. It was deemed to be impaired, if, and only if, there was objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event had an impact on the estimated future cash flows of the asset.

e) Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost and any cost directly attributable to bringing the asset into operation.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount with any gain or loss recognized in earnings.

Category	Policy	Duration
Leasehold Improvements	Straight line amortization	One to five years
Lab Equipment	Straight line amortization	Three years
Software	Straight line amortization	One year
Information Technology	Straight line amortization	Three years
Office Furniture and Equipment	Straight line amortization	Five years

f) Patents

Patents is comprised of acquired intellectual property, which consists of patents that the Company acquired from its acquisition of Epimeron Inc. The patents are recorded at cost and are amortized on a straight-line basis over an estimated useful life of 16 – 21 years net of any accumulated impairment losses.

Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is expensed as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. A development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically, and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. These criteria are usually met when it has been determined that it is considered highly probable that the product or process can be patented, and the regulatory filing has begun. The expenditure capitalized includes the cost of material, direct labour, legal and consulting costs associated with filing the patent and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are expensed as incurred. Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment loss.

Investment Tax Credits and Government Assistance

The benefits of investment tax credits (“ITCs”) for research and development expenditures are recognized in the year the qualifying expenditure is made providing there is reasonable assurance of recoverability. The investment tax credits recorded are based on management’s estimates of amounts expected to be recovered and are subject to audit by taxation authorities. The investment tax credit reduces the carrying cost of expenditures for research and development or equipment to which they relate.

Research grants are recognized as a recovery of research expenditures in the statement of comprehensive loss when there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. The Company only recognizes grant proceeds on the statement of comprehensive loss when the proceeds have been spent on research expenses. Grant amounts received in advance are recorded as deferred grant proceeds.

g) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Leases are recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Company.

A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date, discounted at the Company’s incremental borrowing rate where the rate implicit in the lease is not readily determinable. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Each lease payment is allocated between the liability and lease interest expense. The lease interest expense is charged to the consolidated statement of comprehensive loss over the lease term to produce a constant periodic rate of interest on the remaining balance of the liability for each period. A corresponding right-of-use asset is recognized at the amount of the lease liability.

h) Impairment

The Company assesses at each reporting date whether there is any indication that an asset or a group of assets is impaired.

Property, plant and equipment and intangible assets may be impaired when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels (cash-generating units or "CGU") for which there are separately identifiable cash flows that are largely independent of the cash flows of other assets or CGUs. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant assets or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company re-evaluates impairment losses for potential reversals when events or circumstances warrant such consideration. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of any depreciation or amortization, if no impairment loss had been recognized.

i) Employee benefits

Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees, officers, and directors is recognized as an expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

The fair value of the Company's share-based payment awards is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the Company's historic volatility, particularly over the historic period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not considered in determining fair value.

Any consideration received upon exercise of the options and similar instruments together with the amount of non-cash compensation cost recognized in contributed surplus is recorded as an increase in common shares.

j) Revenue recognition

Revenues are recorded when products have been delivered or services have been performed.

k) Finance income and costs

Finance income is comprised of interest income on outstanding cash balances. Finance income is recognized as it accrues in net income or loss using the effective interest rate method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

l) Government grants

Grants resulting from government assistance programs, including investment tax credits for research and development expenditures, are reflected as reductions of the cost of the assets or expenditures when there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

m) Income Tax

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantially enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled.

Deferred tax assets are recognized to the extent that it is probable that the future taxable profits will be available against which they can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. The Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable income will be available to allow the benefit of part or all of these deferred tax assets to be utilized. Such reduction is reversed to the extent that it becomes probable that sufficient taxable income will be available.

n) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares or options are recognized as a deduction from equity.

o) Per share amounts

Basic loss per share ("EPS") is calculated by dividing the net loss for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The Company uses the treasury stock method to determine the dilutive effect of issued instruments (stock options, and warrants). This method assumes that proceeds received from the exercise of in-the-money instruments are used to repurchase common shares at the average market price for the period.

4. Significant judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in these consolidated financial statements and notes. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant judgements and estimates made by management affecting the consolidated financial statements include:

(a) Share-based payment transactions

The Company measures share-based payment transactions by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model, including the expected life of the option, volatility and forfeitures. The assumptions and model used for estimating fair value for share-based payment transactions are disclosed in Note 10.

(b) Warrant liability

The Company has recognized a warrant liability regarding issued and outstanding performance warrants. The warrant liability has been classified as a derivative liability, initially measured at fair value, with subsequent changes in fair value at each reporting period end recognized through profit and loss. Determining the estimated fair value at each reporting period end requires significant management judgement to determine certain significant assumptions to the valuation mode, including expected life and volatility rate. There are also other less significant assumptions to the valuation model including risk-free rate. The model used for estimating the fair value for the warrant liability and the significant and non-significant assumptions are disclosed in Note 9.

(amounts in thousands of Canadian dollars, except for share amounts)

(c) Impairment of property, plant and equipment ("PP&E") and intangible assets

The Company assesses at each reporting date whether there is any indication that PP&E and intangible assets are impaired.

PP&E and intangible assets may be impaired when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels (cash-generating units or "CGU") for which there are separately identifiable cash flows that are largely independent of the cash flows of other assets or CGUs. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant assets or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognized in net income or loss.

The Company re-evaluates impairment losses for potential reversals when events or circumstances warrant such consideration. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of any depreciation or amortization, if no impairment loss had been recognized.

5. Accounts Receivable

	Year Ended December 31,	
	2021	**2020**
Trade receivables, net of allowance for doubtful accounts	$ 41	$ 11
Accrued and other receivables	48	278
Total	$ 89	$ 289

6. Property, Plant and Equipment

Property, plant and equipment	**Leasehold improvements**	**Lab equipment**	**Software and IT**	**Office furniture and equipment**	**Total**
Cost					
As at December 31, 2019	$ 155	$ 6,493	$ 240	$ 246	$ 7,134
Additions	83	869	45	-	997
Disposals	(42)	(169)	(142)	(88)	(441)
As at December 31, 2020	$ 196	$ 7,193	$ 143	$ 158	$ 7,690
Additions	65	1,605	96	-	1,766
Disposals	-	(290)	-	-	(290)
As at December 31, 2021	$ 261	$ 8,508	$ 239	$ 158	$ 9,166

	Leasehold improvements	**Lab equipment**	**Software and IT**	**Office furniture and equipment**	**Total**
Accumulated depreciation					
As at December 31, 2019	$ 17	$ 1,473	$ 64	$ 91	$ 1,645
Depreciation	48	2,273	115	16	2,452
Disposals	(10)	(67)	(101)	(88)	(266)

(amounts in thousands of Canadian dollars, except for share amounts)

As at December 31, 2020	$ 55	$ 3,679	$ 78	$ 19	$ 3,831
Depreciation	82	2,429	111	12	2,634
Disposals	-	(82)	-	-	(82)
As at December 31, 2021	$ 137	$ 6,026	$ 189	$ 31	$ 6,383

	Leasehold improvements	**Lab equipment**	**Software and IT**	**Office furniture and equipment**	**Total**
Net Book Value					
As at December 31, 2020	$ 141	$ 3,514	$ 65	$ 139	$ 3,859
As at December 31, 2021	$ 124	$ 2,482	$ 50	$ 127	$ 2,783

7. Leases

Right-of-use assets

The Company's right-of-use assets mainly related to the lease of office and lab space. The lease liabilities were discounted at the incremental borrowing rate of 3.95%.

	Year Ended December 31,	
	2021	**2020**
Cost		
Balance, beginning of year	$ 1,638	$ 1,644
Additions	547	725
Disposals	-	(731)
Balance, end of year	$ 2,185	$ 1,638
Accumulated depreciation		
Balance, beginning of year	$ (760)	$ (475)
Depreciation	(558)	(623)
Disposals	-	338
Balance, end of year	$ (1,318)	$ (760)
Net book value		
As at end of year	$ 867	$ 878

Lease liabilities

The company has recognized lease liabilities in relation to the arrangements to lease of office and lab space. The reconciliation of movements in lease liabilities as follows:

	Year Ended December 31,	
	2021	**2020**
Balance, beginning of year	$ 869	$ 1,198
Additions	543	713
Interest expense on lease liability	27	40
Payments	(637)	(651)
Termination	-	(431)
Balance, end of year	$ 802	$ 869

(amounts in thousands of Canadian dollars, except for share amounts)

Lease liability - current	$ 641	$ 587
Lease liability - non-current	161	282
Balance, end of year	$ 802	$ 869

8. 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 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. 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.

As at December 31, 2020, the Company recorded an impairment for the entire balance of both the remaining acquired non-cannabinoid patent and the remaining acquired cannabinoid patent.

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, 2019	$ 6,599
Disposal	(6,252)
Balance at December 31, 2020 and December 31, 2021	$ 347

Accumulated depreciation and impairment	
Balance at December 31, 2019	$ (264)
Charge for the year	(107)
Impairment	(6,159)
Disposal	6,183
Balance at December 31, 2020 and December 31, 2021	$ (347)

Net book value	
As at December 31, 2020	$ -
As at December 31, 2021	$ -

9. Warrants and Warrant Liability

(a) Issued and outstanding warrants

	Number of Warrants	**Weighted Average Exercise Price $**
Warrants at December 31, 2019	2,138,872	3.71
Expired	(1,457,384)	2.10
Issued	8,846,154	0.85
Warrants at December 31, 2020	9,527,642	1.30
Exercised	(8,785,080)	0.85
Expired	(163,249)	0.85
Warrants at December 31, 2021	579,313	4.00

Warrants outstanding and the weighted average remaining life of the warrants at December 31, 2021 are as follows:

(amounts in thousands of Canadian dollars, except for share amounts)

	Warrants Outstanding		Warrants Vested	
Exercise Price $	Number of Warrants	Weighted Average Remaining Life (years)	Number of Warrants	Weighted Average Remaining Life (years)
4.00	579,313	0.82	579,313	0.82
	579,313	0.82	579,313	0.82

On October 29, 2020, the Company issued 8,846,154 warrants. Each Warrant entitled 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 (the “Acceleration Right”) 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.

The Acceleration Right was exercised during the year ended December 31, 2021, and as a result 8,785,080 warrants issued on October 29, 2020 were exercised. The remaining 61,074 warrants expired.

(b) Compensation warrants

	Number of Compensation Warrants	**Weighted Average Exercise Price $**
Compensation warrants at December 31, 2019	-	$ -
Issued	474,324	0.85
Compensation warrants at December 31, 2020	474,324	$0.85
Exercised	(474,324)	0.85
Issued	1,045,588	2.15
Compensation warrants at December 31, 2021	1,045,588	$2.15

Compensation Warrants outstanding and the weighted average remaining life of the warrants at December 31, 2021 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)
2.15	1,045,588	1.1	1,045,588	1.1

On October 29, 2020 the Company issued 474,324 common share purchase warrants (each, a "Compensation Warrant") to Agents that led the public offering. Each Compensation Warrant entitles the Agents to purchase one Common Share at a price of $0.85 for a period of 12 months from the date thereof, subject to the Acceleration Right described above. Each warrant has been valued at $0.12 using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 0.23%; expected life of 1 year; volatility of 88.46%; forfeiture rate of nil; dividend yield of nil.

On February 19, 2021, the Company issued 1,045,488 common share purchase warrants (each, a "Compensation Warrant") to underwriters that led the bought deal offering. Each Compensation Warrant entitles the Agents to purchase one Common Share at a price of $2.15 for a period of 24 months from the date of issuance, provided that if, at any time prior to the expiry date of the Warrants, the 20-day volume weighted average of actual closing prices of the Common Shares on the Toronto Stock Exchange or other principal exchange on which the Common Shares are listed, is greater than $3.05 (the “Acceleration Right”), 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. Each warrant has been valued at $0.75 using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 0.23%; expected life of 2 years; volatility of 92.86%; forfeiture rate of nil; dividend yield of nil.

(amounts in thousands of Canadian dollars, except for share amounts)

(c) Issued and outstanding performance warrants

	Number of Performance Warrants	Weighted Average Exercise Price $
Performance warrants at December 31, 2019	15,555,469	0.89
Expired	(584,080)	1.20
Performance warrants at December 31, 2020	14,971,389	0.875
Exercised	(7,600)	0.875
Performance warrants at December 31, 2021	14,963,789	0.875

On April 12, 2019, the Company 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 Company listed on a recognized stock exchange (other than the CSE or the TSX-Venture). If these conditions are met, then an additional 12,091,589 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 thousand.

The performance warrants 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.

On February 3, 2021, proceeds of $7 thousand were received upon the exercising of 7,600 performance warrants, and as a result, warrants with a fair market value of $8 thousand were transferred from warrant liability to common shares.

At December 31, 2021, the warrants have been fair valued at $3.8 million (December 31, 2020 - $20.6 million) using the Black-Scholes Option Pricing Model with the following assumptions, inclusive of incremental Performance Incentive:

	Year Ended December 31,	
	2021	2020
Dividend	-	-
Risk-free interest	0.18%- 1.02%	0.15%-0.30%
Estimated life (years)	2.28	1.25 - 3.25
Expected volatility	86.60%	91.13%
Forfeitures	-	-

(amounts in thousands of Canadian dollars, except for share amounts)

The difference of $16.8 million has been recorded as a gain on fair value adjustments on the year end consolidated statement of comprehensive loss ended December 31, 2021 (December 31, 2020 - $11.0 million loss).

Performance warrants outstanding and the weighted average remaining life of the performance warrants at December 31, 2021 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	14,963,789	2.28	6,900,196	2.28

10. 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, 2020	78,891,879	$ 72,601
Common shares issued	17,692,307	11,500
Share issue costs	-	(984)
Compensation warrants issued	-	55
December 31, 2020	96,584,186	$ 83,172
Common shares issued	17,424,800	28,751
Share issue costs	-	(2,806)
Compensation warrants issued	-	785
Common shares issued on exercise of warrants	8,785,080	7,467
Common shares issued on exercise of compensation warrants	474,324	403
Common shares issued on exercise of performance warrants	7,600	7
Transfer of warrant liability to common shares	-	8
Common shares issued on exercise of stock options	269,333	242
December 31, 2021	123,545,323	$ 118,029

On October 29, 2020, the Company completed a public offering raising $11.5 million by the issuance of 17,692,307 units at a price of $0.65 per unit. Each unit consists of one common share and one-half of one common share purchase warrant.

On February 19, 2021, the Company completed a bought deal offering raising gross proceeds of $28.8 million by the issuance of 17,424,800 common shares at a price of $1.65 per common share.

Share issue costs

During the year ended December 31, 2021, the Company recognized total share issue costs of $2.8 million (December 31, 2020 - $1.0 million), including $0.79 million associated with warrants issued to Agents involved with the February 19, 2021 bought deal offering.

(amounts in thousands of Canadian dollars, except for share amounts)

(c) Stock-based compensation expense

	Year Ended December 31, 2021	2020
Stock options	$ 1,326	$ 951
Restricted share awards	280	-
Performance share awards	97	-
Total	$ 1,703	$ 951

As at December 31, 2021, the Company recorded an expense of $1.7 million (December 31, 2020 –$1.0 million) to stock-based compensation expense recognizing the stock option, restricted share awards and performance share awards activity for the period based on the fair value of options issued amortized using a graded vesting calculation.

(d) Issued and outstanding employee stock options

	Number of Employee Stock Options	Weighted Average Exercise Price $
Options at December 31, 2019	5,332,800	1.51
Forfeited	(1,356,000)	1.05
Issued	1,775,920	0.56
Options at December 31, 2020	5,752,720	1.32
Exercised	(269,333)	0.59
Forfeited	(1,483,667)	0.80
Issued	4,049,000	1.42
Options at December 31, 2021	8,048,720	1.41

During the year ended December 31, 2021, proceeds of $158 thousand were received on the exercising of 269,333 stock options by employees (December 31, 2020 – $nil).

The following table summarizes information about the options outstanding and exercisable at December 31, 2021.

Outstanding	Exercise Price $	Remaining life (years)	Exercisable
3,064,800	1.75	2.34	3,064,800
313,000	0.60	2.69	313,000
310,000	0.66	2.91	310,000
533,920	0.41	3.43	185,975
24,000	0.79	3.64	15,000
45,000	0.55	3.88	-
165,000	1.65	4.11	-
2,293,000	1.61	4.24	-
685,000	1.28	4.36	-
490,000	0.83	4.61	-
105,000	0.51	4.88	-
20,000	0.41	4.95	-
8,048,720		3.39	3,888,775

The fair value of options granted during the year ended December 31, 2021 has been estimated according to the Black-Scholes option pricing model. The following assumptions were used in arriving at the weighted average fair value of $0.80 per option (December 31, 2020- $0.31):

	Year Ended December 31, 2021	2020

Dividend	-	-
Risk-free interest	0.26%- 1.23%	0.29%-0.36%
Estimated life (years)	3.15-3.44	3.00
Expected volatility	86.62%-88.93%	83.54%-90.08%
Forfeitures	11.33%-18.02%	-

(e) Restricted share awards ("RSAs")

During the year ended December 31, 2021, 538,028 RSAs were granted. The RSAs vest in one-third increments on the first, second and third anniversaries of the date of grant. The Company estimates the fair value of RSAs based on the market price of the underlying stock on the date of grant.

	Number of restricted share awards	**Weighted average grant date fair value**
Granted	538,028	$ 1.45
Outstanding at December 31, 2021	538,028	$ 1.45

For the year ended December 31, 2021, the Company recorded share-based compensation expense of $280 thousand (2020-$nil) for RSAs granted during the period.

(f) Performance share awards ("PSAs")

During the year ended December 31, 2021, 418,639 PSAs were granted. The PSAs vest three years from the date of grant. The Company estimates the fair value of PSAs based on the market price of the underlying stock on the date of grant.

	Number of restricted share awards	**Weighted average grant date fair value**
Granted	418,639	$ 1.45
Outstanding at December 31, 2021	418,639	$ 1.45

For the year ended December 31, 2021, the Company recorded share-based compensation expense of $97 thousand (2020 - $nil) for PSAs granted during the period.

11. Statement of Comprehensive Loss Supplementary Information

General and Administrative Expenses

	Year Ended December 31,	
	2021	**2020**
Consulting and technical services	$ 375	$ 281
Salaries, wages and benefits	2,521	2,073
Legal, audit and accounting	843	838
Investor relations	596	475
Corporate and office	1,749	1,799
Sales and marketing	817	-
	$ 6,901	$ 5,466

12. Earnings (loss) per Share

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

(amounts in thousands of Canadian dollars, except for share amounts)

	Year Ended December 31, 2021	2020
Net loss	$ (6,140)	$ (33,946)
Weighted average common shares outstanding, basic and diluted	119,987,680	81,994,092
Earnings (loss) per share, basic and diluted	$ (0.05)	$ (0.41)

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

13. Segment disclosures

During 2021, the Company discontinued analytical testing for external customers, and is now considered to be a part of research and development. The Company's operations have one reportable segment engaged in the research, development, and commercialization of high purity, plant derived ingredients for consumer care, food and beverage and pharmaceutical products, which is consistent with the way the Company reports information to its chief decision makers and Board of Directors.

The following geographic information reflects revenue and non-current assets by location.

Revenue	**Year Ended December 31, 2021**	**2020**
Canada	$ 133	$ 10
United states	-	-
	$ 133	$ 10
Non-current assets		
Canada	$ 1,446	$ 2,089
United states	2,299	2,741
Total assets		
Canada	$ 31,412	$ 17,651
United states	3,604	4,213

14. Net Finance Income

	Year Ended December 31, 2021	2020
Interest on savings accounts	$ (414)	$ (155)
Interest on lease liabilities	27	40
	$ (387)	$ (115)

15. Statements of Cash Flows Supplementary Information

(a) Net change in non-cash working capital

	Year Ended December 31, 2021	2020
Accounts receivable	$ 200	$ 365
Deposits and prepaid expenses	(149)	(255)

(amounts in thousands of Canadian dollars, except for share amounts)

Inventory	(158)	(116)
Accounts payable and accrued liabilities	(236)	(210)
	$ (343)	$ (216)
Relating to:		
Operating activities	$ (316)	$ (211)
Investing activities	(27)	(5)
	$ (343)	$ (216)

(b) Supplementary cash flow information

As at December 31, 2021, the Company received interest income of $414 (December 31, 2020 –$155). No taxes were paid or received during the year ended December 31, 2021 or December 31, 2020. Cash and cash equivalents at December 31, 2021 and December 31, 2020 consists of cash held in the Company's bank accounts and does not include any short-term investments.

16. 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 December 31, 2021 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities.

(a) Fair Values of Financial Instruments

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company maximizes the use of observable inputs when preparing calculations of fair value, where possible. The fair value hierarchy has the following levels:

• Level 1 - Values are based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.

• Level 2 - Values are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in Level 2 are either directly or indirectly observable as of the reporting date.

• Level 3 - Values are based on prices or valuation techniques that are not based on observable market data. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and lease liability 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 and accounts receivable. The

(amounts in thousands of Canadian dollars, except for share amounts)

Company reduces its credit risk on cash and cash equivalents by maintaining its bank accounts at large international financial institutions. Accounts receivable consists predominately of the Industrial Research Assistance Program ("IRAP"), a government funded research grant, 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 is held in bank accounts and is readily available on demand.

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 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:

(in USD)	**Year Ended December 31,**	
	2021	**2020**
Cash and cash equivalents	$ 6,046	$ 759
Deposits	168	58
Accounts payable and accrued liabilities	(218)	(226)
Lease liability	(469)	(418)
Net holdings	$ 5,527	$ 173
Impact of 5% strengthening of USD based on above exposure	CAD$ 353	CAD$ 11

17. 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.

18. Income Taxes

(a) Deferred Income Tax Expense (Recovery)

The income taxes shown on the statements of comprehensive loss differ from amounts obtained by applying statutory rates due to the following:

(amounts in thousands of Canadian dollars, except for share amounts)

	2021	Year Ended December 31, 2020
Loss before income taxes	$ (6,140)	$ (33,946)
Statutory income tax rate	27.00%	27.00%
Expected income tax recovery	$ (1,658)	$ (9,165)
Non-deductible items and other	(3,469)	2,666
Change in tax rates	342	1,118
Change in unrecognized tax benefits	4,785	5,381
Income tax recovery	$ -	$ -

(b) Deferred Income Tax Asset

The components of the Company's unrecognized deductible temporary difference are as follows:

	2021	2020
Share issuance costs	$3,687	$2,012
Plant, property and equipment	1,844	1,186
Capital losses and other	609	4,046
Non-capital losses	56,935	32,045
Unrecognized deductible temporary differences	$63,075	$39,289

As at December 31, 2021, the Company had approximately $63.1 million (December 31, 2020 - $39.3 million) in tax pools available for deduction against future taxable income. Included in this tax basis are estimated non-capital loss carry forwards of approximately $56.9 million (December 31, 2020 - $32.0 million) that expire between 2034 and 2041. The tax pools have not been recorded in the Company's records as it is not probable that they will be realized.

19. Key Management Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the Company's activities as a whole. Key management personnel consist of the members of the Board of Directors along with senior officers of the Company, a total of 12 individuals (2020 - 12 individuals).

Key management personnel compensation is comprised of:

	Year Ended December 31, 2021	2020
Salaries and short-term employee benefit	$ 1,905	$ 1,561
Share-based compensation	1,238	549
	$ 3,143	$ 2,110

20. Contingencies

On September 16, 2021, Willow was served with a claim commenced in the Federal Court of Canada by Aurora Cannabis Inc and the University of Saskatchewan alleging infringement of Canadian Patent No. 2,770,774. Willow filed a defence and counterclaim on October 18, 2021. The plaintiffs filed an amended claim on December 13, 2021, which added allegations that Canadian Patent Nos. 2,796,465 and No. 2,851,316 are also infringed. Willow filed an amended defence and counterclaim on February 14, 2022. Willow's counterclaim alleges invalidity with respect to all three patents in issue. The matter is ongoing. Willow disputes the allegations and intends to continue to vigorously defend the claim and advance its counterclaim. While Willow believes that the claim is without merit it cannot predict the final outcome or timing of the action due to the inherent risks and uncertainties of litigation.