CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS of WILLOW BIOSCIENCES INC.

For the Three and Six Months Periods Ended

June 30, 2022 and 2021

(Unaudited, in thousands of Canadian dollars)

TSX: WLLW
OTCQB: CANSF
www.willowbio.com

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	Note	June 30 2022	December 31 2021
Assets			
Current			
Cash and cash equivalents		$ 22,074	$ 30,119
Accounts receivable		160	89
Deposits and prepaid expenses		968	679
Inventory		383	384
		23,585	31,271
Property, plant and equipment	5	1,998	2,783
Right-of-use assets		515	867
Other non-current assets		95	95
		$ 26,193	$ 35,016
Liabilities			
Current			
Accounts payable and accrued liabilities		$ 906	$ 757
Current portion of lease liability		550	641
Deferred revenue		-	10
		1,456	1,408
Warrant liability	6	205	3,765
Lease liability		57	161
		1,718	5,334
Shareholders' equity			
Share capital and warrants	6,7	118,071	118,029
Contributed surplus		6,758	5,905
Accumulated other comprehensive loss		(392)	(410)
Deficit		(99,962)	(93,842)
Total shareholders' equity		24,475	29,682
		$ 26,193	$ 35,016

Contingencies - Note 13

See accompanying notes to these condensed interim consolidated financial statements.

Approved by the Board of Directors:

(Signed)	*(Signed)*
Barbara Munroe Director	Sadiq Lalani Director

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

In thousands of Canadian dollars except per share data	Note	Three months ended June 30 2022	Three months ended June 30 2021	Six months ended June 30 2022	Six months ended June 30 2021
Revenues					
Product revenue		$ 138	$ 116	$ 138	$ 122
Research and development		124	-	124	-
Total revenue		262	116	262	122
Operating Expenses					
General and administrative		1,820	1,695	3,461	2,886
Research and development		1,726	2,889	3,586	5,536
Share based compensation	7	406	527	895	679
Depreciation and amortization		815	776	1,694	1,526
Loss on equipment disposal		-	54	-	88
Foreign exchange loss		4	15	3	27
Total operating expenses		4,771	5,956	9,639	10,742
Loss from operating activities		(4,509)	(5,840)	(9,377)	(10,620)
Gain on fair value of warrant liability	6	1,679	12,390	3,560	5,771
Restructuring costs	4	(356)	-	(356)	-
Net finance income		35	152	53	246
Loss before income tax		(3,151)	6,702	(6,120)	(4,603)
Current income tax expense		-	(179)	-	(179)
Net income (loss)		(3,151)	6,523	(6,120)	(4,782)
Foreign exchange gain (loss) on translation of foreign operations		14	(47)	18	(81)
Net comprehensive income (loss)		$ (3,137)	$ 6,476	$ (6,102)	$ (4,863)
Loss per share: Basic and diluted	8	$ (0.03)	$ 0.05	$ (0.05)	$ (0.04)

See accompanying notes to these condensed interim 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 7)	(Note 6,7)	(Note 7)			
December 31, 2021	123,545,323	$ 118,029	$ 5,905	$ (410)	$ (93,842)	$ 29,682
Vesting of RSAs	169,344	42	(42)			
Share based compensation	-	-	895	-	-	895
Foreign exchange gain on translation of foreign operations	-	-	-	18	-	18
Net loss for the period	-	-	-	-	(6,120)	(6,120)
June 30, 2022	123,714,667	$ 118,071	$ 6,758	$ (392)	$ (99,962)	$ 24,475

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, 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	253,333	233	(81)	-	-	152
Share based compensation		-	679	-	-	679
Foreign exchange loss on translation of foreign operations	-	-	-	(81)	-	(81)
Net loss for the period	-	-	-	-	(4,782)	(4,782)
June 30, 2021	123,529,323	$ 118,020	$ 4,884	$ (396)	$ (92,484)	$ 30,024

See accompanying notes to these condensed interim consolidated financial statements.

In thousands of Canadian dollars	Note	Three months ended June 30 2022	Three months ended June 30 2021	Six months ended June 30 2022	Six months ended June 30 2021
Cash provided by (used for):					
Operating activities					
Net income (loss)		$ (3,151)	$ 6,523	$ (6,120)	$ (4,782)
Items not affecting cash and cash equivalents:					
Share based compensation	7	406	527	895	679
Depreciation and amortization		815	776	1,694	1,526
Gain on fair value of warrant liability	6	(1,679)	(12,390)	(3,560)	(5,771)
Loss on equipment disposal		-	54	-	88
Restructuring cost	4	322	-	322	-
Interest on lease liabilities		6	8	13	12
Funds used in operations		(3,281)	(4,502)	(6,756)	(8,248)
Net change in non-cash working capital	10	(126)	(523)	292	(693)
		(3,407)	(5,025)	(6,464)	(8,941)
Financing activities					
Proceeds from issuance of common shares, net of share issue cost		-	-	-	26,730
Exercise of stock options		-	36	-	152
Exercise of warrants and compensation warrants		-	-	-	7,870
Exercise of performance warrants		-	-	-	7
Lease payments		(174)	(158)	(356)	(307)
Long-term deposit		(3)	-	(1)	72
		(177)	(122)	(357)	34,524
Investing activities					
Expenditures on property, plant and equipment	5	(530)	(446)	(745)	(836)
Proceeds on disposal of property, plant and equipment		-	119	-	119
Net change in non-cash working capital	10	(373)	(234)	(486)	(4)
		(903)	(561)	(1,231)	(721)
Increase (decrease) in cash and cash equivalents		(4,487)	(5,708)	(8,052)	24,862
Effect of foreign exchange on cash and cash equivalents		204	(13)	7	(23)
Cash and cash equivalents, beginning of period		26,357	46,455	30,119	15,895
Cash and cash equivalents, end of period		$ 22,074	$ 40,734	$ 22,074	$ 40,734

Supplementary cash flow information – Note 10

See accompanying notes to these condensed interim 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 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. ("Epimeron") 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

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards 34 "Interim Financial Reporting".

These condensed interim consolidated financial statements were approved and authorized for issuance on August 12, 2022.

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 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 include impairment indicators and amortization period for 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.

Impact of COVID-19

The global pandemic 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 the pandemic 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 will continue to closely monitor the impact of the pandemic.

3. Significant Accounting Policies

The significant accounting policies applied by the Company are described in note 3 of the December 31, 2021 consolidated annual financial statements. These condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2022 have been prepared following the same accounting policies and methods of computation as the most recent consolidated annual financial statements as at and for the year ended December 31, 2021.

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

Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed. Accordingly, these condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements.

4. Restructuring Costs

The Company conducted restructuring activities during the quarter in line with its long-term strategy of focusing its research and development in the Mountain View, California lab.

On May 25, 2022, Willow initiated through communication to employees the closing of its Burnaby lab and recognized $34 thousand of severance as restructuring costs. As the Company expects to vacate the space prior to the lease tenure of March 2023, an impairment to the right-of-use asset has been recognized. The entire right-of-use asset pertaining to the Burnaby facility of $100 thousand has been written off as impairment.

Additionally, Willow conducted a review of its property, plant and equipment to determine which assets will be written off or transferred to its Mountain View, California lab. It was concluded that property plant and equipment of $222 thousand has been written off as impairment.

For the three and six months ended June 30, 2022, the Company has recognized restructuring costs of $356 thousand (June 30, 2021 - $nil).

5. 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, 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
Additions	8	729	2	6	745
As at June 30, 2022	$ 269	$ 9,237	$ 241	$ 164	$ 9,911

	Leasehold improvements	Lab equipment	Software and IT	Office furniture and equipment	Total
Accumulated depreciation					
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
Depreciation	47	1,212	41	8	1,308
Impairment	84	129	-	9	222
As at June 30, 2022	$ 268	$ 7,367	$ 230	$ 48	$ 7,913

	Leasehold improvements	Lab equipment	Software and IT	Office furniture and equipment	Total
Net Book Value					
As at December 31, 2021	$ 124	$ 2,482	$ 50	$ 127	$ 2,783
As at June 30, 2022	$ 1	$ 1,870	$ 11	$ 116	$ 1,998

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

6. Warrants and Warrant Liability

(a) Issued and outstanding warrants

	Number of Warrants	Weighted Average Exercise Price $
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 and June 30, 2022	579,313	4.00

Warrants outstanding and the weighted average remaining life of the warrants at June 30, 2022 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)
4.00	579,313	0.33	579,313	0.33

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 2021, and as a result 8,785,080 warrants issued were exercised. The remaining 61,074 warrants expired.

(b) Compensation warrants

	Number of Compensation Warrants	Weighted Average Exercise Price $
Compensation warrants at December 31, 2020	474,324	0.85
Exercised	(474,324)	0.85
Issued	1,045,488	2.15
Compensation warrants at December 31, 2021 and June 30, 2022	1,045,488	2.15

Compensation Warrants outstanding and the weighted average remaining life of the warrants at June 30, 2022 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	1,045,488	0.6	1,045,488	0.6

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, 2020	14,971,389	0.875
Exercised	(7,600)	0.875
Performance warrants at December 31, 2021 and June 30, 2022	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.

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.

As at June 30, 2022, the warrants have been fair valued at $0.2 million (December 31, 2021 - $3.8 million) using the Black-Scholes Option Pricing Model with the following assumptions, inclusive of incremental Performance Incentive:

	June 30 2022	December 31 2021
Dividend	-	-
Risk-free interest	3.12%	0.18%- 1.02%
Estimated life (years)	1.79	0.28 - 2.28
Expected volatility	83.02%	87.00%
Forfeitures	-	-

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

For the three and six months ended June 30, 2022, the difference has been recorded as a gain on fair value adjustments of $1.7 million and $3.6 million, respectively (June 30, 2021 – $12.4 million and $5.8 million fair value gain, respectively).

Performance warrants outstanding and the weighted average remaining life of the performance warrants at June 30, 2022 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	1.79	6,900,196	1.79

7. 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
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
Exercise of options	269,333	242
Transfer of warrant liability to common shares	-	8
December 31, 2021	123,545,323	$ 118,029
Common shares issued on exercise of restricted share awards	169,344	42
June 30, 2022	123,714,667	$ 118,071

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 three and six months ended June 30, 2022, there were no share issue costs (2021 - $2.8 million and $2.8 million, respectively).

(c) Share-based compensation expense

	Three months ended June 30		Six months ended June 30	
	2022	**2021**	**2022**	**2021**
Stock options	$ 230	$ 403	$ 567	$ 543
Restricted share awards	122	89	235	97

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

Performance share awards	54	35	93	39
Total	$ 406	$ 527	$ 895	$ 679

For the three and six months ended June 30, 2022, the Company recorded an expense of $0.4 million and $0.9 million, respectively (June 30, 2021- $0.5 million and $0.7 million, respectively) to share-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, 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
Forfeited	(1,114,667)	1.24
Issued	1,897,880	0.36
Options at June 30, 2022	8,831,933	1.20

During the three and six months ended June 30, 2022, no stock options were exercised (June 30, 2021– proceeds of $37 thousand were received on the exercising of 60,600 stock options and $152 thousand were received on the exercising of 253,333 stock options respectively).

The following table summarizes information about the options outstanding and exercisable at June 30, 2022:

Outstanding	Exercise Price	Remaining life (years)	Exercisable
2,724,800	$1.75	1.84	2,724,800
123,000	0.60	2.20	123,000
310,000	0.66	2.41	310,000
488,420	0.41	2.93	326,945
24,000	0.79	3.14	8,000
45,000	0.55	3.39	15,000
60,000	1.65	3.62	20,000
2,234,333	1.61	3.74	747,001
440,000	1.28	3.87	146,667
435,000	0.83	4.12	-
80,000	0.51	4.38	-
20,000	0.41	4.46	-
18,000	0.41	4.52	-
18,000	0.44	4.53	-
90,000	0.43	4.57	-
1,586,380	0.37	4.75	-
15,000	0.34	4.78	-
60,000	0.28	4.84	-
60,000	0.19	4.88	-
8,831,933		3.22	4,421,413

The fair value of options granted during the six months ended June 30, 2022 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 $0.24 per option (June 30, 2021 - $0.87):

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

	June 30 2022	June 30 2021
Dividend	-	-
Risk-free interest	1.07%-2.75%	0.26%-0.59%
Estimated life (years)	3.34-3.50	3.15-3.20
Expected volatility	88.76%-100.59%	86.62%-86.73%
Forfeitures	17.49%-18.77%	11.33%-13.75%

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(e) Restricted share awards ("RSAs")

During the six months ended June 30, 2022, 1,170,269 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
RSAs at December 31, 2020	-	-
Issued	538,028	1.45
RSAs at December 31, 2021	538,028	1.45
Exercised	(169,344)	0.25
Forfeited	(15,000)	0.80
Issued	1,170,269	0.36
RSAs at June 30, 2022	1,523,953	0.61

For the three and six months ended June 30, 2022, the Company recorded share-based compensation expense of $122 thousand and $235 thousand, respectively (June 30, 2021- $89 thousand and $97 thousand, respectively) for RSAs granted during the period.

(f) Performance share awards ("PSAs")

During the six months ended June 30, 2022, 651,349 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 performance share awards	Weighted average grant date fair value
PSAs at December 31, 2020	-	-
Issued	418,639	1.45
PSAs at December 31, 2021	418,639	1.45
Forfeited	(15,000)	0.80
Issued	651,349	0.36
PSAs at June 30, 2022	1,054,988	0.78

For the three and six months ended June 30, 2022, the Company recorded share-based compensation expense of $54 thousand and $93 thousand, respectively (June 30, 2021 - $35 thousand and 39 thousand, respectively) for PSAs granted during the period.

8. Earnings (loss) per Share

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

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Net income (loss)	$ (3,151)	$ 6,523	$ (6,120)	$ (4,782)

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

Weighted average common shares outstanding, basic	123,655,233	123,507,408	123,600,278	116,352,332
Effect of dilutive performance warrants	-	4,215,491	-	-
Effect of dilutive performance incentive warrants	-	12,095,389	-	-
Effect of dilutive performance share awards	-	388,639	-	-
Effect of dilutive restricted share awards	-	508,029	-	-
Weighted average common shares outstanding diluted	123,655,233	140,714,956	123,600,278	116,352,332
Earnings (loss) per share, basic and diluted	$ (0.03)	$ 0.05	$ (0.05)	$ (0.04)

As the Company incurred a loss, outstanding warrants, compensation warrants, performance warrants, stock options, performance stock awards and restricted stock awards were excluded from diluted loss per share for the three and six months ended June 30, 2022 and June 30, 2021 as they are anti-dilutive.

9. Segment Disclosures

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 assets by location:

	Three months ended June 30		**Six months ended June 30**	
Revenue	**2022**	**2021**	**2022**	**2021**
Canada	$ 138	116	$ 138	$ 119
United states	124	-	124	3

Non-current assets	**June 30 2022**	**December 31 2021**
Canada	$ 833	$ 1,446
United states	1,775	2,299

Total assets	**June 30 2022**	**December 31 2021**
Canada	$ 22,977	$ 31,412
United states	3,216	3,604

10. Statements of Cash Flows Supplementary Information

(a) Net change in non-cash working capital

	Three months ended June 30		**Six months ended June 30**	
	2022	**2021**	**2022**	**2021**
Accounts receivable	$ (65)	$ (104)	$ (71)	$ (4)
Deposits and prepaid expenses	(583)	(431)	(291)	(452)
Inventory	(63)	(32)	(45)	(127)
Accounts payable and accrued liabilities	212	(190)	213	(114)
	$ (499)	$ (757)	$ (194)	$ (697)

Relating to:

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

Operating activities	$ (126)	$ (523)	$ 292	$ (693)
Investing activities	(373)	(234)	(486)	(4)
	$ (499)	$ (757)	$ (194)	$ (697)

(b) Supplementary cash flow information

For the three and six months ended June 30, 2022, the Company received interest income of $41 thousand and $66 thousand, respectively (June 30, 2021 - $159 thousand and $258 thousand, respectively). No taxes were paid or received during the three and six months ended June 30, 2022 or June 30, 2021. Cash and cash equivalents at June 30, 2022 and June 30, 2021 consists of cash held in the Company's bank accounts and does not include any short-term investments.

11. 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 June 30, 2022 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 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 Company reduces its credit risk on cash and cash equivalents by maintaining its bank accounts at large international financial institutions. Accounts receivable consists predominantly of 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

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

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company anticipates that cash and cash equivalents will be adequate to satisfy the Company's liquidity requirements for the next 12 month. 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)	**June 30 2022**	**December 31 2021**
Cash and cash equivalents	$ 5,084	$ 6,046
Deposits	217	168
Accounts payable and accrued liabilities	(548)	(218)
Lease liability	(400)	(469)
Net holdings	$ 4,353	$ 5,527
Impact of 5% strengthening of USD based on above exposure	CAD $ 280	CAD $ 353

12. 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.

13. 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 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.