Condensed Interim Consolidated Financial Statements of

WILLOW BIOSCIENCES INC.

For the Three Months Periods Ended March 31, 2023 and 2022

(in thousands of Canadian dollars)

Table of Contents

In thousands of Canadian dollars except per share data	**Note**	**March 31 2023**	**December 31 2022**
Assets			
Current			
Cash and cash equivalents		$ 10,468	$ 11,007
Accounts receivable		452	282
Short-term investments		20	4,020
Deposits and prepaid expenses		322	643
Inventory		243	277
		11,505	16,229
Property, plant and equipment	4	1,570	1,301
Right-of-use assets		427	618
		$ 13,502	$ 18,148
Liabilities			
Current			
Accounts payable and accrued liabilities		$ 861	$ 1,087
Current portion of lease liabilities		489	632
Deferred share awards liability	6g	365	-
		1,715	1,719
Warrant liability	5b	3	23
Lease liabilities		18	32
		1,736	1,774
Shareholders' equity			
Share capital and warrants	5,6	118,102	118,072
Contributed surplus		7,456	7,323
Accumulated other comprehensive loss		(366)	(365)
Deficit		(113,426)	(108,656)
Total shareholders' equity		11,766	16,374
		$ 13,502	$ 18,148

Contingencies – Note 12
Going concern – Note 1

See accompanying notes to these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Comprehensive Loss
(Unaudited)

		For the three months ended March 31	
In thousands of Canadian dollars except per share data	**Note**	**2023**	**2022**
Revenues			
Research and development	2	$ 274	$ -
Total revenue		$ 274	$ -
Operating Expenses			
General and administrative		2,069	1,641
Research and development		2,094	1,860
Share based compensation	6c	528	489
Depreciation and amortization		452	879
Write-off of assets		19	-
Foreign exchange loss (gain)		18	(1)
Total operating expenses		5,180	4,868
Loss from operating activities		(4,906)	(4,868)
Gain on fair value of warrant liability	5	20	1,881
Net finance income	9b	116	18
Net loss		(4,770)	(2,969)
Foreign exchange gain (loss) on translation of foreign operations		(1)	4
Net comprehensive loss		$ (4,771)	$ (2,965)
Loss per share: Basic and diluted	7	$ (0.04)	$ (0.02)

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 6)	(Note 5,6)	(Note 6)			
December 31, 2022	123,719,667	$ 118,072	$ 7,323	$ (365)	$ (108,656)	$ 16,374
Vesting of Restricted Share Awards	352,433	30	(30)	-	-	-
Share-based compensation	-	-	163	-	-	163
Foreign exchange loss on translation of foreign operations	-	-	-	(1)	-	(1)
Net loss for the period	-	-	-	-	(4,770)	(4,770)
March 31, 2023	124,072,100	$ 118,102	$ 7,456	$ (366)	$ (113,426)	$ 11,766

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, 2021	123,545,323	$ 118,029	$ 5,905	$ (410)	$ (93,842)	$ 29,682
Share-based compensation	-	-	489	-	-	489
Foreign exchange gain on translation of foreign operations	-	-	-	4	-	4
Net loss for the period	-	-	-	-	(2,969)	(2,969)
March 31, 2022	123,545,323	$ 118,029	$ 6,394	$ (406)	$ (96,811)	$ 27,206

See accompanying notes to these condensed interim consolidated financial statements.

		For the three months ended March 31,	
In thousands of Canadian dollars	**Note**	**2023**	**2022**
Cash provided by (used for):			
Operating activities			
Net loss		$ (4,770)	$ (2,969)
Items not affecting cash and cash equivalents:			
Share based compensation	6c	528	489
Depreciation and amortization		452	879
Gain on fair value of warrant liability	5	(20)	(1,881)
Interest on lease liabilities		13	7
Write-off of assets		19	-
Net change in non-cash working capital	9a	(41)	418
Cash used in operating activities		**(3,819)**	**(3,057)**
Financing activities			
Lease payments		(174)	(182)
Long-term deposit		-	2
Cash used in financing activities		**(174)**	**(180)**
Investing activities			
Proceeds on sale of investment		4,000	-
Expenditures on property, plant and equipment	4	(524)	(215)
Net change in non-cash working capital	9a	-	(113)
Cash from (used in) investing activities		**3,476**	**(328)**
Decrease in cash and cash equivalents		(517)	(3,565)
Effect of foreign exchange on cash and cash equivalents		(22)	(197)
Cash and cash equivalents, beginning of period		11,007	30,119
Cash and cash equivalents, end of period		**$ 10,468**	**$ 26,357**

Supplementary cash flow information – Note 9

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 subsidiary. 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 significant revenue to date.

Going Concern

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due.

As at March 31, 2023 the Company is in the development stage, is not currently generating significant revenue and expects to operate at a loss and use cash in operating activities as it conducts research and development on its biosynthesis pathways. The Company's development stage operations to date have been financed primarily through the issuance of common shares or units. The Company's ability to continue as a going concern while attempting to achieve commercial operations is dependent upon its existing net current assets and its ability to secure additional funding from debt or equity financings or make other arrangements. There is no assurance that the Company will be able to secure additional funding from debt or equity financings, or complete other arrangements on favourable terms, or at all, which may prevent the Company from generating positive cash flow from operations and require the utilization of all remaining net current asset and financial resources resulting in the partial or complete curtailment of operations.

These conditions indicate a material uncertainty exists that may cast significant doubt as to the Company's ability to continue as a going concern. These financial statements do not reflect the adjustments that would be necessary if the going concern assumption was not appropriate. The necessary adjustments to the carrying values and classifications of assets and liabilities that would be required if the Company became unable to continue as a going concern could be material.

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 May 11, 2023.

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 (CAD) dollar. The functional currency for the Company's wholly-owned United States subsidiary is the United States (USD) dollar.

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

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 and amortization period for property, plant and equipment, compensation costs accrued for the share-based compensation plan and warrant valuation. The warrant valuation is subject to 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 the expected term of the warrants.

Revenue recognition

Research and development

Revenue is measured based on the consideration specified in a contract with the customer. The company recognizes revenue when it satisfies the performance obligation noted in the contract.

3. Significant accounting policies

The significant accounting policies applied by the Company are described in note 3 of the December 31, 2022 consolidated annual financial statements. These condensed consolidated interim financial statements as at March 31, 2023 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, 2022. 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. Property, Plant and Equipment

	Leasehold improvements	Lab equipment	Software and IT	Office furniture and equipment	Total
Cost					
As at December 31, 2021	$ 261	$ 8,508	$ 239	$ 158	$ 9,166
Additions	8	662	2	10	682
As at December 31, 2022	$ 269	$ 9,170	$ 241	$ 168	$ 9,848
Additions	-	518	4	-	524
Disposals[1]	(269)	(2,080)	(3)	(118)	(2,470)
As at March 31, 2023	$ -	$ 7,610	$ 242	$ 50	$ 7,902

	Leasehold improvements	Lab equipment	Software and IT	Office furniture and equipment	Total
Accumulated depreciation					
As at December 31, 2021	$ 137	$ 6,026	$ 189	$ 31	$ 6,383
Depreciation	48	1,834	47	13	1,942
Impairment	84	129	-	9	222
As at December 31, 2022	$ 269	$ 7,989	$ 236	$ 53	$ 8,547
Depreciation	-	250	3	2	255
Disposals	(269)	(2,172)	(6)	(23)	(2,470)

[1] Willow Analytics Inc. amalgamated with Willow Biosciences Inc. on December 31, 2022. As a result, the associated costs and accumulated depreciation has been derecognized from the PPE note.

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

As at March 31, 2023	$ -	$ 6,067	$ 233	$ 32	$ 6,332

	Leasehold improvements	Lab equipment	Software and IT	Office furniture and equipment	Total
Net Book Value					
As at December 31, 2022	$ -	$ 1,181	$ 5	$ 115	$ 1,301
As at March 31, 2023	$ -	$ 1,543	$ 9	$ 18	$ 1,570

5. Warrants and Warrant Liability

(a) Compensation warrants

	Number of Compensation Warrants	Weighted Average Exercise Price $
Compensation warrants at December 31, 2021 and December 31, 2022	1,045,588	2.15
Expired	(1,045,588)	(2.15)
Compensation warrants at March 31, 2023	-	-

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. On February 19, 2023, all the outstanding 1,045,588 compensation warrants, subject to the exercise of the Acceleration Right expired.

(b) Issued and outstanding performance warrants

	Number of Performance Warrants	Weighted Average Exercise Price $
Performance warrants at December 31, 2021	14,963,789	0.875
Exercised	-	-
Performance warrants at December 31, 2022 and March 31, 2023	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.

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

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 variable and 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.

At March 31, 2023, the warrants have been fair valued at $3 thousand (December 31, 2022 - $23 thousand) using the Black-Scholes Option Pricing Model with the following assumptions, inclusive of incremental Performance Incentive:

	March 31 2023	**December 31 2022**
Dividend	-	-
Risk-free interest	3.74%	4.06%
Estimated life (years)	1.04	1.28
Expected volatility	84.40%	87.47%
Forfeitures	-	-

The difference of $20 thousand has been recorded as a gain on fair value adjustments for the three months ended March 31, 2023 (March 31, 2022 - $1.9 million gain).

Performance warrants outstanding and the weighted average remaining life of the performance warrants at March 31, 2023 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	1.04	6,900,196	1.04

6. 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**
Balance at December 31, 2021	123,545,323	$ 118,029
Common shares issued on vesting of restricted share awards	174,344	43
Balance at December 31, 2022	123,719,667	$ 118,072
Common shares issued on vesting of restricted share awards	352,433	30
Balance at March 31, 2023	124,072,100	$ 118,102

(c) Share-based compensation expense

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

	March 31 2023	**March 31 2022**
Stock options	$ 101	$ 337
Restricted share awards	66	113
Performance share awards	(4)	39
Deferred share awards	365	-
Total	$ 528	$ 489

(d) Issued and outstanding employee stock options

	Number of Employee Stock Options	**Weighted Average Exercise Price $**
Options at December 31, 2021	8,048,720	1.41
Forfeited	(2,728,800)	1.15
Issued	2,261,268	0.32
Options at December 31, 2022	7,581,188	1.18
Forfeited	(1,284,521)	1.57
Issued	1,000,000	0.10
Options at March 31, 2023	7,296,667	0.96

The following table summarizes information about the options outstanding and exercisable at March 31, 2023.

Exercise Price ($)	**Options Outstanding**	**Average Remaining life (years)**	**Options Exercisable**
0.09 – 0.32	1,202,000	4.61	-
0.33 – 0.63	2,040,667	3.09	470,079
0.64 – 1.00	609,000	2.47	417,667
1.01 – 1.75	3,445,000	2.52	2,636,665
	7,296,667		3,524,411

The fair value of options granted during the three months ended March 31, 2023 and 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 $0.06 per option (March 31, 2022- $0.24):

	March 31 2023	**March 31 2022**
Dividend	-	-
Risk-free interest	3.08% - 3.91%	1.07% - 2.32%
Estimated life (years)	3.45 – 3.49	3.34 - 3.5
Expected volatility	90.00% - 91.56%	88.76% - 100.30%
Forfeitures	21.09% - 22.09%	17.49% - 17.78%

(e) Restricted share awards ("RSAs")

During the three months ended March 31, 2023, 50,000 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.

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

	Number of restricted share awards	Weighted average grant date fair value $
RSAs at December 31, 2021	538,028	1.45
Release upon vesting	(174,344)	1.47
Forfeited	(30,000)	0.58
Issued	1,664,540	0.28
RSAs at December 31, 2022	1,998,224	0.49
Released upon vesting	(352,433)	0.36
Forfeited	(225,601)	0.47
Issued	50,000	0.09
RSAs at March 31, 2023	1,470,190	0.51

(f) Performance share awards ("PSAs")

During the three months ended March 31, 2023, 30,000 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, 2021	418,639	1.45
Forfeited	(261,052)	0.62
Issued	807,523	0.31
PSAs at December 31, 2022	965,110	0.72
Forfeited	(246,329)	0.56
Issued	30,000	0.09
PSAs at March 31, 2023	748,781	0.75

(g) Deferred share awards ("DSAs")

On March 21, 2023, the Company established the DSA Plan Pursuant to which its non-executive directors receive DSAs for Board services. On March 31, 2023, 3,840,000 DSAs were granted. The DSAs vest immediately and are payable at the time non-executive directors cease to hold the office of director for any reason and are settled by a lump-sum cash payment, in accordance with the terms of the DSA plan. The company estimates the fair value of the cash payout is based on the market price of the underlying units on the date of grant.

	Number of Deferred share awards	Weighted average grant date fair value
Issued	3,840,000	0.095
DSAs at March 31, 2023	3,840,000	0.095

7. Loss per Share

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

	March 31 2023	March 31 2022
Net loss	$ (4,770)	$ (2,969)
Weighted average common shares outstanding, basic and diluted	123,723,628	123,545,323

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

Loss per share, basic and diluted	$ (0.04)	$ (0.02)

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

8. 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 non-current assets by location.

Revenue	**March 31 2023**	**March 31 2022**
Canada	$ -	$ -
United states	274	-

Non-current assets	**March 31 2023**	**December 31 2022**
Canada	$ 94	$ 458
United states	1,903	1,461

Total assets	**March 31 2023**	**December 31 2022**
Canada	$ 10,539	$ 15,149
United states	2,963	2,999

9. Statements of Cash Flows Supplementary Information

(a) Net change in non-cash working capital

	March 31 2023	**March 31 2022**
Accounts receivable	$ (170)	$ (6)
Deposits and prepaid expenses	321	292
Inventory	34	18
Accounts payable and accrued liabilities	(226)	1
	$ (41)	$ 305
Relating to:		
Operating activities	$ (41)	$ 418
Investing activities	-	(113)
	$ (41)	$ 305

(b) Supplementary cash flow information

As at March 31, 2023, the Company received interest income of $116 thousand (March 31, 2022 – $18 thousand). No taxes were paid or received during the three months ended March 31, 2022. Cash and cash equivalents at March 31, 2023 consists of cash held in the Company's bank accounts and includes short-term guaranteed investment certificate (GIC) investments.

10. Financial Instruments and Risk Management

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

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 March 31, 2023 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, short-term investments, accounts receivable (except GST receivable), accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of those instruments.

The fair value of warrant liability is estimated at each reporting period using the Black- Scholes Option Pricing Model. The model requires significant management judgement to determine certain significant assumptions to the valuation model, including expected life and volatility rate. There are also other less significant assumptions to the valuation model including risk-free rate.

			As at March 31, 2023	
	Level 1	**Level 2**	**Level 3**	**Total**
Short-term investments	$ 20	$ -	$ -	$ 20
Warrant liability	-	-	3	$ 3
Deferred shares liability	365	-	-	$ 365

			As at March 31, 2022	
	Level 1	**Level 2**	**Level 3**	**Total**
Short-term investments	$ -	$ -	$ -	$ -
Warrant liability	-	-	1,884	$ 1,884
Deferred shares liability	-	-	-	$ -

(b) Risks Associated with Financial Assets and Liabilities

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

- Market risk
- Credit risk
- Liquidity risk

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

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market. Market risk is comprised of two types of risk: foreign currency risk and interest rate risk. The Company does not currently have significant market risk exposure other than foreign currency risk, as described below.

a) Foreign Currency Risk

Foreign currency risk is the risk that the future cash flows or fair value of the Company's financial instruments that are denominated in a currency that is not the Company's functional currency will fluctuate due to changes in foreign exchange rates. Portions of the Company's cash and cash equivalents, deposits and prepaid expense, accounts payable and accrued liabilities and lease liabilities are denominated in US dollars. Accordingly, the Company is exposed to fluctuations in the US and Canadian dollar exchange rates.

As at March 31, 2023, the Company had a net excess of US dollar denominated cash and cash equivalents, deposits, accounts payable and accrued liabilities of US $1.7 million which is equivalent to $2.3 million CAD at the March 31, 2023 exchange rate. The US dollar financial assets generally result from holding US dollar cash to settle anticipated near-term accounts payable and accrued liabilities denominated in US dollars.

Each change of 5% in the US dollar in relation to the Canadian dollar will result in a gain or loss, with a corresponding effect on cash flows, of $0.12 million based on the March 31, 2023 net US dollar liabilities position.

b) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at March 31, 2023, the Company did not hold any floating rate investments.

The Company's current policy is to invest excess cash in guaranteed investment certificates or interest-bearing accounts of major Canadian chartered banks or credit unions with comparable credit ratings.

The Company regularly monitors compliance to its cash management policy.

The Company, as at March 31, 2023, does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents held with chartered Canadian financial institutions. The Company considers this risk to be immaterial.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or a counter party to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents and short-term investments.

Cash and cash equivalents and short-term investments are maintained with financial institutions of reputable credit and may be redeemed upon demand. Accounts receivable consists of revenue receivable, trade and GST receivable.

The carrying amount of financial assets represents the maximum credit exposure. Credit risk exposure is limited through maintaining cash and cash equivalents and short-term investments with high-credit quality financial institutions and management considers this risk to be minimal for all cash and cash equivalents and short-term investments assets based on changes that are reasonably possible at each reporting date.

The Company is not exposed to any externally imposed capital requirements.

Liquidity Risk

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company's objective in managing liquidity risk is to maintain sufficient available resources to meet its liquidity requirements at any point. The Company achieves this by managing its capital spending and maintaining sufficient funds for anticipated short-term spending in the cash and cash equivalents account. Refer to Note 1 for the Company's going concern summary.

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

The expected timing of cash outflows relating to financial liabilities on the consolidated statement of financial position as at March 31, 2023 are:

	2023	**2024**	**2025**	**Thereafter**	**Total**
Lease obligations	$ 476	$ 31	$ -	$ -	$ 507
Trade and other payables	861	-		-	$ 861
Total liabilities at March 31, 2023	$ 1,337	$ 31	$ -	$ -	$ 1,368

11. 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.

12. 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. 2770774. 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. 2796465 and No. 2851316 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.