Consolidated Financial Statements

Ondine Biomedical Inc.

Year ended December 31,2021

Independent auditor's report

To the Shareholders of Ondine Biomedical Inc.

Our opinion

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

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Revenue Recognition *Refer to note 2 (d) – Basis of preparation - use of estimates, assumptions and judgments and note 3 (m) – Significant accounting policies - revenue recognition to the consolidated financial statements.* For the year ended December 31, 2021, the Company recognized revenue from sales of products of $2.6 million. The Company generates revenues from sales of hardware and consumables. Hardware sales consist of lasers. Consumable sales consist of single use disposable treatment kits. The Company has contracts with customers to deliver both lasers and consumables as part of a single arrangement. Management exercises judgment to evaluate these arrangements to determine whether the lasers and single use disposable treatment kits (goods) are considered distinct performance obligations that should be accounted for separately from each other. A good is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good is separately identifiable from other promises in the contract. Management has determined that the goods are distinct performance obligations. Revenue is allocated to the goods based on relative transaction prices and is recognized as goods are delivered to the customer. We considered this a key audit matter due to the judgment exercised by management to evaluate whether the goods are considered distinct	Our approach to addressing the matter included the following procedures, among others: • Assessed whether the goods are distinct performance obligations by considering for a sample of contracts whether the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the goods are separately identifiable from other promises in the contract. • Evaluated for a sample of contracts the reasonableness of the revenue allocation to each good by considering relative transaction prices per the contracts and the cost and expected gross margin of each good. • Tested for a sample of revenue transactions whether revenue is recognized as goods are delivered to the customer by inspecting relevant customer invoices and shipping documents.

Key audit matter	How our audit addressed the key audit matter
performance obligations that should be accounted for separately in the arrangements. This in turn resulted in a high degree of auditor judgment and subjectivity in performing procedures.	

Other information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after the date of this auditor’s report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s 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 International Standards on Auditing 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 these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 auditor’s report to the related disclosures in the consolidated 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 auditor’s 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 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 independent auditor's report is Kevin Bromley.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia, Canada
May 16, 2022

Ondine Biomedical Inc.

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

	Note	**December 31, 2021**	December 31, 2020
Assets			
Current assets			
Cash		**$ 30,365**	$ 626
Accounts and other receivables	4	**248**	543
Inventory	5	**1,061**	404
Prepaid expenses and deposits	6	**1,830**	174
		33,504	1,747
Non-current assets			
Property and equipment	7	**601**	671
Intangible assets	8	**-**	171
Other assets	6	**35**	46
		636	888
		$ 34,140	$ 2,635
Liabilities			
Current liabilities			
Cheques issued in excess of funds on deposit	20	**$ 497**	$ -
Accounts payable and other liabilities	9	**3,277**	1,412
Convertible loan notes	10	**-**	7,538
Preferred shares	11	**-**	3,000
Loans payable to related parties	17	**-**	23,610
Current portion of lease liability	12	**148**	225
		3,922	35,785
Non-current liabilities			
Lease liability	12	**94**	85
Other long-term liabilities	13	**467**	593
		4,483	36,463
Equity			
Share capital	14	**235,037**	119,529
Contributed surplus	17	**10,528**	10,378
Reserves		**16,636**	18,415
Deficit		**(232,544)**	(182,136)
Equity attributable to owners of the Company		**29,657**	(33,814)
Equity attributable to non-controlling interest		**-**	(14)
		29,657	(33,828)
		$ 34,140	$ 2,635

Commitments and contingencies - Note 18; Subsequent events – Note 25

Approved on behalf of the Board:

“Carolyn Cross” *“Jean Charest”*

Ondine Biomedical Inc.

Consolidated Statements of Loss and Comprehensive Loss

(In thousands of Canadian dollars, except share and per share amounts)

	Note	Year ended December 31, 2021	2020
Revenue	17,19	**$ 2,569**	$ 1,791
Cost of sales	5,7,17,21	**(1,315)**	(1,142)
Gross margin		**1,254**	649
Expenses	21		
General and administration		**12,970**	10,405
Research and development		**4,982**	3,309
Marketing and sales		**364**	1,634
Depreciation and amortization	7,8	**458**	1,172
		18,774	16,520
Loss from operations		**(17,520)**	(15,871)
Other income (expense)			
Miscellaneous (loss) gain		**(20)**	173
Government loan forgiveness	13	**518**	-
Loss on debt settlement	10,17	**(31,626)**	-
Finance expense	10,11,17	**(1,199)**	(491)
Change in fair value of embedded derivative	10	**(424)**	(221)
Foreign exchange gain		**186**	139
		(32,565)	(400)
Net loss for the year		**(50,085)**	(16,271)
Other comprehensive loss			
Exchange differences on translation of foreign operations(1)		**(12)**	64
Total comprehensive loss		**(50,097)**	(16,207)
Total comprehensive loss attributable to:			
Equity holders of the Company		**(50,097)**	(16,205)
Non-controlling interest		**-**	(2)
Total comprehensive loss for the year		**$ (50,097)**	$ (16,207)
Net loss per share			
Basic and diluted		**$ (0.63)**	$ (0.23)
Weighted average number of shares outstanding			
Basic and diluted		**79,637,956**	70,671,262

(1) May be reclassified to profit or loss in subsequent years.

Ondine Biomedical Inc.

Consolidated Statements of Changes in Equity

(In thousands of Canadian dollars, except share amounts)

	Number of common shares (Note 14)	Number of preferred shares (Note 14)	Share capital	Contributed surplus	Share-based payment reserve	Currency translation reserve	Deficit	Non-controlling interest	Equity
Balance, January 1, 2020	70,671,262	-	$ 119,529	$ 10,078	$ 10,649	$ (450)	(165,867)	$ (12)	$ (26,073)
Services received at no charge – Note 14	-	-	-	300	-	-	-	-	300
Issuance of preferred shares	-	3,000,000	-	-	-	-	-	-	-
Share-based payments – Note 15	-	-	-	-	8,152	-	-	-	8,152
Total comprehensive loss for the year	-	-	-	-	-	64	(16,269)	(2)	(16,207)
Balance, December 31, 2020	70,671,262	3,000,000	119,529	10,378	18,801	(386)	(182,136)	(14)	(33,828)
Balance, January 1, 2021	70,671,262	3,000,000	119,529	10,378	18,801	(386)	(182,136)	(14)	(33,828)
Services received at no charge – Note 17	-	-	-	150	-	-	-	-	150
Issuance of share capital on debt settlement	78,211,095	-	70,759	-	-	-	-	-	70,759
Issuance of share capital on conversion of preferred shares	3,336,345	(3,000,000)	3,000	-	-	-	-	-	3,000
Issuance of share capital upon initial public offering	41,668,716	-	37,723	-	-	-	-	-	37,723
Issuance of share capital for shares of Sinuwave Technologies Corporation	343,750	-	309	-	-	-	(323)	14	0
Issuance of share capital on exercise of stock options	1,231,131	-	5,682	-	(5,680)	-	-	-	2
Shares bought back into treasury	(877,775)	-	(799)	-	-	-	-	-	(799)
Share issuance costs	-	-	(1,167)	-	-	-	-	-	(1,167)
Share-based payments – Note 15	-	-	-	-	3,913	-	-	-	3,913
Total comprehensive loss for the year	-	-	-	-	-	(12)	(50,085)	-	(50,097)
Balance, December 31, 2021	194,584,524	-	**$** 235,037	**$** 10,528	**$** 17,034	**$** (398)	**$** (232,544)	**$** -	**$** 29,657

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

Ondine Biomedical Inc.

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

	Note	**2021**	2020
Cash flows from (used in) operating activities			
Net loss for the year		**$ (50,085)**	$ (16,271)
Adjustments for non-cash items:			
Depreciation and amortization	7,8	**514**	1,220
Finance expense	10,11,17	**1,199**	491
Non-cash salary compensation	17	**150**	300
Share-based payments	15	**3,913**	8,152
Unrealized foreign exchange gain (loss)		**90**	(225)
Change in fair value of financial instruments	10	**424**	221
Government loan forgiveness	13	**(518)**	-
Loss on debt settlement	10,11,17	**31,626**	173
Other		**16**	41
Changes in non-cash working capital	22	**131**	(361)
Net cash used in operating activities		**(12,540)**	(6,259)
Cash flows from (used in) financing activities			
Loan proceeds from related parties	17	**2,827**	2,604
Loan repayments to related parties	17	**(652)**	-
Convertible loan notes proceeds	10	**3,840**	843
Convertible loan notes repayments	10	**(30)**	-
Interest paid		**-**	(72)
Payment of lease obligations	12	**(256)**	(259)
Government loans proceeds	13	**414**	638
Preference shares proceeds	11	**-**	3,000
Proceeds from issuance of common shares	14	**37,727**	**-**
Repurchase of common shares		**(799)**	-
Share issuance costs	14	**(1,167)**	-
Net cash from financing activities		**41,904**	6,754

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

Ondine Biomedical Inc.

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

	Note	**2021**	2020
Cash flows used in investing activities			
Purchase of property and equipment	7	**(77)**	(99)
Net cash used in investing activities		**(77)**	(99)
Effect of foreign exchange rate change on cash and cash equivalents		**(45)**	(76)
Net increase in cash and cash equivalents		**$ 29,242**	**$** 320
Cash and cash equivalents, beginning of year		**626**	306
Cash and cash equivalents, end of year	24	**$ 29,868**	**$** 626
Supplemental cash flow information	22		

Cash and cash equivalents are comprised of:

		2021	2020
Cash		**$ 30,365**	$ 626
Cheques issued in excess of funds on deposit		**(497)**	-
Cash and cash equivalents, end of year	24	**$ 29,868**	**$** 626

1. Nature of operations and liquidity risk

Ondine Biomedical Inc. (the “Company”) was incorporated under the British Columbia Business Corporations Act on September 9, 1996. The Company is a biotechnology company engaged in the development and commercialization of innovative anti-infective therapies covering a broad spectrum of bacterial, fungal and viral infections primarily using antimicrobial photodynamic therapy (“aPDT”) as a platform technology for its products, which are used as an alternative to the use of antibiotics. The Company’s aPDT products employ laser-based activation of proprietary compounds to treat a wide range of medical infections. The address of the Company's corporate office is 888-1100 Melville Street, Vancouver, BC, Canada. The common shares of the Company are listed on the AIM Market of the London Stock Exchange under the symbol “OBI.L” (Note 13).

In March 2020, the World Health Organization declared a global pandemic related to the coronavirus known as COVID-19. The expected impacts on global commerce are anticipated to be far reaching. To date the movement of people and goods has become restricted. Management is actively monitoring the situation and is taking appropriate steps as needed to ensure minimal disruption to the Company’s operations. As a consequence, the Company has experienced delays in its Steriwave U.S. Food and Drug Administration (“FDA”) Phase 2 clinical trials.

On December 6, 2021, the Company completed its initial public offering (“IPO”), in which the Company issued 41,668,716 common shares at £0.53 ($0.90) per share for total gross proceeds net of the impact of foreign exchange recorded in the consolidated statements of loss and comprehensive loss of $37,723.

The Company has a history of incurring significant losses and as at December 31, 2021, had an accumulated deficit of $232,544 (2020 - $182,136). Also, as at December 31, 2021, the Company had a cash and cash equivalents balance of $29,868 (2020 - $626) and a working capital of $29,582 (2020 – negative $34,038). In the year ended December 31, 2021, cash used in operations totaled $12,540 (2020 - $6,259).

The Company’s ability to continue as a going concern is dependent on its ability to develop profitable operations and/or to continue to obtain the necessary financing to meet its corporate expenditures and discharge its liabilities in the normal course of business. Management believes the Company’s cash and cash equivalents will provide sufficient liquidity to meet its working capital requirements for at least twelve months from December 31, 2021. The Company will need to raise funds through public or private equity and/or debt financing in 2023 and beyond to advance its operations. Although the Company has been successful in obtaining financing in the past, there can be no assurance that it will be able to obtain such financing in the future, or that such financing will be on terms advantageous to the Company, and it may be dilutive to shareholder interests.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been presented in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB’).

Certain comparative figures have been reclassified to conform to the current year's presentation. The reclassifications have no effect on the previously reported assets, liabilities and previously reported net loss for the year ended December 31, 2020.

The consolidated financial statements were approved and authorized for issue by the Board of Directors on May 16, 2022.

(b) Basis of measurement

The consolidated financial statements have been prepared on a going concern basis under the historical cost basis as stated in the accounting policies. The expenses within the consolidated statements of loss and comprehensive loss are presented by function. Refer to Note 21 for details of expenses by nature.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars. The parent company's functional currency is Canadian dollars while the functional currency of the Company's subsidiaries are their respective local currencies, except Ondine International Holdings Ltd whose functional currency is United States dollars.

(d) Use of estimates, assumptions and judgments

The preparation of 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 the consolidated financial statements and accompanying disclosures. Although these estimates are based on management's knowledge of current events and actions the Company may undertake in the future, actual results may differ from the estimates and the differences may be material.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates, if any, are recognized in the year in which the estimates are revised and in any future years affected. Significant judgments, estimates and assumptions used in applying the Company's accounting policies that have the most significant effects on the amounts in the consolidated financial statements are summarized below.

Significant judgments:

Going concern
Management applied judgment in determining that there are no material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing corporate expenditures, discharge its liabilities for the ensuing year, and to fund planned development and commercialization of its products, involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

Convertible financial instruments
Convertible loan notes are hybrid financial instruments which are accounted for separately by their components. The financial liability components have been initially measured at fair value and will subsequently be measured at amortized cost. The identification of convertible notes components is based on interpretations of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

Revenue recognition
Determining whether the goods are considered distinct performance obligations requires judgment. Management exercises judgment to evaluate these arrangements to determine whether the goods are considered distinct performance obligations that should be accounted for separately from each other. A good is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good is separately identifiable from other promises in the contract. Management has determined that the goods are distinct performance obligations. Where a contract consists of more than one performance obligation, revenue is allocated to each based on their standalone selling price.

Estimates and assumptions:

Provision for excess and obsolete inventory
A significant estimate for the Company is its allowance for excess and obsolete inventory. The allowance is based upon management's assessment of a variety of factors, including, among other things, expected selling prices, technological change, product obsolescence, regulatory clearance timeframes, and the demand for the Company's products in the market as compared to the number of units currently on hand.

(In thousands of Canadian dollars, except as otherwise indicated)

Fair value of embedded derivatives
The Company is required to determine the fair value of embedded derivatives, such as the conversion features, separate from the convertible loan notes, and the Company is required to determine the classification of the embedded derivative as either a financial liability or an equity instrument. Fair values for embedded derivatives are determined using valuation techniques and require estimates of most likely conversion scenarios, per share fair value, redemption dates, and volatility at the balance sheet date as the financial instruments are not traded in an active market.

Share-based payments
Share-based payment charges are determined using the Black-Scholes option pricing model (“Black-Scholes model”) based on estimated fair values of all share-based awards at the date of grant and are expensed to the statement of loss and comprehensive loss over each awards’ vesting period. The Black Scholes model utilizes subjective assumptions such as expected fair value of shares, volatility, expected life of the options, risk free interest rate, forfeiture rates and applicable future performance conditions and exercise patterns.

Share-based compensation provided to a consultant takes into account the number of warrants expected to vest based on achieving different milestones in relation to regulatory approval. It is reasonably possible that future estimates of the actual outcome and timing may be different than assumptions used in the preparation of these consolidated financial statements and a material change in share-based compensation reflected in the consolidated statement of loss and comprehensive loss may occur.

Income taxes
The Company’s operations are conducted in multiple jurisdictions with complex tax laws and regulations that can require significant interpretation. As such is the case, the Company and the tax authorities could disagree on tax filing positions and any reassessment of the Company’s filing positions could result in material adjustments to tax expense, taxes payable and deferred income taxes.

3. Significant accounting policies

The accounting policies below have been applied consistently by the Company and all of its subsidiaries.

(a) Basis of consolidation
The consolidated financial statements include the accounts of the Company and its principal subsidiaries:

Name	Place of incorporation	Functional currency	Percentage of ownership
Ondine Research Laboratories	Washington, United States	USD	100%
Ondine Biomedical U.S., Inc.	Washington, United States	USD	100%
Champion ENT Products, Inc.	Wyoming, United States	USD	100%
Advanced Photodynamic Technologies, Inc.	Minnesota, United States	USD	100%
Sinuwave Technologies Corporation	Nevada, United States	USD	99.96%
Ondine Biomedical Limited	United Kingdom	GBP	100%
Ondine International Holdings Ltd.	Barbados	USD	100%
Ondine Bio Inc.	Canada	CAD	100%

On October 24, 2021, the Company acquired 1,031,250 shares of Sinuwave Technologies Corporation in exchange for issuing 343,750 shares of the Company, which increased the Company’s interest of Sinuwave Technologies Corporation to 99.96% (2020 - 98.20%). Due to the increase in the Company’s ownership, the fair value of the consideration paid of $309 and the cumulative balance in non-controlling interest of $323 has been allocated to deficit.

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns though its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intercompany balances and transactions are eliminated in the consolidated financial statements.

Non-controlling interests ("NCI") in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. NCI consists of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination. Losses applicable to the non-controlling shareholders in excess of the non-controlling shareholders' share of changes in equity are allocated to the non-controlling shareholders.

b) Foreign currency
The consolidated financial statements are presented in Canadian dollars.

Foreign currency transactions
Transactions in foreign currencies are translated to the respective functional currencies of the Company's subsidiaries at exchange rates as at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rates in effect at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate in effect when the fair value was determined. Foreign currency differences are generally recognized in net income/(loss). Non-monetary items that are measured based on historical cost in a foreign currency are translated to the functional currency using the exchange rate in effect at the date of the transaction giving rise to the item.

Foreign operations
The assets and liabilities of foreign operations are translated to the presentation currency using exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency using the monthly average exchange rates. Foreign currency differences are recognized in other comprehensive income/(loss).

(c) Cash
Cash includes cash on hand.

(d) Inventory
Inventory cost includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories, cost includes an appropriate share of production under normal operating capacity.

Raw materials are recorded at the lower of cost, determined on a specific item basis, and replacement cost. Finished goods are recorded at the lower of weighted average cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. The Company assesses the net realizable value of inventory at each reporting date.

(e) Financial instruments

(*i*) Non-derivative financial assets
All financial assets are initially recorded at fair value and upon initial recognition are classified as; those to be measured subsequently at fair value (either through other comprehensive income ("FVOCI") or profit or loss ("FVTPL")) or those to be measured at amortized cost. The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Financial assets classified as amortized cost are measured using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

Financial assets classified as FVOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost. Such losses are recorded in the consolidated statements of loss and comprehensive loss. The Company does not have any financial assets classified as FVOCI.

Transaction costs associated with FVTPL financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset and amortized to profit or loss as part of the application of the effective interest method.

In accordance with IFRS 9, Financial Instruments ("IFRS 9"), all of the Company's financial assets, which consist primarily of cash and accounts receivable, are categorized at amortized cost.

(*ii*) Non-derivative financial liabilities

All financial liabilities are initially recorded at fair value and upon initial recognition are either designated as FVTPL or classified as amortized cost.

Financial liabilities classified as amortized cost are initially recognized at fair value less directly attributable transaction costs and, after initial recognition, are subsequently measured at amortized cost using the effective interest method. Financial liabilities designated as FVTPL include financial liabilities designated upon initial recognition as FVTPL. Derivatives are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities designated as FVTPL are expensed as incurred. Fair value changes on financial liabilities designated as FVTPL are recognized through profit or loss.

(*iii*) Compound instruments

The component parts of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement.

If the conversion feature meets the definition of equity, the fair value of the liability component is estimated at the date of issue of the instrument using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured.

If the conversion feature of a convertible loan note issued does not meet the definition of an equity instrument, it is classified as an embedded derivative and measured accordingly. The debt component of the instrument is determined by deducting the fair value of the equity conversion option at inception from the fair value of the consideration received for the instrument as a whole. This amount (the debt component) is recorded as a liability on an amortized cost basis using the effective interest rate method until extinguished upon conversion or at the instrument's maturity date.

(*iv*) Embedded derivatives

Derivatives embedded in financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

(*v*) Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting date. The resulting gain or loss is recognized in profit or loss immediately.

(*vi*) Derecognition of financial assets and liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(*vii*) Preferred shares

Preferred shares are financial instruments accounted for as either a financial liability or an equity instrument. As the preferred shares issued by the Company are redeemable by the holder, they have been assessed to be financial liabilities and have been initially measured at fair value and subsequently measured at amortized cost.

(f) Property and equipment

Items of property and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes any expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management. Gains and losses on the disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment.

Depreciation is calculated on a declining balance basis except for leasehold improvements, demonstration equipment and right of use assets which are on a straight-line basis over their useful lives and are generally recognized in profit or loss.

Estimated useful lives of property and equipment are as follows:

Computer equipment	3 years
Laboratory and office equipment	3 years
Furniture and fixtures	5 years
Manufacturing equipment and tools	5 years
Demonstration equipment	5 years
Leasehold improvements	Term of lease
Right-of-use assets	Term of lease

Depreciation methods, useful lives and residual values are reviewed at the reporting date and adjusted as appropriate.

(g) Intangible assets

Intangible assets consist of technology licenses, patents and trademarks and are recorded at cost less amortization and accumulated impairment losses. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the estimated useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at the end of each reporting date.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, however they are tested for impairment at each reporting date either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed each reporting date to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

(h) Impairment

(*i*) Impairment of financial assets

An expected credit loss ("ECL") model applies to financial assets measured at amortized cost and debt investments at FVOCI, but not to investments in equity instruments. The Company's financial assets measured at amortized cost and subject to the ECL model consist primarily of accounts receivable.

The Company measures the loss allowance on accounts receivable at an amount equal to the lifetime ECL. To measure ECL on a collective basis, trade receivables are grouped based on similar credit risk and aging. The expected loss rates are based on the Company's historical credit losses experienced and are updated to reflect the effects of the current conditions and forecasts of future conditions that did not affect the period on which the historical data is based.

Accounts receivable are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to make contractual payments for a period of greater than 90 days past due.

(*ii*) Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs of disposal, the asset is written down to its recoverable amount. An impairment loss is charged to profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash generating units" or "CGU"s). These are typically individual properties or projects.

(i) Share capital

Financial instruments issued by the Company are treated as equity only to the extent that they do not meet the definition of a financial liability. Common shares are classified as equity instruments. Costs incurred to issue shares are deferred until the shares are issued, at which time these costs are charged against share capital.

(j) Share-based payments

The Company grants stock options and warrants to employees, directors, officers and consultants pursuant to the stock option plan described in Note 15. The fair value method of accounting for share-based compensation transactions is used.

For graded vested share options, IFRS 2, Share-based Payment ("IFRS 2") requires the use of the attribution method, which requires that the Company treat each installment as a separate share option grant with a different fair value.

The fair value of share-based payments to non-employees is based on the fair value of the goods or services received, when these can be measured reliably. In the event that no reliable measurement can be made, the fair value of the options and warrants granted will be used.

(k) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income (loss).

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Provisions

Provisions are recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of resources will be required to settle the obligation. Provisions are determined by discounting the expected future cash outflows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Management uses judgment to estimate the amount, timing and probability of the liability based on facts known at the reporting date. The unwinding of the discount is recognized as a finance cost.

(m) Revenue recognition

The Company generates revenues from sales of hardware and consumables. Hardware sales consist of lasers. Consumable sales consist of single use disposable treatment kits. Product revenues are derived primarily from standard direct order product sales. The Company has contracts with customers to deliver both lasers and consumables as part of a single arrangement.

Revenue is allocated to the respective performance obligation based on relative transaction prices and is recognized as goods are delivered to the customer. Revenue is measured as the amount of consideration expected to be received in exchange for the goods transferred.

Revenue from the sale of products in the normal course of activities is measured at the fair value of the consideration received or receivable, net of returns and trade discounts. The Company recognizes revenue when customers obtain control of the product, which is when transfer of title of ownership of goods have passed and when there is a present right to payment. Invoices are generated and revenue is recognized at that point in time.

(n) Government grants and subsidies

Government grants related to income are presented as part of profit or loss as incurred, either as other income or deducted from the related expense. A forgivable loan from the government is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan. When the criteria for forgiveness has been satisfied and forgiveness can be reasonably assured, the loan balance is released to the consolidated statement of comprehensive income.

(In thousands of Canadian dollars, except as otherwise indicated)

(o) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the Company's consolidated statements of loss and comprehensive loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. 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. The expenditure capitalized will include the cost of materials, direct labor 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 will be measured at cost less accumulated amortization and accumulated impairment losses.

To date, all of the research and development ("R&D") costs have been expensed as all of the criteria for capitalization have not yet been met.

(p) Finance income/(expense)

Finance income/(expense) comprises interest expense on convertible debentures, the accretion of the discount on the conversion of convertible debentures into common shares or other equity of the Company and the subsequent recovery of the discount.

(q) Loss per share

Basic loss per share is calculated by dividing the loss for the year attributable to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflects the potential dilution of securities that could share in earnings of an entity. For years, where the issue of shares upon the exercise of stock options and/or warrants would be anti-dilutive, diluted loss per common share is the equivalent to basic loss per common share.

4. Accounts and other receivables

		December 31, 2021		December 31, 2020
Trade receivables	$	158	$	536
Other receivables		90		7
	$	248	$	543

The following table reflects the loss allowance for trade receivables balance:

		December 31, 2021		December 31, 2020
Gross carrying value	$	1,022	$	1,400
Expected credit loss allowance		(864)		(864)
Trade receivables - net	$	158	$	536

The following table reflects the movement in the allowance for expected credit losses balance:

		2021		2020
Opening balance, January 1	$	864	$	910
Additions to allowance		-		-
Receivables written-off		-		(46)
Closing balance, Dec 31	**$**	864	$	864

(In thousands of Canadian dollars, except as otherwise indicated)

5. Inventory

	December 31, 2021		December 31, 2020	
Raw materials	$	561	$	205
Finished goods		500		199
	$	1,061	$	404

During the year ended December 31, 2021, raw materials and finished goods included in cost of sales amounted to $1,257 (2020 – $940). During the year ended December 31, 2021 and 2020, inventory valued at $3 and $157, respectively was written off and reflected within cost of sales.

6. Prepaids and deposits, and non-current assets

	December 31, 2021		December 31, 2020	
Prepaid insurances	$	391	$	28
Deposits		35		35
Other prepaid costs		1,439		146
Other non-current assets		-		11
	$	1,865	$	220
Less: Current portion of prepaid expenses and deposits	$	1,830	$	174
Other non-current assets	$	35	$	46

(In thousands of Canadian dollars, except as otherwise indicated)

7. Property and equipment

The Company's property and equipment gross carrying amounts and accumulated depreciation were as follows:

	Computer equipment	Furniture and fixtures	Lab and office equipment	Leasehold improvements	Manufacturing equipment and tools	Demo equipment	Right-of-use	Total
Cost								
Balance, January 1, 2020	$ 380	$ 250	$ 367	$ 283	$ 465	$ 279	$ 820	$ 2,844
Additions	7	-	36	-	56	122	-	221
Disposals	(178)	(25)	(11)	-	-	(23)	(47)	(284)
Exchange adjustment	(16)	-	(10)	(4)	(8)	-	(11)	(49)
Balance, December 31, 2020	$ 193	$ 225	$ 382	$ 279	$ 513	$ 378	$ 762	$ 2,732
Additions	21	-	-	-	57	20	178	276
Disposals, derecognition and other	-	-	-	-	-	(20)	(139)	(159)
Exchange adjustment	-	(1)	-	(1)	1	-	(4)	(5)
Balance, December 31, 2021	**$ 214**	**$ 224**	**$ 382**	**$ 278**	**$ 571**	**$ 378**	**$ 797**	**$ 2,844**
Accumulated depreciation								
Balance, January 1, 2020	$ 307	$ 225	$ 353	$ 283	$ 427	$ 131	$ 269	$ 1,995
Additions	18	4	10	-	11	45	260	348
Disposals, derecognition and other	(169)	(9)	(5)	-	-	(16)	(47)	(246)
Exchange adjustment	(5)	(1)	(8)	(4)	(5)		(13)	(36)
Balance, December 31, 2020	$ 151	$ 219	$ 350	$ 279	$ 433	$ 160	$ 469	$ 2,061
Additions	19	1	10	-	22	57	234	343
Disposals	-	-	-	-	-	(20)	(139)	(159)
Exchange adjustment	1	-	-	(1)	2	(4)	-	(2)
Balance, December 31, 2021	**$ 171**	**$ 220**	**$ 360**	**$ 278**	**$ 457**	**$ 193**	**$ 564**	**$ 2,243**
Net book value								
December 31, 2020	$ 42	$ 6	$ 32	$ -	$ 80	$ 218	$ 293	$ 671
December 31, 2021	**$ 43**	**$ 4**	**$ 22**	**$ -**	**$ 114**	**$ 185**	**$ 233**	**$ 601**

During the year-ended December 31, 2021, depreciation of $55 (2020 – $45) was allocated to cost of sales.

(In thousands of Canadian dollars, except as otherwise indicated)

8. Intangible assets

The Company's intangible assets, gross carrying amounts and accumulated amortization were as follows:

		Licenses		Patents		Other		Total
Cost								
Balance, January 1, 2020	$	387	$	2,107	$	691	$	3,185
Exchange adjustment		(7)		(42)		(13)		(62)
Balance, December 31, 2020	$	380	$	2,065	$	678	$	3,123
Exchange adjustment		(2)		(9)		(3)		(14)
Balance, December 31, 2021	**$**	**378**	**$**	**2,056**	**$**	**675**	**$**	**3,109**
Accumulated amortization								
Balance, January 1, 2020	$	387	$	1,343	$	441	$	2,171
Amortization		-		658		214		872
Exchange adjustment		(7)		(65)		(19)		(91)
Balance, December 31, 2020	$	380	$	1,936	$	636	$	2,952
Amortization		-		129		42		171
Exchange adjustment		(2)		(9)		(3)		(14)
Balance, December 31, 2021	**$**	**378**	**$**	**2,056**	**$**	**675**	**$**	**3,109**
Net book value								
December 31, 2020	$	-	$	129	$	42	$	171
December 31, 2021	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**-**

The remaining useful life of the intangible assets as at December 31, 2021 is nil (2020 – 3 months).

9. Accounts payable and other liabilities

		December 31, 2021		December 31, 2020
Accounts payable	**$**	1,202	$	237
Accrued liabilities		556		285
Employee related payables		1,424		163
Accrued interest		95		641
Deferred revenue		-		86
	$	3,277	$	1,412

(In thousands of Canadian dollars, except as otherwise indicated)

10. Convertible loan notes

		Convertible Debentures		Embedded derivative component of convertible debentures		Total
Balance, January 1, 2020	$	6,468	$	-	$	6,468
Issued		844		156		1,000
Issuance costs		(22)		-		(22)
Principal repaid		(135)		-		(135)
Coupon interest expense		(38)		-		(38)
Accretion		165		-		165
Change in fair value of embedded derivative		-		221		221
Foreign exchange adjustment		(121)		-		(121)
Balance, December 31, 2020	$	7,161	$	377	$	7,538
Issued		3,840		-		3,840
Extinguishment of existing convertible debenture due to debt amendment		(6,202)		-		(6,202)
Recognition of convertible debenture due to debt amendment		7,061		-		7,061
Principal repaid		(12,053)		-		(12,053)
Interest expense		101		-		101
Change in fair value of embedded derivative		-		424		424
Extinguishment of embedded derivative component		-		(801)		(801)
Foreign exchange adjustment		92		-		92
Balance, December 31, 2021	**$**	**-**	**$**	**-**	**$**	**-**

2021 Notes

The Company issued United States dollars (“US$”) denominated convertible loan notes at various dates from September through October 2021 (the “2021 Notes”) for cash proceeds totaling US$3,050 ($3,840) in which certain Noteholders are either related or associated parties.

The principal amount of the 2021 Notes plus all accrued unpaid interest were payable upon the 2021 Notes’ maturity date, December 31, 2023. The 2021 Notes accrued interest at 6% per annum compounded annually from the date of issuance and for as long as the 2021 Notes qualified as outstanding.

The 2021 Notes automatically converted into common shares of the Company (“Common Shares”) immediately prior to the Company’s Initial Public Offering (“IPO”) at a conversion price equal to a 45% discount to the IPO admission price per Common Share (the “Conversion Price”).

The Company had the right to convert the 2021 Notes into Common Shares upon a private equity financing of the Company at a conversion price equal to a 45% discount of the Private Financing Price per Common Share.

On December 6, 2021, upon the Company’s IPO, the aggregate principal balance of the 2021 Notes and accrued interest of $3,994 were converted into 7,803,979 Common Shares of the Company at a conversion price of £0.29 ($0.50) per Common Share. Due to the lower conversion price offered to the note holders, there was a loss on extinguishment of $3,076 recorded through net loss.

2020 Notes

The Company issued convertible loan notes in May 2020 (the “2020 Notes”) totaling $1,000 for cash proceeds of $250 from a related party, $250 from the Company’s CEO and of $500 from an accredited investor. Issue costs for the 2020 Notes totaled $20 and have been netted against the principal amount of the debt.

The principal amount of the 2020 Notes plus all accrued unpaid interest will be payable upon the Notes maturity date, 18 months after issuance. The Company and Noteholder may mutually agree to extend the maturity date for an additional six months. If a Qualified Financing (as defined in the agreement) occurs prior to the maturity date, the amount due and payable shall be automatically converted into Financing Securities at a price per share equal to the lower of (a) 90% of the price of the Financing Securities or (b) a price per share that reflects a pre-money valuation prior to the Qualified Financing in the amount of the Valuation Cap (as defined in the agreement). If a financing that is not a Qualified Financing occurs prior to the maturity date, the Noteholder may elect to convert the amount due and payable into equity sold in the non-Qualified Financing at a price per share equal to the lower of (a) 90% of the price of the Financing Securities or (b) a price per share that reflects a pre-money valuation in the amount of the Valuation Cap (as defined in the agreement). If the Company completes either a sale of substantially all of its assets, merges or consolidates with another entity, change in control or liquidation, prior to conversion or repayment of the Notes, the Noteholders have the option to convert the Notes plus all accrued interest into shares of the Company or to receive cash payment for the amount outstanding.

The 2020 Notes accrued interest at 6% from the date of issue, until the earlier of the Notes maturity date or the date of a Redemption.

The 2020 Notes were classified as a financial liability with an embedded derivative, as the number of shares is not the same under all conversion scenarios. The embedded derivative was required to be carried separately at fair value. The fair value of the derivative at the date of grant was estimated with the Black-Scholes model, the estimation of the assumptions are as described in Note 20.

On December 6, 2021, upon the Company’s IPO, the aggregate principal balance of the 2020 Notes and accrued interest of $1,090 were converted into 1,186,481 Common Shares of the Company at a conversion price of $0.92 per Common Share. There was a gain on extinguishment of $817 recorded through net loss.

As at December 31, 2021, there was additional interest that was not settled at conversion of $4 (December 31, 2020 – $38) included in accounts payable and other liabilities.

2017 Notes

The Company issued United States dollars (“US$”) denominated convertible loan notes at various dates from July through November 2017 (the “2017 Notes”) totaling US$5,000 ($6,345) as follows: i) for cash proceeds of US$1,215 ($1,562) from a related party; ii) as settlement of loans payable totaling US$1,272 ($1,590) with a related party; iii) as settlement of loans payable totaling US$673 ($841) with the controlling shareholder of the Company; and v) US$1,840 ($2,352) as partial consideration paid for the acquisition of intellectual property by a wholly-owned subsidiary. Issue costs for the 2017 Notes totaled $45 and have been netted against the principal amount of the debt.

The 2017 Notes automatically converted into common shares of the Company (“Common Shares”) immediately prior to the Company’s Initial Public Offering (“IPO”) at a conversion price equal to a 30% discount to the IPO admission price per Common Share (the “Conversion Price”).

The principal amount of the 2017 Notes plus all accrued unpaid interest became payable upon the Notes Maturity Date, December 31, 2018. The 2017 Notes accrue interest: i) at 5% per annum compounded annually from the specific date of issue to the earlier of the first anniversary date thereafter or to the date of either a Redemption or Automatic Conversion event, and ii) at 10% per annum compounded annually from the anniversary date until the earlier of the Notes Maturity Date or the date of a Redemption. Interest was payable on May 31 and November 30 annually.

(In thousands of Canadian dollars, except as otherwise indicated)

On September 22, 2021, the Company and the majority noteholders of the 2017 Notes executed an amendment to revise certain terms and conditions of the 2017 Notes in which the maturity date was extended from December 31, 2018 to March 31, 2022. Management determined that this should be accounted for as a debt extinguishment and therefore a gain on extinguishment of $28 was calculated from recognizing the new liability at fair value was recorded through the consolidated statement of loss and comprehensive loss.

On December 6, 2021, upon the Company's IPO, the aggregate principal balance of the 2017 Notes and accrued interest of $7,056 were converted into 10,998,598 Common Shares of the Company at a conversion price of £0.37 ($0.63) per Common Share. Due to the lower conversion price, there was a loss on extinguishment of $2,897 recorded through net loss.

As at December 31, 2021, there was additional interest that was not settled at conversion of US$69 ($88) (December 31, 2020 – US$471 ($600)) and included in accounts payable and other liabilities in which the majority of the Noteholders are either related or associated parties.

The 2017, 2020, and 2021 Notes are senior, unsecured, unsubordinated and unconditional obligations of the Company. Except as under limited conditions, payment obligations shall rank at least equally with all of the Company's other present and future senior, unsecured, unsubordinated and unconditional obligations.

11. Preferred shares

On July 24, 2020, 3,000,000 fixed-value preferred shares were issued to the controlling shareholder in consideration for a held for sale asset that was subsequently sold on July 31, 2020, for $3,000. The preferred shares are redeemable and retractable at $1 per share, have voting rights equivalent to one vote per share and are entitled to a non-cumulative dividend of 6%.

On December 6, 2021, upon the Company's IPO, the aggregate balance of the preferred shares of $3,000 was settled by the issuance of 3,336,345 Common Shares of the Company at a fair value of £0.53 ($0.90).

For the year ended December 31, 2021, there were $135 of dividends declared (2020 - $nil) included in accounts payable and other liabilities.

12. Lease obligations

		December 31, 2021		December 31, 2020
Current portion	**$**	148	$	225
Non-current		94		85
Total lease obligations	**$**	242	$	310

The Company's leases are for office space and a laboratory property. Interest expense on lease obligations for the year ended December 31, 2021 was $13 (2020 - $25). The expense relating to variable lease payments not included in the measurement of lease obligations was $129 (2020 - $132). This consists of variable lease payments for operating costs and property taxes. Total cash outflow for leases was $381 (2020 - $402), including $243 (2020 - $259) of principal payments on lease obligations.

As at December 31, 2021, the minimum annual payments under these leases, including an estimate of operational costs for its office premises based on current costs, is provided below.

2022	$	231
2023		113
Thereafter		74
	$	418

(In thousands of Canadian dollars, except as otherwise indicated)

13. Other long-term liabilities

Other long-term liabilities represent government guaranteed loans received. The balances of the government loans are as follows:

			December 31, 2021		December 31, 2020
Canadian Emergency Wage Subsidy		**$**	60	$	40
Paycheck Protection Program	**a**		394		540
Other			13		13
Total other long-term liabilities		**$**	467	$	593

(a) Paycheck Protection Program

In 2020 and 2021, Ondine Research Laboratories, Inc. and Ondine Biomedical U.S., Inc., subsidiaries of the Company received an unsecured advance of US$735 ($932) under the Paycheck Protection Program ("PPP"), which is guaranteed by the Small Business Administration ("US SBA"), pursuant to the Coronavirus Aid, Relief and Economic Security Act. The loan bears interest at 1% per annum and is repayable, in blended payments, over a two year term. Subject to the satisfaction of certain conditions, the loan may be forgiven if the proceeds are used to fund qualifying expenditures such as payroll and benefits costs, rent, and utilities costs over an elected coverage period. In 2021, the Company filed a loan forgiveness application for the advance received in 2020, and the Company was granted full loan forgiveness by the US SBA in 2021 of US$424 ($518) (2020 - $nil) and this portion of the loan balance was released to the consolidated statement of comprehensive income. As at December 31, 2021, the remaining loan balance was US$311 ($394). As at December 31, 2021, the loan of US$311($394) (2020 - US$424 ($540)) was recorded as part of "other long-term liabilities' in the consolidated statement of financial position.

14. Share capital

(a) Common Stock

On December 6, 2021, the Company completed its initial public offering ("IPO"), in which the Company issued 41,668,716 common shares at £0.53 ($0.90) per share for gross proceeds of $37,502. As a result of changes in exchange rates from the date of the IPO to the dates of cash receipts, a foreign exchange gain of $221 was recorded to the statement of loss and comprehensive loss on translation and settlement of the receivable, bringing the net cash received to $37,723. The common shares of the Company are listed on the AIM Market of the London Stock Exchange under the symbol "OBI.L".

As part of the IPO, the Company received net cash proceeds of $32,613, after commission costs of $2,230, other expenses including disbursements of $1,623, and prepayment of expenses of $1,257.

The Company incurred accounting, legal, advisory, and disbursement costs of $5,875 directly related to the completion of the IPO as of December 31, 2021. The costs incurred were allocated to the consolidated statements of loss and comprehensive loss and consolidated statement of financial position based on the percentage of newly issued common shares of the Company compared to the total number of issued and outstanding common shares of the Company. Of the costs incurred, $4,708 has been recorded in general and administrative expenses for the year ended December 31, 2021. $1,167 has been recorded in equity.

Authorized
An unlimited number of common shares without par value.

Issued
As at December 31, 2021, the Company's issued share capital comprised of 194,584,524 common shares (2020 – 70,671,262).

(In thousands of Canadian dollars, except as otherwise indicated)

(b) Preferred Stock

Authorized

An unlimited number of fixed-value, voting, preferred shares, entitled to a non-cumulative dividend of 6% per annum, redeemable and retractable at $1/share.

Issued

As at December 31, 2021, the Company's issued preferred share capital comprised of nil preferred shares (2020 – 3,000,000). During the year ended December 31, 2021, 3,000,000 preferred shares were converted to common shares as part of the initial public offering.

15. Share-based payments

(a) Stock Option Plan

On November 1, 2021, the Board of Directors approved and adopted an amended stock option plan for the Company which provides for the grant of stock options to directors, officers, employees and consultants from time to time at the discretion of the directors. Under the terms of the amended stock option plan, the maximum number of options authorized for issuance is 10% of the issued and outstanding common shares in any 10-year period for any Employee' share scheme and the maximum number of options authorized for issuance is 5% of the issued and outstanding common shares in any 10-year period for any executive share scheme. As at December 31, 2021, the maximum number of total options that can be outstanding are 19,458,452.

A summary of the status of the stock options outstanding is as follows:

	December 31, 2021			December 31, 2020		
	Number of options		**Weighted average exercise price**	Number of options		Weighted average exercise price
Outstanding, beginning of year	9,203,356	**$**	1.98	9,361,712	$	1.87
Options granted	7,337,994		1.76	320,000		3.30
Options exercised	(2,328,356)		0.43	-		-
Options forfeited	(1,282,500)		1.77	(93,750)		2.70
Options cancelled	(6,097,494)		2.98	(384,606)		0.23
Outstanding, end of year	6,833,000	**$**	1.42	9,203,356	**$**	1.98
Exercisable, end of year	4,233,748	**$**	1.33	3,529,606	$	2.44

Share-based payments expense for the year ended December 31, 2021, in the amount of $2,571 (2020 – $3,471) was recorded.

The outstanding options for the year ended December 31, 2021 is as follows:

Exercise price	**Number of options**	**Remaining life (years)**
$ 0.01	200,000	4.75
$ 0.50	165,000	1.91
$ 0.90	4,555,000	2.47
$ 2.70	1,015,000	1.94
$ 3.00	800,000	4.65
$ 3.61	98,000	4.28
$ 1.42	6,833,000	2.73

(In thousands of Canadian dollars, except as otherwise indicated)

The fair value of stock options granted during the year were estimated with the Black-Scholes model using the following assumptions at the time of grant:

	Year ended December 31,	
	2021	2020
Dividend yield	**0%**	0%
Annualized volatility	**70% - 80%**	70%
Risk-free interest rate	**0.87% - 1.38%**	0.45%
Expected life of options (years)	**1.1 - 5.0**	5.0
Forfeiture rate	**15%**	15%

Volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have trading history and volatility history. The share price was estimated using previously completed transactions and future discounted cashflows. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on Canadian government benchmark bonds with a term equal to or a remaining term that approximates the expected life of the options.

The weighted average fair value of stock options granted during the year ended December 31, 2021, was $0.56 per option (2020 - $1.89). As at December 31, 2021, stock options outstanding had a remaining contractual life of 2.73 years (2020- 2.92 years).

(b) Options issued under separate agreements

On December 15, 2020, the Company granted options entitling the holders to acquire common shares of the Company. A summary of the status of the options outstanding is as follows:

	December 31, 2021	December 31, 2020
	Number of options	**Number of options**
Outstanding, beginning of year	13,036,024	-
Options granted	-	13,036,024
Options expired	(13,036,024)	-
Outstanding, end of year	-	13,036,024
Exercisable, end of year	-	13,036,024

The fair value of options granted during the year were estimated with the Black-Scholes model with the following assumptions: risk-free weighted-average interest of 0.25%, expected dividend yield of nil, average expected volatility of 62% and expected life term of 6 months.

The expense for the year ended December 31, 2021 was $nil (2020 – $4,246). The estimation of the assumptions is as described in Note 15(a).

As at December 31, 2021, options outstanding had a remaining contractual life of nil months (2020 – 5.5 months).

(In thousands of Canadian dollars, except as otherwise indicated)

(c) Warrants

On May 30, 2020, and December 23, 2020, the Company granted warrants entitling the holders to acquire common shares of the Company as consideration for ongoing consulting and advisory services. A summary of the status of the warrants outstanding is as follows:

	December 31, 2021			December 31, 2020		
	Number of warrants		**Weighted average exercise price**	**Number of warrants**		Weighted average exercise price
Outstanding, beginning of year	1,350,000	**$**	2.33	-	$	-
Warrants granted	1,945,845		0.92	1,350,000		2.33
Warrants cancelled	(500,000)		1.92	-		-
Outstanding, end of year	2,795,845	**$**	1.42	1,350,000	**$**	2.33
Exercisable, end of year	2,795,845	**$**	1.42	850,000	$	2.57

The fair value of warrants granted during the year were estimated with the Black-Scholes model using the following assumptions at the time of grant:

	Year ended December 31,	
	2021	2020
Annualized volatility	70% - 80%	70% - 80%
Risk-free interest rate	0.23% - 0.92%	0.23% - 0.28%
Expected life of options (years)	2 - 5	2 - 5
Forfeiture rate	0% - 15%	0%

The expense for the year ended December 31, 2021 was $724 (2020 –$434). As at December 31, 2021, warrants outstanding had a remaining contractual life of nil years (2020 – 2.80 years).

(d) Shares to be issued for services provided

On December 15, 2020, the Company entered into an agreement to provide shares in exchange for services provided. As at December 31, 2021, the Company recognized a charge of $618 (2020 - $nil) to accrue for the share based payments.

16. Income taxes

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates to the earnings before income taxes. A reconciliation to the effective tax is as follows:

	Years ended December 31,			
		2021		2020
Loss before income taxes	**$**	(50,086)	$	(16,271)
Statutory income tax rate		27%		27%
Income tax (recovery)	**$**	(13,523)	$	(4,393)
Non-deductible expenses		1,268		2,888
Tax rate differences		270		328
Other differences		(552)		(38)
Foreign exchange differences		(57)		(38)
Change in unrecognized deferred tax assets		12,594		1,253
Income tax (recovery)	**$**	-	$	-

(In thousands of Canadian dollars, except as otherwise indicated)

Deferred income tax assets are only recognized to the extent that the realization of tax loss carry-forwards is determined to be probable. As at December 31, 2021, the Company has not recognized any income tax assets.

Effective January 1, 2019, the Canadian federal and British Columbia provincial corporate tax rates are 15% and 12%, respectively. All deferred tax assets and liabilities are measured at the combined 27% tax rate. As a result of tax legislation enacted in the U.S. at the end of 2017, the federal U.S. corporate tax rate applicable to years subsequent to 2017 was substantially reduced.

The Company has unrecognized deferred tax assets and liabilities as follows:

	December 31, 2021	December 31, 2020
Deferred tax assets:		
Tax losses carried forward	**$ 34,473**	$ 22,987
General Business Credit	**1,608**	2,059
Other	**11**	29
Share issue costs	**1,277**	2
Equipment and leasehold improvements	**121**	56
Intangible assets	**481**	478
Total deferred tax assets	**37,971**	25,611
Deferred tax liabilities:		
Fair value of financial instruments	**(452)**	(686)
Total deferred tax liabilities	**(452)**	(686)
Unrecognized deferred tax asset	**(37,519)**	(24,925)
Net deferred tax assets	**$ -**	$ -

The Company has non-capital loss carryforwards in Canada of $82,398, in the United States of US$34,606 ($43,873), in Barbados of US$6,853 ($8,688) and in the United Kingdom of GBP£26 ($45), all expiring between 2022 – 2040. The losses are available to reduce taxable income in Canada, the US, Barbados and UK respectively. As at December 31, 2021, the non-capital loss carryforwards that expire on December 31 of each respective year are as follows:

Expiry date	Amount
Pre-2031	$ 35,614
2031	4,792
2032	6,333
2033	7,281
2034	6,791
2035	3,598
Thereafter until 2040	70,595
	$ 135,004

(In thousands of Canadian dollars, except as otherwise indicated)

17. Related party transactions

(a) Revenues, product shipments and expenses

		Year ended December 31, **2021**		2020
Product sales (i)	**$**	-	$	1
Consulting fee expense (ii)	**$**	-	$	31

(i) Product sales for the year ended December 31, 2020 were to a related company. The revenue associated with product shipments was not recognized due to revenue recognition conditions not being met, and the cost of the product shipped to a related company was included in cost of goods sold. The revenue associated with product shipments will be recognized in a subsequent year(s) upon invoice payment. For the year-ended December 31, 2021, there was $16 (2020 - $32) of products shipped to a related party company for which revenue was not recognized.

(ii) Expenses incurred for consulting services provided by companies under the control of an officer and a related party to an officer of the Company.

(b) Compensation of key management personnel

The Company's key management personnel have the authority and responsibility for planning, directing and controlling activities of the Company and consists of the Company's executive officers and directors.

		Year ended December 31, **2021**		2020
Compensation and other short-term benefits	**$**	1,852	$	1,435
Directors' fees		179		166
Share-based payments		1,950		1,416
	$	3,981	$	3,017

The CEO and controlling shareholder of the Company provided her services to the Company without salary compensation, thereby waiving her right to receive a monthly salary as set out in her employment contract for the six months ended June 30, 2021. For December 31, 2021 year-end reporting purposes, and included above, a notional expense of $150 (2020 – $300) has been recorded to 'contributed surplus' in the consolidated statements of loss and comprehensive loss and charged to reserves in the consolidated statements of changes in equity. The cumulative notional expense is $10,528 (2020 - $10,378). During the year ended December 31, 2021, the CEO and controlling shareholder of the Company had her salary compensation reinstated per the employment contract and no notional expense was recorded subsequent to June 30, 2021.

During the year-ended December 31, 2021, key management personnel exercised 1,403,356 stock options for common shares (2020 – nil), and the Company repurchased 466,665 common shares from key management at fair value for $426 (2020 – nil).

(c) Related party balances

		December 31, 2021		December 31, 2020
Loans payable to related parties	**$**	-	$	23,610
Included in accounts payable and other liabilities	**$**	1,015	$	-

Loans payable to related parties are due to the personal holding company of the Company's controlling shareholder. The loans payable to related parties are unsecured. No amount payable was in respect of services provided.

On November 19, 2021, the Company and the lenders entered into a repayment agreement in which the aggregate balance of the loan of US$20,546 ($25,682) and accrued interest of US$395 ($494) will be repaid by the Company issuing Common Shares at a conversion price of US$0.36 ($0.45).

(In thousands of Canadian dollars, except as otherwise indicated)

On December 6, 2021, upon the Company's IPO, the aggregate balance including accrued interest of US$20,941 ($26,176) was converted into Common Shares of the Company. Due to the lower conversion price, there was a loss on extinguishment of $26,498 recorded through net loss.

18. Commitments and contingencies

Open purchase order commitments as at December 31, 2021 were $1,508 (2020 **–** $1,330) for the purchase of inventory and contracted development and clinical services.

The Company has the following contingencies at December 31, 2021:

(i) The Company's Barbadian subsidiary holds intellectual property in Barbados. As a result of the Barbados Companies (Economic Substance) Act passed in 2019, the Barbadian subsidiary must comply with economic substance requirements set out in the legislation. If the Barbadian subsidiary cannot establish economic substance in Barbados, the Barbadian subsidiary could be subject to additional financial penalties and/or could be struck from the register of companies. Any of the foregoing could have a material impact on the financial position and operating results of the Company.

(ii) The Company and certain of its affiliates have also been named as defendants in certain legal actions in the normal course of business, none of which management believes singularly or cumulatively, will have a material impact on the results of operations and financial position of the Company.

19. Segmented information

Management has determined that the Company has one reportable operating segment, aPDT products. This segment accounts for all of the Company's revenue, cost of sales and operating expenses. Determination of the operating segment was based on the level of financial reporting to the Company's chief operating decision makers. Revenues are attributed to the geographic area where the customer is located.

	Year ended December 31,			
		2021		2020
Product revenue				
Canada	**$**	2,501	$	1,754
Other		68		37
	$	2,569	$	1,791

Revenue from significant customers are as follows:

	Year ended December 31,			
		2021		2020
Customer 1	$	1,128	$	1,251
Customer 2		727		-
Customer 3		422		274
Other		292		266
	$	2,569	$	1,791

A summary of non-current assets (excluding other assets) by geographical area based on the location of the asset is as follows:

	December 31, 2021		December 31, 2020	
Canada	**$**	353	$	273
United States		248		569
	$	601	$	842

20. Financial risk management and financial instruments

(a) Fair value of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 Unadjusted quoted market prices in active markets for identical assets or liabilities;
- Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is not based on observable market data.

As at December 31, 2021, the carrying values of cash, cheques issued in excess of funds in deposit, accounts and other receivables, bank indebtedness, and accounts payable and other liabilities approximate their fair values because of their nature, relatively short maturity dates.

(b) Management of risks arising from financial instruments

The overall responsibility for the establishment and oversight of the Company's risk management policies resides with the Board of Directors. The Company's risk management policies are established to identify, analyze and manage the risks faced by the Company and to implement appropriate procedures to monitor risks and adherence to established controls. Risk management policies and systems are reviewed periodically in response to the Company's activities and to ensure applicability. The Company, through its financial assets and liabilities, is exposed to certain risks as follows:

Credit risk
The Company is exposed to credit risk arising from the possibility that cash held, receivables and amounts due from related parties are non-recoverable. However, the Company believes that its exposure to credit risk in relation to the cash and receivables is low. All of the cash held by the Company and its subsidiaries was held with reputable financial institutions. The Company has evaluated accounts receivable and determined an expected credit loss allowance of $864 for the year ended December 31, 2021 (2020 – $864). During the year ended December 31, 2021, the Company recorded a bad debt expense of $nil (2020– $nil).

Foreign currency risk
The results of the Company's operations are subject to currency transaction and translation risks. The fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company operates in Canada, the United States and the United Kingdom and is exposed to foreign exchange risk due to fluctuations in the US$ and GBP against the Canadian dollar. Foreign exchange risk arises from financial assets and liabilities denominated in currencies other than the functional currency of the respective entities. The Company's primary risk is associated with fluctuations between the US$ and Canadian dollar, and the GBP and Canadian dollar.

The Company has determined that the effect of a 10% increase or decrease in the US$ and GBP against the Canadian dollar on net financial assets and liabilities, as at December 31, 2021, including cash, cheques issued in excess of funds in deposit, accounts receivables, accounts payable and other liabilities denominated in US$ and GBP, would result in an increase or decrease of approximately $2,811 (2020 – $702) in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2021.

Interest rate risk
Interest rate risk is the risk that the fair values and future cash flows of the Company will fluctuate because of changes in market interest rates. The Company was not exposed to fluctuations in interest rates during the years presented as the interest rate on the Company's convertible loan notes and preferred shares is fixed. The Company did not incur or have any other interest-bearing assets or liabilities.

(In thousands of Canadian dollars, except as otherwise indicated)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company ensures that there is sufficient liquidity to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash. The Company's principal sources of liquidity are cash provided by operations, including advance payments from customers, related party loans, debt and equity issuances. The Company projects and monitors its cash requirements to accommodate changes in liquidity needs.

In addition to the commitments in Note 9 and Note 18, the Company has the following contractual financial liabilities as at December 31, 2021:

	Carrying amount	Contractual cash flows	Less than one year	More than one year
Financial liabilities				
Cheques issued in excess of funds in deposit	**$** 497	$ 497	$ 497	$ -
Accounts payable and other liabilities	3,277	3,277	3,277	-
Other long-term liabilities	467	467	-	467
	$ 4,241	**$** 4,241	**$** 3,774	**$** 467

21. Expenses by nature

Cost of goods sold and operating expenses are comprised of the following expenses by nature:

	Year ended December 31, 2021	2020
Salaries and benefits	**$** 8,218	$ 7,911
Consulting and professional fees	8,199	6,118
Office and laboratory supplies	1,307	1,034
Travel	332	120
Materials consumed	1,378	1,097
Variable lease payment – Note 12	129	132
Depreciation and amortization	513	1,220
Licensing	13	30
	$ 20,089	$ 17,662

22. Supplementary cash flow information

	Year ended December 31, 2021	2020
Changes in non-cash working capital items		
Accounts and other receivables	**$** 296	$ (520)
Due from related parties	-	14
Inventory	(673)	86
Prepaid expenses and deposits	(1,656)	2
Accounts payable and other liabilities	2,153	257
Deposit payable	-	(200)
Other long-term liabilities	11	-
	$ 131	$ (361)

(In thousands of Canadian dollars, except as otherwise indicated)

23. Ultimate controlling party

The Company's CEO is the ultimate controlling party of the Company, personally owning and/or controlling through her personal holding company a total of 55.7% of the issued common shares of the Company as at December 31, 2021 (2020 – 72.6%).

24. Capital management

The Company's objectives when managing capital are to ensure sufficient liquidity for operations and adequate funding for growth and capital expenditures while maintaining an efficient balance between debt and equity. The capital structure of the Company consists of credit facilities and shareholders' equity.

The Company's capital is comprised of the following:

	Year ended December 31,	
	2021	2020
Total indebtedness[1]	709	35,051
Less: Cash and cash equivalents[2]	29,868	626
Net debt	30,577	35,677
Shareholders' equity	28,252	(33,814)
	58,829	1,863

[1]Indebtedness includes convertible loan notes, government loans, lease liabilities, loans payable to related parties and preferred shares

[2]Cash and cash equivalents includes cash net of cheques issued in excess of funds on deposit

In order to facilitate the management of capital, the Company prepares annual expenditure budgets that are updated as necessary and dependent on various factors, including successful deployment of capital and industry conditions. The annual budgets are approved by the Board of Directors. The Company is not subject to any externally imposed capital requirements.

Management believes that existing cash resources, together with cash generated through operations, will generate sufficient liquidity to meet operating cash requirements for at least the next twelve months.

25. Subsequent events

Subsequent to December 31, 2021, the following transactions have occurred:

1. On February 17, 2022, the Company granted 1,160,000 stock options to its employees at an exercise price of £0.54, in accordance with the Company's stock option plan. The stock options are exercisable for a period of 5 years and must meet certain vesting criteria.
2. On February 17, 2022, the Company cancelled 950,000 stock options formerly granted to its consultants.
3. On February 17, 2022, the Company granted 950,000 stock options to its consultants at an exercise price of £0.54, in accordance with the Company's stock option plan. The stock options are exercisable for a period of 5 years and must meet certain vesting criteria.
4. On March 18, 2022, the Company signed a lease extension for its office and manufacturing facility in Bothell, Washington, United States. The term is for 3 years with a tenant option to renew for an additional 2 years. The minimum lease payments for base rent are US$517.
5. On April 8, 2022, the Company entered into a data subscription agreement with Definitive Healthcare, LLC.
6. On April 26, 2022, further to the announcements by Arden Partners plc on April 11 and 14, 2022, regarding the loss of its nominated adviser status upon the completion of its recommended takeover, the Company has appointed Strand Hanson Limited as its nominated adviser and financial adviser. Arden Partners plc will continue to act as Broker to the Company.