



Khiron Life Sciences Corp.

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018

(Unaudited, expressed in Canadian Dollars, unless otherwise noted)

**Notice of No Auditor Review of Interim Financial Statements**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying condensed interim consolidated financial statements of the company have been prepared by and are the responsibility of the company's management. The company's independent auditor has not performed an audit or review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants.

# Khiron Life Sciences Corp.

## Condensed Interim Consolidated Statement of Financial Position

(expressed in Canadian Dollars)

Unaudited

	Note	June 30 2019 \$	December 31 2018 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	25,692,601	15,013,718
Short-term investments	4	30,093,952	3,949,554
Accounts receivables		3,208,395	4,170,634
Inventories		437,747	238,388
Prepaid expenses and other current assets		1,469,915	561,513
<b>Total current assets</b>		<b>60,902,610</b>	<b>23,933,807</b>
<b>Non-current assets</b>			
Non-current accounts receivables		-	153,137
Property, plant and equipment	5	14,441,352	9,620,599
Intangible assets	6	1,297,792	2,005,500
Goodwill	6	23,883,300	4,635,774
<b>Total assets</b>		<b>100,525,054</b>	<b>40,348,817</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		7,201,152	6,439,972
Current portion of long-term debt	8	537,599	155,606
<b>Total current liabilities</b>		<b>7,738,751</b>	<b>6,595,578</b>
<b>Non-current liabilities</b>			
Non-current accounts payable		365,957	377,263
Long-term debt	8	2,849,058	2,353,080
Deferred tax liabilities		435,995	650,000
Deferred consideration	7(a)	-	3,063,242
Contingent consideration	7(a)	-	1,772,245
<b>Total liabilities</b>		<b>11,389,761</b>	<b>14,811,408</b>
<b>Shareholders' equity</b>			
Share capital	9	120,528,569	39,826,123
Warrants		7,751,115	5,836,115
Share-based compensation		3,996,489	3,915,481
Accumulated other comprehensive loss		(905,466)	(454,361)
Deficit		(42,235,414)	(23,585,949)
<b>Total shareholders' equity</b>		<b>89,135,293</b>	<b>25,537,409</b>
<b>Total liabilities and shareholders' equity</b>		<b>100,525,054</b>	<b>40,348,817</b>

Nature of operations and going concern (note 1)

Commitments and contingencies (note 17)

Signed on behalf of the Board:

"Alvaro Torres"

Alvaro Torres, Director

"Sidney Himmel"

Sidney Himmel, Director

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

# Khiron Life Sciences Corp.

## Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(expressed in Canadian Dollars)

Unaudited

		For the three months ended		For the six months ended	
	Note	2019	2018	2019	2018
		\$	\$	\$	\$
<b>Revenues</b>					
Service revenues		2,190,997	-	4,212,141	-
Product revenues		16,683	-	86,516	-
		<b>2,207,680</b>	-	<b>4,298,657</b>	-
Cost of sales		1,825,961	-	3,504,180	-
<b>Gross profit</b>		<b>381,719</b>	-	<b>794,477</b>	-
<b>Expenses</b>					
General and administrative costs	13	5,962,792	4,622,950	10,933,961	6,214,178
Share-based compensation		1,723,791	640,149	2,426,327	745,332
Selling, marketing and promotion		986,857	413,610	1,703,162	640,771
Research and development		1,073,603	-	2,171,887	-
Transaction fees		1,128,059	521,157	2,010,247	521,157
		<b>10,875,102</b>	<b>6,197,866</b>	<b>19,245,584</b>	<b>8,121,438</b>
Other income		(119,475)	(697)	(104,778)	(1,500)
Other expenses		271,818	9,982	303,136	1,809
<b>Net loss</b>		<b>10,645,726</b>	<b>6,207,151</b>	<b>18,649,465</b>	<b>8,121,747</b>
Other comprehensive loss (gain):					
Foreign currency translation		(282,409)	(3,181)	451,105	46,407
<b>Comprehensive loss</b>		<b>10,363,317</b>	<b>6,203,970</b>	<b>19,100,570</b>	<b>8,168,154</b>
Loss per share – basic and diluted	14	0.11	0.15	0.21	0.22
Weighted average number of shares outstanding		95,973,144	40,566,495	87,807,867	36,827,902

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

# Khiron Life Sciences Corp.

## Condensed Interim Consolidated Statements of Cash Flow

(expressed in Canadian Dollars)

Unaudited

		For the six months ended June 30	
	Note	2019	2018
		\$	\$
<b>Operating activities</b>			
Net loss for the period		(18,649,465)	(8,121,747)
Adjustments for items not involving cash:			
Share-based compensation		2,426,327	745,332
Non-cash transaction fees	9(b), 9(c)	1,795,800	-
Depreciation and amortization		190,364	24,962
Changes in non-cash working capital items:			
Accounts receivables		962,238	(82,232)
Inventory		(199,359)	-
Prepays and other assets		(755,264)	90,726
Accounts payable and accrued liabilities		518,380	1,161,395
<b>Net cash used in operating activities</b>		<b>(13,710,979)</b>	<b>(6,181,564)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(3,418,076)	(1,024,317)
Short-term investments		(26,144,398)	-
Acquisition of ILANS	7(a)	(2,670,873)	-
Cash acquired on acquisition of NettaGrowth	7(b)	68,299	-
<b>Net cash used in investing activities</b>		<b>(32,165,048)</b>	<b>(1,024,317)</b>
<b>Financing activities</b>			
Proceeds from share issuances, net of issuance costs	9	53,139,228	10,865,581
Proceeds from issuance of private placements	9	-	905,000
Repayment of long-term debt		(709,482)	-
Proceeds from exercise of options and warrants		4,175,035	96,352
<b>Net cash provided from financing activities</b>		<b>56,604,781</b>	<b>11,866,933</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>15,013,718</b>	1,809,645
Net change in cash and cash equivalents		10,728,754	4,661,052
Effect of movements in exchange rates on cash held		(49,871)	27,350
<b>Cash and cash equivalents, end of period</b>		<b>25,692,601</b>	<b>6,498,047</b>
<b>Supplementary disclosure</b>			
Value of shares issued for acquisition of NettaGrowth	7(b)	21,162,064	-
Value of shares issued for payment of transaction fees	9(b), 9(c)	1,795,800	-

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

# Khiron Life Sciences Corp.

## Condensed Interim Consolidated Statement of Changes in Shareholders' Equity

(expressed in Canadian Dollars)

Unaudited

	Note	Number of common shares #	Share capital \$	Share-based compensation \$	Warrants reserve \$	Accumulated other comprehensive income \$	Retained deficit \$	Total \$
Balance, December 31, 2017		32,570,281	4,291,289	626,111	1,085,422	(30,133)	(3,779,412)	2,193,277
Shares issued on private placement		905,000	805,450	-	99,550	-	-	905,000
Shares issued on rights offering		1,440,542	-	-	-	-	-	-
Shares issued on warrants exercised		82,478	96,352	-	-	-	-	96,352
Subscription receipt shares, net of issuance costs		11,230,000	6,536,000	-	3,800,000	-	-	10,336,000
Subscription receipt costs		-	(411,143)	-	411,143	-	-	-
Shares retained by Adent shareholders		706,249	628,300	-	-	-	-	628,300
Fair value of share-based payments		-	-	745,332	-	-	-	745,332
Net loss for the period		-	-	-	-	-	(8,121,747)	(8,121,747)
Other comprehensive loss		-	-	-	-	(46,407)	-	(46,407)
<b>Balance, June 30, 2018</b>		<b>46,934,550</b>	<b>11,946,248</b>	<b>1,371,443</b>	<b>5,396,115</b>	<b>(76,540)</b>	<b>(11,901,159)</b>	<b>6,736,107</b>
		Number of common shares	Share capital	Share-based compensation	Warrants reserve	Accumulated other comprehensive income	Retained deficit	Total
Balance, December 31, 2018		75,042,988	39,826,123	3,915,481	5,836,115	(454,361)	(23,585,949)	25,537,409
Shares issued for finders' fee	7	800,710	1,795,800	-	-	-	-	1,795,800
Shares issued on warrants exercised		3,595,094	3,579,035	-	-	-	-	3,579,035
Shares issued on options exercised		530,000	789,744	(193,744)	-	-	-	596,000
Shares issued on RSUs exercised		2,417,500	2,151,575	(2,151,575)	-	-	-	-
Fair value of share-based payments		-	-	2,426,327	-	-	-	2,426,327
Shares issued for February financing	9	13,110,000	28,842,000	-	-	-	-	28,842,000
Shares issued for May financing	9	9,914,150	28,751,035	-	-	-	-	28,751,035
Fair value of compensation options	9	-	(1,915,000)	-	1,915,000	-	-	-
Share issuance costs	9	-	(4,453,807)	-	-	-	-	(4,453,807)
Acquisition of NettaGrowth	7(b)	8,498,821	21,162,064	-	-	-	-	21,162,064
Net loss for the period		-	-	-	-	-	(18,649,465)	(18,649,465)
Other comprehensive loss		-	-	-	-	(451,105)	-	(451,105)
<b>Balance, June 30, 2019</b>		<b>113,909,263</b>	<b>120,528,569</b>	<b>3,996,489</b>	<b>7,751,115</b>	<b>(905,466)</b>	<b>(42,235,414)</b>	<b>89,135,293</b>

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

# Khiron Life Sciences Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

(expressed in Canadian Dollars)

For the three and six months ended June 30, 2019 and 2018

Unaudited

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### 1. Nature of operations and going concern

Khiron Life Sciences Corp. (“**Khiron**” or the “**Company**”) was incorporated under the *Business Corporations Act* (British Columbia) on May 16, 2012. The Company combines global scientific expertise, agricultural advantages, branded product market entrance experience and education to drive prescription and brand loyalty to address priority medical conditions such as chronic pain, epilepsy, depression and anxiety in the Latin American market of over 620 million people. Khiron is focused on improving the quality of life of people by developing high-quality cannabis-based products in the medical and wellness categories across Latin America. Khiron is fully licensed in Colombia for the cultivation, production, domestic distribution, and international export of both tetrahydrocannabinol (THC) and cannabidiol (CBD) medical cannabis. The company delivers best in class regulatory compliance, has the first approved set of CBD cosmetic products on shelf in Colombia, and is currently facilitating testing to meet and surpass all license requirements for commercial cannabis derived products. The registered office of the Company is located at 2300 - 500 Burrard Street, Vancouver, Canada and its main office in Colombia is located at Carrera 11 No. 84-09 Of. 402, Bogotá, Colombia.

These consolidated financial statements have been prepared by management on a going concern basis which assumes that the Company will continue in operation for at least the next twelve months and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at June 30, 2019, the Company has not yet achieved profitable operations and had a loss of \$18,649,465. The Company however has sufficient liquidity to continue operations for at least the next twelve months, satisfy all commitments and repay its liabilities arising from normal business operations as they become due.

### 2. Significant accounting policies

The Company applies International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”) and interpretations issued by the International Financial Reporting Interpretations Committee (“**IFRIC**”). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the IASB.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS issued and outstanding as of August 23, 2019, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim consolidated financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended December 31, 2018, except for the new accounting policies as described below. Any subsequent changes to IFRS that are given effect in the Company’s annual financial statements for the year ending December 31, 2019 could result in restatement of these unaudited condensed interim consolidated financial statements. These condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

#### Basis of presentation

The condensed interim consolidated financial statements have been prepared on historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are measured at their fair value. The consolidated financial statements are presented in Canadian dollars except where otherwise indicated. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

#### Basis of consolidation

The consolidated financial statements as at June 30, 2019, reflect the assets, liabilities, and results of operations of Khiron Life Sciences Corp. and its subsidiaries Khiron Colombia SAS, Jemarz SAS doing business as the Latin American Institute of Neurology and the Nervous System (“**ILANS**”) and NettaGrowth International Inc. (“**NettaGrowth**”). All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

# Khiron Life Sciences Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

(expressed in Canadian Dollars)

For the three and six months ended June 30, 2019 and 2018

Unaudited

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### New accounting policies

#### (a) Leases (“IFRS 16”)

The Company has adopted IFRS 16 using the modified retrospective approach with an initial application date of January 1, 2019. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to asset and liability accounts and applies the standard prospectively.

On adoption of IFRS 16, the Company has recognized lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments. The associated right-of-use assets were measured at the amount equal to the lease liability on January 1, 2019, adjusted by the amount of any prepaid or accrued lease payments relating to that lease.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate.

The Company has elected to apply the exemptions not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

The impacts of the adoption of IFRS 16 as at January 1, 2019 was to increase property, plant and equipment by \$1.7 million to capitalize the right-of-use assets and correspondingly increase long-term debt by the same amount.

#### (b) Goodwill

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Currently, the Company has three reportable segments, the medical services segment, the cultivation segment and the wellness products segment. The Company has determined that the goodwill associated with all acquisitions to date belongs to the medical services segment as this is the segment that holds the acquired entities and the lowest level at which management monitors goodwill.

# Khiron Life Sciences Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

(expressed in Canadian Dollars)

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Unaudited

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Goodwill is measured at historical cost and is evaluated for impairment annually or more often if events or circumstances indicate there may be an impairment. Cash Generating Units (“CGUs”) have been grouped for purposes of impairment testing. Impairment is determined for goodwill by assessing if the carrying value of CGUs which comprise the CGU segment, including goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of the CGUs are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGUs. Any goodwill impairment is recorded in income in the reporting period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

(c) Research and development

Research costs are expensed as incurred. Development expenditures are 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 to use or sell the asset. Other development expenditures are recognized in net loss as incurred.

(d) Uncertainty over income tax treatments (“IFRIC 23”)

The Company adopted IFRIC 23 on January 1, 2019 on a modified retrospective basis without restatement of comparative information. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgment in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The adoption of the new standard had no impact on the unaudited condensed interim consolidated financial statements as at June 30, 2019.

(e) Business combinations (“IFRS 3”)

In October 2018, the IASB issued an amendment to IFRS 3, effective for annual periods beginning on or after January 1, 2020 with early adoption permitted. The amendment clarifies that a business must include, at minimum, an input and a substantive process that together contribute to the ability to create outputs, and assists companies in determining whether an acquisition is a business combination or an acquisition of a group of assets by providing supplemental guidance for assessing whether an acquired process is substantive. For acquisitions that are determined to be acquisitions of assets as opposed to business combinations, the Company allocates the transaction price to the individual identifiable assets acquired and liabilities assumed on the basis of their relative fair values, and no goodwill is recognized. Acquisitions that continue to meet the definition of a business combination are accounted for under the acquisition method, without any changes to the Company’s accounting policy. The Company is currently assessing the impact of this standard.



# Khiron Life Sciences Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

(expressed in Canadian Dollars)

For the three and six months ended June 30, 2019 and 2018

Unaudited

### 3. Cash and cash equivalents

The Company held \$25,692,601 (December 31, 2018 – \$15,013,718) in its bank account with \$251,660 (December 31, 2018 – \$81,492) held in legal trust as at June 30, 2019.

### 4. Short-term investments

The Company held short-term investments as at June 30, 2019 in aggregate of \$30,093,952 (December 31, 2018 – \$3,949,554) in guaranteed investment certificates (“GIC”) with maturities ranging from thirty days to one year, bearing annual interest of 1.50% to 2.45%.

### 5. Property, plant and equipment

	Land	Buildings and leasehold improvements	Plant and equipment	Office and medical equipment	Capital work-in-progress	Right of use assets	Total
<b>Cost</b>	\$	\$	\$	\$	\$	\$	\$
December 31, 2018	1,473,610	6,821,645	284,951	878,687	517,419	-	9,976,312
Additions (transfers)	-	2,189,649	1,371,745	279,689	(423,007)	1,743,170	5,161,246
Additions from acquisition	-	316,504	-	-	-	-	316,504
Foreign currency translation	(44,160)	(256,777)	(45,383)	(33,844)	(4,144)	-	(384,308)
<b>June 30, 2019</b>	<b>1,429,450</b>	<b>9,071,021</b>	<b>1,611,313</b>	<b>1,124,532</b>	<b>90,268</b>	<b>1,743,170</b>	<b>15,069,754</b>
<b>Accumulated Depreciation</b>							
December 31, 2018	-	(42,130)	(70,583)	(243,000)	-	-	(355,713)
Additions	-	(26,190)	(59,290)	(45,676)	-	(155,716)	(286,872)
Foreign currency translation	-	1,966	3,709	8,508	-	-	14,183
<b>June 30, 2019</b>	<b>-</b>	<b>(66,354)</b>	<b>(126,164)</b>	<b>(280,168)</b>	<b>-</b>	<b>(155,716)</b>	<b>(628,402)</b>
<b>Net Book Value</b>							
December 31, 2018	<b>1,473,610</b>	<b>6,779,515</b>	<b>214,368</b>	<b>635,687</b>	<b>517,419</b>	<b>-</b>	<b>9,620,599</b>
<b>June 30, 2019</b>	<b>1,429,450</b>	<b>9,004,667</b>	<b>1,485,149</b>	<b>844,364</b>	<b>90,268</b>	<b>1,587,454</b>	<b>14,441,352</b>

# Khiron Life Sciences Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

(expressed in Canadian Dollars)

For the three and six months ended June 30, 2019 and 2018

Unaudited

### 6. Intangible assets and goodwill

	Note	Customer Relationships	Brands	Non-Compete	Goodwill	Total
<b>Cost</b>		\$	\$	\$	\$	\$
December 31, 2018		609,000	748,000	648,500	4,635,774	6,641,274
Acquisition of NettaGrowth	7(b)	-	-	-	20,977,645	20,977,645
Adjustment from amendment to ILANS acquisition	7(a)	-	-	(648,500)	(1,730,119)	(2,378,619)
<b>June 30, 2019</b>		<b>609,000</b>	<b>748,000</b>	<b>-</b>	<b>23,883,300</b>	<b>25,240,300</b>
<b>Accumulated Amortization</b>						
December 31, 2018		-	-	-	-	-
Amortization		59,208	-	-	-	59,208
<b>June 30, 2019</b>		<b>59,208</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,208</b>
<b>Net book value</b>						
December 31, 2018		609,000	748,000	648,500	4,635,774	6,641,274
<b>June 30, 2019</b>		<b>549,792</b>	<b>748,000</b>	<b>-</b>	<b>23,883,300</b>	<b>25,181,092</b>

### 7. Acquisition

#### (a) ILANS

On November 30, 2018, the Company acquired ILANS for an initial consideration of \$1,393,000 in cash and 1,400,000 common shares of the Company (valued at \$1.48 per share as at the date of acquisition). In addition, cash payments totaling \$3,130,242 were to be paid in four instalments over a 24 month period, of which \$1,800,000 was paid by February 28, 2019. The Company also agreed to an earn-out payment of up to \$5 million payable (fair value of \$1,772,245) upon the satisfaction of certain conditions on or before December 3, 2020 (the "Earn-out Payment").

On May 31, 2019 the purchase agreement for ILANS was amended. A final cash payment was made of \$937,873 and the remaining cash payment of \$1,330,242 and the Earn-out Payment were eliminated.

The Company determined that the acquisition of ILANS was a business combination in accordance with the definition in IFRS 3 Business combinations and as such has accounted for it in accordance with this standard using the acquisition method with Khiron as the acquirer. The accounting for the acquisition consummated has been provisionally determined and reflects the terms incorporating the May 31, 2019 amended purchase agreement. The assets and liabilities acquired has been determined provisionally and subject to adjustment.

# Khiron Life Sciences Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

(expressed in Canadian Dollars)

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At the date of acquisition, the Company acquired necessary information to determine the fair value of net identifiable assets acquired as at the acquisition date. Based on the November 30, 2018 acquisition date, the amended purchase price (as per the May 31, 2019 amended agreement) was allocated on a provisional basis to the fair value of net identifiable assets based on the Company's best estimate of fair value. The calculation of goodwill represents management's assessment of future potential synergies and growth that does not meet the definition for separate recognition.

The following table shows the total consideration and the net assets acquired for the acquisition of all the shares of ILANS.

Cash paid	\$	1,393,000
Cash paid post acquisition date		1,800,000
Cash paid May 31, 2019 based on amended agreement		937,873
Common shares issued		2,072,000
<b>Total consideration</b>	<b>\$</b>	<b>6,202,873</b>
<b>Net identifiable assets (liabilities) acquired</b>		
Cash	\$	15,413
Accounts receivables		4,696,671
Inventories		57,163
Prepaid expenses and deposits		8,464
Property, plant and equipment		5,338,993
Long-term receivables		174,330
Intangible assets		
Customer relationships		609,000
Brand		748,000
Accounts payable and accruals		(5,113,802)
Deferred tax liabilities		(435,995)
Income taxes payable		(330,700)
Loans and borrowings		(2,470,319)
<b>Net Identifiable assets</b>	<b>\$</b>	<b>3,297,218</b>
<b>Purchase price allocation</b>		
Net identifiable assets acquired	\$	3,297,218
Goodwill		2,905,655
	<b>\$</b>	<b>6,202,873</b>
<b>Net cash outflows</b>		
Cash consideration paid 2018	\$	1,460,000
Cash consideration paid 2019		2,670,873
Cash acquired 2018		(15,413)
<b>Net cash</b>	<b>\$</b>	<b>4,115,460</b>

# Khiron Life Sciences Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

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(b) NettaGrowth

On June 19, 2019, the Company acquired all of the outstanding shares of NettaGrowth through the issuance of 8,498,821 common shares of the Company at a value of \$2.49 per share. The Company determined that the acquisition of Nettagrowth was a business combination in accordance with the definition in IFRS 3 Business combinations and as such has accounted for it in accordance with this standard using the acquisition method with Khiron as the acquirer. The accounting for the acquisition consummated has been provisionally determined as at June 19, 2019. As such, the assets and liabilities acquired along with total consideration has been determined provisionally and subject to adjustment.

Transaction costs of \$1,128,059 (of which \$1,045,800 was through the issuance of common shares) relating to the acquisition were expensed in the three and six months ended June 30, 2019.

<b>Consideration – common shares issued</b>	\$	21,162,064
<b>Net identifiable assets (liabilities) acquired</b>		
Cash	\$	68,299
Prepaid expenses and deposits		316,504
Accounts payable and accruals		(200,384)
<b>Net identifiable assets</b>	<b>\$</b>	<b>184,419</b>
<b>Purchase price allocation</b>		
Net identifiable assets acquired	\$	184,419
Goodwill		20,977,645
	\$	<b>21,162,064</b>
Cash consideration paid	\$	-
Cash acquired		(68,299)
<b>Net cash inflow</b>	<b>\$</b>	<b>(68,299)</b>

# Khiron Life Sciences Corp.

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### 8. Long-term debt

The carrying values for lease liabilities and loans are as follows:

	Interest rate	Maturity date	June 30, 2019	December 31, 2018
			\$	\$
Lease liabilities	10.2%	2021-2030	<b>2,558,621</b>	1,221,876
Loan	N/A	February 1, 2022	-	29,227
Loan	10.90%	April 1, 2020	<b>22,649</b>	37,358
Loan	10.00%	July 1, 2020	<b>19,350</b>	29,155
Loan	10.50%	January 1, 2020	<b>14,269</b>	27,318
Loan	10.48%	October 1, 2020	<b>108,716</b>	154,102
Loan	10.90%	September 1, 2021	<b>85,614</b>	107,872
Loan	10.30%	May 1, 2019	-	31,521
Loan	9.79%	November 1, 2021	<b>35,468</b>	44,129
Loan	10.41%	March 1, 2020	-	24,586
Loan	11.73%	November 1, 2021	<b>106,405</b>	132,388
Loan	10.41%	August 1, 2021	<b>409,269</b>	519,278
Loan	10.41%	September 1, 2021	<b>26,296</b>	33,132
Loan	10.90%	Feb 1, 2019	-	116,744
			<b>3,866,657</b>	2,508,686
Current portion			<b>537,599</b>	155,606
Long-term debt			<b>2,849,058</b>	2,353,080

The loans and lease liabilities are held in Colombia and denominated in Colombian pesos and therefore subject to higher interest rates.

# Khiron Life Sciences Corp.

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### 9. Share capital

#### Authorized share capital

The authorized share capital consisted of unlimited number of common shares without par value. All issued shares have been fully paid.

#### Common shares issued

	Note	Number of Common Shares	Share Capital
			\$
<b>Balance, December 31, 2018</b>		<b>75,042,988</b>	<b>39,826,123</b>
Share issuance – February offering	9(a)	13,110,000	28,842,000
Share issuance costs (cash)	9(a)	-	(2,247,412)
Fair value cost of compensation options	9(a)	-	(983,000)
Share issuance – finders' fee	9(b)	380,710	750,000
Share issuance – warrants exercised		2,801,161	2,768,975
Share issuance – options exercised		275,000	275,000
<b>Balance, March 31, 2019</b>		<b>91,609,859</b>	<b>69,231,686</b>
Share issuance – acquisition of NettaGrowth	7(b)	8,498,821	21,162,064
Share issuance – May offering	9(c)	9,914,150	28,751,035
Share issuance costs (cash)	9(c)	-	(2,206,395)
Fair value cost of compensation options	9(c)	-	(932,000)
Share issuance – finders' fee	9(c)	420,000	1,045,800
Share issuance – warrants exercised		793,933	810,060
Share issuance – options exercised		255,000	514,744
Share issuance – RSUs exercised		2,417,500	2,151,575
<b>Balance, June 30, 2019</b>		<b>113,909,263</b>	<b>120,528,569</b>

- (a) On February 28, 2019, the Company completed a bought deal financing issuing 13,110,000 common shares at a price of \$2.20 per common share for aggregate gross proceeds of \$28,842,000 (the “February offering”).

In consideration for their services, the Company paid the underwriters a cash commission equal to 6% of the gross proceeds and non-transferable compensation options equal to 6% of the common shares sold under the February offering. Each compensation option issued will be exercisable at the issue price of \$2.20 to acquire one common share for a period of 24 months following the closing of the February offering. Share issuance costs totaled \$2,247,412 and 786,600 compensation options were issued valued at \$983,000.

The Company applied the following assumptions based on the Black-Scholes model to determine the fair value of the compensation options as at the date of issuance: expected dividend yield of 0%; share price of \$2.20; exercise price of \$2.20; expected volatility of 108%; risk-free interest rate of 3.00%; and an expected average life of 24 months resulting in a fair value of \$983,000.

- (b) On March 12, 2019, the Company signed a joint venture agreement with Dixie Brands Inc. (“Dixie”), a vertically integrated cannabis leader with operations in Latin America. With the execution of this agreement, a new company called Dixie Khiron JV Corp. has been established with 50% owned by each of the Company and Dixie. As a result of the transaction, a finders' fee was made through the issuance 380,710 common shares at a value of \$1.97 per common share or \$750,000.

# Khiron Life Sciences Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

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- (c) On May 28, 2019, the Company completed a bought deal financing issuing 9,914,150 common shares at a price of \$2.90 per common share for aggregate gross proceeds of \$28,751,035 (the “**May offering**”).

In consideration for their services, the Company paid the underwriters a cash commission equal to 6% of the gross proceeds and non-transferable compensation options equal to 6% of the common shares sold under the May offering. Each compensation option issued will be exercisable at the \$2.90 issue price to acquire one common share for a period of 24 months following the closing of the May offering. Share issuance costs totaled \$2,206,395, 420,000 common shares were issued as a finder’s fee at a value of \$2.49 per common share or \$1,045,800, and 594,849 compensation options were issued valued at \$932,000.

The Company applied the following assumptions based on the Black-Scholes model to determine the fair value of the compensation options as at the date of issuance: expected dividend yield of 0%; share price of \$2.90; exercise price of \$2.90; expected volatility of 103%; risk-free interest rate of 1.69%; and an expected average life of 24 months resulting in a fair value of \$932,000.

- (d) On January 12, 2018, the Company issued 11,230,000 subscription receipts at a price of \$1.00 per subscription receipt for total proceeds of \$11,230,000. Each subscription receipt automatically converted, for no additional consideration, into 11,230,000 units upon closing of the Qualifying Transaction. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of \$1.20 per share for a period of two years from closing of the Qualifying Transaction, subject to an acceleration provision.
- (e) On March 28, 2018, the Company completed a non-brokered private placement offering of 905,000 units at a price of \$1.00 per unit for aggregate gross proceeds of \$905,000. Each unit consisted of one common share and one common share purchase warrant of the Company. Each warrant entitles the holder thereof to acquire one common share of the Company at a price of \$1.20 for a period of 24 months following the closing of the Qualifying Transaction, subject to adjustment and acceleration.

### 10. Warrants

The following table reflects the continuity of warrants for the six months ended June 30, 2019:

	Number of warrants	Amount
		\$
<b>Balance, December 31, 2018</b>	<b>4,758,531</b>	<b>1.00</b>
Issued	786,600	2.20
Exercised	(2,801,161)	0.99
<b>Balance, March 31, 2019</b>	<b>2,743,970</b>	<b>1.35</b>
Issued	594,849	2.90
Exercised	(793,933)	1.02
<b>Balance, June 30, 2019</b>	<b>2,544,886</b>	<b>1.83</b>

# Khiron Life Sciences Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

(expressed in Canadian Dollars)

For the three and six months ended June 30, 2019 and 2018

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### 11. Stock options

The Company has adopted an amended and restated stock option plan (the "Plan"), to be administered by the Directors of the Company. Under the Plan, the Company may grant options to directors, officers, employees and consultants to purchase shares of the Company. The Plan provides up to 11,974,500 stock options to be reserved for issuance under the Plan, together with any other securities compensation arrangements, being 20% of the Company's issued and outstanding shares as at April 24, 2019, less the number of options and restricted share units granted as at April 24, 2019. The plan is a fixed plan as the number of shares reserved for issuance pursuant to the grant of stock options is fixed as of a given date. The Plan is not an evergreen plan, as options that are exercised do not become available for future grants. However, options that expire or are terminated in accordance with the Plan are returned to the option pool and become available for future grants. Options granted under the Plan will be for a term not to exceed ten years. The Plan provides that it is solely within the discretion of the Board to determine who should receive stock options, in what amounts, and determine vesting terms. The exercise price for any stock option shall not be lower than the last closing price of the underlying common shares prior to the grant date.

The following table reflects the continuity of stock options for the six months ended June 30, 2019:

	Number of stock options	Weighted average exercise price
		\$
<b>Balance, December 31, 2018</b>	<b>4,257,500</b>	<b>1.12</b>
Exercised	(275,000)	1.00
<b>Balance, March 31, 2019</b>	<b>3,982,500</b>	<b>1.13</b>
Issued	925,000	3.25
Exercised	(255,000)	1.26
Expired	(640,000)	1.12
<b>Balance, June 30, 2019</b>	<b>4,012,500</b>	<b>1.54</b>

Each stock option converts into one common share of the Company upon exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The Company settles stock options exercised through the issuance of common shares from treasury. The Company recorded share-based compensation expense related to stock options of \$599,970 for the three months ended June 30, 2019 (\$146,765 for the three months ended June 30, 2018) and \$652,815 for the six months ended June 30, 2019 (\$251,948 for the six months ended June 30, 2018) to the consolidated statements of loss and comprehensive loss.

On May 31, 2019, the Company issued 925,000 stock options and applied the following assumptions based on the Black-Scholes model to determine the fair value of the compensation options as at the date of issuance: expected dividend yield of 0%; share price of \$2.45; exercise price of \$3.25; expected volatility of 100%; risk free interest rate of 1.69%; and an expected average life of 3 years. The calculation of volatility is based on the average historical volatility of the Company with the expected average life of the options representing the period of time that options granted are expected to be outstanding. The risk-free rate is based on bonds issued by the Canadian government with terms equivalent to the expected life of the options.



# Khiron Life Sciences Corp.

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### 12. Restricted share units

The Company issued 5,135,000 restricted share units (“RSUs”) on May 23, 2018 to aid in attracting, retaining, and motivating officers, employees, and other participants of the Company. The RSUs vest quarterly and will vest in full on May 23, 2020 and will be settled in shares.

On May 31, 2019, the Company granted 4,090,000 RSUs to officers, employees, and consultants of the Company vesting annually over three years upon grant and will expire on December 15 after the third year of services rendered.

The Company recorded share-based compensation expense related to the RSUs of \$1,163,821 for the three months ended June 30, 2019 (\$493,384 for the three months ended June 30, 2018) and \$1,773,512 for the six months ended June 30, 2019 (\$493,384 for the six months ended June 30, 2018) to the consolidated statements of loss and comprehensive loss.

The following table reflects the continuity of RSUs for the six months ended June 30, 2019:

	Number of RSUs	Weighted average exercise price
		\$
<b>Balance, December 31, 2018</b>	<b>5,135,000</b>	<b>0.89</b>
<b>Balance, March 31, 2019</b>	<b>5,135,000</b>	<b>0.89</b>
Issued	4,090,000	2.45
Exercised	(2,417,500)	0.89
Expired	(300,000)	0.89
<b>Balance, June 30, 2019</b>	<b>6,507,500</b>	<b>1.79</b>

### 13. General and administrative costs

	For the three months ended		For the six months ended	
	2019	June 30 2018	2019	June 30 2018
	\$	\$	\$	\$
Salaries	2,048,719	1,687,533	3,569,554	2,093,950
Professional fees	1,168,771	1,132,988	2,320,073	1,416,153
Consulting	658,839	291,726	893,382	622,560
Investor relations	601,746	356,664	1,328,379	561,387
Travel and development	451,355	310,469	908,254	504,865
Corporate governance	313,609	201,183	656,078	257,831
Donations	76,133	-	149,779	-
Office and general	643,620	642,387	1,108,462	757,432
	<b>5,962,792</b>	<b>4,622,950</b>	<b>10,933,961</b>	<b>6,214,178</b>

# Khiron Life Sciences Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 14. Loss per share

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Net loss	<b>\$ 10,645,726</b>	\$ 6,207,151	<b>\$ 18,649,465</b>	\$ 8,121,747
Weighted average number of common shares outstanding - basic	<b>95,973,144</b>	40,566,495	<b>87,807,867</b>	36,827,902
Effect of dilutive securities	-	-	-	-
Weighted average number of common shares outstanding - dilutive	<b>95,973,144</b>	40,566,495	<b>87,807,867</b>	36,827,902
<b>Loss per share – basic and diluted</b>	<b>\$ 0.11</b>	\$ 0.15	<b>\$ 0.21</b>	\$ 0.22

Diluted loss per share did not include the effect of stock options, RSUs and warrants as they are anti-dilutive.

### 15. Related party transactions

Related parties and related party transactions impacting the accompanying consolidated financial statements are summarized below and include transactions with key management personnel, which includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Management fees and salaries	<b>1,017,992</b>	495,330	<b>1,997,577</b>	659,580
Share-based compensation	<b>1,721,147</b>	421,730	<b>1,745,303</b>	444,132
Donations	<b>76,133</b>	-	<b>149,779</b>	-

# Khiron Life Sciences Corp.

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### 16. Segmented Information

An operating segment is a component of the Company (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available.

The Company has three operating segments plus the corporate offices maintained in Bogota, Colombia and Toronto, Canada.

#### Geographic Segments

	June 30 2019	December 31 2018
	\$	\$
Property, plant and equipment:		
Canada	259,150	6,887
Latin America	14,182,202	9,613,712
	<u>14,441,352</u>	<u>9,620,599</u>
Non-current assets:		
Canada	259,150	6,887
Latin America	39,363,294	16,408,123
	<u>39,622,444</u>	<u>16,415,010</u>
Total assets:		
Canada	54,443,495	14,060,111
Latin America	46,081,559	26,288,706
	<u>100,525,054</u>	<u>40,348,817</u>

#### Operating Segments

Six months ended June 30, 2019	Corporate	Medical services	Cultivation	Wellness products	Total
	\$	\$		\$	\$
Revenues	-	4,212,141	-	86,516	4,298,657
Gross profit	-	734,915	-	59,562	794,477
Net loss	16,831,070	13,088	1,230,066	575,241	18,649,465

Six months ended June 30, 2018	Corporate	Medical services	Cultivation	Wellness products	Total
	\$	\$		\$	\$
Revenues	-	-	-	-	-
Gross profit	-	-	-	-	-
Net loss	8,121,747	-	-	-	8,121,747

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Three months ended June 30, 2019	Corporate	Medical services	Cultivation	Wellness products	Total
	\$	\$		\$	\$
Revenues	-	2,190,997	-	16,683	2,207,680
Gross profit	-	370,859	-	10,860	381,719
Net loss (income)	9,605,953	(33,695)	701,783	371,685	10,645,726

Three months ended June 30, 2018	Corporate	Medical services	Cultivation	Wellness products	Total
	\$	\$		\$	\$
Revenues	-	-	-	-	-
Gross profit	-	-	-	-	-
Net loss	6,207,151	-	-	-	6,207,151

### 17. Commitments and contingencies

Contractual obligations	Payments due by period			
	2019	2020-2024	2025+	Total
	\$	\$	\$	\$
Financial lease - land	70,447	704,468	774,915	1,549,830
Financial lease – corporate and medical offices	274,446	1,613,829	218,536	2,106,811
	<b>344,893</b>	<b>2,318,297</b>	<b>993,451</b>	<b>3,656,641</b>

On September 27, 2018, the Company signed and committed to pledge US\$1,000,000 to Fundacion Daya over two years. Fundacion Daya is Chile's leading medical cannabis institution and holder of the only medical cannabis license through DayaCann. As at June 30, 2019, the Company spent \$562,357 (US\$400,000) to begin clinical trials and the creation of an education platform.

On October 23, 2018, the Company signed and executed a donation agreement with Centro Fox, a non-profit organization where Khiron will provide US\$1 million over three years, ending in the year 2021. As at June 30, 2019 the Company had donated US\$400,000 (C\$600,923).

During the quarter ended June 30, 2019, the Company amended the donation agreement with Centro Fox to provide for an acceleration of the scheduled donation in return for additional participation by Centro Fox relating to the medical cannabis industry. As of August 23, 2019, no outstanding balance remains between Centro Fox and the Company.