



## Khiron Life Sciences Corp.

### Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 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.

# Khiron Life Sciences Corp.

## Condensed Interim Consolidated Statement of Financial Position

(expressed in Canadian Dollars)

Unaudited

	Note	September 30 2019	December 31 2018
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and short-term investments	3	47,857,584	18,963,272
Accounts receivables		3,151,437	4,170,634
Inventories		564,792	238,388
Prepaid expenses and other current assets		2,901,500	561,513
<b>Total current assets</b>		<b>54,475,313</b>	<b>23,933,807</b>
<b>Non-current assets</b>			
Non-current accounts receivables		-	153,137
Property, plant and equipment	4	14,807,877	9,620,599
Intangible assets	5	1,257,752	2,005,500
Goodwill	5	23,907,737	4,635,774
<b>Total assets</b>		<b>94,448,679</b>	<b>40,348,817</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		7,646,001	6,439,972
Current portion of long-term debt	7	610,934	155,606
<b>Total current liabilities</b>		<b>8,256,935</b>	<b>6,595,578</b>
<b>Non-current liabilities</b>			
Non-current accounts payable		-	377,263
Long-term debt	7	3,219,840	2,353,080
Deferred tax liabilities		408,957	650,000
Deferred and contingent consideration	6(a)	-	4,835,487
<b>Total liabilities</b>		<b>11,885,732</b>	<b>14,811,408</b>
<b>Shareholders' equity</b>			
Share capital	8	126,291,104	39,826,123
Other reserves		11,608,570	9,751,596
Accumulated other comprehensive loss		(2,480,212)	(454,361)
Deficit		(52,856,515)	(23,585,949)
<b>Total shareholders' equity</b>		<b>82,562,947</b>	<b>25,537,409</b>
<b>Total liabilities and shareholders' equity</b>		<b>94,448,679</b>	<b>40,348,817</b>

Nature of operations and going concern (note 1)

Commitments and contingencies (note 16)

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

	Note	For the three months ended September 30		For the nine months ended September 30	
		2019	2018	2019	2018
		\$	\$	\$	\$
<b>Revenues</b>					
Service revenues		2,684,739	-	6,896,880	-
Product revenues		88,500	-	175,016	-
		<b>2,773,239</b>	-	<b>7,071,896</b>	-
Cost of sales		2,179,783	-	5,683,963	-
<b>Gross profit</b>		<b>593,456</b>	-	<b>1,387,933</b>	-
<b>Expenses</b>					
General and administrative costs	12	4,330,399	3,352,208	15,264,360	9,566,386
Share-based compensation	10, 11	4,670,023	1,493,731	7,096,350	2,239,063
Selling, marketing and promotion		1,822,734	305,496	3,525,896	946,267
Research and development		655,599	-	2,827,486	-
Transaction fees		-	-	2,010,247	521,157
		<b>11,478,755</b>	5,151,435	<b>30,724,339</b>	13,272,873
Other income		(387,039)	(17,312)	(491,817)	(18,812)
Other expenses		122,841	46,288	425,977	48,097
<b>Net loss</b>		<b>10,621,101</b>	5,180,411	<b>29,270,566</b>	13,302,158
Other comprehensive loss (gain):					
Foreign currency translation		1,574,746	523,960	2,025,851	570,367
<b>Comprehensive loss</b>		<b>12,195,847</b>	5,704,371	<b>31,296,417</b>	13,872,525
Loss per share – basic and diluted	13	<b>\$0.09</b>	\$0.10	<b>\$0.30</b>	\$0.32
Weighted average number of shares outstanding		<b>113,996,724</b>	49,851,687	<b>97,448,114</b>	41,212,034

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 nine months ended September 30	
	Note	2019	2018
		\$	\$
<b>Operating activities</b>			
Net loss for the period		(29,270,566)	(13,302,158)
Adjustments for:			
Share-based compensation		7,096,350	2,239,063
Non-cash transaction fees	8(b), 8(c)	1,795,800	-
Depreciation and amortization		624,655	23,173
Changes in non-cash working capital items:			
Accounts receivables		772,945	(959,875)
Inventory		(367,602)	-
Prepays and other assets		(2,225,554)	124,405
Accounts payable and accrued liabilities		(76,871)	1,176,112
<b>Net cash used in operating activities</b>		<b>(21,650,843)</b>	<b>(10,699,280)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(3,888,452)	(2,177,056)
Short-term investments		(26,505,036)	-
Acquisition of ILANS	6(a)	(2,670,873)	-
<b>Net cash used in investing activities</b>		<b>(33,064,361)</b>	<b>(2,177,056)</b>
<b>Financing activities</b>			
Proceeds from share issuances, net of issuance costs	8	53,139,228	22,717,021
Proceeds from issuance of private placements	8	-	905,000
Repayment of long-term debt		(1,017,667)	-
Proceeds from exercise of options and warrants		5,128,513	2,614,749
<b>Net cash provided from financing activities</b>		<b>57,250,074</b>	<b>26,236,770</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		2,534,870	13,360,434
Effect of movements in exchange rates on cash held		(145,594)	(471,648)
<b>Cash and cash equivalents, end of period</b>		<b>17,402,994</b>	14,698,431
<b>Short-term investments, end of period</b>		<b>30,454,590</b>	-
<b>Cash and short-term investments, end of period</b>		<b>47,857,584</b>	<b>14,698,431</b>
<b>Supplementary disclosure</b>			
Value of shares issued for acquisition of NettaGrowth	6(b)	21,162,064	-
Value of shares issued for payment of transaction fees	8(b), 8(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		2,190,071	2,614,749	-	-	-	-	2,614,749
Subscription receipt shares, net		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
Shares issued on September finance		14,375,000	11,411,440	-	440,000	-	-	11,851,440
Financing receipt costs		-	(1,069,160)	-	1,069,160	-	-	-
Fair value of share-based payments		-	-	2,239,063	-	-	-	2,239,063
Net loss for the period		-	-	-	-	-	(13,302,158)	(13,302,158)
Other comprehensive loss		-	-	-	-	(570,367)	-	(570,367)
<b>Balance, September 30, 2018</b>		<b>63,417,143</b>	<b>24,806,925</b>	<b>2,865,174</b>	<b>6,905,275</b>	<b>(600,500)</b>	<b>(17,081,570)</b>	<b>16,895,304</b>
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	8	800,710	1,795,800	-	-	-	-	1,795,800
Shares issued on warrants exercised		3,612,951	8,361,716	-	(4,763,931)	-	-	3,597,785
Warrants exercised, shares issued October		-	724,728	-	-	-	-	724,728
Shares issued on options exercised		740,000	1,044,870	(238,870)	-	-	-	806,000
Shares issued on RSUs exercised		2,417,500	2,151,575	(2,151,575)	-	-	-	-
Fair value of share-based payments		-	-	7,096,350	-	-	-	7,096,350
Shares issued for February financing	8	13,110,000	28,842,000	-	-	-	-	28,842,000
Shares issued for May financing	8	9,914,150	28,751,035	-	-	-	-	28,751,035
Fair value of compensation options	8	-	(1,915,000)	-	1,915,000	-	-	-
Share issuance costs	8	-	(4,453,807)	-	-	-	-	(4,453,807)
Acquisition of NettaGrowth	6(b)	8,498,821	21,162,064	-	-	-	-	21,162,064
Net loss for the period		-	-	-	-	-	(29,270,566)	(29,270,566)
Other comprehensive loss		-	-	-	-	(2,025,851)	-	(2,025,851)
<b>Balance, September 30, 2019</b>		<b>114,137,120</b>	<b>126,291,104</b>	<b>8,621,386</b>	<b>2,987,184</b>	<b>(2,480,212)</b>	<b>(52,856,515)</b>	<b>82,562,947</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 nine months ended September 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 September 30, 2019, the Company has not yet achieved profitable operations and had a loss of \$29.3 million for the nine months ended September 30, 2019. 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 (“consolidated interim financial statements”) have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and do not include all of the information required for annual consolidated financial statements. Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed.

These consolidated interim 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**”).

These consolidated interim financial statements of Khiron were authorized for issue in accordance with a resolution of the Board of Directors on November 25, 2019.

#### Basis of presentation

The condensed interim consolidated financial statements have been prepared on a 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.

# Khiron Life Sciences Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

(expressed in Canadian Dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

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### Basis of consolidation

The consolidated financial statements as at September 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.

### 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 \$1.2 million to capitalize the right-of-use assets and correspondingly increase long-term debt by the same amount.

# Khiron Life Sciences Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

(expressed in Canadian Dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

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### (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 belong to the medical services and cultivation segments as these segments hold the acquired entities and are at the lowest level at which management monitors goodwill.

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 September 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 nine months ended September 30, 2019 and 2018

Unaudited

### 3. Cash and short-term investments

	September 30 2019	December 31 2018
	\$	\$
Cash and cash equivalents:		
Cash in bank	17,363,803	14,932,226
Cash held in legal trust	39,191	81,492
	<u>17,402,994</u>	<u>15,013,718</u>
Short-term investments	30,454,590	3,949,554
<b>Cash and short-term investments</b>	<b>47,857,584</b>	<b>18,963,272</b>

Short-term investments held at September 30, 2019 included guaranteed investment certificates (“GIC”) with maturities ranging from thirty days to one year, bearing annual interest of 2.05% to 3.10%.

### 4. 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>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
December 31, 2018	1,473,610	6,821,645	284,951	878,687	500,014	-	9,958,907
Additions (transfers)	-	1,119,775	1,608,425	572,821	(325,539)	3,632,685	6,608,167
Additions from acquisition	-	-	-	-	259,422	-	259,422
Foreign currency translation	(125,822)	(572,438)	(98,436)	(111,311)	(35,319)	(266,917)	(1,210,243)
September 30, 2019	<b>1,347,788</b>	<b>7,368,982</b>	<b>1,794,940</b>	<b>1,340,197</b>	<b>398,578</b>	<b>3,365,768</b>	<b>15,616,253</b>
<b>Accumulated Depreciation</b>							
December 31, 2018	-	(16,623)	(71,686)	(249,999)	-	-	(338,308)
Additions	-	(51,541)	(81,042)	(99,666)	-	(304,158)	(536,407)
Foreign currency translation	-	4,224	7,225	37,760	-	17,130	66,339
September 30, 2019	-	<b>(63,940)</b>	<b>(145,503)</b>	<b>(311,905)</b>	-	<b>(287,028)</b>	<b>(808,376)</b>
<b>Net Book Value</b>							
December 31, 2018	<b>1,473,610</b>	<b>6,805,022</b>	<b>213,265</b>	<b>628,688</b>	<b>500,014</b>	-	<b>9,620,599</b>
September 30, 2019	<b>1,347,788</b>	<b>7,305,042</b>	<b>1,649,437</b>	<b>1,028,292</b>	<b>398,578</b>	<b>3,078,740</b>	<b>14,807,877</b>

# Khiron Life Sciences Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

(expressed in Canadian Dollars)

For the three and nine months ended September 30, 2019 and 2018

Unaudited

### 5. Intangible assets and goodwill

	Note	Customer Relationships	Brands	Non-Compete	Licenses	Goodwill	Total
Cost		\$	\$	\$	\$	\$	\$
December 31, 2018		609,000	748,000	648,500	-	4,635,774	6,641,274
Acquisition of NettaGrowth	6(b)	-	-	-	63,491	20,961,119	21,024,610
Adjustment from amendment to ILANS acquisition	6(a)	-	-	(648,500)	-	(1,231,531)	(1,880,031)
Additions		-	-	-	7,627	-	7,627
Foreign currency translation		(37,767)	(46,386)	-	2,645	(457,625)	(539,133)
<b>September 30, 2019</b>		<b>571,233</b>	<b>701,614</b>	<b>-</b>	<b>73,763</b>	<b>23,907,737</b>	<b>25,254,347</b>
<b>Accumulated Amortization</b>							
December 31, 2018		-	-	-	-	-	-
Amortization		84,570	-	-	9,491	-	94,061
Foreign currency translation		(5,232)	-	-	29	-	(5,203)
<b>September 30, 2019</b>		<b>79,338</b>	<b>-</b>	<b>-</b>	<b>9,520</b>	<b>-</b>	<b>88,858</b>
<b>Net book value</b>							
December 31, 2018		609,000	748,000	648,500	-	4,635,774	6,641,274
<b>September 30, 2019</b>		<b>491,895</b>	<b>701,614</b>	<b>-</b>	<b>64,243</b>	<b>23,907,737</b>	<b>25,165,489</b>

### 6. 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. In addition, the former owner of ILANS was relieved from his non-compete agreement.

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		4,835,722
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>2,793,947</b>
<b>Purchase price allocation</b>		
Net identifiable assets acquired	\$	2,793,947
Goodwill		3,408,926
	<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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For the three and nine months ended September 30, 2019 and 2018

Unaudited

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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 nine months ended September 30, 2019.

<b>Consideration – common shares issued</b>	\$	21,162,064
<b>Net identifiable assets (liabilities) acquired</b>		
Prepaid expenses and other current assets	\$	60,323
Capital assets		260,367
Licenses		63,491
Accounts payable and accruals		(183,237)
<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>\$</b>	<b>21,162,064</b>

# Khiron Life Sciences Corp.

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### 7. Long-term debt

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

	Interest rate	Maturity date	September 30, 2019	December 31, 2018
			\$	\$
Lease liabilities	10.2%	2021-2030	3,177,896	1,221,876
Loan	N/A	February 1, 2022	-	29,227
Loan	10.90%	April 1, 2020	14,946	37,358
Loan	10.00%	July 1, 2020	14,032	29,155
Loan	10.50%	January 1, 2020	7,686	27,318
Loan	10.48%	October 1, 2020	83,269	154,102
Loan	10.90%	September 1, 2021	71,740	107,872
Loan	10.30%	May 1, 2019	-	31,521
Loan	9.79%	November 1, 2021	29,977	44,129
Loan	10.41%	March 1, 2020	-	24,586
Loan	11.73%	November 1, 2021	89,931	132,388
Loan	10.41%	August 1, 2021	341,297	519,278
Loan	10.41%	September 1, 2021	-	33,132
Loan	10.90%	Feb 1, 2019	-	116,744
			<b>3,830,774</b>	2,508,686
Current portion			<b>610,934</b>	155,606
Long-term debt			<b>3,219,840</b>	2,353,080

Lease liabilities include office leases, medical centre leases and a land lease for the cultivation site in Colombia. The adoption of IFRS 16 resulted in a January 1, 2019 increase in lease liabilities of \$1.2 million with a corresponding increase in right-of-use asset. An additional office lease and a medical centre lease (right-of-use assets) were entered into in 2019 increasing the lease liability a further \$1.4 million.

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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### 8. 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	8(a)	13,110,000	28,842,000
Share issuance costs (cash)	8(a)	-	(2,247,412)
Fair value cost of compensation options	8(a)	-	(983,000)
Share issuance – finders' fee	8(b)(c)	800,710	1,795,800
Share issuance – acquisition of NettaGrowth	6(b)	8,498,821	21,162,064
Share issuance – May offering	8(c)	9,914,150	28,751,035
Share issuance costs (cash)	8(c)	-	(2,206,395)
Fair value cost of compensation options	8(c)	-	(932,000)
Share issuance – warrants exercised		3,612,951	8,361,716
Warrants exercised and shares issued in October		-	724,728
Share issuance – options exercised		740,000	1,044,870
Share issuance – RSUs exercised		2,417,500	2,151,575
<b>Balance, September 30, 2019</b>		<b>114,137,120</b>	<b>126,291,104</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.
- (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**”).

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## Notes to the Condensed Interim Consolidated Financial Statements

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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 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.

### 9. Warrants

The following table reflects the continuity of warrants for the nine months ended September 30, 2019:

	Number of warrants	Amount
		\$
<b>Balance, December 31, 2018</b>	<b>4,758,531</b>	<b>1.00</b>
Issued	1,381,449	2.50
Exercised	(3,612,951)	1.00
<b>Balance, September 30, 2019</b>	<b>2,527,029</b>	<b>1.83</b>

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### 10. 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 nine months ended September 30, 2019:

Grant Date	Number of Stock Options				As at September 30, 2019	Exercise Price	Expiry Date	Remaining Life (years)
	As at December 31, 2018	Issued	Exercised	Forfeited				
2017-04-19	2,000,000	-	(525,000)	(200,000)	1,275,000	1.00	2021-04-19	1.6
2017-09-12	852,500	-	(110,000)	(250,000)	492,500	1.00	2022-09-12	3.0
2017-10-12	100,000	-	-	-	100,000	1.00	2022-10-12	3.0
2018-05-23	1,105,000	-	(165,000)	(300,000)	640,000	1.40	2023-05-23	3.6
2018-06-26	200,000	-	-	-	200,000	1.40	2023-06-26	3.7
2019-05-31	-	925,000	-	-	925,000	3.25	2024-05-31	4.7
	4,257,500	925,000	(800,000)	(750,000)	3,632,500	1.65		3.1

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 \$104,392 for the three months ended September 30, 2019 (\$299,223 for the three months ended September 30, 2018) and \$757,207 for the nine months ended September 30, 2019 (\$551,171 for the nine months ended September 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.

As at September 30, 2019, the unamortized stock option expense relating to previously issued stock options is approximately \$700,000.



# Khiron Life Sciences Corp.

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### 11. Restricted share units

The Company issued 5,135,000 restricted share units (“RSUs”) on May 23, 2018 to officers, employees and consulting of the Company. On May 31, 2019, the Company granted 4,090,000 RSUs to officers, employees, and consultants of the Company, vesting every six months over two years and will expire on December 15 after the third year of services rendered. On August 23, 2019, the Company granted 340,000 RSUs to offices, and employees of the Company, vesting annually over three years 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 \$4,565,631 for the three months ended September 30, 2019 (\$1,194,508 for the three months ended September 30, 2018) and \$6,339,143 for the nine months ended September 30, 2019 (\$1,687,892 for the nine months ended September 30, 2018) to the consolidated statements of loss and comprehensive loss.

The following table reflects the continuity of RSUs for the nine months ended September 30, 2019:

Grant Date	Number of RSUs						Exercise Price	Expiry Date	Remaining Life (years)
	As at December 31, 2018	Issued	Exercised	Forfeited	As at September 30, 2019				
2018-05-23	5,135,000	-	(2,417,500)	(350,000)	2,367,500	0.89	2021-12-15	2.2	
2019-05-31	-	4,090,000	-	-	4,090,000	2.45	2022-12-15	3.2	
2019-08-23	-	340,000	-	-	340,000	1.59	2022-12-15	3.2	
	5,135,000	4,430,000	(2,417,500)	(350,000)	6,797,500	1.86		2.9	

As at September 30, 2019, the unamortized RSU expense relating to previously issued RSUs is approximately \$6.2 million.

### 12. General and administrative costs

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Salaries	2,251,929	1,266,738	5,821,483	3,360,688
Professional fees	104,998	763,999	2,425,071	2,180,152
Consulting	401,467	321,097	1,294,849	943,657
Investor relations	54,563	292,002	1,382,942	853,389
Travel and development	362,111	220,236	1,270,365	725,101
Corporate governance	296,794	201,476	952,872	459,307
Donations	-	-	149,779	-
Office and general	793,838	262,337	1,712,136	995,494
Depreciation and amortization	64,699	24,323	254,863	48,598
	4,330,399	3,352,208	15,264,360	9,566,386

# Khiron Life Sciences Corp.

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### 13. Loss per share

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	2019	2018
Net loss	<b>\$10,621,101</b>	\$ 5,180,411	<b>\$29,270,566</b>	\$ 13,302,158
Weighted average number of common shares outstanding - basic	<b>113,996,724</b>	49,851,687	<b>97,448,114</b>	41,212,034
Effect of dilutive securities	-	-	-	-
Weighted average number of common shares outstanding - dilutive	<b>113,996,724</b>	49,851,687	<b>97,448,114</b>	41,212,034
<b>Loss per share – basic and diluted</b>	<b>\$ 0.09</b>	\$ 0.10	<b>\$ 0.30</b>	\$ 0.32

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

### 14. Related party transactions

Related parties and related party transactions impacting the interim condensed 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 September 30		For the nine months ended September 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Management fees and salaries	<b>673,227</b>	1,810,086	<b>2,670,804</b>	2,469,666
Share-based compensation	<b>2,289,582</b>	1,484,783	<b>4,034,885</b>	1,928,915
Donations to Centro Fox	-	-	<b>149,779</b>	-

On October 23, 2018, the Company signed and executed a donation agreement with Centro Fox, a non-for-profit organization, owned by Vicente Fox, a Khiron board member, where Khiron committed to provide US\$1 million over three years, ending in the year 2021. In July 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. The final payment of US\$555,000 was made in July 2019, which amount was accrued and expensed in 2018.

Certain members of Khiron's Board of Directors are party to an agreement with the Company whereby in certain completed transactions they would receive a fee equal to a percentage of the transaction value. One such agreement provides for a two percent fee and terminates on the earlier of completion of a transaction or a date either party notifies of termination. The second agreement provides for a one percent fee and expires in April 2020.

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### 15. 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

	September 30 2019	December 31 2018
	\$	\$
Property, plant and equipment:		
Canada	11,957	6,887
Latin America	14,795,920	9,613,712
	<u>14,807,877</u>	<u>9,620,599</u>
Non-current assets:		
Canada	11,957	6,887
Latin America	39,961,409	16,408,123
	<u>39,973,366</u>	<u>16,415,010</u>
Total assets:		
Canada	39,204,858	14,060,111
Latin America	55,243,821	26,288,706
	<u>94,448,679</u>	<u>40,348,817</u>

#### Operating Segments

Nine months ended September 30, 2019	Corporate	Medical services	Cultivation	Wellness products	Total
	\$	\$	\$	\$	\$
Revenues	-	6,896,880	-	175,016	7,071,896
Gross profit	-	1,260,046	-	127,887	1,387,933
Net loss (income)	26,186,009	(50,516)	1,965,239	1,169,834	29,270,566

  

Nine months ended September 30, 2018	Corporate	Medical services	Cultivation	Wellness products	Total
	\$	\$	\$	\$	\$
Revenues	-	-	-	-	-
Gross profit	-	-	-	-	-
Net loss	13,302,158	-	-	-	13,302,158

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Three months ended September 30, 2019	Corporate	Medical services	Cultivation	Wellness products	Total
	\$	\$	\$	\$	\$
Revenues	-	2,684,739	-	88,500	2,773,239
Gross profit	-	525,131	-	68,325	593,456
Net loss (income)	9,354,939	(63,604)	735,173	594,593	10,621,101

Three months ended September 30, 2018	Corporate	Medical services	Cultivation	Wellness products	Total
	\$	\$	\$	\$	\$
Revenues	-	-	-	-	-
Gross profit	-	-	-	-	-
Net loss	5,180,441	-	-	-	5,180,411

### 16. Commitments and contingencies

Contractual obligations	Payments due by period			
	2019	2020-2024	2025+	Total
	\$	\$	\$	\$
Financial lease - land	33,213	664,255	741,752	1,439,220
Financial lease – corporate and medical offices	212,419	2,350,908	206,061	2,769,388
Loans	17,352	184,430	570,128	771,910
Signing bonuses	1,080,000	2,160,000	-	3,240,000
	<b>1,342,984</b>	<b>5,359,593</b>	<b>1,517,941</b>	<b>8,220,518</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 September 30, 2019, the Company spent \$562,357 (US\$400,000) to begin clinical trials and the creation of an education platform.