



Khiron Life Sciences Corp.

Audited Consolidated Financial Statements

December 31, 2019 and 2018

(Expressed in Canadian Dollars, unless otherwise noted)

Khiron Life Sciences Corp.

Management's Report on Financial Statements

The consolidated financial statements of Khiron Life Sciences Corp. have been prepared by, and are the responsibility of, the Company's management. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and reflect management's best estimates and judgments based on information currently available. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements fairly reflect the financial position and results of operations of the Company.

The Board of Directors is responsible for ensuring management fulfills its financial reporting responsibilities. The Audit Committee meets with the Company's management and external auditors to discuss the results of the audit and to review the consolidated financial statements prior to the Audit Committee's submission to the Board of Directors for approval. The Audit Committee also reviews with management the Company's systems of internal control, and reviews the scope of the external auditors' audit and non-audit work. The Audit Committee is composed entirely of directors not involved in the daily operations of the Company who are thus considered to be free from any relationship that could interfere with their exercise of independent judgment as a committee member.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

May 1, 2020

"Alvaro Torres"

Signed: CEO

"Wendy Kaufman"

Signed: CFO

Independent Auditor's Report

To the Shareholders of Khiron Life Sciences Corp.:

Opinion

We have audited the consolidated financial statements of Khiron Life Sciences Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$36,377,779 during the year ended December 31, 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

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

The engagement partner on the audit resulting in this independent auditor's report is Jonathan Mac Neil.

MNP LLP

Toronto, Ontario
May 1, 2020

Chartered Professional Accountants
Licensed Public Accountants

Khiron Life Sciences Corp.
Consolidated Statements of Financial Position
(expressed in Canadian Dollars)

| | | As at December 31 | |
|---|-------|-------------------|-------------------|
| | Note | 2019 | 2018 |
| | | \$ | \$ |
| ASSETS | | | |
| Current assets | | | |
| Cash and short-term investments | 4 | 36,904,781 | 18,963,272 |
| Accounts receivable | 5 | 4,239,290 | 4,170,634 |
| Inventories and biological assets | 6,7 | 961,276 | 238,388 |
| Prepaid expenses and other current assets | | 2,704,670 | 561,513 |
| Total current assets | | 44,810,017 | 23,933,807 |
| Non-current assets | | | |
| Non-current deposits and other assets | | 1,339,832 | 153,137 |
| Property, plant and equipment | 8 | 15,859,348 | 9,620,599 |
| Intangible assets | 9 | 15,553,999 | 2,005,500 |
| Goodwill | 9 | 4,348,995 | 4,635,774 |
| Total assets | | 81,912,191 | 40,348,817 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | 7,433,829 | 6,439,972 |
| Current portion of long-term debt | 11 | 1,007,059 | 155,606 |
| Total current liabilities | | 8,440,888 | 6,595,578 |
| Non-current liabilities | | | |
| Non-current accounts payable | | - | 377,263 |
| Long-term debt | 11 | 2,545,268 | 2,353,080 |
| Deferred tax liabilities | 22 | 887,281 | 650,000 |
| Deferred and contingent consideration | 10(a) | - | 4,835,487 |
| Total liabilities | | 11,873,437 | 14,811,408 |
| Shareholders' equity | | | |
| Share capital | | 121,290,474 | 39,826,123 |
| Other reserves | | 11,405,248 | 9,751,596 |
| Accumulated other comprehensive loss | | (2,693,240) | (454,361) |
| Deficit | | (59,963,728) | (23,585,949) |
| Total shareholders' equity | | 70,038,754 | 25,537,409 |
| Total liabilities and shareholders' equity | | 81,912,191 | 40,348,817 |

Nature of operations and going concern (Note 1)

Commitments and contingencies (Note 20)

Subsequent events (Note 23)

Signed on behalf of the Board:

"Alvaro Torres"

Alvaro Torres, Director

"Deborah Rosati"

Deborah Rosati, Director

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

Khiron Life Sciences Corp.

Consolidated Statements of Loss and Comprehensive Loss

(expressed in Canadian Dollars)

| | | For the years ended December 31 | |
|---|-------|------------------------------------|------------|
| | Note | 2019 | 2018 |
| | | \$ | \$ |
| Revenues | | | |
| Service revenues | | 9,266,690 | 795,716 |
| Product revenues | | 315,676 | 95,961 |
| | | 9,582,366 | 891,677 |
| Cost of sales | | 7,146,509 | 594,313 |
| Gross profit | | 2,435,857 | 297,364 |
| Expenses | | | |
| General and administrative costs | 16 | 20,524,510 | 14,176,066 |
| Share-based compensation | 14,15 | 9,371,090 | 3,289,370 |
| Selling, marketing and promotion | | 4,787,333 | 1,104,464 |
| Research and development | | 3,732,557 | 352,640 |
| Transaction fees | | 1,750,000 | 1,271,157 |
| | | 40,165,490 | 20,193,697 |
| Other income | 10(a) | (1,837,887) | (228,698) |
| Other expenses | | 463,287 | 60,322 |
| Net loss before tax | | 36,355,033 | 19,727,957 |
| Current income tax expense | 22 | 80,314 | 81,140 |
| Deferred income tax recovery | 22 | (57,568) | (2,560) |
| Net loss | | 36,377,779 | 19,806,537 |
| Other comprehensive loss: | | | |
| Foreign currency translation | | 2,238,879 | 424,228 |
| Comprehensive loss | | 38,616,658 | 20,230,765 |
| Loss per share – basic and diluted | 17 | \$0.36 | \$0.41 |
| Weighted average number of shares outstanding | | 101,966,057 | 48,518,873 |

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

Khiron Life Sciences Corp.
Consolidated Statements of Cash Flow
(expressed in Canadian Dollars)

| | | For the years ended December 31 | |
|--|-------|---------------------------------|---------------------|
| | Note | 2019 | 2018 |
| | | \$ | \$ |
| Operating activities | | | |
| Net loss before tax | | (36,355,033) | (19,727,957) |
| Adjustments for: | | | |
| Share-based compensation | | 9,371,090 | 3,289,370 |
| Non-cash transaction fees | | 750,000 | - |
| Gain on acquisition amendment | 10(a) | (1,037,748) | - |
| Depreciation and amortization | | 938,531 | 337,919 |
| Accrued interest | | (559,303) | - |
| Changes in non-cash working capital items: | | | |
| Accounts receivable | | (1,381,820) | 834,154 |
| Inventory | | (700,449) | (181,225) |
| Prepays and other assets | | (1,949,024) | 5,359 |
| Accounts payable and accrued liabilities | | 848,909 | 668,470 |
| Net cash used in operating activities | | (30,074,847) | (14,773,910) |
| Investing activities | | | |
| Purchase of property, plant and equipment | | (6,094,749) | (3,825,834) |
| Short-term investments | | (23,051,046) | (3,949,554) |
| Acquisitions | 10 | (2,830,638) | (1,444,587) |
| Net cash used in investing activities | | (31,976,433) | (9,219,975) |
| Financing activities | | | |
| Proceeds from share issuances, net of issuance costs | 12 | 53,139,228 | 21,928,347 |
| Proceeds from issuance of private placements | 12 | - | 905,000 |
| Repayment of long-term debt | | (1,272,705) | - |
| Proceeds from exercise of options and warrants | 13,14 | 5,128,783 | 14,751,880 |
| Net cash provided from financing activities | | 56,995,306 | 37,585,227 |
| Cash and cash equivalents, beginning of period | | 15,013,718 | 1,809,645 |
| Net change in cash and cash equivalents | | (5,055,974) | 13,591,342 |
| Effect of movements in exchange rates on cash held | | (612,866) | (387,269) |
| Cash and cash equivalents, end of period | | 9,344,878 | 15,013,718 |
| Short-term investments, end of period | | 27,559,903 | 3,949,554 |
| Cash and short-term investments, end of period | | 36,904,781 | 18,963,272 |
| Supplementary disclosure | | | |
| Value of shares issued for acquisition of NettaGrowth | 10(b) | 13,683,102 | - |
| Value of shares issued for payment of transaction fees | 12(b) | 1,795,800 | - |

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

Khiron Life Sciences Corp.

Consolidated Statement of Changes in Shareholders' Equity

(expressed in Canadian Dollars)

| | Note | Number of common shares # | Share capital \$ | Share-based compensation reserve \$ | 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 |
| Share issuance - equity financing, net | 12(c) | 26,510,000 | 18,082,654 | - | 4,750,693 | - | - | 22,833,347 |
| Share issuance - rights offering | | 1,440,542 | - | - | - | - | - | - |
| Share issuance - warrants exercised | | 12,355,416 | 14,691,880 | - | - | - | - | 14,691,880 |
| Share issuance - other | | 706,749 | 628,300 | - | - | - | - | 628,300 |
| Share issuance - options exercised | | 60,000 | 60,000 | - | - | - | - | 60,000 |
| Share issuance - acquisition | 10(a) | 1,400,000 | 2,072,000 | - | - | - | - | 2,072,000 |
| Fair value of share-based payments | | - | - | 3,289,370 | - | - | - | 3,289,370 |
| Net loss for the period | | - | - | - | - | - | (19,806,537) | (19,806,537) |
| Other comprehensive loss | | - | - | - | - | (424,228) | - | (424,228) |
| Balance, December 31, 2018 | | 75,042,988 | 39,826,123 | 3,915,481 | 5,836,115 | (454,361) | (23,585,949) | 25,537,409 |
| Balance, December 31, 2018 | | 75,042,988 | 39,826,123 | 3,915,481 | 5,836,115 | (454,361) | (23,585,949) | 25,537,409 |
| Share issuance - equity financing, net | 12(a) | 23,024,150 | 50,451,228 | - | 2,688,000 | - | - | 53,139,228 |
| Share issuance - finders' fees | 12(b) | 800,710 | 1,795,800 | - | - | - | - | 1,795,800 |
| Share issuance - warrants exercised | | 4,216,899 | 9,689,563 | - | (5,366,780) | - | - | 4,322,783 |
| Share issuance - options exercised | 14 | 740,000 | 1,044,870 | (238,870) | - | - | - | 806,000 |
| Share issuance - RSUs exercised | 15 | 4,288,750 | 4,799,788 | (4,799,788) | - | - | - | - |
| Share issuance - acquisition | 10(b) | 8,498,821 | 13,683,102 | - | - | - | - | 13,683,102 |
| Fair value of share-based payments | 14, 15 | - | - | 9,371,090 | - | - | - | 9,371,090 |
| Net loss for the period | | - | - | - | - | - | (36,377,779) | (36,377,779) |
| Other comprehensive loss | | - | - | - | - | (2,238,879) | - | (2,238,879) |
| Balance, December 31, 2019 | | 116,612,318 | 121,290,474 | 8,247,913 | 3,157,335 | (2,693,240) | (59,963,728) | 70,038,754 |

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

Khiron Life Sciences Corp.

Notes to the Consolidated Financial Statements

(expressed in Canadian Dollars)

For the years ended December 31, 2019 and 2018

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's shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol "KHRN", the OTCQX Best Market ("OTCQX") under the symbol "KHRNF" and on the Frankfurt Stock Exchange ("FSE") under the symbol "A2JMXC".

Khiron's objective is to become the global leader in creating high quality cannabis derived medical and wellbeing products for sale around the world. With core operations in Latin America the Company's strategy focuses on achieving first mover advantage in the Latin American market of over 620 million people and is evolving its strategy towards global expansion. Khiron is licensed in Colombia for the cultivation, production, domestic distribution, and international export of both tetrahydrocannabinol (THC) and cannabidiol (CBD) medical cannabis. The Company has a best in class regulatory compliance record, the first approved line of CBD cosmetic products sold in retail outlets in Colombia, the United States and the United Kingdom, and is fully authorized to manufacture high- and low-THC medical cannabis, and to fill prescriptions for low-THC medical cannabis in Colombia.

The Company has three operating segments:

- (1) Medical cannabis products, in which the Company grows, produces and sells branded products and services to patients with medical conditions where cannabis can be an acceptable, proven option;
- (2) Health services, where the company operates its own network of medium complexity health centres (operating under the ILANS and Zerenia brands) offering a suite of health, medical and surgical services in alignment with insurance company partners; and
- (3) Wellbeing products, focused on delivering the benefits of CBD and hemp across an array of various branded consumer packaged goods, such as its Kuida® cosmetics line.

The Company leverages its branded product market experience, scientific expertise, agricultural advantages and educational platforms to introduce its products and services across markets in Latin America, Europe, the United Kingdom, and the United States.

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.

Going concern

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 December 31, 2019, the Company has not yet achieved profitable operations and had a loss of \$36.4 million for the year ended December 31, 2019. More vital to the analysis of going concern is the pandemic stemming from the coronavirus disease (COVID-19) as declared by the World Health Organization, which may cast significant doubt on the ability to continue as a going concern. The pandemic has had far-reaching impacts on every business and every individual globally. For the time being and until economies stabilize, Khiron has shifted its strategic approach to limit global expansion, alter marketing methods and conserve cash, but has maintained its overall strategic direction to improve the quality of life of patients and consumers.

Khiron Life Sciences Corp.

Notes to the Consolidated Financial Statements

(expressed in Canadian Dollars)

For the years ended December 31, 2019 and 2018

The Company has defined its strategic approach during this global crisis as follows:

- prioritizing the physical and mental health of its employees and health professionals;
- prudent cash management by limiting global expansion and altering marketing efforts to focus on the already established markets of the Company;
- ensuring continuity of health services and treatment of patients, following appropriate safety guidelines;
- maintaining continuity of production operations in Colombia and the ensuing supply chain; and
- building a strong strategic position in the medical cannabis space and ensuring sales growth in Colombia and sales entry into new markets in the United Kingdom, Peru and Brazil.

While the Company starts the year 2020 with a cash balance of \$36.9 million, the Company must prudently manage its cash and maintain its liquidity amidst the material uncertainty of incoming cash flows during the COVID-19 pandemic. The Company's core focus will be on its medical businesses using a predominantly digital strategy to grow its patient network and sell its medical cannabis products both locally in Colombia and globally. Maintaining high quality growth and extracts at its cultivation site will be critical to the Company's success. Cost reductions in salaries, marketing and other administrative functions have been implemented. Capital expenditure programs have been postponed, where possible. The Colombian government has resolved to provide health care service companies with financial relief, which could result in the deferral of loan repayments and lease payments at ILANS. While the Company will avail itself of financial relief measures, management believes that the Company should have 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, with the cost cutting measures already underway. The Company had cash and short-term investments of \$36.9 million and a working capital balance of \$36.4 million at December 31, 2019.

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 consolidated financial statements of Khiron were authorized for issue in accordance with a resolution of the Board of Directors on May 1, 2020.

Basis of presentation

The 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 and biological assets, 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. Certain expenses from 2018 have been reclassified to conform with the current year presentation.

Khiron Life Sciences Corp.

Notes to the Consolidated Financial Statements

(expressed in Canadian Dollars)

For the years ended December 31, 2019 and 2018

Basis of consolidation

The consolidated financial statements as at December 31, 2019, reflect the assets, liabilities, and results of operations of Khiron Life Sciences Corp. and its subsidiaries. All intercompany transactions, balances, income and expenses are eliminated upon consolidation. The table below lists the Company's subsidiaries.

| Subsidiary | Domicile | Functional Currency | Accounting Method |
|----------------------------------|-----------------|----------------------------|--------------------------|
| Khiron Life Sciences Corp (CBCA) | Canada | Canadian Dollar | Consolidation |
| Khiron Colombia S.A.S. | Colombia | Colombian Peso | Consolidation |
| Jemarz S.A.S. ("ILANS") | Colombia | Colombian Peso | Consolidation |
| Khiron Europe GmbH | Germany | Euro | Consolidation |
| Khiron Life Sciences UK Limited | United Kingdom | Pound Sterling | Consolidation |
| Khiron Chile SpA | Chile | Chilean Peso | Consolidation |
| Khiron Life Sciences Spain SL | Spain | Euro | Consolidation |
| NettaGrowth Corp. (NettaGrowth) | Canada | Canadian Dollar | Consolidation |
| Dormul S.A. | Uruguay | United States Dollar | Consolidation |
| Prosel S.A. | Uruguay | United States Dollar | Consolidation |
| Kuida Life Mexico S.A. de C.V. | Mexico | Mexican Peso | Consolidation |
| Khiron Peru S.A. | Peru | Sol | Consolidation |

Foreign currencies

The presentation and functional currency of the Company is the Canadian dollar. The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which the entity operates (functional currency).

The financial statements of foreign subsidiaries for which the functional currency is not the Canadian dollar are translated into Canadian dollars using the exchange rate in effect at the end of the reporting period for assets and liabilities and the average exchange rates for the period for revenue, expenses and cash flows. Foreign exchange differences arising on translation are recognized in other comprehensive loss.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At each financial reporting date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognized in the consolidated statement of loss and comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Khiron Life Sciences Corp.

Notes to the Consolidated Financial Statements

(expressed in Canadian Dollars)

For the years ended December 31, 2019 and 2018

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The Company measures goodwill as the fair value of the consideration transferred less the fair value amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. The acquisition date is the date where the Company obtains control of the acquiree. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively during the measurement period. The measurement period is the period from the acquisition date to the date complete information about facts and circumstances that existed as of the acquisition date is received. However, the measurement period does not exceed one year from the acquisition date.

Asset acquisitions

Acquisitions which do not meet the definition of a business combination are accounted for as an asset acquisition. Consideration paid is allocated to the identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

Biological assets

The Company defines biological assets as commercial cannabis up to the point of harvest. Biological assets are measured at fair value less costs to sell at the end of each reporting period in accordance with IAS 41 - *Agriculture* using the income approach. If the fair value cannot be measured reliably, biological assets are measured at cost less accumulated depreciation, if any, in accordance with IAS 41 – *Agriculture*. The income approach calculates the present value of expected future cash flows from the Company's biological assets using the following key Level 3 assumptions and inputs:

| Inputs and assumptions | Description | Correlation between inputs and fair value |
|---|--|--|
| Expected selling price | Represents the expected selling price. | If the expected selling price is higher (lower), estimated fair value would increase (decrease). |
| Expected harvest (number of plants) | Represents the number of plants expected to be harvested. | If the number of plants that are expected to be harvested was higher (lower), estimated value would increase (decrease). |
| Expected yield | Represents the expected number of grams of dried cannabis to be harvested. | If the expected yield is higher (lower), estimated fair value would increase (decrease). |
| Cost to harvest | Expected cost to be incurred up to the point of harvest. | If the expected cost to be incurred is higher (lower), the fair value would decrease (increase). |
| Stage of completion in production process | Calculated by taking the number of days until the expected harvest date over a total average grow cycle. | If the number of days until the expected harvest date was higher (lower), the fair value would decrease (increase). |

Khiron Life Sciences Corp.

Notes to the Consolidated Financial Statements

(expressed in Canadian Dollars)

For the years ended December 31, 2019 and 2018

Production costs are capitalized to biological assets and include all direct and indirect costs relating to biological transformation. Costs include direct costs of production, such as labor, growing materials, as well as indirect costs such as indirect labor, quality control costs, depreciation on production equipment, and overhead expenses including rent and utilities.

Inventories

The Company defines inventory as all cannabis products after the point of harvest expected to be used for commercial purposes ("cannabis inventory"), purchased finished goods for resale, consumable supplies and accessories.

Cannabis inventory is transferred from biological assets at fair value less costs to sell at the point of harvest, which becomes the deemed cost. Any subsequent post-harvest costs are capitalized to cannabis inventory to the extent that the cost is less than net realizable value ("NRV"). NRV for work-in-process ("WIP") and finished cannabis inventory is determined by deducting estimated remaining conversion/completion costs and selling costs from the estimated sale price achievable in the ordinary course of business.

Purchased finished goods for resale, consumable supplies and accessories are initially recognized at cost and subsequently valued at the lower of cost and NRV. The Company reviews these types of inventory for obsolescence, redundancy and slow turnover to ensure that, if required, they are written-down and reflected at NRV.

When assessing NRV, the Company considers the impact of price fluctuation, inventory spoilage and inventory damage.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment.

Depreciation is calculated using the following terms and methods:

| Estimated useful life/ asset depreciation method | |
|---|----------------------------------|
| Building | Straight-line over 20 years |
| Plant and equipment | Straight-line over 5 years |
| Office and medical equipment | Straight-line over 1 to 10 years |
| Leasehold improvements | Straight-line over lease term |
| Software | 20% declining balance |

An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statement of loss and comprehensive loss in the period the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial period end, and adjusted if appropriate

Khiron Life Sciences Corp.

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Intangible assets

Intangible assets are recorded at cost less accumulated amortization. They are amortized over their estimated useful lives using the following methods and rates:

| Estimated useful life/ asset amortization method | |
|---|----------------------------|
| Customer relationship | Straight-line over 6 years |
| Licenses | Straight-line over life |
| Brands | Indefinite |

An asset's residual value, useful life and amortization method are reviewed at each consolidated statement of financial position date and adjusted if appropriate. Intangible assets acquired as part of a business combination and asset acquisitions are valued at fair value at the date of acquisition. Intangible assets not yet available for use are not subject to amortization.

Impairment of non-financial assets

Long-lived assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may exceed its recoverable amount. For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit, or "CGU"). An impairment loss is recognized for the amount, if any, by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and the value in use (being the present value of expected future cash flows of the asset or CGU). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized.

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. Goodwill is allocated to the CGU or group of CGUs which are expected to benefit from the synergies of the combination.

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. 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.

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Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. The amount of a provision is the best estimate of the consideration at the end of the reporting period. Provisions measured using estimated cash flows required to settle the obligation are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The Company has no material provisions as at December 31, 2019.

Share capital and warrants

Common shares and warrants are classified as equity. The share capital represents the amount received upon issuance of shares. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period in which the transaction occurs. Proceeds from unit placements are allocated between shares and warrants issued on a pro-rata basis of their value within the unit using the Black-Scholes option pricing model to determine the fair value of warrants issued.

Share-based compensation

The Company has share-based compensation plans that grant stock options and restricted share units to employees and non-employees. These plans are equity-settled, however, the Company has the option to cash settle in certain circumstances. For equity-settled share-based payment transactions, the Company measures the goods and services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, using an option pricing model.

The expense is recognized over the vesting period of the options or units granted and is recognized as an expense in earnings with a corresponding credit to share-based compensation reserve. Any consideration paid by employees and non-employees on exercise of stock options is credited to share capital combined with any related share-based compensation expense originally recorded in share-based compensation reserve.

Loss per share

The Company presents basic and diluted loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares to the extent that they are not antidilutive.

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Income taxes

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

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

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 profit and loss as incurred.

Financial instruments

Classification

| Summary of the Company's classification and measurements of financial assets and liabilities | | |
|---|-----------------------|--------------------|
| | <u>Classification</u> | <u>Measurement</u> |
| Cash and cash equivalents | FVTPL | Fair value |
| Short-term investments | FVTPL | Fair value |
| Accounts receivable | Amortized cost | Amortized cost |
| Due to related parties | Amortized cost | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost | Amortized cost |
| Debt | Amortized cost | Amortized cost |
| Contingent consideration | FVTPL | Fair value |

The Company classifies its financial assets and financial liabilities in the following measurement categories i) those to be measured subsequently at fair value through profit or loss (FVTPL); ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI); and iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

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The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Financial assets at fair value through other comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

Impairment of financial assets

Financial assets, other than those classified at fair value through profit and loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

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Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

Revenue recognition

To recognize revenue under IFRS 15, the Company applies the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when or as the Company satisfies a performance obligation

Revenue from the direct sale of products to customers for a fixed price is recognized when the Company transfers control of the good to the customer. Judgment is required in determining whether the customer is a business or the end consumer in certain cases. The evaluation is made on the basis whether control is obtained related to the product and whether or not there is an additional transfer to the end consumer. Control of the product transfers at a point in time either upon shipment to or receipt by the customer, depending on the contractual terms. The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive taking into account any variation that may result from rights of return.

The Company recognizes its medical health service revenues over a period of time as performance obligations are completed.

Adoption of new and revised accounting standards and 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.

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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.

(b) 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 these consolidated financial statements.

(c) 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 early adopted the amendment to IFRS 3 effective from January 1, 2019 and as a result accounted for the acquisition of NettaGrowth as an acquisition of an asset in these consolidated financial statements.

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Estimates and critical accounting judgments by management

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are reviewed periodically and adjustments are made as appropriate in the period they become known. Items for which actual results may differ significantly from these estimates are described in the following section.

Share-based compensation and warrants

The fair value of stock options and warrants are based on the application of the Black-Scholes option pricing model. This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the share price, volatility of the share price, expected dividend yield, expected risk-free interest rate and expected life of the stock options.

Biological assets and cannabis inventory

In calculating the value of the biological assets and cannabis inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices, expected yields for the cannabis plants, and oil conversion factors. In calculating final inventory values, management compares the inventory cost to estimated net realizable value.

Business combinations and assets acquisitions

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition.

Judgment is also required to assess whether the amounts paid on achievement of milestones represents contingent consideration or compensation for post-acquisition services. Judgment is also required to assess whether contingent consideration should be classified as equity or a liability. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a liability is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in net income (loss).

Functional and presentation currency

Judgment is required to determine the functional currency of the Company and its subsidiaries. These judgments are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances.

Going concern

Judgment and estimates are required to determine whether the Company and its subsidiaries are a going concern. These judgments and estimates include expected future cash flows, access to capital and regulatory changes, and are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances.

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Impairment of trade receivables

Judgment is required to determine the expected credit losses. These judgments include the collectability of individual receivables and are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances.

Impairment of non-current assets and goodwill

The Company performs an annual impairment test for goodwill and indefinite life intangible assets and whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit.

For the purpose of impairment testing, goodwill and indefinite life intangible assets are allocated to CGUs representing the lowest level that the assets are monitored for internal reporting purpose. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value-in-use.

Determining whether an impairment has occurred requires valuation of the respective CGU, which management estimates using a discounted cash flow method. The discounted cash flow method uses estimates and assumptions, including actual operating results, future business plans, economic projections and market data.

Useful lives of property, plant and equipment and intangible assets

Depreciation and amortization of property, equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

Income taxes

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its financial forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

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3. Capital management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach in the period. The Company considers its shareholders equity as capital which as at December 31, 2019 is \$70,038,754.

4. Cash and short-term investments

| | As at December 31 | |
|--|-------------------|-------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Cash and cash equivalents: | | |
| Cash in bank | 9,170,164 | 14,932,226 |
| Cash held in legal trust | 174,714 | 81,492 |
| | 9,344,878 | 15,013,718 |
| Short-term investments | 27,559,903 | 3,949,554 |
| Cash and short-term investments | 36,904,781 | 18,963,272 |

Short-term investments held at December 31, 2019 included guaranteed investment certificates with maturities ranging from thirty days to one year, bearing annual interest of 2.05% to 3.10%.

5. Accounts receivable

| | As at December 31 | |
|---------------------------------------|-------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Taxes receivable, commodity and other | 1,093,324 | 299,997 |
| Trade and other receivables | 3,145,966 | 2,918,102 |
| Related party receivables | - | 952,535 |
| Accounts receivable | 4,239,290 | 4,170,634 |

As at December 31, 2019, no provision for expected credit losses has been recognized. The Company has no history of credit losses. For accounts receivable, the Company uses the simplified approach for measuring lifetime expected credit losses.

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6. Inventories

| | As at December 31 | |
|------------------|-------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Raw materials | 472,343 | 119,422 |
| Work-in-progress | 43,968 | - |
| Finished goods | 294,174 | 64,681 |
| Supplies | 102,116 | 54,285 |
| | 912,601 | 238,388 |

7. Biological assets

| | \$ |
|--|---------------|
| Balance, December 31, 2018 | - |
| Increase in biological assets due to capitalized costs | 92,643 |
| Transferred to inventory upon harvest | (43,968) |
| Balance, December 31, 2019 | 48,675 |

As at December 31, 2019, the Company's biological assets are measured at cost, less accumulated depreciation of nil, as fair value cannot be measured reliably. As at December 31, 2019, there were no quoted market prices for cannabis in Colombia and no company in Colombia had received all required approvals to sell medical cannabis. Additionally, as at December 31, 2019, the Company has not produced commercial finished goods cannabis products or sold cannabis. On March 19, 2020, the Company became the first company to be authorized to manufacture high and low-THC magistral preparations in Colombia. Since receiving approval, the Company has proceeded with sales of low-THC medical cannabis in Colombia, however, sales of high-THC medical cannabis require further authorizations to fill prescriptions. Start up sales activities coupled with the impact of COVID-19 are not reflective of normal course operations. The combination of the aforementioned factors indicated that alternative fair value measurements are unreliable. The range of estimates within which fair value is likely to lie from \$0.25 per dry gram equivalent (under the basis of cost being an approximate for fair value) to \$3.75 per dry gram equivalent (if using estimates of selling prices and costs for magistral preparation sales). The range of unrealized fair value gains for the year ended December 31, 2019 for which fair value is likely to lie is from nil to \$950,000.

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8. 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 |
|---|------------------|--|------------------------|------------------------------------|---------------------------------|------------------------|--------------------|
| Cost | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| December 31, 2017 | - | 214,833 | 19,378 | 8,741 | - | - | 242,952 |
| Additions | - | 3,095,575 | 87,788 | 213,121 | 509,060 | - | 3,905,544 |
| Additions from acquisitions | 1,335,274 | 3,534,755 | - | 468,964 | - | - | 5,338,993 |
| Foreign currency translation | 138,336 | 142,896 | 904 | 184,234 | 5,048 | - | 471,418 |
| December 31, 2018 | 1,473,610 | 6,988,059 | 108,070 | 875,060 | 514,108 | - | 9,958,907 |
| Additions (transfers) | - | 2,940,256 | 1,753,864 | 806,278 | 48,653 | 2,638,056 | 8,187,107 |
| Additions (amendments) from acquisition | - | (588,432) | - | - | 282,157 | - | (306,275) |
| Foreign currency translation | (91,175) | (424,201) | (36,457) | (106,506) | (34,701) | (156,560) | (849,600) |
| December 31, 2019 | 1,382,435 | 8,915,682 | 1,825,477 | 1,574,832 | 810,217 | 2,481,496 | 16,990,139 |
| Accumulated Depreciation | | | | | | | |
| December 31, 2017 | - | - | - | (389) | - | - | (389) |
| Additions | - | (16,624) | (9,086) | (320,087) | - | - | (345,797) |
| Foreign currency translation | - | - | 30 | 7,848 | - | - | 7,878 |
| December 31, 2018 | - | (16,624) | (9,056) | (312,628) | - | - | (338,308) |
| Additions | - | (81,359) | (121,014) | (184,936) | - | (438,585) | (825,894) |
| Foreign currency translation | - | 2,396 | 2,755 | 27,325 | - | 935 | 33,411 |
| December 31, 2019 | - | (95,587) | (127,315) | (470,239) | - | (437,650) | (1,130,791) |
| Net Book Value | | | | | | | |
| December 31, 2018 | 1,473,610 | 6,971,435 | 99,014 | 562,432 | 514,108 | - | 9,620,599 |
| December 31, 2019 | 1,382,435 | 8,820,095 | 1,698,162 | 1,104,593 | 810,217 | 2,043,846 | 15,859,348 |

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9. Intangible assets and goodwill

| | Note | Customer Relationships | Brands | Non-Compete | Licenses | Goodwill | Total |
|--|-------|------------------------|----------------|-------------|-------------------|------------------|-------------------|
| Cost | | \$ | \$ | \$ | \$ | \$ | \$ |
| December 31, 2017 | | - | - | - | - | - | - |
| Additions from acquisitions | 10(a) | 609,000 | 748,000 | 648,500 | - | 4,635,774 | 6,641,274 |
| December 31, 2018 | | 609,000 | 748,000 | 648,500 | - | 4,635,774 | 6,641,274 |
| Acquisition of NettaGrowth | 10(b) | - | - | - | 14,728,478 | - | 14,728,478 |
| Disposal from amendment to ILANS acquisition | 10(a) | - | - | (648,500) | - | - | (648,500) |
| Additions | | - | - | - | 61,093 | - | 61,093 |
| Foreign currency translation | | (23,132) | (28,412) | - | (424,497) | (286,779) | (762,820) |
| December 31, 2019 | | 585,868 | 719,588 | - | 14,365,074 | 4,348,995 | 20,019,525 |
| Accumulated Amortization | | | | | | | |
| December 31, 2017 | | - | - | - | - | - | - |
| Amortization | | - | - | - | - | - | - |
| December 31, 2018 | | - | - | - | - | - | - |
| Amortization | | (96,190) | - | - | (19,128) | - | (115,318) |
| Foreign currency translation | | (1,454) | - | - | 241 | - | (1,213) |
| December 31, 2019 | | (97,644) | - | - | (18,887) | - | (116,531) |
| Net book value | | | | | | | |
| December 31, 2018 | | 609,000 | 748,000 | 648,500 | - | 4,635,774 | 6,641,274 |
| December 31, 2019 | | 488,224 | 719,588 | - | 14,346,187 | 4,348,995 | 19,902,994 |

10. Acquisitions

(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 before the purchase agreement amendment, as described below. 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 "contingent consideration").

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.

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 purchase price was allocated 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.

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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 |
| Deferred consideration | | 3,130,242 |
| Common shares issued | | 2,072,000 |
| Contingent consideration | | 1,772,245 |
| Total consideration | \$ | 8,367,487 |
| Net identifiable assets (liabilities) acquired | | |
| 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 |
| Non-compete | | 648,500 |
| Accounts payable and accruals | | (5,113,802) |
| Deferred tax liabilities | | (650,000) |
| Income taxes payable | | (330,700) |
| Loans and borrowings | | (2,470,319) |
| Net identifiable assets | \$ | 3,731,713 |
| Purchase price allocation | | |
| Net identifiable assets acquired | \$ | 3,731,713 |
| Goodwill | | 4,635,774 |
| | \$ | 8,367,487 |
| Net cash outflows | | |
| Cash consideration paid 2018 | \$ | 1,460,000 |
| Cash consideration paid 2019 prior to amendment | | 1,733,000 |
| Cash consideration paid 2019 resulting from amendment | | 937,873 |
| Cash acquired 2018 | | (15,413) |
| Net cash | \$ | 4,115,460 |

On May 31, 2019, the purchase agreement for ILANS was amended. A final cash payment of \$937,873 was made and the remaining cash payment of \$1,330,242 and the contingent consideration were eliminated. In addition, the former owner of ILANS was relieved from his non-compete agreement and certain assets and liabilities were transferred to the former owner. The amendment to the purchase agreement has been accounted for as a separate transaction from the business acquisition and resulted in a gain of \$1,037,748 recorded in other income.

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(b) NettaGrowth

On June 19, 2019, the Company acquired all of the outstanding shares of NettaGrowth, and its subsidiary in Uruguay, through the issuance of 8,498,821 common shares of the Company at a deemed transaction value of \$1.61 per share. The Company determined that the acquisition of NettaGrowth was an asset acquisition when applying the asset concentration test, in accordance with the definition in the amendment to IFRS 3 *Business Combinations* and as such has accounted for it in accordance with IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. When applying the asset concentration test, the Company determined that the value of the acquisition was predominately attributable to the licence to cultivate cannabis in Uruguay.

Transaction costs of \$1,205,565 (of which \$1,045,800 was through the issuance of common shares) relating to the acquisition have been capitalized and allocated to the non-current assets acquired on a pro-rata basis.

| Consideration | Share Consideration | Allocation of Transaction Costs | Total |
|---|------------------------|---------------------------------------|----------------------|
| Common shares issued | \$ 13,683,102 | \$ - | \$ 13,683,102 |
| Transaction costs | - | 1,205,565 | 1,205,565 |
| | \$ 13,683,102 | \$ 1,205,565 | \$ 14,888,667 |
| Net assets (liabilities) acquired | | | |
| Prepaid expenses and other current assets | \$ 60,323 | \$ - | \$ 60,323 |
| Capital assets | 260,367 | 22,736 | 283,103 |
| Licenses | 13,545,649 | 1,182,829 | 14,728,478 |
| Accounts payable and accruals | (183,237) | - | (183,237) |
| | \$ 13,683,102 | \$ 1,205,565 | \$ 14,888,667 |

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11. Long-term debt

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

| | Interest rate | Maturity date | December 31, 2019 | December 31, 2018 |
|-------------------|---------------|-------------------|-------------------|-------------------|
| | | | \$ | \$ |
| Lease liabilities | 10.2% | 2021-2030 | 2,986,042 | 1,221,876 |
| Loan | N/A | February 1, 2022 | - | 29,227 |
| Loan | 10.90% | April 1, 2020 | 8,794 | 37,358 |
| Loan | 10.00% | July 1, 2020 | 10,114 | 29,155 |
| Loan | 10.50% | January 1, 2020 | 1,979 | 27,318 |
| Loan | 10.48% | October 1, 2020 | 65,954 | 154,102 |
| Loan | 7.46% | September 1, 2021 | 64,635 | 107,872 |
| Loan | 10.30% | May 1, 2019 | - | 31,521 |
| Loan | 9.79% | November 1, 2021 | 27,305 | 44,129 |
| Loan | 10.41% | March 1, 2020 | - | 24,586 |
| Loan | 11.73% | November 1, 2021 | 81,915 | 132,388 |
| Loan | 10.41% | August 1, 2021 | 305,589 | 519,278 |
| Loan | 10.41% | September 1, 2021 | - | 33,132 |
| Loan | 10.90% | February 1, 2019 | - | 116,744 |
| | | | 3,552,327 | 2,508,686 |
| Current portion | | | 1,007,059 | 155,606 |
| Long-term debt | | | 2,545,268 | 2,353,080 |

Lease liabilities include office leases, health 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 health centre lease (right-of-use assets) were entered into in 2019 increasing the lease liability by 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 than in Canada.

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12. Share capital

Authorized share capital

The authorized share capital consisted of an 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 |
|---|-------|-------------------------|--------------------|
| | | | \$ |
| Balance, December 31, 2017 | | 32,570,281 | 4,291,289 |
| Share issuance - equity financing, net | 12(c) | 26,510,000 | 18,082,654 |
| Share issuance - rights offering | | 1,440,542 | - |
| Share issuance - RTO | | 706,749 | 628,300 |
| Share issuance – acquisition of ILANS | 10(a) | 1,400,000 | 2,072,000 |
| Share issuance - warrants exercised | | 12,355,416 | 14,691,880 |
| Share issuance - options exercised | | 60,000 | 60,000 |
| Balance, December 31, 2018 | | 75,042,988 | 39,826,123 |
| Share issuance – equity financings | 12(a) | 23,024,150 | 50,451,228 |
| Share issuance – finders' fee | 12(b) | 800,710 | 1,795,800 |
| Share issuance – acquisition of NettaGrowth | 10(b) | 8,498,821 | 13,683,102 |
| Share issuance – warrants exercised | | 4,216,899 | 9,689,563 |
| Share issuance – options exercised | 14 | 740,000 | 1,044,870 |
| Share issuance – RSUs exercised | 15 | 4,288,750 | 4,799,788 |
| Balance, December 31, 2019 | | 116,612,318 | 121,290,474 |

- (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 \$1,770,000.

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 \$3.42; exercise price of \$2.20; expected volatility of 108%; risk-free interest rate of 1.80%; and an expected average life of 24 months resulting in a fair value of \$1,770,000.

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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 and 594,849 compensation options were issued valued at \$918,000.

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 \$2.87; exercise price of \$2.90; expected volatility of 103%; risk-free interest rate of 1.66%; and an expected average life of 24 months resulting in a fair value of \$918,000.

- (b) On March 12, 2019, the Company signed a joint venture agreement with Dixie Brands Inc. As a result of the transaction, a finders’ fee was paid through the issuance 380,710 common shares at a value of \$1.97 per common share or \$750,000. In addition, in conjunction with the acquisition of NettaGrowth, a finders’ fee was paid through the issuance 420,000 common shares at a value of \$2.49 per common share or \$1,045,800.
- (c) 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. Share issuance costs totaled \$894,000. The Company assigned a value of \$3,800,000 to the warrants using the Black-Scholes valuation model. The underlying assumptions used in the estimation of fair value in the Black-Scholes valuation model using the following assumptions: exercise price of \$1.20, volatility of 90%, risk free rate of 1.5% on the date of grant, expected life of 2 years, and dividend yield of 0%.

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. No commissions were paid in connection with this offering. The Company assigned a value of \$99,550 to the warrants using the Black-Scholes valuation model.

On September 11, 2018, Khiron issued 14,375,000 common shares at a price of \$0.90 per share for total gross proceeds of \$12,937,500. Share issuance costs totaled \$1,345,153 and 1,006,250 compensation options were issued valued at \$440,000. 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: exercise price of \$0.90, volatility of 90%, risk free rate of 1.5% on the date of grant, expected life of 2 years, and dividend yield of 0%.

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13. Warrants

The following table reflects the warrants outstanding as at December 31, 2019:

| Exercise Price | Outstanding as at December 31 2019 | Expiry Date | Remaining Life (years) |
|----------------|------------------------------------|-------------|------------------------|
| \$ | | | |
| 0.90 | 187,062 | 11-Sep-20 | 0.7 |
| 1.00 | 15,656 | 16-May-20 | 0.4 |
| 1.05 | 942,862 | 23-May-20 | 0.4 |
| 2.20 | 786,600 | 28-Feb-21 | 1.2 |
| 2.90 | 594,849 | 28-May-21 | 1.4 |
| 1.83 | 2,527,029 | | 0.9 |

14. 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 year ended December 31, 2019:

| Grant Date | Number of stock options | | | | | Exercise Price | Expiry Date | Remaining Life (years) |
|------------|-------------------------|-----------|-----------|-----------|-------------------------|----------------|-------------|------------------------|
| | As at December 31, 2018 | Issued | Exercised | Forfeited | As at December 31, 2019 | | | |
| | | | | | | \$ | | |
| 2017-04-19 | 2,000,000 | - | (525,000) | (200,000) | 1,275,000 | 1.00 | 2021-04-19 | 1.3 |
| 2017-09-12 | 852,500 | - | (50,000) | (250,000) | 552,500 | 1.00 | 2022-09-12 | 2.7 |
| 2017-10-12 | 100,000 | - | - | - | 100,000 | 1.00 | 2022-10-12 | 2.8 |
| 2018-05-23 | 1,105,000 | - | (165,000) | (350,000) | 590,000 | 1.40 | 2023-05-23 | 3.4 |
| 2018-06-26 | 200,000 | - | - | - | 200,000 | 1.40 | 2023-06-26 | 3.5 |
| 2019-05-31 | - | 925,000 | - | (33,333) | 891,667 | 3.25 | 2024-05-31 | 4.4 |
| 2019-11-27 | - | 1,600,000 | - | - | 1,600,000 | 2.90 | 2024-11-27 | 4.9 |
| | 4,257,500 | 2,525,000 | (740,000) | (833,333) | 5,209,167 | 2.03 | | 3.4 |

As at December 31, 2019, 2.8 million stock options outstanding were vested.

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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 \$1,295,762 for the year ended December 31, 2019 (2018 - \$642,928) to the consolidated statements of loss and comprehensive loss.

On May 31, 2019, the Company issued 925,000 stock options, vesting 1/3 immediately and 1/3 each 12 months thereafter. 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 \$2.45; exercise price of \$3.25; expected volatility of 100%; risk free interest rate of 1.48%; 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.

On November 27, 2019, the Company issued 1,600,000 stock options, vesting 1/4 every six months from the date of issuance. 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 \$0.97; exercise price of \$2.90; expected volatility of 95%; risk free interest rate of 1.58%; 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 December 31, 2019, the unamortized stock option expense relating to previously issued stock options is approximately \$1.0 million.

15. Restricted share units

On May 31, 2019, the Company granted 4,090,000 restricted share units ("RSUs") to officers, employees, and consultants of the Company, generally vesting 1/4 every six months from the grant date. On August 23, 2019, the Company granted 340,000 RSUs to officers, and employees of the Company, vesting evenly every 12 months over three years. On November 25, 2019, the Company granted 1,700,000 RSUs to officers, and employees of the Company, vesting evenly every 12 months over three years.

The Company issued 5,135,000 RSUs on May 23, 2018 to officers, employees and consultants of the Company. Half the RSUs vested one year after issuance with the remaining vesting evenly every 6 months thereafter.

The Company recorded share-based compensation expense related to the RSUs of \$8,075,328 for the year ended December 31, 2019 (2018 - \$2,646,442) to the consolidated statements of loss and comprehensive loss.

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The following table reflects the continuity of RSUs for the year ended December 31, 2019:

| Grant Date | Number of RSUs | | | | | Grant Price | Expiry Date | Remaining Life (years) |
|------------|-------------------------|-----------|-------------|-----------|-------------------------|-------------|-------------|------------------------|
| | As at December 31, 2018 | Issued | Exercised | Forfeited | As at December 31, 2019 | | | |
| | | | | | | \$ | | |
| 2018-05-23 | 5,135,000 | - | (3,658,750) | (350,000) | 1,126,250 | 0.89 | 2021-12-15 | 2.0 |
| 2019-05-31 | - | 4,090,000 | (630,000) | - | 3,460,000 | 2.45 | 2022-12-15 | 3.0 |
| 2019-08-23 | - | 340,000 | - | (40,000) | 300,000 | 1.59 | 2022-12-15 | 3.0 |
| 2019-11-25 | - | 1,700,000 | - | - | 1,700,000 | 1.03 | 2022-12-15 | 3.0 |
| | 5,135,000 | 6,130,000 | (4,288,750) | (390,000) | 6,586,250 | 1.78 | | 2.8 |

As at December 31, 2019, 1.3 million of the outstanding RSUs were vested and the unamortized RSU expense relating to previously issued RSUs is approximately \$5.8 million.

16. General and administrative costs

| | For the years ended December 31 | |
|-------------------------------|---------------------------------|------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Salaries | 6,680,330 | 3,934,902 |
| Professional fees | 3,778,447 | 2,585,175 |
| Consulting | 2,072,719 | 1,655,002 |
| Investor relations | 1,841,778 | 1,162,184 |
| Travel and development | 1,608,605 | 1,341,424 |
| Corporate governance | 1,101,272 | 636,435 |
| Donations | 149,779 | 1,208,585 |
| Office and general | 2,921,535 | 1,581,069 |
| Depreciation and amortization | 370,045 | 71,290 |
| | 20,524,510 | 14,176,066 |

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17. Loss per share

| | For the years ended December 31 | |
|---|------------------------------------|---------------|
| | 2019 | 2018 |
| Net loss | \$36,377,779 | \$ 19,806,537 |
| Weighted average number of common shares outstanding - basic | 101,966,057 | 48,518,873 |
| Effect of dilutive securities | - | - |
| Weighted average number of common shares outstanding - dilutive | 101,966,057 | 48,518,873 |
| Loss per share – basic and diluted | \$ 0.36 | \$ 0.41 |

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

18. Related party transactions

Related parties and related party transactions impacting the 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 years ended December 31 | |
|------------------------------|------------------------------------|-----------|
| | 2019 | 2018 |
| | \$ | \$ |
| Management fees and salaries | 3,756,023 | 3,024,751 |
| Share-based compensation | 5,330,089 | 1,928,915 |
| Donations to Centro Fox | 149,779 | 1,208,585 |

As at December 31, 2019, prepaid expenses and other current assets includes \$1.8 million of signing bonuses relating to key management personnel of the Company. This balance is earned on a straight-line basis through March 2021.

On October 23, 2018, the Company signed and executed a donation agreement with Centro Fox, a non-profit organization, controlled 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.

A member of Khiron's Board of Directors is party to an agreement with the Company whereby in certain defined transactions that member would receive a fee equal to two percent of the transaction value. The agreement terminates on the earlier of completion of a transaction or a date either party notifies of termination. No transaction has occurred to warrant payment and no amount has been accrued in the financial statements.

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19. 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; Toronto, Canada; and Frankfurt, Germany.

Geographic Segments

| | As at December 31 | |
|--------------------------------|--------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Property, plant and equipment: | | |
| Canada | 9,261 | 6,887 |
| Europe | 9,012 | - |
| Latin America | 15,841,075 | 9,613,712 |
| | 15,859,348 | 9,620,599 |
| Non-current assets: | | |
| Canada | 9,261 | 6,887 |
| Europe | 9,012 | - |
| Latin America | 37,083,901 | 16,408,123 |
| | 37,102,174 | 16,415,010 |
| Total assets: | | |
| Canada | 33,291,621 | 14,060,111 |
| Europe | 2,192,632 | - |
| Latin America | 46,427,938 | 26,288,706 |
| | 81,912,191 | 40,348,817 |

Operating Segments

| Year ended December 31, 2019 | Corporate | Health services | Medical products | Wellbeing products | Total |
|---|------------------|----------------------------|-----------------------------|-------------------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Revenues | - | 9,266,690 | - | 315,676 | 9,582,366 |
| Gross profit | - | 2,200,533 | - | 235,324 | 2,435,857 |
| Net loss (income) | 31,964,128 | (1,777,909) | 4,390,403 | 1,801,157 | 36,377,779 |
| Year ended December 31, 2018 | Corporate | Health services | Medical products | Wellbeing products | Total |
| | \$ | \$ | \$ | \$ | \$ |
| Revenues | - | 795,716 | - | 95,961 | 891,677 |
| Gross profit | - | 241,974 | - | 55,390 | 297,364 |
| Net loss (income) | 19,263,188 | (105,399) | 352,640 | 296,108 | 19,806,537 |

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20. Commitments and contingencies

| Contractual obligations | Payments due by period | | | | Total |
|---|------------------------|------------------|----------------|----------------|------------------|
| | 2020 | 2021-2023 | 2024-2025 | 2026+ | |
| | \$ | \$ | \$ | \$ | \$ |
| Financial lease - land | 136,266 | 408,799 | 272,532 | 624,553 | 1,442,150 |
| Financial lease – corporate and medical offices | 786,355 | 1,429,887 | 390,200 | 16,258 | 2,622,700 |
| Loans | 362,778 | 201,431 | - | - | 564,209 |
| Signing bonuses | 2,202,555 | - | - | - | 2,202,555 |
| | 3,487,954 | 2,040,117 | 662,732 | 640,811 | 6,831,614 |

In addition to the above obligations, in January 2019, the Company entered into an agreement with Dayacann SpA whereby under the terms of the Dayacann Agreement (and the related agreements), the Company agreed to purchase the Dayacann Product (dried cannabis flower) cultivated by Dayacann in Chile, and Dayacann agreed to assist in the development of medicinal cannabis products extracted from Dayacann Product, with a goal to commercialize said products within two years of the date of the agreement. The agreement anticipated receiving the cannabis cultivation permit in February 2019 whereas the permit was received by Dayacann in December 2019, approximately 10 months later than was expected. In light of the permitting delay, together with the concurrent ever worsening political unrest in Chile, the Company believes there are likely to be further delays to the development of the cannabis regulatory framework and commercialization of medical cannabis products in Chile. The Company is currently in discussions with Dayacann on how to move forward with the agreement, considering the significant delays in the receipt of the permits and the feasibility of the agreement in terms of cost and timing. In 2019, the Company spent US\$120,000 towards the US\$1.2 million commitment as defined in the Dayacann Agreement. The remaining commitment is contingent on the timing for planting, harvesting and testing.

In March 2020, a lawsuit was filed in Uruguay against one of the Company's subsidiaries and other defendants unrelated to the Company, claiming certain finder's fees in connection with the acquisition of NettaGrowth and Dormul by the Company in June 2019. The Company believes the claims are completely without merit and intends to vigorously defend the claim. Due to the early stage of the proceedings, it is not possible to estimate the Company's potential liability in the litigation, if any.

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21. Financial instruments

Fair values

At December 31, 2019, the Company's financial instruments consist of cash and cash equivalents, short-term investments and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments.

Fair value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

During the period, there were no transfer of amounts between levels.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Level 1 – none

Level 2 – cash and cash equivalents

Level 3 – contingent consideration related to acquisitions

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

- Credit risk; and
- Liquidity risk

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Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents. All of the Company's cash is held at financial institutions which are Colombian chartered banks, Canadian credit unions, or funds held in trust with legal counsel in which management believes that the risk of loss is minimal, but the Company is subject to concentration of credit risk. Trade and accounts receivables consist of trade accounts receivable created in the course of normal business along with recoverable service taxes.

| | As at December 31 | |
|---------------|-------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| 0 – 30 days | 1,653,973 | 629,265 |
| 31 – 90 days | 199,912 | 1,306,062 |
| 91 – 120 days | 34,546 | 555,701 |
| >121 days | 487,078 | 580,210 |
| Total | 2,375,509 | 3,071,238 |

Due to the nature of the ILANS operations (health centres in Colombia), the aging of accounts receivables is generally subject to collectability greater than 30 days. The historical average receivable is settled around 88 days after revenue recognition which is typical for the industry in Colombia.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations with out of cash. As at December 31, 2019, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one year. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. There have been no changes in the Company's strategy with respect to credit/liquidity risk in the period.

Foreign currency risk

The Company's functional and reporting currency is the Canadian dollar but it is exposed to foreign currency risk with respect to the expenditures incurred by its foreign subsidiaries, predominately its Colombian subsidiary, Khiron Colombia SAS. If the currency were to increase or decrease by 5%, the foreign exchange loss or gain would be \$185,000.

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22. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2018 – 26.5%) to the effective tax rate is as follows:

| | For the years ended December 31 | |
|--|------------------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Net loss before income taxes | 36,355,033 | 19,727,957 |
| Expected income tax recovery | (9,634,084) | (5,227,910) |
| Difference in foreign tax rates | (583,482) | (347,130) |
| Share based compensation and non-deductible expenses | 2,054,112 | 1,373,930 |
| Share issuance cost booked directly to equity | (1,180,259) | (596,090) |
| Change in tax benefits not recognized | 8,786,261 | 4,837,440 |
| Change in enacted tax rates | 258,308 | 38,340 |
| Other | 321,890 | - |
| Income tax expense | 22,746 | 78,580 |
| Income tax expense is allocated as follows: | | |
| Current tax expense | 80,314 | 81,140 |
| Deferred tax recovery | (57,568) | (2,560) |
| | 22,746 | 78,580 |

Deferred tax liabilities

The following table summarizes the components of deferred tax liabilities:

| | As at December 31 | |
|---------------------------------|-------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Property, plant, and equipment | 501,765 | - |
| Intangible assets | 385,516 | 650,000 |
| Deferred tax liabilities | 887,281 | 650,000 |

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

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Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

| | As at December 31 | |
|--|--------------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Property, plant, and equipment | 1,318,008 | 35,750 |
| Intangible assets | 7,024 | 7,020 |
| Share issuance costs - 20(1)(e) | 5,733,483 | 2,616,040 |
| Non-capital losses carried forward - Canada | 22,579,699 | 10,727,520 |
| Non-capital losses carried forward - Colombia | 17,608,716 | 7,067,570 |
| Non-capital losses carried forward – other countries | 2,698,853 | - |
| Provisions | 700,000 | - |
| Net unrecognized deferred tax assets | 50,645,783 | 20,453,900 |

Share issue and financing costs will be fully amortized in 2023. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses expire as follows:

| Year Ending December 31: | |
|---------------------------------|-------------------|
| | \$ |
| 2036 | 1,007,699 |
| 2037 | 1,682,116 |
| 2038 | 6,308,320 |
| 2039 | 13,581,564 |
| | 22,579,699 |

The remaining deductible temporary differences may be carried forward indefinitely.

23. Subsequent events

In February 2020, the Company received approval from the TSX Venture Exchange for a normal course issuer bid to repurchase, for cancellation, up to 5,830,615 common shares of the Company, representing approximately 5% of the Company's issued and outstanding common shares at the time of approval. In March 2020, the Company repurchased 511,500 common shares.

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by governments in the various jurisdictions in which the Company operates, including Canada and Colombia, regarding travel, business operations and isolation/quarantine orders. At this time, the extent of the impact of the COVID-19 pandemic on the Company is unknown as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada, Colombia and other countries to fight the virus. While the extent of the impact is unknown, we anticipate this outbreak may cause reduced customer demand, supply chain disruptions, staff shortages, regulatory delays and increased government regulations, all of which may negatively impact the Company's business and financial condition.