



**KHIRON**  
LIFE SCIENCES CORP

2021  
**Annual Financial Statements**

Khiron Life Sciences Corp.

December 31, 2021



## Management Report

These financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB"). These financial statements also include certain amounts based on estimates and judgments.

Management has determined such amounts on a reasonable basis to ensure that the financial statements are presented fairly in all material respects. All information in this report is the responsibility of management.

Management has established systems of internal control, including disclosure controls and procedures, which are designed to provide reasonable assurance that financial and non-financial information that is disclosed is timely, complete, relevant and accurate. These systems of internal control also serve to safeguard the Corporation's assets.

The Board of Directors is responsible for the governance of the Corporation, including reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors, composed of independent directors, meets with management and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the financial statements and management's discussion and analysis. The Audit Committee reports its findings to the Board of Directors for its approval of such statements for issuance to the shareholders.

The financial statements have been audited by BDO Canada LLP, the independent external auditors, in accordance with Canadian Auditing Standards on behalf of the shareholders. The auditor's report outlines the scope of their examination and sets forth their opinion.

Approved by the Board:

**"signed" Alvaro Torres**  
Director

**"signed" Deborah Rosati**  
Director



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## Independent Auditor's Report

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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 Group), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of operations 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 Group as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

### 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 Group in accordance with the ethical requirements that are relevant to our audit 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 2 (d) in the consolidated financial statements, which indicates that the Group incurred a net loss during the year ended December 31, 2021 and has not yet achieved profitable operations. As stated in Note 2 (d), these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group'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 the information included in Management's Discussion and Analysis for the year ended December 31, 2021.

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

We obtained the 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 in this auditor's report. 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 IFRSs, 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Bryndon Kydd.

*(signed) BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants

Vancouver, Canada

April 29, 2022



## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$ Canadian thousands, except per share amounts)

As at December 31	Note	2021	2020
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	5	8,923	21,649
Accounts receivable	6	2,880	4,583
Inventories and biological assets	7	9,454	8,337
Prepaid expenses and other current assets		2,517	1,846
<b>Total current assets</b>		<b>23,774</b>	<b>36,415</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	13,557	17,518
Intangible assets	9	868	15,134
Goodwill	9	4,075	4,112
<b>Total assets</b>		<b>42,274</b>	<b>73,179</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		4,308	6,264
Current portion of deferred consideration	4	104	-
Current portion of long-term debt and lease liabilities	10	1,522	1,078
Warrant liability	12	1,783	-
<b>Total current liabilities</b>		<b>7,717</b>	<b>7,342</b>
<b>Non-current liabilities</b>			
Deferred consideration	4	209	-
Long-term debt and lease liabilities	10	705	1,712
Deferred tax liabilities	11	313	896
<b>Total liabilities</b>		<b>8,944</b>	<b>9,950</b>
<b>Shareholders' Equity</b>			
Share capital	12	146,449	137,081
Other reserves		13,580	13,739
Accumulated other comprehensive income		(9,888)	(3,908)
Deficit		(116,812)	(83,683)
<b>Total shareholders' equity</b>		<b>33,329</b>	<b>63,229</b>
<b>Equity</b>		<b>42,274</b>	<b>73,179</b>

Structure of Corporation and going concern (Note 1 and Note 2)

Commitments and contingencies (Note 20)

Subsequent events (Note 22)

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

Approved on behalf of the Board:

"signed" Alvaro Torres

Director

"signed" Deborah Rosati

Director



## STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the years ended December 31,

(\$ Canadian thousands, except per share amounts)

	Note	2021	2020
<b>Revenues</b>			
Service revenues	16	8,078	7,430
Medical cannabis	16	4,608	370
Wellness products	16	109	217
		<u>12,795</u>	<u>8,017</u>
<b>Cost of sales</b>			
Service revenues		6,417	6,165
Medical cannabis		1,229	190
Wellness products		237	181
		<u>7,883</u>	<u>6,536</u>
<b>Gross profit before fair value adjustments</b>		<b>4,912</b>	<b>1,481</b>
Changes in fair value of inventory sold		(1,084)	-
Unrealized gain on changes in fair value of biological assets		2,543	5,527
Fair value gain on biological assets		1,459	5,527
<b>Gross profit</b>		<b>6,371</b>	<b>7,008</b>
<b>Expenses</b>			
General and administrative	18	22,539	26,593
Selling, marketing, and promotion		2,642	2,494
Research and development		1,216	1,526
Foreign exchange loss		1,021	21
Impairment on intangible assets	9	13,720	-
Impairment of other assets	6&8	1,246	-
Other income and expenses		(533)	(144)
<b>Loss before finance costs, unrealized loss on warrants</b>		<b>(35,481)</b>	<b>(23,482)</b>
Finance costs		445	468
Unrealized gain on warrants		(2,332)	-
<b>Loss before income taxes</b>		<b>(33,594)</b>	<b>(23,950)</b>
Income taxes recovery (expense)	11	465	(89)
<b>Net loss</b>		<b>(33,129)</b>	<b>(24,039)</b>
<b>Other comprehensive income (loss)</b>			
Foreign currency translation		(5,980)	(1,215)
<b>Net loss and comprehensive loss</b>		<b>(39,109)</b>	<b>(25,254)</b>
<b>Loss per share</b>			
Basic / Diluted		<u>0.20</u>	<u>0.20</u>

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



## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(\$ Canadian thousands, except share amounts)

	Note	Number of Common Shares #	Share Capital \$	Share Based Compensation Reserve \$	Accumulated other comprehensive income \$	Retained Deficit \$	Total shareholders' equity \$
<b>Balance at December 31, 2019</b>		116,612,318	121,290	11,405	(2,693)	(59,964)	70,038
Shares repurchased and cancelled		(511,500)	(532)	-	-	320	(212)
Share issuance - RSUs exercised		2,416,250	3,962	(3,962)	-	-	-
Share issuance – equity financing, net	12	32,200,000	12,360	580	-	-	12,940
Fair value of share-based payments		-	-	5,716	-	-	5,716
Net loss and other comprehensive loss		-	-	-	(1,215)	(24,039)	(25,254)
<b>Balance at December 31, 2020</b>		150,717,068	137,080	13,739	(3,908)	(83,683)	63,228
Share issuance - RSUs exercised		<b>1,110,000</b>	<b>2,481</b>	<b>(2,481)</b>	-	-	-
Share issuance - equity financing, net	12	<b>27,435,000</b>	<b>6,888</b>	-	-	-	<b>6,888</b>
Fair value of share-based payments		-	-	2,322	-	-	2,322
Net loss and other comprehensive loss		-	-	-	(5,980)	(33,129)	(39,109)
<b>Balance at December 31, 2021</b>		<b>179,262,068</b>	<b>146,449</b>	<b>13,580</b>	<b>(9,888)</b>	<b>(116,812)</b>	<b>33,329</b>

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





## CONSOLIDATED STATEMENTS OF CASHFLOWS

(\$ Canadian thousands, except per share amounts)

For the years ended December 31

	Note	2021	2020
		\$	\$
<b>OPERATING ACTIVITIES</b>			
Net loss before tax		(33,594)	(23,950)
<b>Adjustments for:</b>			
Share-based compensation		2,322	5,716
Unrealized gain on fair value of biological assets net of changes in fair value of inventory sold		(1,459)	(5,527)
Depreciation and amortization		1,115	1,167
Impairments		15,498	-
Accrued interest		(88)	-
Warrant liability-fair value adjustment		(2,332)	-
<b>Changes in non-cash working capital items:</b>			
Accounts receivable		2,305	606
Inventories and biological assets		(1,440)	(2,070)
Prepays and other assets		(360)	1,386
Accounts payable and accrued liabilities		(2,832)	(1,861)
<b>Net cash used in operating activities</b>		<b>(20,400)</b>	<b>(24,533)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(1,744)	(2,693)
Sale of short-term investments		-	27,560
Acquisition	4	(342)	-
<b>Net cash received (used) in investing activities</b>		<b>(2,086)</b>	<b>24,867</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from share issuances, net of issuance costs	12	11,002	12,940
Share purchased and cancelled		-	(212)
Repayment of long-term debt, net		(107)	(555)
<b>Net cash received in financing activities</b>		<b>10,895</b>	<b>12,173</b>
<b>CASH BEGINNING OF PERIOD</b>			
		21,649	9,345
Net change in cash		(11,591)	12,506
Effect of movements in exchange rates on cash held		(1,136)	(202)
<b>CASH END OF PERIOD</b>		<b>8,923</b>	<b>21,649</b>



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

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### 1. STRUCTURE OF CORPORATION

#### Organization

Khiron Life Sciences Corp. (“Khiron” or the “Corporation”) was incorporated under the Business Corporations Act (British Columbia) on May 16, 2012. The Corporation’s shares are listed on the TSX Venture Exchange (“TSX-V”) under the symbol “KHRN” , the OTCQX Best Market under the symbol “KHRNF” and on the Frankfurt Stock Exchange under the symbol “A2JMXC”.

The registered office of the Corporation 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.

#### Operations

Khiron is a leading vertically integrated medical cannabis company with core operations in Latin America and Europe. Leveraging wholly-owned medical health centres and proprietary telemedicine platforms, Khiron combines a patient-oriented approach, physician education program, scientific expertise, product innovation, and agricultural infrastructure to drive prescriptions and brand loyalty with patients worldwide.

The Corporation focuses on achieving a first mover advantage in the Latin American market and is evolving its strategy towards global expansion. The Corporation's wholly owned subsidiary, Khiron Colombia S.A.S., is licensed in Colombia for the cultivation, production, domestic distribution and international export of both tetrahydrocannabinol (THC) and cannabidiol (CBD) medical cannabis.

The Corporation is authorized to manufacture and fill prescriptions for high-THC and low-THC medical cannabis in Colombia, works with local partners to provide medical cannabis products to patients in Peru, Brazil, Germany, Mexico, and the United Kingdom (UK), and retails an approved line of CBD cosmetic products in Colombia and the UK.

The Corporation has three revenue sources:

- **Service revenue**, where the Corporation 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;
- **Medical cannabis products**, in which the Corporation grows, produces and sells branded products and services to patients with medical conditions where cannabis can be an acceptable, proven option; and
- **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 Corporation leverages its branded product market experience, scientific expertise, agricultural advantages and educational platforms to introduce its products and services across markets in Latin America and Europe.



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

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### 2. BASIS OF PREPARATION

#### a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The financial statements were authorized for issue by the Board of Directors on April 28, 2022.

#### b) Basis of measurement:

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.

#### c) Functional and presentation currency:

The financial statements are presented in Canadian dollars, which is the Corporation’s functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

#### d) Going concern:

These financial statements have been prepared on the basis that the Corporation will continue as a going concern, which assumes that the Corporation will be able to raise the necessary capital on terms acceptable to the Corporation and be able to realize its assets and satisfy its liabilities in the normal course of business for the foreseeable future.

As at December 31, 2021, the Corporation’s cash and cash equivalents were \$8.9 million. The Corporation had a positive net working capital position of \$16 million. However, the Corporation had a net loss for the year ended December 31, 2021 of \$33.1 million, used cash in operations of \$20.3 million, and had a deficit of \$116.9 million at December 31, 2021.

While the Corporation has been able to demonstrate the ability to raise capital to fund its operations, the Corporation has not yet been able to generate the sales volumes required to create positive cash flows from operations. Whether and when the Corporation can generate sufficient operating cash flows to pay for its expenditures and settle its obligations as they fall due after December 31, 2021 is uncertain. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that may cast significant doubt upon the Corporation’s ability to continue as a going concern. These financial statements do not include necessary adjustments to reflect the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Corporation be unable to continue as a going concern. Such adjustments could be material.

The outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

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implementation of travel bans, self-imposed or government-imposed quarantine periods and social distancing, have caused material disruption to businesses globally, resulting in an economic slowdown. Global equity markets have experienced increased volatility during this period. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The Corporation's core focus has been 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. High quality growth and extraction at its cultivation site has continued throughout the COVID-19 pandemic. Cost reductions in salaries, marketing and other administrative functions were implemented. Capital expenditure programs were postponed, where possible. While the Corporation will avail itself of financial relief measures, satisfy all commitments and repay its liabilities arising from normal business operations as they become due.

### e) Use of estimates and judgments:

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these judgments and estimates.

The key judgments identified in applying accounting policies that have a significant effect on the amounts recognized in the financial statements include the following:

- **Income taxes** The determination of whether it is probable that sufficient taxable earnings will be generated in future periods to utilize tax losses and tax credits for the purpose of recognizing related tax assets.
- **Performance obligations.** Performance obligations are accounted for separately if they are distinct. Judgments are required in determining when a performance obligation is satisfied, and revenue may be recognized. In making its judgments, management considers whether a performance obligation is distinct from other performance obligations, when a customer obtains control of the services promised in a contract and in allocating consideration to a specific part of the contract.
- **Classification of warrants.** As part of the assessment for the treatment of the warrants, management is required to make judgments in order to determine the appropriate classification.
- **Impairment test for goodwill and intangibles.** Include future cash flows and discount rates applied for calculating the recoverable amounts of cash generating units.
- **Functional currency.** The determination of functional currency of the Corporation.
- **Cash generating units.** The determination of cash generating units and reportable segments that are managed separately because of the unique characteristics and requirement of each business.
- **Business vs asset acquisition.** The determination of whether a business combination is a business or an asset acquisition. Judgments are made based on the criteria set forth in IFRS 3 regarding inputs, processes, and outputs.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are as follows:

- **Revenue recognition.** Estimates are also used to determine the stand-alone selling price of performance obligations and the allocation of the transaction price between performance obligations. When contracts involve more than one distinct performance obligation, consideration is allocated amongst the obligations based on their relative estimated stand-alone selling prices.



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

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- **Allowance for uncollectible accounts receivable.** Management makes use of estimates when determining the expected credit losses. Management evaluates each receivable at year end using factors such as age of receivable, payment history, and credit risk. The calculation of the allowance is based on the lifetime expected credit loss.
- **Share-based payments.** Management makes use of estimates and assumptions in the calculation of the share-based payments of restricted share units and stock options using the Black-Scholes option-pricing model.
- **Right of use assets and lease obligations.** Management makes use of estimates and assumptions in the calculation of the right of use assets and lease obligations. These estimates include calculating the appropriate discount rate to use, estimating the lease term, and estimating variable lease payments.
- **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, oil conversion factors, and obsolescence. In the determination of selling prices for biological assets, management makes estimates with respect to the allocation of margin earned at the various stages throughout the value chain including cultivation, post-harvest processing and extraction, manufacturing and formulation, and distribution and sales to customers. In calculating final inventory values, management compares the inventory cost to estimated net realizable value.
- **Amortization of intangible assets.** The key estimate and assumption of the useful life of each asset.

### f) Measurement of fair values:

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**Share-based payment transactions:** The fair values of restricted share units issued and options granted to purchase common shares, are measured based on the share price on the date of issuance or grant. The fair values of the stock options and warrants are estimated using the Black-Scholes option-pricing model.

**Warrant liability:** Certain of the Corporation's warrants have exercise prices that are not fixed and, as such, in accordance with IAS 32, they must be recorded as a derivative financial liability. This applies when a warrant is issued with a cashless exercise option. This "cashless exercise" option entitles the warrant holders to elect to receive fewer common shares without paying the cash exercise price, with the number of shares to be issued in a "cashless exercise" being determined by a formula based on the volume weighted average price for the Corporation's common shares over the ten trading days immediately prior to the date of the notice of exercise.

In each case, these warrants are initially measured at fair value and subsequent changes in fair value are recorded through net and comprehensive loss for the period. A proportional amount of costs associated with the issue of shares and warrants is allocated to the warrants and recorded through net and comprehensive loss for the year.

**Fair value hierarchy:** When measuring the fair value of an asset or liability, management uses market observable data to the extent possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

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- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

Management recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. All assets and liabilities are measured at historical value for the years ended December 31, 2021 and 2020, other than warrant liabilities and biological assets, which are measured at fair value based on level 1 and level 3, respectively

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out in this note have been applied consistently to all years presented in these financial statements. The accounting policies have been applied consistently by the Corporation.

#### **Basis of presentation**

The financial statements include the accounts of the Corporation and its subsidiaries. Any reference to Corporation throughout these financial statements refers to the Corporation and its subsidiaries. All intercompany transactions between the Corporation and its subsidiaries have been eliminated.

#### ***Subsidiaries***

Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial results of subsidiaries are included in the financial statements from the date that control commenced until the date that control ceases. The accounting policies of all subsidiaries are aligned with the policies adopted by the Corporation.

The table below lists the Corporation's wholly-owned subsidiaries:



**NOTES TO THE FINANCIAL STATEMENTS**

(\$ Canadian thousands, except as noted)

<b>Subsidiary</b>	<b>Domicile</b>	<b>Functional currency</b>	<b>Accounting method</b>
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
K Life Sciences Uruguay S.A. (formerly Dormul S.A.)	Uruguay	United States Dollar	Consolidation
Prosel S.A.	Uruguay	United States Dollar	Consolidation
Khiron Life Sciences USA, INC.	United States	United States Dollar	Consolidation
Kuida Life Mexico S.A. de C.V.	Mexico	Mexican Peso	Consolidation
Khiron Peru S.A.	Peru	Sol	Consolidation
Zerenia Clinics UK	United Kingdom	Pound sterling	Consolidation



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

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### Foreign currency

#### *Foreign currency translations*

The presentation and functional currency of the Corporation is the Canadian dollar. The individual financial statements of each subsidiary are prepared 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.

#### *Foreign currency transactions*

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.

### Business combinations

The Corporation measures goodwill as the fair value of the consideration transferred less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred. The acquisition date is the date where the Corporation obtains control of the acquiree. Transaction costs, other than those associated with the issue of debt or equity securities, that the Corporation 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.

### Inventory





## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

The Corporation 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 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 Corporation 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 Corporation considers the impact of price fluctuation, inventory spoilage, inventory damage, and slow moving and obsolete inventory.

### Biological assets

The Corporation 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. The income approach calculates the present value of expected future cash flows from the Corporation’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	Represents the costs incurred for the harvest of cannabis.	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).

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.



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

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### Property, plant, and equipment

#### *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within other operating expenses.

#### *Subsequent costs*

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment (repairs and maintenance) are charged to operating expenses as incurred.

#### *Depreciation*

Depreciation is calculated based on the depreciable amount, which is the cost of an asset less its residual value. Depreciation is charged to operating expenses, from the date assets are installed and ready for use, on a straight-line basis, over the estimated useful lives of each part of an item of property and equipment.

The methods and rates of depreciation are as follows:

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Building	straight-line over twenty years
Leasehold improvements	straight-line over lease term
Plant and equipment	straight-line over five years
Office and medical equipment	straight-line over one to ten years
Right of use assets	straight-line over lease term

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#### *Right of use assets*

Lease obligation is measured at the present value of lease payments using the Corporation's incremental borrowing rate at the date the lease is entered into. The corresponding right-of-use assets are presented separately from property and equipment. The right-of-use assets will be measured at an amount equal to the lease liability, adjusted by the amount of any prepaid lease payments and lease incentives.

As permitted by IFRS 16, the Corporation elected not to recognize lease liabilities and right-of-use assets for short-term leases and leases of low value assets which will continue to be expensed on a straight-line basis over the lease term.

At inception of a contract, the Corporation 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.



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

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The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

The Corporation early adopted “IFRS 16 – Leases COVID-19 Related rent concessions” and there were no material impacts as a result of the adoption.

### **Intangible assets**

#### ***Goodwill***

Goodwill that arises upon business combinations is measured at cost less accumulated impairment losses and is not amortized. Impairment losses on goodwill are not reversible.

#### ***Brands, customer relationships, and licenses***

For all intangible assets other than goodwill, amortization is charged from the date the assets is available for use, and the rates used are those that most closely reflect the expected pattern of consumption of the future economic benefits embodied in the assets. Amortization methods, useful lives, and residual value are reviewed each financial reporting period and adjusted if appropriate.

The methods and rates of amortization are as follows:

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Brands	indefinite
Customer relationship	straight-line over six years
Licenses	straight-line over life

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#### ***Research and development***

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are charged to earnings as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are expensed unless specific criteria are met, including the technical feasibility intention to complete, ability to use or sell, probable future economic benefit, availability of necessary resources and ability to measure. The Corporation has not capitalized any development costs up to December 31, 2021.

#### **Impairment**

#### ***Receivables***

The Corporation generally uses the simplified approach in determining expected credit losses. Under this model, the Corporation measures the loss allowance at an amount equal to the lifetime expected credit losses. However, if a customer is made known to have a repayment issue, a specific provision may be made.

#### ***Non-financial assets***



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

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The carrying amounts of the Corporation's non-financial assets, other than current assets and tax-related assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset or cash-generating unit is estimated.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value-in-use and its fair value less costs to sell. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Goodwill acquired in a business combination is allocated to the group of CGUs that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level that goodwill is monitored for internal reporting purposes.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in earnings.

### Provisions

A provision is recognized when the Corporation 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 Corporation from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The Corporation has no material provisions as at December 31, 2021.

### Common shares and warrants

Common shares are classified as equity, warrants are generally classified as equity, however, the warrants that are entitled to a "cashless exercise" option are recorded as a liability. 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 (without "cashless exercise" option warrants) 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. Warrants with a "cashless exercise" option are valued at the warrant trading price.

### Earnings (Loss) per share

The Corporation presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the earnings attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

### Revenue Recognition



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

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Revenue is recognized to depict the transfer of goods or services in an amount that reflects the consideration to which the entity expects to be entitled following five steps:

1. Identify the contract 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 entity satisfies a performance obligation

Revenue may be earned over time as the performance obligations are satisfied or at a point in time which is when the entity has earned a right to payment, the customer has possession of the asset and the related significant risks and rewards of ownership, and the customer has accepted the asset or service.

Revenue from the direct sale of products, including wellness products and medical cannabis products, to customers for a fixed price is recognized when the Corporation 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 of 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 Corporation recognizes revenue in an amount that reflects the consideration that the Corporation expects to receive taking into account any variation that may result from rights of return. The Corporation recognizes its medical health service revenues over a period of time as performance obligations are completed, and for long term distribution contracts, variable consideration is allocated to the distant goods that forms part of the single performance obligation.

### **Government grants and loans, and investment tax credits**

Government grants and credits are initially recorded as a liability when funds are received in advance of the costs to which they relate. Grants and credits are recognized into income or against the assets to which they relate when the Corporation establishes reasonable assurance that the applicable terms have been complied with and the amounts will be realized. Upon recognition, the amounts are credited against the expense or assets to which they relate.

### **Share-based payment transactions**

The measurement date of fair value of equity-settled share-based payment awards granted to employees and others providing similar services is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become entitled to the awards (vesting period). The amount recognized as an expense is adjusted to reflect the number of awards for which the related service vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service conditions at the vesting date. Share-based payments include stock options and restricted share units.

### **Income taxes**

Income tax expense is comprised of current and future tax. Income tax expense is recognized in the statements of operations and comprehensive loss except to the extent that it relates to items recognized in other comprehensive income or equity on the statements of financial position.



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

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### ***Current tax***

Current tax is calculated using tax rates which are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to taxation authorities.

### ***Deferred tax***

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates which are enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred tax liabilities are generally recognized for all taxable temporary differences, except for temporary differences that arise from goodwill, which is not deductible for tax purposes. Deferred tax liabilities are also recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled, and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible balances can be utilized. All deferred tax assets are analyzed at each reporting period and reduced to the extent that it is no longer probable that the asset will be recovered. Deferred tax assets and liabilities are not recognized with respect to temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

### ***Uncertain tax positions***

The Corporation is subject to taxation in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Corporation maintains provisions for uncertain tax positions that it believes appropriately reflect its risks with respect to tax matters under active discussion, audit, dispute, or appeal with tax authorities or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Corporation 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.

### **Financial instruments**

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, long-term debt, lease liability, and warrant liability.

### ***Financial instruments – recognition and measurement***



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

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All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as “measured at fair value through profit or loss”, “measured at fair value through other comprehensive income”, or “measured at amortized cost”.

Financial assets or financial liabilities are measured at fair value through profit or loss if acquired for the purpose of selling or repurchasing in the short term. Changes in fair value are recognized in financing costs in the statements of operations and comprehensive loss.

The Corporation’s financial instruments measured at amortized cost consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, lease obligation, and long-term debt. They are recognized at amortized cost, using the effective interest rate method, at each reporting period, net of transaction costs directly attributable to the issuance of long-term debt. Transaction costs related to the issuance of any long-term debt are netted against the carrying value of the associated long-term debt and amortized as part of financing costs over the life of that debt using the effective interest rate method.

### Segmented reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses. The operating results of all operating segments for which discrete financial information is available are reviewed regularly by executive management to make decisions about resources to be allocated to the segments and assess their performance. Segment results that are important to executive management generally include items directly attributable to a segment. Unallocated items include corporate assets, head office expenses, public company costs, interest, unrealized foreign exchange, and other expenses not directly attributable to operating segments

### New, amended, and future IFRS pronouncements

The Corporation has implemented all applicable IFRS standards recently issued by the IASB. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Corporation have been excluded herein. The following is a brief summary of the new standards issued but not yet effective:

#### Amendments to IAS 1: Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued Classification of Liabilities as Current or Non-Current (“Amendments to IAS 1”). The Amendments to IAS 1 aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The Amendments to IAS 1 include clarifying the classification requirements for debt a company might settle by converting it into equity. The Amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted.

#### Amendments to IAS 37: Onerous Contracts - Cost of Fulfilling a Contract

In May 2020, the IASB issued Onerous Contracts - Cost of Fulfilling a Contract amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendment is effective for annual reporting periods beginning on or after January 1, 2022.

#### Annual Improvements to IFRS Standards 2018-2020



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

In May 2020, the IASB issued Annual Improvements to IFRS Standards 2018-2020. The pronouncement contains amendments to International Financial Reporting Standards as result of the IASB's annual improvements project. The Annual Improvements to IFRS Standards 2018-2020 include amendments to IFRS 1, IFRS 9, and IAS 41, which are all effective for annual periods beginning on or after January 1, 2022, with earlier application permitted. The only update applicable to the Corporation is the amendment to IFRS 9. The Corporation early adopted this guidance during the year ended December 31, 2021.

### Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In May 2021, the IASB published Deferred Tax related to Assets and Liabilities arising from a Single Transaction ("Amendments to IAS 12"). The Amendments to IAS 12 clarify how companies account for deferred tax on transactions such as leases and de-commissioning obligations. The main change in this amendment is that the initial recognition exemption in IAS 12.15(b) and IAS 12.24 is clarified to not be applicable to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities. The Amendments to IAS 12 are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.

## 4. ACQUISITION

### Khiron acquired MCS Clinic in UK

On October 7, 2021, the Corporation completed the acquisition of 100% of the issued share capital of MCS Clinics Limited, a company incorporated and registered in England and Wales, for \$0.6 million.

The consideration for the acquisition is to be paid in cash, \$0.3 million of which will be paid by deferred consideration of \$8 per month over 36 months. \$0.1 million of the deferred payments are due within one year.

The excess of the consideration paid over the fair value of the identifiable assets (liabilities) acquired was recognized as goodwill which primarily provides the Corporation the ability to develop health centers, get access to physicians and offer clinical services in England.

From date of acquisition to December 31, 2021, this acquisition contributed less than \$0.01 million in revenue and net loss of \$0.06 million. Had the acquisition taken place on January 1, 2021, the acquisition would have contributed \$0.1 million in revenue and a net loss of \$0.04 million.

(\$ Canadian thousands, except per share amounts)	\$
Fair value of acquisition	575
Allocated as follows:	
Cash	1
Accounts payable	(82)
<b>Total additions through acquisition</b>	<b>(80)</b>
Goodwill	656
<b>Total consideration</b>	<b>575</b>





## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

### 5. Cash

As at December 31, 2021, cash included \$3.9 million cash in bank (December 31, 2020: \$8.2 million), and cash held in a legal trust of \$5.0 million (December 31, 2020: \$13.8 million). There are no limitations or restrictions associated with cash held in banks or cash held in legal trust, the Corporation has full access to these funds.

### 6. ACCOUNTS RECEIVABLE

As at (\$ Canadian thousands)	December 31, 2021	December 31, 2020
Accounts receivable	2,880	4,583

As at December 31, 2021, based on a detailed assessment of the amounts due from the Corporation's specific clients, the Corporation recorded an expected credit loss provision of \$0.1 million (2020: \$nil). During the year December 31, 2021, the Corporation had a receivables impairment of \$0.5 million (2020: \$nil).

The Corporation uses the simplified approach for measuring lifetime expected credit losses.

### 7. INVENTORY AND BIOLOGICAL ASSETS

#### Inventory

As at (\$ Canadian thousands)	December 31, 2021	December 31, 2020
Raw materials	417	684
Work-in-progress	8,230	6,234
Finished goods	161	567
Supplies	329	148
	<b>9,137</b>	<b>7,633</b>

#### Biological assets

As at (\$ Canadian thousands)	December 31 2021	December 31 2020
Balance, beginning of the year	704	49
Increase in biological assets due to capitalized costs	1,770	1,054
Unrealized gain on changes in fair value	2,543	5,527
Transferred to inventory upon harvest	(4,665)	(5,926)
Effect of foreign exchange	(35)	-
Balance, end of the year	<b>317</b>	<b>704</b>

Total inventory and biological asset total	<b>9,455</b>	<b>8,337</b>
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## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

The Corporation measures its biological assets at its fair value less costs to sell. The Corporation utilizes an income approach to determine the fair value less cost to sell at a specific measurement date, based on the existing cannabis plants' stage of completion up to the point of harvest. The stage of completion is determined based on the propagation date, the period-end reporting date, the average growth rate, and is calculated on a weighted average basis for the number of plants in the specific lot. The number of weeks in a production cycle is approximately 10 weeks (2020 -13 weeks) from propagation to harvest. As of December 31, 2021, the weighted average fair value less cost to sell a gram of dried cannabis was \$1.25 per gram (December 31, 2020: \$1.97).

The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique utilized. The Corporation's method to account for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from propagation to the point of harvest.

During the year ended December 31, 2021, the Corporation's biological assets produced 2,893 kilograms of dried cannabis (2020: 3,405 kilograms). The Corporation estimates the harvest yields for cannabis at various stages of growth. As at December 31, 2021, it is expected that the Corporation's biological assets will yield approximately 529 kilograms of dry cannabis when harvested (December 31, 2020: 971 kilograms). As at December 31, 2021, the weighted average stage of growth for the biological assets was 49% (December 31, 2020 – 37%).

The following table highlights the sensitivities and impact of changes in significant assumptions on the fair value of biological assets as at December 31, 2021 and 2020.

### Sensitivity

	Unit	Input		5% Sensitivity		Impact on fair value (\$000)	
		2021	2020	2021	2020	2021	2020
Fair value less cost to sell of dry flower	Dollar per gram	1.25	1.97	0.06	0.10	16	290
Yield per plant	Grams per plant	29.3	51	1.46	2.6	16	29
Grow cycle	Days	76.4	90	3.82	4.5	57	47
Margin allocation of cultivation	Percentage	33%	35%	1.7%	1.75%	326	236

The Corporation's estimates are, by their nature, subject to change, and differences from the anticipated yield, grow cycle and any other underlying operational inputs will be reflected in the gain or loss on biological assets in future periods.



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

### 8. PROPERTY PLANT AND EQUIPMENT

Property and equipment as at and for the years ended December 31, 2021 and 2020 were as follows:

(\$ Canadian thousands)	Buildings and leasehold Land	improvements Plant and equipment	Office and medical equipment	Capital work-in- progress	Right of use assets	Total	
<b>Costs</b>							
Balance at December 31, 2019	1,382	8,916	1,826	1,575	810	2,481	16,990
Additions related to operations	-	2,783	138	805	-	(44)	3,682
Effect of foreign exchange	(75)	(418)	(193)	(129)	33	(136)	(918)
Balance at December 31, 2020	<u>1,307</u>	<u>11,281</u>	<u>1,771</u>	<u>2,251</u>	<u>843</u>	<u>2,301</u>	<u>19,754</u>
Additions related to operations	-	<b>232</b>	<b>204</b>	<b>797</b>	<b>215</b>	<b>658</b>	<b>2,106</b>
Effect of foreign exchange	<b>(217)</b>	<b>(2,226)</b>	<b>(198)</b>	<b>(450)</b>	<b>(109)</b>	<b>(429)</b>	<b>(3,629)</b>
<b>Balance at December 31, 2021</b>	<b><u>1,090</u></b>	<b><u>9,287</u></b>	<b><u>1,777</u></b>	<b><u>2,598</u></b>	<b><u>949</u></b>	<b><u>2,530</u></b>	<b><u>18,231</u></b>
<b>Accumulated depreciation</b>							
Balance at December 31, 2019	-	(96)	(127)	(470)	-	(438)	(1,131)
Depreciation	-	(163)	(188)	(265)	-	(544)	(1,160)
Effect of foreign exchange	-	6	2	29	-	18	55
Balance at December 31, 2020	<u>-</u>	<u>(253)</u>	<u>(313)</u>	<u>(706)</u>	<u>-</u>	<u>(964)</u>	<u>(2,236)</u>
Depreciation	-	<b>(1,127)</b>	<b>(208)</b>	<b>(180)</b>	-	<b>(311)</b>	<b>(1,826)</b>
Impairment	-	<b>(468)</b>	-	-	<b>(750)</b>	-	<b>(1,218)</b>
Effect of foreign exchange	-	<b>170</b>	<b>67</b>	<b>187</b>	-	<b>182</b>	<b>607</b>
<b>Balance at December 31, 2021</b>	<b><u>-</u></b>	<b><u>(1,678)</u></b>	<b><u>(454)</u></b>	<b><u>(699)</u></b>	<b><u>(750)</u></b>	<b><u>(1,092)</u></b>	<b><u>(4,673)</u></b>
<b>Carrying amount</b>							
Balance at December 31, 2020	<u>1,307</u>	<u>11,028</u>	<u>1,458</u>	<u>1,545</u>	<u>843</u>	<u>1,337</u>	<u>17,518</u>
<b>Balance at December 31, 2021</b>	<b><u>1,090</u></b>	<b><u>7,609</u></b>	<b><u>1,323</u></b>	<b><u>1,899</u></b>	<b><u>199</u></b>	<b><u>1,438</u></b>	<b><u>13,557</u></b>



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

### 9. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill as at and for the years ended December 31, 2021 and 2020 were as follows:

(\$ Canadian thousands)	Customer relationship	Brands	Licenses	Goodwill	Total
<b>Costs</b>					
Balance at December 31, 2019	586	720	14,365	4,349	20,020
Additions related to operations	-	-	46	-	46
Effect of foreign exchange	(32)	(39)	(208)	(237)	(516)
Balance at December 31, 2020	554	681	14,203	4,112	19,550
Additions related to operations	-	-	4	-	4
Additions through acquisitions	-	-	-	656	656
Effect of foreign exchange	(92)	(113)	(167)	(693)	(1,065)
<b>Balance as at December 31, 2021</b>	<b>462</b>	<b>568</b>	<b>14,040</b>	<b>4,075</b>	<b>19,145</b>
<b>Accumulated amortization</b>					
Balance at December 31, 2019	(98)	-	(19)	-	(117)
Amortization	(96)	-	(87)	-	(183)
Effect of foreign exchange	2	-	(6)	-	(4)
Balance at December 31, 2020	(192)	-	(112)	-	(304)
Amortization	(83)	-	(78)	-	(161)
Impairment loss	-	-	(13,720)	-	(13,720)
Effect of foreign exchange	47	-	(64)	-	(17)
<b>Balance as at December 31, 2021</b>	<b>(228)</b>	<b>-</b>	<b>(13,974)</b>	<b>-</b>	<b>(14,202)</b>
<b>Carrying amount</b>					
Balance at December 31, 2020	362	681	14,091	4,112	19,246
<b>Balance as at December 31, 2021</b>	<b>234</b>	<b>568</b>	<b>66</b>	<b>4,075</b>	<b>4,943</b>

#### Intangible assets

The Corporation's brands balance, an intangible asset with indefinite useful life, is solely derived from its acquisition of its Health Services operations in December 2018 for the purpose of supporting the development of its medical cannabis business in Colombia. During the last quarter of 2021 the Corporation decided not to continue with the cultivation license in Uruguay, that was initially purchased in 2018 through the issuance of 8,498,821 shares of the Corporation valued at \$1.61 per, due to the new developments in that region and as a result has recognized an impairment of \$13,720.

#### Goodwill

The Corporation's goodwill balance is derived from its business acquisitions. The addition in 2021 is from the acquisition of the UK Clinic.



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

### Impairment testing for cash-generating units containing goodwill

The recoverable amount of both brands and goodwill has been determined based on the fair value less costs of disposal ("FVLCD") using discounted cash flow projections. This valuation is a Level 3 in the fair value hierarchy. The key assumptions used in the determination of FVLCD include the growth rate of medical cannabis sales in Colombia and the discount rate applied to the cash flow projections.

The assumptions have been based on actual and forecasted operating results. Management has projected cash flows over a period of 6 years with a terminal value thereafter, using growth rates of 70%, 24% for year 1 and 2 respectively and then 8% per annum up to and including year 6 and 3% per annum thereafter.

These growth rates are lower than those experienced in 2020, 2021 and, subsequent to year end, and would need to be decreased by approximately 10% to for the carrying amount to exceed its recoverable value. A discount rate of 20% has been applied to the cash flow projections and would need to be increased to 24% for the carrying amount to exceed its recoverable value

### 10. LONG-TERM DEBT AND LEASE LIABILITIES

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

Lease liabilities include office leases, health centre leases and a land lease for the cultivation site in Colombia. The loans and lease liabilities are held in Colombia and denominated in Colombian pesos and therefore subject to higher interest rates than in Canada. The change in the foreign exchange rate between Colombian Pesos and the Canadian Dollar from December 31, 2020 to December 31, 2021, of approximately 16%, contributed to a decrease in the long-term debt and lease liabilities in Canadian Dollars of \$0.1 million.

	Interest rate	Maturity date	December 31, 2021	December 31, 2020
Lease liabilities	10.96%	2021-2030	1,492	2,290
Loan	9.88%	March 16, 2021	-	19
Loan	7.58%	September 1, 2021	-	41
Loan	11.30%	October 30, 2021	-	158
Loan	8.44%	November 1, 2021	-	18
Loan	11.00%	November 1, 2021	-	47
Loan	9.00%	January 15, 2026	505	-
Loan	10.13%	February 4, 2022	6	-
Loan	7.58%	February 1, 2022	5	-
Loan	8.44%	April 5, 2022	4	-
Loan	10.13%	May 8, 2022	17	69
Loan	8.15%	May 15, 2022	21	74
Loan	8.06%	June 21, 2022	28	74
Loan	8.06%	July 22, 2024	151	-
			<b>2,226</b>	2,790
<b>Current portion</b>			<b>1,522</b>	1,078
<b>Non-current portion</b>			<b>705</b>	1,712



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

### 11. INCOME TAXES

The components of taxes expenses for the years ended 2021 and 2020 are as follows:

As at (\$ Canadian thousands)	December 31 2021	December 31 2020
Income tax expense - current	-	(135)
Income tax recovery - deferred	465	46
Income tax	465	(89)

Factors affecting tax expense (recovery) for the year:

For the year ended December 31, (\$ Canadian thousands)	2021	2020
Net earnings - continuing operations	(33,549)	(23,950)
Statutory tax rate	26.5%	26.5%
Expected tax (recovery) expense	(8,902)	(6,347)
Difference in foreign tax rates	80	350
Non-deductible items and share based compensation	2,965	(34)
Change in tax benefits not recognized	1,365	6,732
Change in unrecognized net deductible temporary difference	4,194	(288)
Other	(167)	(324)
	(465)	89

#### Deferred tax liabilities

The following table summarizes the components of deferred tax liabilities:

For the year ended December 31, (\$ Canadian thousands)	2021	2020
Property plant and equipment	58	560
Intangible assets	255	336
Deferred tax liabilities	313	896

Deferred assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including future profitability of operations in the jurisdictions in which the tax losses arose.

#### 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:



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

<b>For the year ended December 31, (\$ Canadian thousands)</b>	<b>2021</b>	<b>2020</b>
Property plant and equipment	1,528	1,247
Intangible assets	1,282	1,364
Share issuance costs	4,649	5,446
Non-capital losses carried forward	89,388	60,167
Total deductible deferred temporary differences	96,847	79,166
Biological assets and inventory	(6,058)	(4,203)
Total taxable temporary differences		
<b>Net deductible temporary differences</b>	<b>90,789</b>	<b>74,963</b>
Less deductible temporary difference not recognized	(90,789)	(74,962)
<b>Net deductible temporary difference recognized</b>	<b>-</b>	<b>-</b>

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

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

<b>For the year ended December 31,</b>	<b>\$</b>
2037	1,467
2038	8,181
2039	12,902
2040	7,713
2041	5,965
	<b>36,228</b>

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

<b>For the year ended December 31,</b>	<b>\$</b>
2022	1,424
2023	6,000
2024	13,212
2025	11,741
2026	8,188
2029	544
2030	488
2031	260
Indefinitely	11,303
	<b>53,160</b>

## 12. SHARE CAPITAL

### (a) Common shares



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

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### 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

On November 26, 2020, the Corporation completed a bought deal financing issuing 32,200,000 units at a price of \$0.45 per Unit for net proceeds of \$12.9 million (the "November Offering"). Each Unit was comprised of one common share and one warrant. Each warrant entitles the holder thereof to purchase one Common Share at an exercise price of \$0.75, for a period ending five years from the closing of the Offering. In consideration for their services, the Corporation paid the underwriters a cash commission equal to 6.0% of the gross proceeds raised, and non-transferable compensation options equal to 6.0% of the Units sold in the November Offering. Each compensation option will be exercisable at \$0.45 to acquire one Unit for a period of 24 months following the closing of the November offering.

Share issuance costs for 2020 totaled \$1.5 million and there was a warrant value of \$0.6 million.

On July 7, 2021, the Corporation completed an offering to U.S. institutional investors of 27,435,000 units of the Corporation (the "Offered Unit") at a price of \$0.45 per Offered Unit for net proceeds to the Corporation of \$12.3 million. Each Offered Unit was comprised of one common share and one common share purchase warrant (each a "Warrant"), with each Warrant entitling the holder thereof to purchase one common share of the Corporation at an exercise price of \$0.75 per share, expiring on November 26, 2025.

Share issuance costs for 2021 totaled \$1.3 million.

### (b) Warrant liabilities

The share purchase warrants issued in the July 7, 2021 unit offering are considered derivative liabilities in accordance with IAS 32, as the warrant holders are entitled to a "cashless exercise" option, subject to TSXV approval. This "cashless exercise" option entitles the warrant holders to elect to receive fewer Warrant Shares without paying the cash exercise price, with the number of shares to be issued in a "cashless exercise" being determined by a formula based on the volume weighted average price for the Corporation's common shares over the ten trading days immediately prior to the date of the notice of exercise.

As a result, these warrants are initially measured at fair value and subsequent changes in fair value are recorded through net loss for the period. A proportional amount of costs associated with the issue of shares and warrants is allocated to the warrants and recorded through Net and Comprehensive Loss for the period.

At each reporting date, the Warrant Liability of listed warrants is adjusted to fair value measured at the market price of the listed warrants is adjusted to fair value determined using a comparable warrant quoted in an active market, adjusted for differences in the terms of the warrant, the changes in fair value are recorded through Net and Comprehensive Loss for the period.

At the issuance date the warrants' market price was \$0.15 per warrant and as at December 31, 2021 the warrants' market price was \$0.065.





## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

	Twelve-month period ended December 31, 2021	
	Number of Warrants	Amount (\$000')
Opening balance	-	-
Issue of warrants expiring November 26, 2025	27,435	4,115
Fair value adjustment during the year / period	-	(2,332)
Ending balance	27,435	1,783

### (c) Contributed surplus

The contributed surplus included in the Shareholders' Deficiency section of the Statement of Financial Position comprises of private placement proceeds allocated to unexercised share purchase warrants, unexercised stock options, restricted share units, and all share-based payment transactions that do not involve the issuance of shares.

### Warrants

Exercise price	Expiry Date	Remaining life (yrs.)	Note	Outstanding as at December 31,	
				2021	2020
2.20	February 21, 2021	-	a	-	786,600
2.90	May 28, 2021	-	a	-	594,849
0.45	November 26, 2022	0.9	b	<b>1,932,000</b>	1,932,000
0.75	November 26, 2022	3.9	a	<b>32,200,000</b>	32,200,000
0.75	November 26, 2022	3.9	a	<b>27,435,000</b>	
0.74		3.8		<b>61,567,000</b>	35,513,449

- a. Represent warrants or compensation options issued pursuant to equity financing transactions and are exercisable into one common share.
- b. Represent compensation options issued pursuant to equity financing transaction and are exercisable into one unit comprising of one common share and one warrant with an exercise price of \$0.75. Therefore, in the event that the 1.9m warrants are exercised into shares, another 1.9m warrants will be issued

In the year ended December 31, 2021, 1,381,449 (2020 – 1,145,580) warrants expired and 27,435,000 (2020 – 34,132,000) were granted.

### 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 13,398,580 stock options to be reserved for issuance under the Plan, together with any other securities compensation arrangements, being 10% of the Company's issued and outstanding at any point in time, less the number of options and restricted share units granted.

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



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

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 summarizes the changes in options:

	2021		2020	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding - beginning of year	5,134	2.01	5,209	2.03
Granted	4,721	0.75	-	-
Forfeited	(3,000)	1.34	(75)	3.25
Expired	(1,075)	1.00	-	-
Exercised	-	-	-	-
Outstanding - end of the year	5,780	1.52	5,134	2.01
Exercisable - end of the year	4,681	1.70	4,068	1.76

Grant Date	Expiry Date	Exercise Price	Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Exercisable
September 12, 2017	September 12, 2022	\$ 1.00	0.70	552,500	552,500
October 12, 2017	October 12, 2022	\$ 1.00	0.78	100,000	100,000
May 23, 2018	May 23, 2023	\$ 1.40	1.39	590,000	590,000
June 26, 2018	June 26, 2023	\$ 1.40	1.48	200,000	200,000
May 31, 2019	May 31, 2024	\$ 3.25	2.42	816,667	816,667
November 27, 2019	November 27, 2024	\$ 2.90	2.91	800,000	800,000
May 31, 2021	May 31, 2026	\$ 0.70	4.42	141,000	35,250
May 31, 2021	May 31, 2026	\$ 0.75	4.42	800,000	800,000
November 23, 2021	November 23, 2026	\$ 0.75	4.90	1,780,000	786,666
				<b>5,780,167</b>	<b>4,681,083</b>

The Corporation uses the Black-Scholes option-pricing model to determine the estimated fair value of the options granted. The weighted average life of the options as at December 2021 was 3.2 years (2020 was 2.4 years). The expense for the year was \$0.6 million (2020: \$0.7 million)



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

The calculation was based on the following assumptions:

<b>For options granted in the year ended December 31,</b>	<b>2021</b>	<b>2020</b>
Share price (Canadian \$)	<b>0.23 - 0.47</b>	-
Exercise price (Canadian \$)	<b>0.7 - 0.75</b>	-
Volatility (%)	<b>89.7 - 96.0</b>	-
Expected life (years)	<b>5.0</b>	-
Dividend yield (%)	-	-
Forfeiture rate (%)	-	-
Risk free interest rate (%)	<b>0.9 - 1.5</b>	-

### Restricted Share Unit Plan

The Corporation has a Restricted Share Unit plan ("RSU Plan"), under which it can grant restricted share units ("RSUs") to officers, employees, and other eligible persons of the Corporation.

On August 26, 2020, the Corporation granted 1,440,000 RSUs to officers, employees, and consultants of the Corporation, generally vesting 1/3 every 12 months from the grant date some of which vested immediately. On September 10, 2020, the Corporation granted 1,310,000 RSUs to officers, and employees of the Corporation, vesting evenly every 12 months over three years.

On February 8, 2021, the Corporation granted 888,298 RSUs to officers and employees, vesting 1/3 every 12 months from the grant date. These RSUs were valued at \$0.47 per RSU, being the value of the Corporation's common shares on the issuance date.

On May 31, 2021, the Corporation granted RSUs to employees. In aggregate, 2,535,500 RSUs were granted, vesting 1/10 immediately, 3/20 after 6 months and then the remainder vesting evenly every 6 months. Each RSU represents the right to receive one common share of the Corporation upon vesting. The RSUs were valued at \$0.47 per RSU, being the Corporation's common share price on the grant date.

On November 23, 2021, the Corporation granted RSUs to employees, officers and consultants. In aggregate, 0.6 million RSUs were granted. Each RSU represents the right to receive one common share of the Corporation upon vesting. The majority of the RSUs granted on November 23, 2021 will vest evenly every 12 months over three years. The RSUs are valued at \$0.23 per RSU, being the Corporation's common share price on the issuance date.

The expense for the year for RSUs was \$1.7 million (2020: \$4.9 million).



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

The following summarizes the changes in RSUs:

	<b>2021</b>	<b>2020</b>
	Number	Number
Outstanding - beginning of year	6,376,500	6,586,250
Granted	4,720,798	2,750,000
Forfeited	(1,763,500)	(543,500)
Expired	(130,000)	-
Exercised	(1,110,000)	(2,416,250)
Outstanding - end of the year	8,093,798	6,376,500
Exercisable - end of the year	4,478,086	2,809,084

The weighted average fair value of options granted during the years ended December 31, 2021 and 2020 were \$1.45 and \$2.01 per share, respectively, using graded vesting. The expense for the year for expense options was \$0.6m.

The range of exercise prices and remaining life for the RSUs outstanding and exercisable at December 31, 2021 is as follows:

Grant Date	Expiry Date	Remaining Contractual Life (years)	Number of RSUs Outstanding	Number of RSUs Exercisable
May 31, 2019	December 15, 2022	0.96	1,161,500	1,161,500
November 25, 2019	December 15, 2022	0.96	1,475,000	1,475,000
August 26, 2020	December 15, 2023	1.96	1,200,000	779,167
September 10, 2020	December 15, 2023	1.96	1,100,000	366,669
February 8, 2021	December 15, 2024	2.96	638,298	-
May 31, 2021	December 15, 2024	2.96	1,223,000	305,750
November 23, 2021	December 15, 2024	2.96	1,296,000	390,000
			<b>8,093,798</b>	<b>4,478,086</b>

### 13. CAPITAL MANAGEMENT

The Corporation'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 Corporation 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 Corporation may issue new shares, issue new debt, or acquire or dispose of assets. The Corporation 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 Corporation, is reasonable. There have been no changes to the Corporation's capital management approach in the period. The Corporation considers its shareholders' equity as capital which as at December 31, 2021 is \$33.9 million.



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

### 14. EARNINGS (LOSS) PER SHARE

Basic earnings per share and diluted earnings per share for the year ended December 31, 2021, and 2020 is based on the net earnings attributable to shareholders as reported in the statements of operations and comprehensive loss and diluted weighted average number of common shares outstanding in the relevant year:

For the year ended December 31, (\$ Canadian thousands)	2021	2020
Net loss	\$ 33,129	\$ 24,039
Weighted average number of common shares outstanding - basic	164,517	120,294
Weighted average number of common shares outstanding - dilutive	164,517	120,294
<b>Loss per share - basic and diluted</b>	<b>0.20</b>	<b>0.20</b>

### 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, lease liabilities, long-term debt and warrant liability which are all carried at fair value.

Khiron has estimated the fair value amounts using appropriate valuation methodologies and information available to management as of the valuation dates. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it was practicable to estimate that value:

- **Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, lease liabilities, and long term debt.** The carrying amounts are fair value at period end.
- **Warrant liability.** The fair value of the warrant liability is determined based off of the warrant trading price.

#### Nature and Extent of Risks Arising from Financial Instruments

Khiron is exposed to a number of market risks arising through the use of financial instruments in the ordinary course of business. Specifically, Khiron is subject to credit risk, liquidity risk, currency risk, and interest rate risk.

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Khiron's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. Khiron's management identifies and analyzes the risks faced by the Corporation and manages/monitors these risks, including the impact of changes in market conditions and changes in the Corporation's activities.

As at December 31 (\$ Canadian thousands)	Risk			
	Credit	Liquidity	Market risks	
			Currency	Interest rate
Measured at cost or amortized cost				
Cash and cash equivalents	X		X	
Accounts receivable	X		X	
Accounts payable and accrued liabilities		X	X	
Lease obligation		X		
Long term debt		X		X



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

### *Credit risk*

Credit risk is the risk of financial loss to the Corporation if a counterparty to a financial instrument fails to meet its contractual obligations.

The Corporation manages credit risk by holding its cash in major financial institutions and in a trust held by our lawyers.

Khiron is exposed to credit risk related to accounts receivable as a result of extending credit to customers for goods and services provided, creating exposure on accounts receivable balances with trade customers. This exposure to credit risk is managed through a corporate credit policy whereby upfront evaluations are performed on all customers and credit is granted based on payment history, financial conditions, and anticipated industry conditions. Customer payments are continuously monitored to ensure the creditworthiness of all customers with outstanding balances and a expected credit loss provision is established based on lifetime expected credit loss.

The following table represents the aging of the Corporations ILANS operations (health centres in Colombia), which has extended credit terms.

<b>As at</b> (\$ Canadian thousands)	<b>December 31,</b>	December 31,
	<b>2021</b>	2020
0 - 30 days	508	2,003
31 - 90 days	580	277
91 - 120 days	250	12
> 120 days	979	1,174
	<b>2,317</b>	<b>3,466</b>

For 2021, there was a provision for an expected credit loss of \$0.1 million (2020: \$nil)

### *Liquidity risk*

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. Khiron actively manages its liquidity through daily, weekly, and longer-term cash outlook and debt management strategies. The Corporation's policy is to ensure that sufficient resources are available either from cash balances or cash flows, to ensure all obligations are met as they fall due.

The following maturity analysis shows the remaining contractual maturities for the face value of the Corporation's financial liabilities:

(\$ Canadian thousands)	Less than 1 year	After 1 year less than 3 years	After 3 years less than 5 years	After 5 years
Accounts payable and accrued liabilities	4,308	-	-	-
Lease liabilities	500	543	170	279
Loan payable	350	698	-	-
Warrant liability	1,783	-	-	-
Deferred consideration	104	209	-	-



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

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Management regularly reviews its level of capital resources and actively manages its affairs. This review will consider factors such as the current economic environment, changes in demand for the Corporation's services, capital spending requirements, foreign exchange rates, working capital needs, and profitability of the Corporation's operations, any of which could materially affect the Corporation's ability to meet its obligations.

Additional financing may be necessary in a variety of circumstances, including the requirement of working capital to ramp up operations, the occurrence of adverse circumstances, fluctuations in foreign currency translation, or the decision to expand geographically into new markets or by acquisition. In addition, in order to maintain or adjust its capital structure, the Corporation may issue new shares, new debt, or scale back the size and nature of its operations. It is anticipated that the financing may be raised by bank debt, other forms of debt, or the issue of equity. It is possible that such financing will not be available, or if available, will not be available on favorable terms.

### ***Market risk***

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Corporation's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the returns. The Corporation is subject to market rate risk on the calculation of fair value of the warrants. The warrants fair value of the conversion feature is determined using the exchange trading value of the warrants, which is affected by changes in the Corporation's stock price.

### ***Currency risk***

The Corporation has operations and customers in a variety of countries and transacts in several currencies. Future fluctuations in exchange rates will have an effect on the Corporation's operating results, financial position, and cash flows. The Corporation is also exposed to currency risk on working capital and borrowings that are denominated in currencies other than Khiron's functional currency, being the Canadian dollar.

Sensitivity analysis:

A strengthening of the Canadian dollar against the Colombian Peso by 10% at December 31, 2021, would have resulted in a change in net earnings of \$0.6 million (2020: \$0.4 million). The analysis assumes that all other variables, interest rates in particular, remain constant. A weakening of the Canadian dollar by 100 basis points at December 31, 2021 and 2020 would have had an equal but opposite effect on net earnings, and equity, on the basis that all other variables remain constant.

### ***Interest rate risk***

The Corporation's objective in managing interest rate risk is to monitor expected volatility in interest rates while also minimizing financing expense levels. Interest rate risk mainly arises from fluctuations of interest rates on the renewal of long-term debt, which can vary between 4.73% and 11.3% as a result of the level of cash burn, as compared to the cash balance. On an ongoing basis, management monitors changes in short-term rates and considers long-term forecasts to assess potential cash flow impacts to the Corporation.

Sensitivity analysis:

The Corporation is not subject to interest rates cash flow risk. Interest on the Corporation's loan payable also does not vary as a result in changes in market interest rates or other factors.



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

### 16. REVENUE

The Corporation has three major revenue categories:

- **Services revenue**, is comprised of revenue generated from the Corporation 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 Corporation partners.
- **Medical cannabis** is comprised of revenue from the products that the Corporation grows, produces and sells branded products and services to patients with medical conditions where cannabis can be an acceptable, proven option.
- **Wellness products**, is comprised of revenue from the products that the Corporation sells that utilize the benefits of CBD and hemp across an array of various branded consumer packaged goods, such as its Kuida® cosmetics line.

For the year ended December 31, (\$ Canadian thousands)	2021	2020
Service revenues	8,078	7,430
Medical cannabis	4,608	370
Wellness products	109	217
<b>Total revenue</b>	<b>12,795</b>	<b>8,017</b>

#### Significant customers

For the years ended December 31, 2021, the Corporation had one significant customer (2020 – two significant customers) that provided more than 10% of the total revenue.

#### Revenue by geographic location

For the year ended December 31, (\$ Canadian thousands)	2021	2020
Latin America	11,264	7,975
Europe	1,531	42
	<b>12,795</b>	<b>8,017</b>

### 17. SEGMENTED INFORMATION

An operating segment is a component of the Corporation:

- 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 Corporation has three geographical segments in Canada, Latin America, and Europe, with corporate offices maintained in Bogota, Colombia; Toronto, Canada; and Frankfurt, Germany.





## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

As at	December 31, 2021	December 31, 2020
<b>Property, Plant and Equipment</b>		
Canada	-	-
Europe	16	14
Latin America	13,541	17,504
	<b>13,557</b>	<b>17,518</b>
<b>Non-Current Assets</b>		
Canada	-	-
Europe	16	14
Latin America	18,484	17,504
	<b>18,500</b>	<b>17,518</b>
<b>Total Assets</b>		
Canada	6,307	18,008
Europe	2,135	1,703
Latin America	33,832	53,468
	<b>42,274</b>	<b>73,179</b>

### 18. GENERAL AND ADMINISTRATIVE COSTS

For the year ended December 31, (\$ Canadian thousands)	2021	2020
	\$	\$
Salaries	8,776	11,806
Professional fees	1,733	1,664
Consulting	1,501	1,385
Investor relations	1,060	1,153
Travel and development	270	258
Corporate governance	3,127	1,526
Donations	239	-
Office and general	2,558	2,406
Depreciation and amortisation	953	678
Share-based compensation expense	2,322	5,716
	<b>22,539</b>	<b>26,592</b>

### 19. RELATED PARTY TRANSACTIONS

Related party transactions in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

#### Related party balances

As at December 31, 2021, less than \$0.1 million (December 31, 2020: \$nil) included in accounts payable and accrued liabilities is an amount payable to an accounting firm where an officer of the Corporation is a partner and to a legal services firm where a director of the Corporation is a partner. The amount due was not collateralized



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

and was due on normal trade terms. Total professional fees incurred with these related parties during the year ended December 31, 2021 were less than \$0.2 million (2020: \$0.15 million).

### Key management compensation

Key management personnel are persons having authority and responsibility for planning, directing, and controlling the activities of the Corporation. Khiron has identified key management personnel as directors and executives officers.

The following discloses the amounts recognized as expense during the year related to directors and key management personnel compensation, excluding payments made to the advisory firm in which the CFO is a partner, disclosed above:

#### For the year ended December 31,

(\$ Canadian thousands)	2021	2020
Salaries, subcontractors, and benefits	2,837	6,333
Share-based compensation	1,787	3,765
	<b>4,624</b>	10,098

## 20. COMMITMENTS AND CONTINGENCIES

In January 2019, the Corporation entered into an agreement with Dayacann SpA ("Dayacann") whereby under the terms of the Dayacann Agreement (and the related agreements), the Corporation 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. Considering the permitting delay, together with the concurrent ever worsening political unrest in Chile, the Corporation 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 Corporation has spent US\$120 towards the US\$1,200 commitment as per the agreement, and communicated its decision to end unilaterally the agreement with Dayacann on January 5, 2020. According to the terms of the contract and the termination letter no further payments of compensation should be made in favour of Dayacann from that date. During 2021 no further discussions were held between parties.

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



## NOTES TO THE FINANCIAL STATEMENTS

(\$ Canadian thousands, except as noted)

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### 21. SUPPLEMENTAL INFORMATION

Change in non-cash working capital balances:

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	<b>2021</b>	2020
Accounts receivable	<b>2,305</b>	606
Inventory and biological assets	<b>(1,016)</b>	(2,070)
Prepaid expenses and other current assets	<b>(360)</b>	1,386
Accounts payable and accrued liabilities	<b>(2,767)</b>	(1,861)
Total change in non-cash working capital	<b>(1,838)</b>	<b>(1,939)</b>

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### 22. SUBSEQUENT EVENTS

In February 2022, the Corporation granted 200,000 RSUs to a contractor, under the 2020 plan, in accordance with the terms of the engagement letter.