

XPHYTO THERAPEUTICS CORP.

Condensed Consolidated Interim Financial Statements

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

NOTICE TO READER

Under National Instrument 51-102, Part 4, paragraph 4.3(3)(a), if an auditor has not performed a review of interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of XPhyto Therapeutics Corp. have been prepared by and are the responsibility of the Company's management and approved by the Board of Directors of the Company.

The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

XPHYTO THERAPEUTICS CORP.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

	Note	September 30, 2019	December 31, 2018
Assets			
Current assets			
Cash		\$ 791,030	\$ 2,365,597
Amounts receivable		243,756	95,314
Inventory		45,823	-
Prepaid expenses		120,411	8,849
		1,201,020	2,469,760
Non-current assets			
Deposits	4	195,143	543,353
Equipment	7	932,403	9,513
Intangible asset	8	904,897	653,103
Right-of-use asset	9	5,264,245	5,523,764
Goodwill	8	1,598,606	-
Total assets		\$ 10,096,314	\$ 9,199,493
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	\$ 566,172	\$ 387,826
Lease liability	9	166,836	99,786
Convertible debt	11	475,226	-
		1,208,234	487,612
Non-current liabilities			
Lease liability	9	1,113,439	949,556
Deferred tax liability		209,156	
Total liabilities		2,530,829	1,437,168
Equity			
Shareholders' equity			
Share capital	12	11,404,247	6,590,003
Special warrants	12	-	1,778,200
Share based payments reserve		2,460,923	259,207
Equity component of convertible debt	11	43,229	-
Accumulated deficit		(6,342,914)	(865,085)
Total shareholders' equity		7,565,485	7,762,325
Total liabilities and shareholders' equity		\$ 10,096,314	\$ 9,199,493

Approved by the Directors on November 28, 2019

Hugh Rogers (signed)

Wolfgang Probst (signed)

Nature and continuance of operations (Note 1)
 Commitments (Note 17)
 Subsequent events (Note 19)

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

XPHYTO THERAPEUTICS CORP.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited)
(Expressed in Canadian dollars)

	Nine Months Ended Sept 30		Three Months Ended Sept 30	
	2019	2018	2019	2018
Gross Revenues	\$ 45,072	\$ -	\$ 45,072	\$ -
Operating Expenses				
Depreciation and amortization	\$ 697,576	\$ -	\$ 255,577	\$ -
Professional fees	491,044	112,878	299,302	(19,358)
Consulting fees (Note 14)	832,748	177,710	713,365	90,500
Salaries and benefits (Note 14)	723,339	-	259,606	-
Share-based compensation (Note 13)	1,630,912	-	1,501,801	-
Regulatory fees	18,498	-	2,150	-
Marketing and advertising	507,326	-	507,326	-
Office and miscellaneous	189,161	12,608	74,083	4,938
Travel and related	104,387	50,803	52,543	4,693
Rent	78,524	5,516	25,845	2,495
Research and lab fees	148,211	-	78,211	-
Foreign exchange (gain)	(24,865)	-	(40,640)	-
Operating Loss	(5,351,789)	(359,595)	(3,684,097)	(83,268)
Finance costs (Note 9 & 11)	126,040	-	47,321	-
Loss and Comprehensive Loss for the period	\$ (5,477,829)	\$ (359,595)	\$ (3,731,418)	\$ (83,268)
Loss Per Share – Basic and Diluted	\$ (0.12)	\$ (0.02)	\$ (0.08)	\$ (0.01)
Weighted Average Number of Common Shares Outstanding	43,889,531	19,576,901	47,389,380	24,430,804

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

XPHYTO THERAPEUTICS CORP.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
(Expressed in Canadian dollars)

	Nine Months Ended Sept 30	
	2019	2018
Operating Activities		
Loss for the period	\$ (5,477,829)	\$ (359,595)
Adjustments for:		
Depreciation and amortization	697,576	-
Share-based compensation	1,630,912	-
Shares issued per consultant agreements	306,000	-
Shares issued per corporate advisory agreement	260,000	-
Exchange gain	(56,751)	-
Accrued interest	126,040	-
Changes in non-cash working capital items		
Amounts receivable	34,374	(14,581)
Prepaid expenses	(98,826)	(7,292)
Inventory	(650)	-
Accounts payable and accrued liabilities	114,897	22,481
Cash Used in Operating Activities	(2,464,257)	(358,987)
Investing Activities		
Deferred acquisition costs	-	(521,292)
Intangible assets	(21,031)	(30,259)
Deposits	(65,047)	-
Vektor business acquisition, net of cash acquired	(342,972)	-
Equipment acquisition	(43,555)	-
Cash Used in Investing Activities	(472,605)	(551,551)
Financing Activities		
Proceeds from issuance of shares	811,282	2,789,132
Share issue costs	(76,440)	-
Proceeds from special warrant issuance	448,000	-
Warrant exercise	230,600	-
Share subscription received	-	25,000
Lease liability	(51,147)	-
Cash Provided by Financing Activities	1,362,295	2,814,132
Net change in cash for the period	(1,574,567)	1,903,584
Cash and cash equivalents, beginning of period	2,365,597	-
Cash and cash equivalents, end of period	\$ 791,030	\$ 1,903,594

Supplemental disclosure with respect to cash flows (Note 18)

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

XPHYTO THERAPEUTICS CORP.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited)
(Expressed in Canadian dollars)

	Number of Common Shares	Share Capital	Special Warrants	Reserves	Equity component of convertible debt	Accumulated Deficit	Total Shareholders' Equity
Balance, January 1, 2018	500,000	\$ 25,000	\$ -	\$ -	\$ -	\$ (4,485)	\$ 20,515
Share issuances, financings	24,352,000	3,044,000	-	-	-	-	3,044,000
Issue costs	-	(254,868)	-	-	-	-	(254,868)
Finders warrants	-	(119,952)	-	119,952	-	-	-
Shares issued for intangible assets	5,500,000	687,500	-	-	-	-	687,500
Loss for the period	-	-	-	-	-	(359,595)	(359,595)
Balance, September 30, 2018	30,352,000	\$ 3,381,680	\$ -	\$ 119,952	\$ -	\$ (364,080)	\$ 3,137,552
Balance, January 1, 2019	39,464,000	\$ 6,590,003	\$1,778,200	\$ 259,207	\$ -	\$ (865,085)	\$ 7,762,325
Share issuances, financings	2,028,205	811,282	-	-	-	-	811,282
Issue costs	-	(76,440)	-	-	-	-	(76,440)
Finders warrants	-	(31,581)	-	31,581	-	-	-
Shares issued per consultant agreements	270,000	306,000	-	-	-	-	306,000
Shares issued per corporate advisory agreement	200,000	260,000	-	-	-	-	260,000
Share based compensation	-	-	-	1,630,912	-	-	1,630,912
Shares issued to acquire Vektor	837,064	1,088,183	-	-	-	-	1,088,183
Warrants issued to acquire Vektor	-	-	-	539,223	-	-	539,223
Issuance of convertible debt	-	-	-	-	43,229	-	43,229
Issuance of shares on exercise of warrants	298,000	230,600	-	-	-	-	230,600
Special warrant financing	-	-	448,000	-	-	-	448,000
Special warrant conversion	5,565,500	2,226,200	(2,226,200)	-	-	-	-
Loss for the period	-	-	-	-	-	(5,477,829)	(5,477,829)
Balance, September 30, 2019	48,662,769	\$ 11,404,247	\$ -	\$2,460,923	\$ 43,229	\$ (6,342,914)	\$ 7,565,485

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

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

1. NATURE AND CONTINUANCE OF OPERATIONS

XPhyto Therapeutics Corp. (formerly Cannabunker Development Corp.) (the “Company” or “XPhyto”) was incorporated under the Business Corporations Act (British Columbia) on December 12, 2017. The principal business of the Company is developing a testing, manufacturing and research business in Canada and a research, cultivation, import, manufacturing and distribution business in Germany. The Company has filed a non-offering prospectus as part of its submission with its listing application for publicly trading its shares on the Canadian Securities Exchange (“CSE”).

The Company’s head office is located at Suite 270 – 1820 Fir Street, Vancouver, British Columbia, Canada, V6J 3B1. The Company’s registered and records office is 1500 – 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on a going concern basis. The Company currently has a working capital deficit of \$7,214 as at September 30, 2019.

To date, the Company has incurred losses and further losses are anticipated as the Company further develops its business. The continuing operations of the Company are dependent upon its ability to generate profitable operations in the future, and to continue to secure additional financing. There can be no assurance that the Company will be successful in its efforts to raise additional financing or if financing is available or that it will be on terms that are acceptable to the Company. These events and conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern. These condensed consolidated interim financial statements do not include any adjustments related to the recoverability of assets and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PRESENTATION

a) Statement of compliance to International Financial Reporting Standards

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”, and IFRS as issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements should be read in conjunction with the Company’s audited financial statements as at and for the year ended December 31, 2018, as some disclosures from the annual financial statements have been condensed or omitted.

These unaudited condensed consolidated interim financial statements were prepared using accounting policies consistent with those in the audited financial statements as at and for the year ended December 31, 2018.

These financial statements were authorized by the Company’s Directors on November 28, 2019.

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

2. BASIS OF PRESENTATION (cont'd)

b) Basis of Consolidation

The following entities have been consolidated within these unaudited condensed consolidated interim financial statements:

Entity	Registered	Holding
XPhyto Therapeutics Corp.	British Columbia, Canada	Parent company
XPhyto Laboratories Inc.	Alberta, Canada	100% owned
Bunker Pflanzenextrakte GmbH	Germany	100% owned
Bunker Biopharma GmbH	Germany	100% owned
Vektor Pharma TF GmbH	Germany	100% owned
SCUR-Alpha 1108 GmbH	Germany	100% owned

The subsidiaries are controlled by the Company. Control exists when the Company is exposed, or has rights, to the variable returns from its involvement with the investee and can affect those returns through its power over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

c) Basis of measurement

These unaudited condensed consolidated interim financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars which is also the Company's functional currency.

d) Use of estimates and judgments

The preparation of the unaudited condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and further periods if the review affects both current and future periods.

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

2. BASIS OF PRESENTATION (cont'd)

Key sources of estimation uncertainty

The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

i) Share-based compensation

The inputs used in calculating the fair value for share-based compensation included in profit or loss. The share-based compensation expense is estimated using the Black-Scholes option pricing model as measured on the grant date to estimate the fair value of stock options. This model involves the input of highly subjective assumptions, including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate.

ii) Deferred tax assets

Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

iii) Economic recoverability and probability of future economic benefits of intangible assets and amortization

Management has determined that capitalized intangible asset costs may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including anticipated cash flows and estimated economic life.

The amortization expense related to intangible assets is determined using estimates relating to the useful life of the intangible asset.

Significant judgments in applying accounting policies

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

i) Business combinations

The determination of whether a set of assets acquired, and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The transaction with Bunker Pflanzenextrakte GmbH was determined to constitute an acquisition of assets (Note 5). The transaction with Vektor Pharma TF GmbH was determined to constitute a business acquisition (Note 6).

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those applied by the Company in its consolidated financial statements for the year ended December 31, 2018. In addition, the Company has begun to apply the following during the current fiscal period:

a) Inventory

Inventories of materials and supplies that are consumed in the production process are valued at the lower of cost and net realizable value. Allowance is made for obsolete items where appropriate.

b) Convertible debt

Convertible debentures are financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

c) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new or technical knowledge and understanding, are recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and has the ability to use or sell the asset. The expenditures capitalized include the costs of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use and borrowing costs on qualifying assets. Other development expenditures are recognized in profit or loss as incurred.

d) Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash generating unit ("CGU") or group of CGUs which are expected to benefit from the synergies of the combination. Goodwill is not subject to amortization.

e) Revenue recognition

Revenue is recognized at the fair value of consideration received or receivable. Service revenues are recognized over a period of time as performance obligations are completed. The Company is engaged with contract development services and consulting services in the German market.

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

4. COMMERCIAL ANALYTICAL LAB DEVELOPMENT AND SERVICES AGREEMENT

The Company entered into a Service Agreement Term Sheet dated May 30, 2018 with the Faculty of Pharmacy and Pharmaceutical Sciences of the University of Alberta ("UoA"). Further to the Service Agreement Term Sheet, on September 28, 2018, the Company and the Board of Governors of the University of Alberta, executed a Commercial Analytical Lab Development and Services Agreement with respect to the co-development of a commercial grade analytical lab at UoA for the purpose of testing cannabis and other plant-based medicines.

The Company is responsible to fund the development and construction of the analytical testing facility.

The agreement contemplates that the parties will enter into a service agreement under which the UoA will provide analytical testing services to the Company and others. The service agreement will have an initial 5-year term and require the Company to pay the UoA for its costs to operate and maintain the facility. Any profit (net revenue) from service fees will first be applied to pay to the Company an amount equal to 125% of its capital expenditures in developing and establishing the analytical testing facility. Once the 125% threshold has been achieved, the Company and the UoA will equally share in profits (net revenues) from service fees.

As at September 30, 2019, the Company had paid deposits totaling \$195,143 (December 31, 2018 - \$543,353) towards equipment purchases for the testing facility.

5. ASSET ACQUISITION

Bunker Pflanzenextrakte GmbH

On October 22, 2018, the Company entered into a share exchange agreement to acquire all the issued and outstanding shares of Bunker Pflanzenextrakte GmbH ("Bunker") replacing an earlier letter of intent. As consideration, the Company will issue to Bunker shareholders 7,500,000 common shares of the Company. In addition, the Company shall reserve for issuance an aggregate of 2,500,000 common shares in the Company (the "Milestone Shares"). In the event that Bunker either (i) is granted a cultivation licence(s) within 24 months or (ii) generates EUR 2,500,000 gross revenue in an 18-month period within 36 months after the date of this agreement, then the Company will issue the Milestone Shares to Bunker shareholders.

The Company closed the share exchange agreement on December 13, 2018 and issued the 7,500,000 shares at a value of \$3,000,000 to Bunker shareholders. The 7,500,000 shares are subject to escrow and will be released in tranches over 36 months on the earlier of (i) the date of listing on the CSE and (ii) 6 months after the effective date of the agreement. As of September 30, 2019, 750,000 common shares related to the share exchange agreement have been released from escrow. For 36 months after closing, should any Bunker shareholder wish to sell any shares, the Company has the right of first refusal to purchase the shares. The Company also advanced funds to Bunker prior to closing and incurred costs relating to the transaction totaling \$1,286,722.

Canaccord Genuity Corp. ("Canaccord") provided the Company with certain corporate advisory services as part of the transaction. As consideration, the Company issued 750,000 common shares at a value of \$300,000 and 250,000 share purchase warrants, exercisable at \$0.125 per share for a period of two years from date of listing on the CSE to Canaccord. The fair value of the 250,000 warrants was \$73,392 (Note 12).

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

5. ASSET ACQUISITION (cont'd)

The acquisition has been accounted for as an asset acquisition as at the time of the transaction, as Bunker did not meet the definition of a business. The consideration paid has been allocated to the right-of-use asset and intangible asset at the date of acquisition. The purchase price of the acquisition has primarily been allocated as follows:

Purchase price	
Fair value of common shares issued	\$3,000,000
Fair value of finders' shares issued	300,000
Funds advanced to Bunker	780,660
Acquisition costs	506,062
Fair value of warrants issued	73,392
	\$4,660,114
<hr/>	
Cash	\$116,746
Amounts receivable	87,857
Prepaid expenses	5,313
Equipment	5,103
Intangible asset	3,913
Accounts payable and accrued liabilities	(65,489)
Lease liability	(1,043,998)
Right-of-use asset	5,550,669
	\$4,660,114

6. BUSINESS COMBINATION

Management is in the process of gathering the relevant information to determine the fair value of the net identifiable assets acquired. As such, the initial purchase price was provisionally allocated based on the Company's estimated fair value of the identifiable assets acquired and the liabilities assumed on the acquisition date. The values assigned are, therefore preliminary and subject to change. The Company is continuing to obtain information to finalize its purchase price allocation for the fair value of identifiable intangible assets and the allocation of goodwill.

Vektor Pharma TF GmbH

On August 26, 2019, the Company entered into a definitive share purchase agreement to acquire all the issued and outstanding shares of Vektor Pharma TF GmbH ("Vektor"). As consideration, the Company shall issue the following; 1) 350,000 € cash due upon closing; 2) 200,000 common shares due upon closing; 3) 400,000 € units in the capital of the Company at \$1.00 per unit (the "Payment Units") due upon closing. Each Payment Unit consists of one common share and one common share purchase warrant. The common shares are subject to a three-year escrow matrix. The warrants are exercisable into one common share of the Company at an exercise price of \$1.00 per share for a period of three years from closing; and 4) 200,000 € (\$293,532) convertible debenture with a maturity date that is six months from closing bearing an annual interest rate of 2.5%. The principal amount of the debenture is fixed at \$293,532 and is convertible into Payment Units at the option of the holder, at any time prior to the maturity date. Accrued interest will be paid in cash. Each common share purchase warrant is exercisable into one common share at an exercise price of \$1.00 per share for a period of three years from the conversion date. The exchange rate on the date of the transaction was 1.46766 CAD/EUR.

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

6. BUSINESS COMBINATION (cont'd)

The Company closed the share purchase agreement on September 13, 2019 and paid 350,000 € (\$517,170) and issued 787,064 shares at a value of \$1,023,183 to the Vektor shareholders of which 587,064 shares are subject to escrow and will be released in tranches over 36 months. The Company also issued 587,064 share purchase warrants as part of the Payment Units with a value of \$496,902. The fair value was estimated using the Black-Scholes option pricing model with a volatility of 95.00%, risk-free interest rate of 1.58%, dividend rate of 0% and expected life of 3 years. The Company also issued a convertible debenture in the amount of \$293,532 (Note 11).

The Company also issued 50,000 common shares at a value of \$65,000 and 50,000 share purchase warrants at a value of \$42,321. The fair value was estimated using the Black-Scholes option pricing model with a volatility of 95.00%, risk-free interest rate of 1.58%, dividend rate of 0% and expected life of 3 years.

Separate from the Vektor business combination, the Company also entered into an equipment purchase agreement with an affiliated company of Vektor to purchase certain equipment. As consideration, the Company issued a convertible debenture in the amount of 150,000 € (\$220,149) with a maturity date that is twelve months from closing bearing an annual interest rate of 2.5%. The principal amount of the debenture is fixed at \$220,149 and convertible into Payment Units at the option of the holder, at any time prior to the maturity date. Accrued interest will be paid in cash. Each common share purchase warrant is exercisable into one common share at an exercise price of \$1.00 per share for a period of three years from the conversion date. The exchange rate on the date of the transaction was 1.46766 CAD/EUR.

The acquisition has been accounted for as a business combination as at the time of the transaction, as Vektor did meet the definition of a business. The purchase price of the acquisition has primarily been allocated as follows:

Purchase price	
Cash	\$ 517,170
Fair value of common shares issued	1,088,183
Fair value of convertible debenture issued	275,923
Equity component of convertible debenture issued	17,609
Fair value of warrants issued	539,223
	\$2,438,108
Cash	\$ 174,198
Amounts receivable	182,816
Inventory	45,173
Prepaid expenses	12,736
Equipment	309,627
Right-of-use asset	125,514
Intangible assets	389,772
Goodwill	1,598,606
Accounts payable and accrued liabilities	(63,449)
Lease liability	(127,729)
Deferred tax liability	(209,156)
	\$2,438,108

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

6. BUSINESS COMBINATION (cont'd)

The above acquisition contributed revenue of \$45,072 and a net loss of \$2,618 to the Company's consolidated results since the date of acquisition. If the acquisition had occurred on January 1, 2019, management estimates that the Company's consolidated revenue would have increased by \$603,578 and the net loss would have increased by \$157,104 for the nine months ended September 30, 2019.

Goodwill, arising from the acquisitions, represents expected synergies, future income, growth, assembled workforce and other intangibles that do not qualify for separate recognition. None of the goodwill arising from this acquisition is expected to be deductible for tax purposes.

7. EQUIPMENT

	Office equipment & Fixtures	Computer Hardware	Testing, Lab equipment & machines	Total
Cost				
Balance at January 1, 2018	\$ -	\$ -	\$ -	\$ -
Additions	4,626	5,628	-	10,254
Balance at December 31, 2018	4,626	5,628	-	10,254
Additions	2,510	14,848	659,604	676,962
Additions from acquisition	46,851	-	262,776	309,627
Disposals	-	-	-	-
Balance at September 30, 2019	\$53,987	\$ 20,476	\$ 922,380	\$ 996,843
Accumulated Depreciation				
Balance at January 1, 2018	\$ -	\$ -	\$ -	\$ -
Depreciation	27	714	-	741
Balance at December 31, 2018	27	714	-	741
Depreciation	2,046	4,066	57,587	63,699
Balance, September 30, 2019	\$ 2,073	\$ 4,780	\$ 57,587	\$ 64,440
Carrying amounts				
As at January 1, 2018	\$ -	\$ -	\$ -	\$ -
As at December 31, 2018	\$ 4,599	\$ 4,914	\$ -	\$ 9,513
As at September 30, 2019	\$51,914	\$ 15,696	\$ 864,793	\$ 932,403

8. INTANGIBLE ASSETS AND GOODWILL

On August 20, 2018, the Company signed an Exclusive Dealing Agreement with Dr. Raimar Loebenberg ("Loebenberg") with respect to commercial operations under the licence issued pursuant to the Canadian Controlled Drugs and Substance Act held by Loebenberg and Loebenberg's cannabis related research and associated intellectual property. The agreement grants the Company an exclusive right to benefit from the exercise of Loebenberg's rights under the licence.

In consideration for the rights granted by Loebenberg to the Company, the Company issued 5,000,000 common shares (the "Consideration Shares"), to a company controlled by Loebenberg with a fair value of \$625,000. The Consideration Shares are subject to voluntary pooling ("Escrow") for a period commencing on the effective date of the agreement and terminating on the date that is thirty-six months after the earlier of: (i) the date the Company's shares are listed for trading on the CSE, and (ii) the date that is six months after the effective date of the agreement. The exclusivity period commences on the closing date of the agreement and expires on the earlier of (i) termination of the agreement, and (ii) the date that the last Consideration Shares are released from Escrow. If the licence is terminated during the exclusivity period, any remaining Escrowed Consideration Shares will be returned to the Company.

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

8. INTANGIBLE ASSETS AND GOODWILL (cont'd)

Loebenberg is entitled to revenue-based bonus payments from the sale of certain products developed by Loebenberg alone or jointly with the Company. If the Company generates at least \$10,000,000 in revenues annually from the products, Loebenberg is entitled to receive a Level One Bonus of \$200,000. If the Company generates at least \$5,000,000 in revenues annually from the products, Loebenberg is entitled to receive a Level Two Bonus of \$200,000. The Level Two Bonus is payable, at the election of the Company, either in cash or common shares at the current market price. The Company can terminate the Level One and/or Two Bonus entitlements by paying Loebenberg \$1,000,000 per each bonus entitlement.

Canaccord provided the Company with certain corporate advisory services with respect to the intangible assets. In consideration, the Company issued 500,000 common shares on September 4, 2018 with a value of \$62,500 to Canaccord. Additional transaction costs of \$30,259 relating to the intangible assets were also incurred.

The Company acquired several narcotic licences and permits pursuant to EU GMP certification and other governing regulations as part of the Vektor business acquisition.

	Right-to- use License	Web Design & Software	Licences & Total Permits	Total
Cost				
Balance at January 1, 2018	\$ -	\$ -	\$ -	\$ -
Additions	717,759	4,811	-	722,570
Balance at December 31, 2018	717,759	4,811	-	722,570
Additions	-	21,031	-	21,031
Additions from acquisition	-	772	389,000	389,772
Balance at September 30, 2019	\$ 717,759	\$ 26,614	\$ 389,000	\$ 1,133,373
Accumulated Depreciation				
Balance at January 1, 2018	\$ -	\$ -	\$ -	\$ -
Amortization	68,358	1,109	-	69,467
Balance at December 31, 2018	68,358	1,109	-	69,467
Amortization	153,807	1,959	3,242	159,008
Balance, September 30, 2019	222,165	\$ 2,069	\$ 3,242	\$ 227,476
Carrying amounts				
As at January 1, 2018	\$ -	\$ -	\$ -	\$ -
As at December 31, 2018	\$ 649,401	\$ 3,702	\$ -	\$ 653,103
As at September 30, 2019	\$ 495,594	\$ 23,545	\$ 385,758	\$ 904,897

The net change in goodwill is as follows:

As at December 31, 2018	\$ -
Additions from acquisition of Vektor	1,598,606
As at September 30, 2019	\$ 1,598,606

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

9. RIGHT OF USE ASSET AND LEASE LIABILITY

The Company and its wholly owned subsidiaries have various property rental lease agreements in place ranging from 3 to 10 years in length of term. Right-of-use assets consist of corporate office spaces, the Bunker facility and lab and operational space for Vektor.

	September 30, 2019	December 31, 2018
Right of Use asset		
Opening balance	\$ 5,523,764	\$ -
Additions from acquisition	125,514	5,550,669
Additions	89,239	-
Depreciation	(474,869)	(26,905)
Foreign exchange adjustment	597	-
	<u>\$ 5,264,245</u>	<u>\$ 5,523,764</u>
Lease liability		
Opening balance	\$ 1,049,342	\$ -
Additions from acquisition	127,729	1,043,998
Additions	89,239	-
Payments	(51,147)	-
Accrued interest	121,266	5,344
Foreign exchange adjustment	(56,154)	-
	<u>\$ 1,280,275</u>	<u>\$ 1,049,342</u>
Current portion	\$ 166,836	\$ 99,786
Non-current portion	<u>\$ 1,113,439</u>	<u>\$ 949,556</u>

Using the September 30, 2019 period end exchange rate, the estimated annual commitment over the term of the leases is as follows:

2019	\$ 40,371
2020	\$ 168,772
2021	\$ 175,822
2022	\$ 183,477
2023	\$ 243,559
2024 and beyond	\$ 806,902

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2019	December 31, 2018
Trades payables	\$ 133,055	\$ 120,476
Accrued liabilities	433,117	267,350
	<u>\$ 566,172</u>	<u>\$ 387,826</u>

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

11. CONVERTIBLE DEBT

On September 13, 2019, the Company issued two (2) unsecured convertible debentures in accordance with the Vektor acquisition and equipment purchase agreement. (Note 6).

The principal amount of the first debenture of \$293,532 matures six (6) months after issuance and accrues interest at 2.5% per annum payable in cash on the maturity date. The principal amount of the second debenture of \$220,149 matures twelve (12) months after issuance and accrues interest at 2.5% per annum payable in cash on the maturity date.

The principal amounts of the debentures are convertible into Payment Units at the option of the holder, at any time prior to the maturity date. Each Payment Unit consists of one common share and one common share purchase warrant. The common shares are subject to a three-year escrow matrix. The warrants are exercisable into one common share of the Company at an exercise price of \$1.00 per share for a period of three years from closing.

The debentures are compound instruments and the proceeds are required to be bifurcated to record the fair value of the separate debt and equity components. The fair value of the debt was determined using a discounted cash flow model using an estimated market interest rate for equivalent debt of 16%. The initial fair value of the debt was calculated to be \$470,542 with the residual portion of \$43,229 allocated to equity.

	September 30, 2019
Principal amount	\$513,681
Less equity component of convertible debt	(43,229)
Accrued interest	<u>4,774</u>
	475,226

12. SHARE CAPITAL

a) Common Shares

Authorized

The authorized capital stock of the Company is an unlimited number of common shares without par value.

Issued

On January 31, 2018, the Company issued 17,340,000 units at \$0.125 per unit for gross proceeds of \$2,167,500. Each unit consisted of one common share and one-half share purchase warrant, with each whole warrant exercisable into one additional common share at a price of \$0.70 per share for a period of two years from date of listing on the CSE. The Company also issued 1,387,200 finders warrants to purchase an aggregate of 1,387,200 common shares at a price of \$0.125 per share for a period of two years from date of listing on the CSE. The finders' warrants had a fair value of \$85,386 estimated using the Black-Scholes option pricing model with a volatility of 91.63%, risk-free interest rate of 1.84%, dividend rate of 0% and expected life of 2 years.

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

12. SHARE CAPITAL (cont'd)

On May 31, 2018, the Company issued 5,762,000 units at \$0.125 per unit for gross proceeds of \$720,250. Each unit consisted of one common share and one-half share purchase warrant, with each whole warrant exercisable into one additional common share at a price of \$0.70 per share for a period of two years from date of listing on the CSE. The Company also issued 460,960 finders warrants to purchase an aggregate of 460,960 common shares at a price of \$0.125 per share for a period of two years from date of listing on the CSE. The finders' warrants had a fair value of \$28,397 estimated using the Black-Scholes option pricing model with a volatility of 91.63%, risk-free interest rate of 1.92%, dividend rate of 0% and expected life of 2 years.

On July 31, 2018, the Company issued 1,250,000 units at \$0.125 per unit for gross proceeds of \$156,250. Each unit consisted of one common share and one-half share purchase warrant, with each whole warrant exercisable into one additional common share at a price of \$0.70 per share for a period of two years from date of listing on the CSE. The Company also issued 100,000 finders warrants to purchase an aggregate of 100,000 common shares at a price of \$0.125 per share for a period of two years from date of listing on the CSE. The finders' warrants had a fair value of \$6,169 estimated using the Black-Scholes option pricing model with a volatility of 91.63%, risk-free interest rate of 2.05%, dividend rate of 0% and expected life of 2 years.

On August 17, 2018, the Company issued 5,000,000 common shares at a value of \$625,000 for the acquisition of intangible assets (Note 8). These shares are considered contingently returnable and are excluded from loss per share calculations.

On September 4, 2018, the Company issued 500,000 common shares at a value of \$62,500 to Canaccord in consideration of corporate advisory services relating to the acquisition of intangible assets (Note 8).

On November 30, 2018, the Company issued 862,000 units at \$0.125 per unit for gross proceeds of \$107,750. Each unit consisted of one common share and one-half share purchase warrant, with each whole warrant exercisable into one additional common share at a price of \$0.70 per share for a period of two years from date of listing on the CSE. Included in the issued shares are 200,000 escrowed shares issued to an officer of the Company which will be released from escrow in tranches over 36 months from date of listing on the CSE.

On December 13, 2018 the Company issued 7,500,000 common shares at a value of \$3,000,000 for the acquisition of Bunker (Note 5). For 36 months after closing, should any Bunker shareholder wish to sell any shares, the Company has the right of first refusal to purchase the shares.

On December 13, 2018, the Company issued 750,000 common shares at a value of \$300,000 to Canaccord in consideration of corporate advisory services relating to the asset acquisition of Bunker (Note 5). The Company also issued 250,000 finders warrants to purchase an aggregate of 250,000 common shares at a price of \$0.125 per share for a period of two years from date of listing on the CSE. The finders' warrants had a fair value of \$73,392 estimated using the Black-Scholes option pricing model with a volatility of 75%, risk-free interest rate of 2.06%, dividend rate of 0% and expected life of 2 years.

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

12. SHARE CAPITAL (cont'd)

On December 28, 2018, the Company issued 4,445,500 Special Warrants at \$0.40 per Special Warrant for gross proceeds of \$1,778,200. Each Special Warrant will automatically convert, for no additional consideration, into one common share of the Company and one share purchase warrant on the earlier of (i) the third business day after final prospectus receipt, and (ii) 4 months and one day after the issue date of the Special Warrants. Each warrant issued on conversion will entitle the holder to purchase one common share at a price of \$1.20 per share for a period equal to the shorter of (i) two years after the listing date on the CSE or another stock exchange recognized under provincial securities laws, and (ii) five years after the issue date of the Special Warrants. The Company paid finders fees of \$140,656 and issued 351,640 finders warrants to purchase an aggregate of 351,640 common shares at a price of \$0.40 per share for a period of two years from date of listing on the CSE. The finders' warrants had a fair value of \$58,762 estimated using the Black-Scholes option pricing model with a volatility of 75%, risk-free interest rate of 2.19%, dividend rate of 0% and expected life of 2 years. On April 29, 2019, the Company issued 4,445,500 common shares and 4,445,500 share purchase warrants on conversion of the Special Warrants.

On February 28, 2019, the Company issued 1,120,000 Special Warrants at \$0.40 per Special Warrant for gross proceeds of \$448,000 on the same terms and conditions as those issued on December 28, 2018. The Company paid finders fees of \$35,840 and issued finders warrants to purchase an aggregate of 89,600 common shares at a price of \$0.40 per share for a period of 2 years from date of listing on the CSE. The finders' warrants had a fair value of \$14,863 estimated using the Black-Scholes option pricing model with a volatility of 75%, risk-free interest rate of 1.78%, dividend rate of 0% and expected life of 2 years. On May 28, 2019, the Company issued 1,120,000 common shares and 1,120,000 share purchase warrants on conversion of the Special Warrants.

On February 28, 2019, the Company issued 457,500 units at \$0.40 per unit for gross proceeds of \$183,000. Each unit consisted of one common share and one share purchase warrant, with each whole warrant exercisable into one additional common share at a price of \$1.20 per share for a period equal to the shorter of (i) two years from date of listing on the CSE or another stock exchange recognized under provincial securities laws, and (ii) five years after the issue date of the units. The Company paid finder fees of \$14,640 and also issued 36,600 finders warrants to purchase an aggregate of 36,600 common shares at a price of \$0.40 per share for a period of two years from date of listing on the CSE. The finders' warrants had a fair value of \$6,071 estimated using the Black-Scholes option pricing model with a volatility of 75.00%, risk-free interest rate of 1.78%, dividend rate of 0% and expected life of 2 years.

On March 29, 2019, the Company issued 805,000 units at \$0.40 per unit for gross proceeds of \$322,000. Each unit consisted of one common share and one share purchase warrant, with each whole warrant exercisable into one additional common share at a price of \$1.20 per share for a period equal to the shorter of (i) two years from date of listing on the CSE or another stock exchange recognized under provincial securities laws, and (ii) five years after the issue date of the units. The Company paid finder fees of \$25,760 and also issued 64,400 finders warrants to purchase an aggregate of 64,400 common shares at a price of \$0.40 per share for a period of two years from date of listing on the CSE. The finders' warrants had a fair value of \$10,647 estimated using the Black-Scholes option pricing model with a volatility of 75.00%, risk-free interest rate of 1.55%, dividend rate of 0% and expected life of 2 years.

On April 11, 2019, the Company issued 765,705 units at \$0.40 per unit for gross proceeds of \$306,282. Each unit consisted of one common share and one share purchase warrant, with each whole warrant exercisable into one additional common share at a price of \$1.20 per share for a period equal to the shorter of (i) two years from date of listing on the CSE or another stock exchange recognized under provincial securities laws, and (ii) five years after the issue date of the units.

On April 11, 2019, the Company issued 50,000 common shares at a value of \$20,000 pursuant to a consultancy agreement.

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

12. SHARE CAPITAL (cont'd)

On September 13, 2019, the Company issued 270,000 common shares at a value of \$286,000 pursuant to two consultancy agreements of which 50,000 of those common shares at a value of \$65,000 have been determined to be partial consideration relating to the business acquisition of Vektor (Note 6).

On September 13, 2019, the Company issued 787,064 common shares at a value of \$1,023,183 in partial consideration relating to the business acquisition of Vektor (Note 6).

On September 13, 2019, the Company issued 200,000 common shares at a value of \$260,000 to Canaccord in consideration of corporate advisory services relating to the acquisition of Vektor (Note 6).

During the nine months ended September 30, 2019, the Company issued 298,000 common shares at a value of \$230,600 in connection with the exercise of 298,000 share purchase warrants.

As at September 30, 2019, there are 12,453,358 common shares subject to escrow which includes 675,000 common shares issued to officers of the Company which will be released from escrow in tranches over 36 months from date of listing on the CSE. The 5,000,000 common shares held in escrow in conjunction with the exclusivity agreement between the Company and Loebenberg are now subject to the mandatory escrow provisions and will be released from escrow in tranches over 36 months from date of listing on the CSE. As of September 30, 2019, 500,000 common shares related to the Exclusive Dealing Agreement with Dr. Raimar Loebenberg have been released from escrow. The 7,500,000 held in escrow in conjunction with the share exchange agreement between the Company and Bunker shareholders (Note 5) which will be released from escrow in tranches over 36 months on the earlier of (i) the date of listing on the CSE and (ii) 6 months after the effective date of the agreement. As of September 30, 2019, 750,000 common shares related to the share exchange agreement have been released from escrow.

b) Share Purchase Warrants

The following is a summary of changes in warrants from January 1, 2018 to September 30, 2019:

	Number of Warrants	Weighted Average Exercise Price
Balance at January 1, 2018	-	\$ -
Issued warrants	<u>15,156,800</u>	0.61
Balance at December 31, 2018	15,156,800	0.61
Issued warrants	8,421,369	1.17
Exercised warrants	<u>298,000</u>	0.77
Balance at September 30, 2019	23,280,169	\$ 0.81

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

12. SHARE CAPITAL (cont'd)

As at September 30, 2019, the Company had outstanding warrants as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
8,670,000	\$ 0.70	July 31, 2021
1,387,200	\$ 0.125	July 31, 2021
2,881,000	\$ 0.70	July 31, 2021
460,960	\$ 0.125	July 31, 2021
375,000	\$ 0.70	July 31, 2021
100,000	\$ 0.125	July 31, 2021
427,000	\$ 0.70	July 31, 2021
250,000	\$ 0.125	July 31, 2021
351,640	\$ 0.40	July 31, 2021
89,600	\$ 0.40	July 31, 2021
457,500	\$ 1.20	July 31, 2021
36,600	\$ 0.40	July 31, 2021
761,000	\$ 1.20	July 31, 2021
64,400	\$ 0.40	July 31, 2021
765,705	\$ 1.20	July 31, 2021
4,445,500	\$ 1.20	July 31, 2021
1,120,000	\$ 1.20	July 31, 2021
637,084	\$ 1.00	September 13, 2022
<u>23,280,169</u>		

13. SHARE-BASED COMPENSATION

The Company held its shareholder meeting on December 10, 2018 where the shareholders approved adoption of the Stock Option Plan in accordance with the policies of the CSE. The directors are authorized to grant stock options to directors, officers, consultants or employees. Options granted under the plan will have a term up to 10 years with the exercise price and vesting determined by the directors.

During the year ended December 31, 2018, 1,000,000 stock options were issued to officers of the Company. The options are exercisable into one common share of the Company at an exercise price of \$0.50 per share until December 20, 2023. The stock options will vest 25% every 6 months commencing 6 months after the grant date.

On April 11, 2019, the Company issued 100,000 stock options to a consultant of the Company. The stock options vest immediately from the date of grant. The stock options are exercisable for a period of two years at an exercise price of \$0.50 per common share.

On August 7, 2019, the Company issued 2,500,000 stock options to certain officers and consultants of the Company exercisable at a price of \$1.25 per common share.

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

13. SHARE-BASED COMPENSATION (cont'd)

Share option transactions from January 1, 2018 to September 30, 2019 are as follows:

	Number of options	Weighted Average Exercise Price
Balance at January 1, 2018	-	\$ -
Issued options	<u>1,000,000</u>	0.50
Balance at December 31, 2018	1,000,000	0.50
Issued options	<u>2,600,000</u>	1.22
Balance at September 30, 2019	3,600,000	\$ 1.04
Exercisable	2,370,000	

As at September 30, 2019, the following stock options were outstanding and exercisable;

Number Outstanding	Number Exercisable	Exercise Price	Expiry Date
700,000	700,000	1.25	August 7, 2020
100,000	100,000	0.50	April 11, 2021
400,000	400,000	1.25	August 7, 2021
1,000,000	250,000	0.50	December 20, 2023
<u>1,400,000</u>	<u>920,000</u>	1.25	August 7, 2024
3,600,000	2,370,000		

The Company recorded share-based compensation of \$1,630,912 during the period ended September 30, 2019 (September 30, 2018 – \$nil). The fair value of the options granted during the period ended September 30, 2019 was \$1,850,466 or \$0.71 per option. All option grants were valued using the Black-Scholes Option Pricing Model with the following assumptions:

	2019
Volatility	75.00 – 95.00%
Risk-free interest rate	1.20% - 1.59%
Expected life of option	1 year to 5 years
Dividend yield	<u>0%</u>

14. RELATED PARTY TRANSACTIONS

Key management personnel are the persons responsible for planning, directing, and controlling the activities of the Company and include both executive and non-executive directors, and entities controlled by such persons. The Company considers its directors, Chief Executive Officer and Chief Financial Officer of the Company, Managing Director of Vektor and Managing Director and Chief Financial Officer of Bunker to be key management personnel.

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

14. RELATED PARTY TRANSACTIONS (cont'd)

The following is a summary of the Company's key management compensation:

	September 30, 2019	September 30, 2018
Consulting fees	\$ 45,000	\$ 108,750
Salaries and benefits	526,327	-
Share-based compensation	866,804	-

As at September 30, 2019, \$5,250 (December 31, 2018 - \$ 20,598) remained unpaid and has been included in accounts payable and accrued liabilities.

The Company issued an unsecured convertible debenture in the amount of \$220,149 to a company controlled by the Managing Director of Vektor for the purchase of certain equipment (Note 11).

15. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its business and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. The Company considers its capital for this purpose to be its shareholders' equity.

The Company's primary source of capital is through the issuance of equity. The Company manages and adjusts its capital structure when changes in economic conditions occur. To maintain or adjust the capital structure, the Company may seek additional funding. The Company may require additional capital resources to meet its administrative overhead expenses in the long term. The Company believes it will be able to raise capital as required in the long term but recognizes there will be risks involved that may be beyond its control. There are no external restrictions on the management of capital. There have been no changes to the management of capital during the current fiscal period.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

Cash is carried at fair value using level 1 fair value measurement. The carrying value of amounts receivables, and accounts payable and accrued liabilities and convertible debt approximate their fair value because of the short-term nature of these instruments. The carrying value of lease liability approximates fair value as there has not been any significant changes in interest rates since initial recognition.

The Company records certain of its financial instruments at fair value using various techniques. These include estimates of fair values based on prevailing market prices (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal and external valuation models, such as discounted cash flow analyses, using, to the extent possible, observable market-based inputs.

The financial instruments have been characterized on a fair value hierarchy based on whether the inputs to those valuation techniques are observable (inputs reflect market data obtained from independent sources) or unobservable (inputs reflect the Company's market assumptions).

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

The three levels of fair value estimation are:

Level 1 – quoted prices in active markets for identical instruments.

Level 2 – quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company has exposures to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's maximum exposure to credit risk at September 30, 2019 under its financial instruments is approximately \$ 0.8 million.

Most of the Company's cash is held with a major financial institution in Canada and management believes the exposure to credit risk with respect to such institutions is not significant.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company currently has no debt subject to variable interest rates. Accordingly, the Company has limited exposure to interest rate movements.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it projects the funds required to support its operations.

Management and the Board of Directors are actively involved in the review, planning, and approval of significant expenditures and commitments.

The following is a summary of the maturities for the Company's lease liabilities as at September 30, 2019.

	Up to 1 year (\$)	1 year to 2 years (\$)	More than 2 years (\$)
Lease liabilities	166,836	174,059	1,278,009
TOTAL:	166,836	174,059	1,278,009

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Foreign exchange rate risk

The Company operates in Canada and Germany and is therefore exposed to foreign exchange risk arising from transactions denominated in a foreign currency. The operating results and the financial position of the Company are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reporting results of the Company, and may also affect the value of the Company's assets and liabilities. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

The Company is exposed to foreign currency risk through the following financial assets and liabilities held in the following Canadian dollar equivalents:

September 30, 2019	Euro	Total
Cash	\$ 327,874	\$ 327,874
Amounts receivable	265,021	265,021
Total financial assets	592,895	592,895
Less: accounts payable and accrued liabilities	(204,524)	(204,524)
Less: Lease liability	(1,195,203)	(1,195,203)

At September 30, 2019, a 10% appreciation (depreciation) in the value of the Euro against the Canadian dollar, with all other variables held constant, would result in approximately a \$80,683 decrease (increase) in the Company's net loss for the year.

17. COMMITMENTS

On December 7, 2018, the Company and the UoA executed an exclusive five-year product manufacturing agreement pursuant to which the Faculty of Pharmacy and Pharmaceutical Sciences agreed to manufacture cannabis-based extracts and isolates. The Company is responsible to provide any necessary equipment for the manufacture of the extracts and isolates and will pay UoA an annual fee estimated at \$140,000.

Effective January 2019, the Company entered into an 18-month fixed term employment agreement with the Managing Director of Bunker at an annual salary of EUR 120,000. Each party has the right to extend the contractual relationship by an additional 18-month term. Should the employment relationship be terminated with due notice by the Company during the fixed term period, the individual shall be entitled to receive a severance payment in the amount of the gross salary which would have otherwise have been accrued between the effective period of the notice and December 31, 2021.

Effective January 2019, the Company entered into a 3-year fixed term employment agreement with the Chief Financial Officer of Bunker and Director of the Company at an annual salary of EUR 120,000. Should the employment relationship be terminated with due notice by the Company during the fixed term period of employment, the individual shall be entitled to receive a severance payment in the amount of the gross salary which would have otherwise have been accrued between the effective period of the notice and December 31, 2021.

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)
For the three and nine months ended September 30, 2019 and 2018

17. COMMITMENTS (cont'd)

In August 2019, the Company entered into a 2-year consultancy agreement. As consideration the Company will pay USD \$20,000 per month to the consultant in addition to stock based compensation in the form of stock options and common shares to vest and be issued, respectively, over a two year period: 1) 600,000 stock options, each of which is exercisable into one common share of the Company for a period of five years at an exercise price of \$1.25 per share, of which 120,000 will vest immediately and 120,000 will vest every six months thereafter; and 2) 700,000 common shares of the Company, of which 220,000 will be issued immediately and 120,000 will be issued every six months thereafter.

In September 2019, the Company entered into a 3-year Managing Director agreement with a consultant. The agreement provides for an annual salary of EUR 162,000 paid in equal monthly installments.

18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the period ended September 30, 2019 consisted of:

- 1) The issuance of 190,600 finder warrants with a fair value of \$31,581 relating to the issuance of shares.
- 2) The issuance of 320,000 common shares valued at \$371,000 pursuant to consultancy agreements of which 50,000 common shares with a fair value of \$65,000 were issued in accordance with the Vektor acquisition.
- 3) The issuance of 50,000 warrants with a fair value of \$36,586 pursuant to a consultancy agreement in accordance with the Vektor acquisition.
- 4) Deposits totaling \$413,258 have been reclassified to equipment.
- 5) The issuance of 5,565,500 common shares and 5,565,500 share purchase warrants on conversion of the Special Warrants.
- 6) The issuance of 787,064 common shares valued at \$1,023,183 towards the acquisition of Vektor.
- 7) The issuance of two (2) unsecured convertible debentures relating to the Vektor acquisition and an equipment purchase agreement. The principal amounts were \$220,149 and \$293,532 respectively.
- 8) The issuance of 200,000 common shares at a value of \$260,000 for corporate advisory services related to the Vektor acquisition.

Significant non-cash transactions for the period ended September 30, 2018 consisted of:

- 1) The issuance of 1,948,160 finder warrants with a fair value of \$119,951 relating to the issuance of shares.
- 2) The issuance of 5,500,000 common shares with a value of \$687,500 towards the acquisition of intangible assets.

19. SUBSEQUENT EVENTS

- 1) The Company issued 283,000 common shares at a value of \$198,100 in connection with the exercise of 283,000 share purchase warrants.