

XPHYTO THERAPEUTICS CORP.

Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2021 and 2020

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	March 31, 2021	December 31, 2020
Assets			
Current assets			
Cash		\$ 3,561,553	\$ 2,584,943
Amounts receivable		408,655	305,671
Prepaid expenses		236,990	139,215
		4,207,198	3,029,829
Non-current assets			
Equipment	4	989,269	1,037,537
Intangible assets	5	12,040	14,759
Right-of-use asset	6	4,021,523	4,202,052
Total assets		\$ 9,230,030	\$ 8,284,177
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	\$ 534,463	\$ 965,504
Lease liability	6	145,708	146,842
Convertible debt	8	445,543	353,742
		1,125,714	1,466,088
Non-current liabilities			
Lease liability	6	730,347	791,958
Convertible debt	8	2,067,922	2,020,478
Total liabilities		3,923,983	4,278,524
Equity			
Shareholders' equity			
Share capital	9	30,406,700	24,585,364
Share-based payments reserve		4,904,692	4,030,006
Equity component of convertible debt	8	265,115	265,115
Accumulated other comprehensive loss		22,257	51,606
Accumulated deficit		(30,292,717)	(24,926,438)
Total shareholders' equity		5,306,047	4,005,653
Total liabilities and shareholders' equity		\$ 9,230,030	\$ 8,284,177

Approved by the Directors on May 28, 2021

Hugh Rogers (signed)

Wolfgang Probst (signed)

Nature and continuance of operations (Note 1)
 Commitments (Note 14)
 Subsequent events (Note 17)

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)

	Three Months Ended March 31	
	2021	2020
Revenues	\$ 3,698	\$ 260,515
Operating Expenses		
Depreciation and amortization (Note 4, 5 and 6)	210,286	223,650
Professional fees (Note 11)	80,785	87,096
Consulting fees	374,068	395,158
Salaries and benefits (Note 11)	171,973	194,952
Share-based compensation (Note 10)	896,647	886,348
Regulatory fees	9,602	11,736
Marketing and advertising	1,935,000	1,510,960
Office and miscellaneous	155,859	99,021
Travel and related	7,412	12,076
Rent	39,967	34,125
Research and lab fees (Note 11)	1,343,036	327,562
Foreign exchange (gain)	(16,738)	147,161
Total operating expenses	5,207,897	3,929,845
Operating Loss	(5,204,199)	(3,669,330)
Other income (expense)		
Finance costs (Notes 6 and 8)	(162,080)	(96,190)
Loss before income taxes	(5,366,279)	(3,765,520)
Deferred tax	-	78,451
Loss for the period	(5,366,279)	(3,687,069)
Cumulative translation adjustment	(29,349)	156,287
Comprehensive loss for the period	(5,395,628)	(3,530,782)
Loss Per Share – Basic and Diluted	\$ (0.08)	\$ (0.07)
Weighted Average Number of Common Shares Outstanding	65,190,837	51,846,876

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)

Three Months Ended March 31

	2021	2020
Operating Activities		
Loss for the period	\$ (5,366,279)	\$ (3,687,069)
Adjustments for:		
Depreciation and amortization	210,286	223,650
Share-based compensation	896,647	886,348
Shares issued per a marketing agreement	16,950	-
Shares issued per a development agreement	147,500	-
Non-cash marketing and advertising costs	-	355,935
Non-cash consulting fees	-	180,000
Finance costs	162,080	96,190
Foreign exchange	(35,569)	56,239
Deferred tax recovery	-	(78,451)
Changes in non-cash working capital items		
Amounts receivable	(102,984)	(266,826)
Prepaid expenses	(97,775)	(217,108)
Accounts payable and accrued liabilities	(431,041)	(182,407)
Cash Used in Operating Activities	(4,600,185)	(2,633,499)
Investing Activities		
Equipment acquisitions	(24,624)	(9,747)
Cash Used in Investing Activities	(24,624)	(9,747)
Financing Activities		
Proceeds from issuance of shares	2,850,000	-
Share issue costs	(228,100)	-
Proceeds from issuance of convertible debenture, net of cash costs	-	1,869,706
Proceeds from exercise of warrants	3,013,025	1,904,638
Proceeds from exercise of options	-	500,000
Convertible debenture payments	-	(19,519)
Repayment of lease liabilities	(35,897)	(33,167)
Cash Provided by Financing Activities	5,599,028	4,221,658
Effect of exchange rate on cash	2,391	3,202
Change in cash for the period	976,610	1,581,614
Cash and cash equivalents, beginning of period	2,584,943	295,014
Cash and cash equivalents, end of period	\$ 3,561,553	\$ 1,876,628

Supplemental disclosure with respect to cash flows (Note 15)

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 \$	Reserves \$	Equity component of convertible debt \$	Accumulated other comprehensive income (loss) \$	Accumulated Deficit \$	Total Shareholder's equity \$
Balance, January 1, 2020	50,175,269	12,249,855	2,576,147	43,230	(11,811)	(8,533,797)	6,323,624
Issuance of shares on conversion of convertible debt	293,532	311,141	-	(17,609)	-	-	293,532
Warrants issued per a supply agreement	-	-	355,935	-	-	-	355,935
Shares issued per a consultant agreement	120,000	180,000	-	-	-	-	180,000
Share based compensation	-	-	886,348	-	-	-	886,348
Issuance of convertible debt	-	-	213,629	80,436	-	-	294,065
Issuance of shares on exercise of warrants	3,264,444	2,542,645	(638,007)	-	-	-	1,904,638
Issuance of shares on exercise of options	400,000	684,823	(184,823)	-	-	-	500,000
Cumulative translation adjustment	-	-	-	-	156,287	-	156,287
Loss for the period	-	-	-	-	-	(3,687,069)	(3,687,069)
Balance, March 31, 2020	54,253,245	15,968,464	3,209,229	106,057	144,476	(12,220,866)	7,207,360
Balance, January 1, 2021	62,349,024	24,585,364	4,030,006	265,115	51,606	(24,926,438)	4,005,653
Share issuances, financing	1,500,000	2,850,000	-	-	-	-	2,850,000
Issue costs	-	(228,100)	-	-	-	-	(228,100)
Finder warrants	-	(91,985)	91,985	-	-	-	-
Shares issued per a development, technology purchase and license agreement	50,000	147,500	-	-	-	-	147,500
Shares issued per marketing agreement	5,380	16,950	-	-	-	-	16,950
Share based compensation	-	-	896,647	-	-	-	896,647
Issuance of shares on exercise of warrants	3,600,425	3,126,971	(113,946)	-	-	-	3,013,025
Cumulative translation adjustment	-	-	-	-	(29,349)	-	(29,349)
Loss for the period	-	-	-	-	-	(5,366,279)	(5,366,279)
Balance, March 31, 2021	67,504,829	30,406,700	4,904,692	265,115	22,257	(30,292,717)	5,306,047

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
For the Three Months Ended March 31, 2021 and 2020
(Unaudited)
(Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

XPhyto Therapeutics 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 to focus on strategic assets and investments in the field of rapid pathogen screening systems and next generation drug delivery, as well as medical cannabis opportunities focused on emerging European markets. The Company’s shares are trading 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on a going concern basis.

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. The Company has working capital of \$3,081,484 as at March 31, 2021 and incurred a loss of \$5,366,279 for the period then ended. The Company anticipates it will need further funding to maintain its operations and activities for the next 12 months. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern. These consolidated 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.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses, including the Company’s. This outbreak could decrease spending, adversely affect and harm our business and results of operations. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations at this time.

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, 2020, as some disclosures from the annual financial statements have been condensed or omitted.

These condensed consolidated interim financial statements were authorized by the Company’s Directors on May 28, 2021.

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2. BASIS OF PRESENTATION (cont'd)

b) Basis of Consolidation

The following entities have been consolidated within these consolidated 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
XP Diagnostics 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 condensed consolidated interim financial statements of the Company have been prepared on an accrual basis and are based on historical costs except for financial instruments measured at fair value. The financial statements are presented in Canadian dollars.

d) Use of estimates and judgments

The preparation of the 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 consolidated 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.

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:

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2. BASIS OF PRESENTATION (cont'd)

d) Use of estimates and judgments (cont'd)

i) Share-based compensation

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. Changes in these subjective input assumptions can materially affect the fair value estimate.

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) Valuation of right-of-use asset and lease liabilities

The application of IFRS 16 requires the Company to make judgments that affect the valuation of the right-of-use assets and the valuation of lease liabilities. These include: determining agreements in the scope of IFRS 16, determining the contract term and determining the interest rate used for the discounting of cash flows.

The lease term determined by the Company is comprised of the non-cancellable period of lease agreements, periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that options.

The present value of the lease payment is determined using a discount rate representing the rate of its loan payable observed in the period when the lease agreement commences or is modified.

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) Determination of functional currency

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flow, financing activities, retention of operating cash flows, and frequency of transactions within the reporting entity.

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, 2020.

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Notes to the Condensed Consolidated Interim Financial Statements
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4. EQUIPMENT

	Office equipment & Fixtures	Computer hardware	Testing, Lab equipment & machines	Total
Cost				
Balance at January 1, 2020	\$ 53,723	\$ 20,457	\$ 1,126,288	\$ 1,200,468
Additions	20,800	7,678	369,694	398,172
Dispositions	-	-	(413,258)	(413,258)
Cumulative translation adjustment	3,453	241	35,138	38,832
Balance at December 31, 2020	77,976	28,376	1,117,862	1,224,214
Additions	24,624	-	-	24,624
Cumulative translation adjustment	(3,537)	(201)	(30,595)	(34,333)
Balance at March 31, 2021	\$ 99,063	\$ 28,175	\$ 1,087,267	\$ 1,214,505
Accumulated Depreciation				
Balance at January 1, 2020	\$ 3,166	\$ 5,414	\$ 102,706	\$ 111,286
Depreciation	8,255	9,094	183,382	200,731
Disposals	-	-	(130,099)	(130,099)
Cumulative translation adjustment	(24)	88	4,695	4,759
Balance at December 31, 2020	11,397	14,596	160,684	186,677
Depreciation	3,223	2,936	40,484	46,643
Cumulative translation adjustment	(521)	(188)	(7,375)	(8,084)
Balance, March 31, 2021	\$ 14,099	\$ 17,344	\$ 193,793	\$ 225,236
Carrying amounts				
As at January 1, 2020	\$ 50,557	\$ 15,043	\$ 1,023,582	\$ 1,089,182
As at December 31, 2020	\$ 66,579	\$ 13,780	\$ 957,178	\$ 1,037,537
As at March 31, 2021	\$ 84,964	\$ 10,831	\$ 893,474	\$ 989,269

5. 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 license 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 license. 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 shares are released from escrow.

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

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5. INTANGIBLE ASSETS AND GOODWILL (cont'd)

	Right-to- use License	Web Design & Software	Licenses & Permits	Total
Cost				
Balance at January 1, 2020	\$ 1	\$ 26,610	\$ 386,889	\$ 413,500
Cumulative translation adjustment	-	54	2,111	2,165
Write-down	-	-	(388,999)	(388,999)
Balance at December 31, 2020	1	26,664	1	26,666
Additions	-	-	-	-
Cumulative translation adjustment	-	(45)	-	(45)
Balance at March 31, 2021	\$ 1	\$ 26,619	\$ 1	\$ 26,621
Accumulated Depreciation				
Balance at January 1, 2020	-	\$ 4,326	\$ 22,301	\$ 26,627
Amortization	-	7,532	51,867	59,399
Cumulative translation adjustment	-	49	391	440
Write-down	-	-	(74,559)	(74,559)
Balance at December 31, 2020	-	11,907	-	11,907
Amortization	-	2,719	-	2,719
Cumulative translation adjustment	-	(45)	-	(45)
Balance, March 31, 2021	\$ -	\$ 14,581	\$ -	\$ 14,581
Carrying amounts				
As at January 1, 2020	\$ 1	\$ 22,284	\$ 364,588	\$ 386,873
As at December 31, 2020	\$ 1	\$ 14,757	\$ 1	\$ 14,759
As at March 31, 2021	\$ 1	\$ 12,038	\$ 1	\$ 12,040

The net change in goodwill is as follows:

As at December 31, 2019	\$ 1,634,859
OCI Adjustment	8,920
Impairment	(1,643,779)
As at December 31, 2020 and March 31, 2021	\$ -

During the year ended December 31, 2020, the Company performed an annual impairment test for goodwill related to the Vektor business combination by comparing the carrying value of the cash-generating unit ("CGU") allocated the goodwill to its recoverable amount. The recoverable amount of the Vektor CGU of \$393,000 was determined based on fair value less costs of disposal using level 3 inputs in a discounted cash flow analysis. As a result, the Company recognized an impairment charge of \$1,643,779 for goodwill and \$314,440 for licences and permits.

XPHYTO THERAPEUTICS CORP.
Notes to the Condensed Consolidated Interim Financial Statements
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(Unaudited)
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6. 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.

	March 31, 2021	December 31, 2020
Right-of-Use Asset		
Opening balance	\$ 4,202,052	\$ 4,830,846
Depreciation	(160,924)	(636,340)
Cumulative translation adjustment	(4,932)	7,546
Foreign exchange	(14,673)	-
	<u>\$ 4,021,523</u>	<u>\$ 4,202,052</u>
Lease Liability		
Opening balance	\$ 938,800	\$ 919,714
Payments	(35,897)	(136,743)
Accrued interest	22,835	94,290
Cumulative translation adjustment	(5,352)	7,886
Foreign exchange adjustment	(44,331)	53,653
	<u>\$ 876,055</u>	<u>\$ 938,800</u>
Current portion	\$ 145,708	\$ 146,842
Non-current portion	\$ 730,347	\$ 791,958

Using the March 31, 2021 period end exchange rate, the estimated annual commitment over the term of the leases is as follows:

2021	\$ 105,012
2022	\$ 153,936
2023	\$ 224,023
2024	\$ 190,180
2025	\$ 193,724
2026 and beyond	\$ 347,433

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2021	December 31, 2020
Trade payables	\$ 89,968	\$ 565,482
Accrued liabilities	444,495	400,022
	<u>\$ 534,463</u>	<u>\$ 965,504</u>

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8. CONVERTIBLE DEBT

On January 22, 2020, the Company signed a three-year definitive supply, import and distribution agreement (the "Agreement") with PharmaCielo Ltd. ("PharmaCielo"). Pursuant to the Agreement, the Company closed a subscription receipt whereby PharmaCielo agreed to purchase \$500,000 of convertible debentures units of the Company. The convertible debentures were issued on January 31, 2020 as part of the non-brokered private placement described below. The Company also issued PharmaCielo an additional 500,000 share purchase warrants exercisable by the holder into common shares of the Company at a price of \$2.00 per common share for a period of two years. The warrants which were expensed as marketing and advertising costs had a fair value of \$355,935, estimated using the Black-Scholes option pricing model with a volatility of 95.00%, risk-free interest rate of 1.43%, dividend rate of 0% and expected life of 2 years.

On January 31, 2020, the Company closed the sale of 2,000 convertible debenture units for gross proceeds of \$2,000,000 pursuant to a non-brokered private placement. Each debenture unit consists of: (i) \$1,000 principal amount of 8.0% unsecured convertible debenture and (ii) 1,000 common share purchase warrants. The debentures bear interest at 8.0% per annum, calculated and payable semi-annually and mature two years following the date of issuance. The debentures are convertible at the option of the holder into common shares of the Company at a conversion price of \$1.00 per common share. Conversion of the debentures may be forced in part or in whole at the option of the Company if the 15-day volume weighted average price of the common shares on the CSE exceeds \$2.50 per share.

Each warrant is exercisable to acquire one common share at an exercise price of \$1.50 per share until January 31, 2022. In connection with the offering, the Company paid a cash fee of \$120,000 and issued 120,000 finder warrants to a finder. Each finder warrant entitles the holder thereof to purchase one common share at an exercise price of \$1.00 per share until January 31, 2022. The finders' warrants had a fair value of \$118,037 estimated using the Black-Scholes option pricing model with a volatility of 95%, risk-free interest rate of 1.55%, dividend rate of 0% and expected life of 2 years.

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 \$1,709,444 with the residual portion of \$290,556 allocated to both equity (\$132,769) and the warrants (\$157,787). Transaction costs totalled \$248,331, of which \$212,254 were allocated to the liability component and offset the carrying value and are amortized using the effective interest method as finance costs over the expected life of the debentures. Transaction costs of \$16,485 were charged to the equity component and \$19,592 were charged to the warrant component. In addition, the resulting deferred tax amount of \$78,451 has been charged to both the equity (\$35,848) and warrant components (\$42,603).

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8. CONVERTIBLE DEBT (cont'd)

On December 8, 2020, the Company issued a \$3,000,000 unsecured unconvertible debenture pursuant to a non-brokered private placement. The convertible debenture accrues interest at 8.0% per annum, calculated and payable semi-annually on June 30 and December 31 of each calendar year, and matures two years from the date of issue, on December 8, 2022. The principal amount of the debenture is convertible into common shares of the Company at the election of the holder, in whole or in part, at any time prior to the maturity date at a conversion price of \$1.77. Conversion of the debentures may be forced in whole at the option of the Company if the 15-day volume weighted average price of the common shares on the CSE exceeds \$4.425 per share. In connection with the offering, the Company paid a cash fee of \$240,000 and issued 135,593 finder warrants to a finder. Each finder warrant entitles the holder thereof to purchase one common share at an exercise price of \$1.77 per share until December 8, 2022. The finders' warrants had a fair value of \$126,905 estimated using the Black-Scholes option pricing model with a volatility of 81%, risk-free interest rate of 0.27%, dividend rate of 0% and expected life of 2 years. 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 \$2,570,231 with the residual portion of \$429,769 allocated to equity. Transaction costs totalled \$367,440, of which \$314,802 were allocated to the liability component and offset the carrying value and are amortized using the effective interest method as finance costs over the expected life of the debentures. Transactions costs of \$52,638 and the resulting deferred tax amount of \$116,038 have both been charged to the equity component.

Debentures with a principal amount of \$1,650,000 were converted by the holders on June 3, 2020 with the debt having a value of \$1,312,983 at the date of conversion.

Debentures with a principal amount of \$250,000 was converted by the holder on July 9, 2020 with the debt having a value of \$185,220 at the date of conversion.

	March 31, 2021	December 31, 2020
Opening balance	\$ 2,374,220	\$ 477,485
Additions from Principal amounts	-	5,000,000
Equity component	-	(562,538)
Warrant component	-	(157,787)
Transaction costs	-	(527,056)
Accrued interest (accretion)	139,245	202,787
Payments	-	(266,936)
Conversion	-	(1,791,735)
	<u>\$ 2,513,465</u>	<u>\$ 2,374,220</u>
Current portion	\$ 445,543	\$ 353,742
Non-current portion	\$ 2,067,922	\$ 2,020,478

9. SHARE CAPITAL

a) Common Shares

Authorized

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

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9. SHARE CAPITAL (cont'd)

a) Common Shares (cont'd)

Transactions in Year Ended December 31, 2020

On March 13, 2020, the Company issued 120,000 common shares at a value of \$180,000 pursuant to a consultant agreement.

On March 13, 2020, the Company issued 293,532 common shares at a value of \$311,141 pursuant to a convertible debt conversion.

On June 3, 2020, the Company issued 1,650,000 common shares at a value of \$1,379,343 pursuant to a convertible debt conversion (Note 8).

On June 3, 2020, the Company issued 50,000 common shares at a value of \$159,000 pursuant to a development, technology purchase and license agreement.

On July 9, 2020, the Company issued 250,000 common shares at a value of \$195,274 pursuant to a convertible debt conversion (Note 8).

On August 17, 2020, the Company issued 120,000 common shares at a value of \$375,600 pursuant to a consulting agreement.

On December 22, 2020, the Company issued 7,212 common shares at a value of \$16,950 pursuant to a marketing agreement.

On December 30, 2020, the Company issued 50,000 common shares at a value of \$92,500 pursuant to a development, technology purchase and license agreement.

In December 2020, 148,733 common shares with a value of \$163,061 were returned to treasury and cancelled.

During the year ended December 31, 2020, the Company issued 1,050,000 common shares for proceeds of \$1,730,000 in connection with the exercise of 1,050,000 stock options. Upon exercise, \$629,375 was allocated from reserves to share capital.

During the year ended December 31, 2020, the Company issued 8,731,744 common shares for proceeds of \$6,694,739 in connection with the exercise of 8,731,744 share purchase warrants. Upon exercise, \$734,648 was allocated from reserves to share capital.

Transactions in Period Ended March 31, 2021

On January 15, 2021, the Company issued 1,500,000 units at \$1.90 per unit for gross proceeds of \$2,850,000. Each unit consisted of one common share and one share purchase warrant, with each warrant exercisable into one additional common share at a price of \$2.20 per share for a period of two years from closing. The Company paid finder fees and costs of \$228,100 and also issued 120,000 finders warrants to purchase an aggregate of 120,000 common shares at a price of \$1.90 per share for a period of two years from closing. The finders' warrants had a fair value of \$91,985, estimated using the Black-Scholes option pricing model with a volatility of 83.67%, risk-free interest rate of 0.15%, dividend rate of 0% and expected life of 2 years.

On March 12, 2021, the Company issued 5,380 common shares at a value of \$16,950 pursuant to a marketing agreement.

On March 18, 2021, the Company issued 50,000 common shares at a value of \$147,500 pursuant to a development, technology purchase and license agreement.

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9. SHARE CAPITAL (cont'd)

a) Common Shares (cont'd)

During the period ended March 31, 2020, the Company issued 3,600,425 common shares for proceeds of \$3,013,025 in connection with the exercise of 3,600,425 share purchase warrants. Upon exercise, \$113,946 was allocated from reserves to share capital.

As of March 31, 2021, there are 6,256,679 common shares subject to escrow which includes 337,500 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 being July 31, 2019.

b) Share Purchase Warrants

The following is a summary of changes in warrants from January 1, 2020 to March 31, 2021:

	Number of Warrants	Weighted Average Exercise Price
Balance at January 1, 2020	21,817,669	\$ 0.83
Issued warrants	3,049,125	1.53
Exercised warrants	<u>(8,731,744)</u>	<u>0.77</u>
Balance at December 31, 2020	16,135,050	0.99
Issued warrants	1,620,000	2.18
Exercised warrants	<u>(3,600,425)</u>	<u>0.84</u>
Balance at March 31, 2021	<u>14,154,625</u>	<u>\$ 1.17</u>

As at March 31, 2021, the Company had outstanding warrants as follows:

Number	Exercise Price	Expiry Date
5,097,000	\$ 0.70	July 31, 2021
30,500	\$ 0.70	July 31, 2021
206,000	\$ 0.70	July 31, 2021
457,500	\$ 1.20	July 31, 2021
540,000	\$ 1.20	July 31, 2021
435,000	\$ 1.20	July 31, 2021
4,031,500	\$ 1.20	July 31, 2021
758,000	\$ 1.50	January 31, 2022
500,000	\$ 2.00	January 31, 2022
50,000	\$ 1.00	September 13, 2022
135,593	\$ 1.77	December 8, 2022
1,500,000	\$ 2.20	January 15, 2023
120,000	\$ 1.90	January 15, 2023
293,532	\$ 1.00	March 13, 2023
<u>14,154,625</u>		

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10. 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 the term, exercise price and vesting determined by the directors.

Share option transactions from January 1, 2020 to March 31, 2021 are as follows:

	Number of options	Weighted Average Exercise Price
Balance at January 1, 2020	3,600,000	\$ 1.02
Issued options	2,875,000	2.28
Expired options	(200,000)	1.25
Forfeited options	(700,000)	1.57
Exercised options	<u>(1,050,000)</u>	1.65
Balance at December 31, 2020	4,525,000	1.58
Issued options	<u>770,000</u>	2.69
Balance at March 31, 2021	5,295,000	\$ 1.74
Exercisable at March 31, 2021	5,010,000	\$ 1.76

As at March 31, 2021, the following stock options were outstanding and exercisable:

Number Outstanding	Number Exercisable	Exercise Price	Expiry Date
100,000	100,000	0.50	April 11, 2021
200,000	175,000	2.50	July 1, 2021
450,000	450,000	3.00	August 3, 2021
400,000	400,000	1.25	August 7, 2021
500,000	500,000	2.90	September 4, 2021
25,000	25,000	2.72	September 21, 2021
200,000	200,000	1.81	October 16, 2021
100,000	100,000	2.10	February 19, 2022
50,000	50,000	2.50	March 25, 2022
50,000	50,000	1.80	November 4, 2022
300,000	300,000	2.55	January 19, 2023
275,000	275,000	2.75	February 10, 2023
50,000	50,000	2.85	February 15, 2023
125,000	125,000	2.83	March 2, 2023
20,000	-	2.69	March 15, 2023
1,000,000	1,000,000	0.50	December 20, 2023
1,200,000	960,000	1.25	August 7, 2024
250,000	250,000	1.80	November 1, 2025
<u>5,295,000</u>	<u>5,010,000</u>		

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10. SHARE-BASED COMPENSATION (cont'd)

The Company recorded share-based compensation of \$896,647 during the period ended March 31, 2021 (March 31, 2020 – \$886,348). The fair value of the options granted during the period ended March 31, 2021 was \$893,102 (March 31, 2020 - \$789,211) or \$1.16 (March 31, 2020 - \$0.66) per option. All option grants were valued using the Black-Scholes Option Pricing Model with the following assumptions:

	<u>2021</u>	<u>2020</u>
Volatility	80.08% – 80.61%	81.52 – 95.00%
Risk-free interest rate	0.15% – 0.31%	0.17% – 1.55%
Expected life of option	2 years	0.5 years to 5 years
Dividend yield	0%	0%

11. 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.

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

	March 31, 2021	March 31, 2020
Research and lab fees	\$ 76,812	\$ 74,946
Salaries and benefits	128,287	141,706
Share-based compensation	-	16,625

As at March 31, 2020, \$9,383 (December 31, 2020 - \$ 7,358) remained unpaid and has been included in accounts payable and accrued liabilities.

During the period ended March 31, 2021, the Company incurred \$8,095 (March 31, 2020 – \$nil) in professional fees to a company controlled by the CFO of the Company. As at March 31, 2021, the Company owed \$2,600 (December 31, 2020 – \$2,205) in accounts payable and accrued liabilities to this company.

12. 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.

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13. 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, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The carrying value of convertible debt and 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).

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 March 31, 2021 under its financial instruments is approximately \$4.0 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. The Company actively monitors its amounts receivable and believes the exposure to credit risk is insignificant.

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.

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

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.

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:

	March 31, 2021 Euro	December 31, 2020 Euro
Cash	178,151	339,645
Amounts receivable	330,219	245,457
Total financial assets	508,370	585,102
Accounts payable and accrued liabilities	(403,111)	(708,410)
Lease liability	(849,907)	(908,267)
Net statement of financial position exposure	(744,648)	(1,031,575)

At March 31, 2021, 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 \$74,000 increase (decrease) in the Company's net loss for the year.

14. COMMITMENTS

On December 7, 2018, the Company and the University of Alberta ("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.

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14. COMMITMENTS (cont'd)

In April 2020, the Company signed a development, technology purchase and license agreement with 3a-Diagnostics GmbH ("3a") for the development, marketing and commercialization of an oral screening test for the detection of infectious diseases. The Company has committed to fund EUR 250,000 (incurred) in stages through to October 2020 and up to an additional EUR 1,073,000 (EUR 760,000 incurred) based on certain development milestones. The Company will also issue 50,000 common shares on signing (issued), 200,000 common shares based on certain development milestones (100,000 issued) and 250,000 common shares upon achieving EUR 25,000,000 in gross sales within 24 months. 3a will retain 5% royalty on net sales of related products sold by the Company. In July 2020, the Company signed an addendum to the April 2020, agreement with 3a to further develop its COVID-19 test. The Company has committed to fund EUR 120,000 with EUR 60,000 (incurred) due upon signing and EUR 60,000 (incurred) due upon validation of the product for market. 3a will retain 5% royalty on net sales of sales of the COVID-19 test by the Company.

In February 2021, the Company signed an agreement with Applied Pharmaceutical Innovation for the synthesis of pharmaceutical grade psychedelic compounds and the parallel development of the standard operating procedures necessary to obtain regulatory approval for the respective commercial production process. The Company will fund all infrastructure and initial lab set up costs which are estimated at \$663,000. The Company will also fund the monthly operation cost at \$20,000 per month.

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the period ended March 31, 2021 consisted of:

- 1) The issuance of 5,380 common shares with a fair value of \$16,950 pursuant to a marketing agreement.
- 2) The issuance of 50,000 common shares with a fair value of \$147,500 pursuant to a development, technology purchase, and licence agreement.
- 3) The issuance of 120,000 finder warrants with a fair value of \$91,985 related to the issuance of shares.

Significant non-cash transactions for the period ended March 31, 2020 consisted of:

- 1) The issuance of 293,532 common shares with a fair value of \$311,141 pursuant to a convertible debt conversion.
- 2) The issuance of 120,000 common shares with a fair value of \$180,000 pursuant to a consulting agreement.
- 3) The issuance of 500,000 warrants with a fair value of \$355,935 pursuant to a supply agreement.
- 4) The issuance of 120,000 finder warrants with a fair value of \$118,037 relating to the issuance of convertible debt.

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16. SEGMENTED INFORMATION

The Company has one operating segment. Information on geographical area is as follows:

	March 31, 2021	March 31, 2020
Revenues		
Germany	\$ 3,698	\$ 260,515
Non-current assets		
Canada	\$ 541,694	\$ 593,285
Germany	4,481,138	7,310,938
	\$ 5,022,832	\$ 7,904,223

17. SUBSEQUENT EVENTS

Subsequent events to March 31, 2021 are as follows:

- 1) The Company issued 956,750 common shares for proceeds of \$824,100 in connection with the exercise of 956,750 share purchase warrants.
- 2) 660,000 stock options with an exercise price of between \$0.50 and \$1.25 per share expired unexercised.
- 3) 240,000 stock options with an exercise price of \$1.25 were cancelled.