



Khiron Life Sciences Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2018

APRIL 30, 2019

**Khiron Life Sciences Corp.
Management's Discussion & Analysis**

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Introduction

The following management's discussion and analysis ("**MD&A**") of the financial condition and results of the operations of Khiron Life Sciences Corp. (the "**Company**" or "**Khiron**") constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended December 31, 2018. This discussion should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended December 31, 2018, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**") and interpretations of the IFRS Interpretations Committee ("**IFRIC**"). Information contained herein is presented as of April 30, 2019, unless otherwise indicated.

For the purposes of preparing this MD&A, management, in conjunction with the board of directors of the Company (the "**Board**"), considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company's common shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 *Continuous Disclosure Obligations* ("**NI 51-102**") of the Canadian Securities Administrators. Additional information regarding Khiron Life Sciences Corp., including the Company's Annual Information Form, is available on our website at www.khiron.ca or through the Company's SEDAR profile available at www.sedar.com.

Caution Regarding Forward-Looking Statements

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement. The following table outlines certain significant forward-looking statements contained in this MD&A and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

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| Forward-looking statements | Assumptions | Risk factors |
|---|--|--|
| The Company will be able to continue its business activities. | The Company has anticipated all material costs and the operating activities of the Company, and such costs and activities will be consistent with the Company's current expectations; the Company will be able to obtain equity funding when required. | Unforeseen costs to the Company will arise; any particular operating cost increase or decrease from the date of the estimation; and capital markets not being favourable for funding resulting in the Company not being able to obtain financing when required or on acceptable terms. |
| The Company will be able to carry out anticipated business plans. | The operating activities of the Company for the three- and twelve-month period ending December 31, 2018, will be consistent with the Company's current expectations; debt and equity markets, interest rates and other applicable economic conditions are favourable to the Company. | Sufficient funds not being available; increases in costs, the Company may be unable to retain key personnel to develop or enhance its business, take advantage of future opportunity or respond to competitive pressures. |
| Management's outlook regarding future trends | Financing will be available for the Company's future business, continuing development, maintenance and operation of its information technology systems. | General economic conditions could adversely impact technology spending by the Company's clients, put downward pressure on prices which could adversely impact the business, financial condition or results of operations and the Company may be unable to retain key personnel |

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company's ability to predict or control. Please also make reference to those risk factors referenced in the "Risk Factors" section below. Readers are cautioned that the above chart does not contain an exhaustive list of the factors or assumptions that may affect the forward-looking statements, and that the assumptions underlying such statements may prove to be incorrect. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

Market and Industry Data

This MD&A contains market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information. Third-party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of the included information. Although management believes it to be reliable, the Company has not independently verified any of the data from third-party sources referred to in this MD&A, analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying economic assumptions relied upon by such sources.

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Overview

Key developments

- On February 17, 2017, Khiron Life Sciences Corp., a privately-held Canadian company ("**PrivateCo**"), acquired all of the issued and outstanding shares of Chiron Inversiones S.A.S. ("**Chiron**"), a company incorporated under the laws of Colombia. Consideration for the acquisition included the issuance of 14,300,000 common shares in the capital of PrivateCo.
- On April 26, 2017, Chiron changed its name to "Khiron Colombia S.A.S. ("**Khiron Colombia**")".
- On September 22, 2017, the Ministry of Justice and Law in Colombia issued Resolution 000069 of 2017 granting a licence to Khiron Colombia for the cultivation of medicinal cannabis – one of the first such licences ever issued in Colombia under Law 1787 of 2016, Decree 1427 of 2017, and Decree 613 of 2017, in accordance with the provisions of Resolutions 577 and 578, 2017 (the "**Low THC Cultivation Licence**"). The granting of this Low THC Cultivation Licence allows Khiron Colombia to produce low tetrahydrocannabinol ("**THC**") (less than 1%) medicinal cannabis for domestic and international consumption.
- On October 4, 2017, the Ministry of Health and Social Protection issued Resolution 003735 of 2017 granting a licence to Khiron Colombia under Law 1787 of 2016, Article 2.8.11.1.1 of Decree 780 of 2016, and Resolutions 2891 and 2892 of 2017 (the "**High THC Production Licence**") authorizing the use of the High THC Cultivation Licence issued by the Ministry of Justice and the domestic and international distribution of high THC extracts. Further, the Colombian government approved 7.2 hectares of land on which Khiron Colombia can commence cultivation of medicinal cannabis. The cultivation site is located outside of Ibagué, Colombia.
- On October 19, 2017, Khiron Colombia received an additional licence from the Ministry of Justice in Colombia pursuant to Resolution 0841 of 2017 for the cultivation of high THC (more than 1%) medicinal cannabis under Law 1787 of 2016, Decree 1427 of 2017, and Decree 613 of 2017, in accordance with the provisions of Resolutions 577, 578 and 579, 2017 (the "**High THC Cultivation Licence**", and collectively with the Low THC Cultivation Licence and the High THC Production Licence, the "**Licences**"). Khiron Colombia was one of the first companies to receive the Licences in Colombia. With these Licences and authorizations, Khiron Colombia was fully approved to cultivate, produce, distribute domestically and export internationally both THC and cannabidiol ("**CBD**") medicinal cannabis.
- On October 25, 2017, Khiron (formerly Adent Capital Corp. ("**Adent**")) entered into a letter of intent with PrivateCo, pursuant to which the parties agreed to complete the proposed Qualifying Transaction (defined herein).
- On December 22, 2017, the Company (formerly Adent) entered into the definitive agreement with PrivateCo with respect to the Qualifying Transaction that would result in a reverse takeover of the Company by PrivateCo
- On December 26, 2017, the Colombian National Narcotics Funds ("**NNF**") issued resolution 766 of 2017 registering Khiron Colombia for the national use, commercialization, distribution and possession of cannabis and its derivatives for medical purposes.
- On December 28, 2017, Khiron Colombia received its medical cannabis quota allocation provided by the Government of Colombia. This allocation of quota enables Khiron Colombia to commence cultivation of medical cannabis mother plants on its approved lands.
- On January 12, 2018, in connection with the proposed Qualifying Transaction, PrivateCo completed

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a brokered private placement financing issuing 11,230,000 subscription receipts (each, a "**Subscription Receipt**") at a price of \$1.00 per Subscription Receipt for aggregate gross proceeds of \$11,230,000. The gross proceeds, less 50% of the costs and expenses of the agents, were held in escrow pending completion of the Qualifying Transaction.

- During January 2018, the Khiron Colombia completed perimeter enclosures and security milestones in compliance with the NNF, such as natural fencing and electric fencing across the approved cultivation and production areas.
- On February 15, 2018, Khiron Colombia co-hosted the inaugural International Medical Cannabis Symposium. The symposium, which was the first such event to be held in the country, was co-hosted with the Colombian Association of Neurologists. The symposium featured leading international medical cannabis researchers from Canada, Israel, and Latin America, who provided a detailed introduction to medicinal cannabis applications. Since then, the Company has engaged several conferences in Colombia and other countries in Latin America.
- On March 28, 2018, PrivateCo completed a non-brokered private placement offering of 905,000 units at a price of \$1.00 per unit for aggregate gross proceeds of \$905,000. Each unit consisted of one common share and one common share purchase warrant of PrivateCo. Each warrant entitled the holder thereof to acquire one common share of Khiron at a price of \$1.20 for a period of 24 months following the completion of the Qualifying Transaction.
- During March 2018, Khiron Colombia's initial greenhouse structures for mother plants and seedlings were completed.
- During May 2018, the Colombian Agricultural Institute ("**ICA**") granted the Khiron Colombia the authorization to become an official seed producer after an audit of the cultivation infrastructure. This authorization is mandatory to begin agricultural process of cannabis cultivation, as the Government wants to ensure companies have the required infrastructure to begin seed production and certify strains.
- On May 16, 2018, the Company's wholly-owned subsidiary, 10546534 Canada Inc., amalgamated with PrivateCo, which constituted the Company's "Qualifying Transaction" (the "**Qualifying Transaction**"), pursuant to the policies of the TSX Venture Exchange (the "**Exchange**" or "**TSXV**"). Concurrent with the completion of the Qualifying Transaction, each Subscription Receipt was converted, for no additional consideration, into one common share of the Company, and one common share purchase warrant. Each warrant entitles the holder thereof to acquire one common share of the Company at a price of \$1.20 for a period of 24 months.
- On May 24, 2018, the Company's common shares resumed trading on the TSXV, after which the Company became the first fully-licensed grower of cannabis with operations in Colombia to be listed on the TSXV.
- On May 28, 2018, Khiron Colombia was registered by ICA as an agronomical unit, thereby enabling the Company to commence the registration process of cannabis strains. This is an important and necessary milestone towards commercial cultivation. Pursuant to the ICA registration procedures, ICA completed a site inspection of Khiron Colombia's facility and verified the site as ready for commercial production. This inspection included an audit of greenhouse and propagation area conditions, cultivation procedures and protocols, storage area conditions, and the methodologies applied to analyze and test strains.
- During May 2018, Khiron Colombia received approvals from Colombia's National Food and Drug Surveillance Institute ("**INVIMA**") to commercialize CBD cosmeceutical products for Colombian

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domestic sale and export. As a result, Khiron became the first fully licensed medical cannabis company to receive approvals from INVIMA for CBD-based cosmeceutical products. A cosmeceutical product is a cosmetic with biochemical characteristics, and although the products are topical in nature and pursue an aesthetic objective, the products have active ingredients with therapeutic functions. These products form part of Khiron's wellness business unit and will be specifically branded for consumers seeking innovative and premium products from natural sources.

- On June 11, 2018, Khiron secured medical cannabis endorsements from the Colombian Association of Internal Medicine and the Colombian Association of Neurology. These are two of the largest medical associations in Colombia.
- On July 17, 2018, Khiron appointed Mr. Vicente Fox to its Board. Mr. Fox is the former CEO of Coca Cola Mexico, former President of Mexico and a significant advocate for the legalization of cannabis in Mexico.
- On June 26, 2018, Khiron appointed Mr. Chris Naprawa to the position of President. Mr. Naprawa brings extensive institutional capital markets experience to the Company. Prior to joining Khiron, Mr. Naprawa was Partner at Sprott Capital Partners, Head of Equity Sales at Macquarie Canada, Head of Equity Sales and Trading at Dundee Securities, and Managing Director at Primary Capital.
- On August 2, 2018, the Company expanded its agricultural land from an initially leased 4.5 hectares to 17.5 hectares in Ibague, Colombia.
- On September 6, 2018, the Company started agronomical evaluation tests, which are audited by ICA, and relate to registration of five different varieties of cannabis strains. These tests include genealogy evaluation of the strains, cutting process evaluation, and continuous measurements of the plants to define the specific characteristics of the strain during the cultivation process. The Company currently has approximately 56 strains involved in the registration process. Upon successful completion, the Company will have fully registered strains within the Colombian government database, and receive approval to commercially grow and distribute the approved strains.
- On September 12, 2018, Khiron closed a marketed short form prospectus offering, resulting in gross proceeds of \$12,937,500 and the issuance of 14,375,000 common shares.
- On September 18, 2018, the Company prepared to enter the Chilean market by signing a memorandum of understanding with Fundacion Daya ("**Fundacion**") and Dayacann S.p.A ("**Dayacann**"). Fundacion was the first organization to receive cultivation permits in Chile from the Agricultural and Livestock Services. As of this date, the Company has finalized the binding agreements with Fundacion and is awaiting TSXV approval.
- In September 2018, the Company launched Kuida[®], the first CBD-based cosmeceutical brand in Colombia. Along with the formation of Khiron's wellness business unit, the Kuida[®] brand was introduced to industry leaders, media, and beauty care influencers. Khiron recognized first sales in October 2018. These sales were generated from the commercial distribution of seven wellness products in Colombia, pursuant to the production and sale authorizations granted by INVIMA.
- On October 2, 2018, the Company announced that it had secured multi-channel distribution agreements for its Kuida[®] skincare products, with leading Colombian retail and digital drugstore cosmeceutical distributors, including with Farmatodo and Farmalisto.
- On October 26, 2018, Khiron secured medical endorsements from the Colombian Association of Palliative Care, the leading palliative care association in Colombia. This development represents a

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significant milestone related to Khiron’s strategy of meeting the medical needs of 4 million palliative care patients in Latin America.

- On November 15, 2018, the Company announced that it had received \$14,007,000 from the exercise of warrants following the accelerated expiry previously announced (reference key development on October 25, 2018). A total of 11,672,250 warrants were exercised at a price of \$1.20 per warrant, representing 96% of the warrants.
- On November 15, 2018, Khiron entered the Peruvian market with approval from the Obligatory Sanitary Notification for commercialization of four Kuida® CBD-based cosmeceutical products.
- On November 19, 2018, Khiron acquired additional cultivation quotas from the Colombian Technical Quotas Group. The quotas enabled the cultivation of 5,040 psychoactive cannabis plants for the purposes of completing the ICA agronomic evaluation tests. These quotas related to the cultivation of the five strains initially planned for registration.
- On November 30, 2018, COFEPRIS granted approval to Kuida Life Mexico S.A., the Company’s wholly-owned Mexican subsidiary, to commercialize three supplement products. The Company is currently awaiting further confirmations from COFEPRIS after the new Government of Mexico announced it was implementing new guidelines and proposing a new law in Mexico to formally legalize medical and recreational cannabis.
- December 11, 2018, Khiron receives a medical endorsement with the Colombian Association for the Study of Pain (“**ACED**”). In endorsing Khiron’s patient-focused approach to medical cannabis research and product development, ACED has committed to partnering with the Company on a schedule of patient and physician education programs, modules and events.
- On December 13, 2018, the Company announced that pursuant to the terms of a October 22, 2018 share purchase agreement (the “**ILANS Agreement**”) between the Company and Jemarz S.A.S. (“**Jemarz**”), the Company completed the first tranche of a staged acquisition of the Latin American Institute of Neurology and the Nervous System (“**ILANS**”). Pursuant to the terms of the ILANS Agreement, the Company acquired an initial ownership of 53% of Jemarz for a cash payment of \$1,393,000 and the issuance of 1,400,000 Common Shares. On December 9, 2018, the parties amended the ILANS Agreement to provide for the inclusion of an additional tranche, whereby the Company acquired a further 1% interest in Jemarz upon payment of \$67,000 on December 10, 2018. Upon completion of the payment schedule for the ILANS acquisition, the Company will own 100% of the issued and outstanding shares of ILANS.

Summary of Quarterly Results

| | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
|---|----------------|----------------|----------------|----------------|
| Revenues | \$ - | \$ - | \$ - | 891,677 |
| Comprehensive Loss | 2,031,848 | 6,203,970 | 5,829,913 | 6,165,034 |
| Weighted avg. shares | 33,042,295 | 40,566,495 | 49,851,687 | 70,187,318 |
| Total assets | 2,345,202 | 8,601,765 | 18,775,679 | 40,348,817 |
| Total non-current financial liabilities | - | - | - | 2,353,080 |

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| | December 31, 2018 |
|---|--------------------------|
| Revenues | \$ 891,677 |
| Comprehensive Loss | 20,230,765 |
| Weighted avg. shares | 48,518,873 |
| Total assets | \$40,348,817 |
| Total non-current financial liabilities | 2,353,080 |

Discussion of Operations for three and twelve months ended December 31, 2018

The Company's net loss for the three and twelve months ended December 31, 2018 was \$6,165,034 and \$20,230,765, with a basic and diluted loss per share of \$0.09 and \$0.42, respectively.

Revenues

Revenues for the three and twelve months ended December 31, 2018 was \$891,677. The Company became revenue generating on October 5, 2018 with the product launch of Kuida in Colombia.

Cost of sales

Cost of sales for the three and twelve months ended December 31, 2018 was \$594,313. Cost of sales relates to both materials and labor associated with the sale of products and provision of services during the year.

Operating expenses

Operating expenses for the three and twelve months ended December 31, 2018 was \$6,727,630 and \$20,193,697 consisting of:

- Share-based compensation of \$1,106,782 and \$3,289,370 related to the issuance of stock options and restricted share units to officers, directors, and consultants during the reporting period. The fair value of the options was estimated by using the Black-Scholes option pricing model.
- Professional fees were \$615,831 and \$1,016,879 and includes legal fees of \$473,213 and \$816,251.
- Management and consulting fees were \$ 603,611 and \$3,293,005.
- Salaries and benefits expensed of \$735,194 and \$2,604,064, which includes mandatory contributions to the social security system and service bonuses, as per Colombian labour law.

Liquidity and Capital Resources

The principal activities of the Company are the cultivation, production and distribution of cannabis. These activities are financed through the completion of equity transactions such as equity offerings. There is no assurance that future equity capital will be available to the Company in the amounts or at the times desired by the Company or on terms that are acceptable to it, if at all. See "**Risk Factors**" below.

At December 31, 2018, the Company had working capital of \$17,338,229, as the Company had cash of \$15,013,718. The increase in cash and working capital is a result of cash received from the Prospectus Offering, which is reduced by investment in personnel, business development, acquisitions and payment of vendors.

Net cash used in operating activities for the period ended December 31, 2018 was \$14,773,910. Operating activities were affected by a net decrease in non-cash working capital balances of \$1,326,758. This was due to a decrease in accounts receivables of \$834,154, increase in inventory for \$181,225, decrease in

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prepaids and other current assets of \$5,359, and an increase in accounts payable and accrued liabilities of \$668,470. The Company also recorded non-cash expense totaling \$3,705,869.

Net cash used in investing activities for the period ended December 31, 2018 was \$9,219,975, as a result of investment in property and equipment and intangible assets of \$3,825,834, investments in short-term investments of \$3,949,554, and payments relating to the acquisition of ILANS totaling \$1,444,587.

Net cash provided in financing activities for the three and twelve months ended December 31, 2018 was \$37,585,227 as a result of:

- During the period ended December 31, 2018, \$905,000 was raised through a private placement.
- During the period ended December 31, 2018, \$10,336,000 was raised as part of the Qualifying Transaction.
- During the period ended December 31, 2018, 12,355,416 warrants were exercised resulting in \$14,691,880 of proceeds.
- During the period ended December 31, 2018, \$11,592,347 was raised during the Prospectus Offering
- During the period ended December 31, 2018, \$60,000 options were exercised resulting in \$60,000 of proceeds.

The Company's liquidity risk from financial instruments is minimal as excess cash is held in current bank accounts.

The Company believes it has sufficient cash resources to meet its administrative overhead costs. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or under terms favourable to the Company. See "**Risk Factors**" below and "**Caution Regarding Forward-Looking Statements**" above.

Transactions

On November 30, 2018, the Company acquired ILANS for an initial consideration of \$1,393,000 in cash along with 1,400,000 shares valued at \$1.48 as at the date of acquisition. Deferred consideration relates to cash committed to the acquisition base on the definitive agreement. These cash commitments have been discounted back to present value.

At the date of acquisition, the Company acquired necessary information to determine the fair value of net identifiable assets acquired as at the acquisition date. Based on the acquisition date, the initial purchase price was allocated on a provisional basis to the fair value of net identifiable assets based on the Company's best estimate of fair value. The calculation of goodwill represents management's assessment of future potential synergies and growth that does not meet the definition for separate recognition. Subsequent to year-end, the Company acquired additional consideration of business and will define payment dates over the next 24 months. See note 20 and 22.

Measurement for the fair value of the contingent consideration liability is performed using unobservable inputs considered to be a level three financial instrument. Expectation of future performance and probability of milestones being achieved discounted to present value drives the fair value of such liabilities. As at the date of acquisition and at December 31, 2018, management believes that there is high probability of such milestones being met.

On a standalone basis, had the Company acquired the business on January 1, 2018, revenues estimates would have been \$10,446,995 for the full year and a net profit of \$682,324.

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| | | |
|----------------------------|-----------|------------------|
| Cash | \$ | 1,393,000 |
| Deferred consideration | | 3,130,242 |
| Common shares issued | | 2,072,000 |
| Contingent consideration | | 1,772,245 |
| Total consideration | \$ | 8,367,487 |

Net identifiable assets (liabilities) acquired

| | | |
|--------------------------------|-----------|------------------|
| Cash | \$ | 15,413 |
| Accounts receivables | | 4,696,671 |
| Inventories | | 57,163 |
| Prepaid expenses and deposits | | 8,464 |
| Property, plant and equipment | | 5,338,993 |
| Long-term receivables | | 174,330 |
| Intangible assets | | |
| Customer relationships | | 609,000 |
| Brand | | 748,000 |
| Non-compete | | 648,500 |
| Accounts payable and accruals | | (5,113,802) |
| Deferred tax liabilities | | (650,000) |
| Income taxes payable | | (330,700) |
| Loans and borrowings | | (2,470,319) |
| Net Identifiable assets | \$ | 3,731,713 |

Purchase price allocation

| | | |
|----------------------------------|-----------|------------------|
| Net identifiable assets acquired | \$ | 3,731,713 |
| Goodwill | | 4,635,774 |
| | \$ | 8,367,487 |

Net cash outflows

| | | |
|-------------------------|-----------|------------------|
| Cash consideration paid | \$ | 1,393,000 |
| Cash acquired | | (15,413) |
| Net cash | \$ | 1,377,587 |

Commitments

The following is a summary of the Company's obligations due in future fiscal years:

| Contractual obligations | Payments due by period | | | |
|--------------------------|------------------------|-------------------|---------------------|---------------------|
| | Less than 1 year \$ | 1 – 5 years \$ | After 5 years \$ | Total \$ |
| Operating lease - land | 48,425 | 230,054 | 480,180 | 758,659 |
| Computer Equipment | 27,757 | 27,757 | - | 55,514 |
| Operating lease – office | 157,039 | 728,204 | 1,448,375 | 2,333,618 |
| | \$ 233,221 | \$ 986,015 | \$ 1,928,555 | \$ 3,147,791 |

On September 27, 2018, the Company signed and committed to pledge US\$1,000,000 with Fundacion over two years. Fundacion is Chile's leading medical cannabis institution and holder of the only medical cannabis license through DayaCann. As at December 31, 2018, the Company spent \$132,923 (US\$100,000) to begin

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clinical trials and the creation of an education platform.

On October 23, 2018, the Company signed and executed a donation agreement with Centro Fox, a non-profit organization where Khiron will provide USD1,000,000 over three years, ending in the year 2021. As at December 31, 2018, the Company has donated \$451,143 (USD333,333).

As part of the acquisition of ILANS that closed on November 30, 2018, the Company was required to make cash payments to acquire additional equity, which totals to \$3,270,000 over the next 24 months. Subsequent to year-end, the Company paid an additional \$1,733,000 to acquire 144,000 shares. As a result of this payment, the Company holds a 78% total ownership.

Transactions with Related Parties

The Company transacts with related parties in the normal course of business, which is generally relates only to the payment of executive and board compensation. These transactions are measured at their exchange amounts. During the three and twelve months ended December 31, 2018, the Company paid or accrued \$3,024,751 (December 31, 2017 – \$608,829) in consulting fees and bonuses to directors and board members of the firm.

Key management personnel compensation was comprised of:

| For the year-ended December 31 | 2018 | 2017 |
|--------------------------------|--------------|------------|
| Remuneration | \$ 2,962,981 | \$ 608,829 |
| Option based awards | 429,008 | 364,500 |
| Restricted Share Units | 1,030,747 | - |

As part of the acquisition of ILANS (see note 11), the Company acquired accounts receivable related to the original founder of the company that totaled to \$693,763 as at December 31, 2018. Certain legal services were provided by a director of the Company with payments totaling to \$1,085,515 during 2018 and \$75,644 during 2017.

Change in Accounting Policy

None.

Recent Accounting Pronouncements

Effective January 1, 2018, the Company adopted IFRS 9.

IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also amends the requirements around hedge accounting, and introduces a single, forward-looking expected loss impairment model.

Impairment of financial assets

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Company applies the simplified

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approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

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

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

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

Summary of the Company's classification and measurements of financial assets and liabilities

| | IFRS 9 | | IAS 39 | |
|--|----------------|----------------|-----------------------|----------------|
| | Classification | Measurement | Classification | Measurement |
| Cash and cash equivalents | FVTPL | Fair value | Loans and receivables | Fair Value |
| Accounts receivable and advances | Amortized cost | Amortized cost | Loans and receivables | Amortized cost |
| Due to related parties | Amortized cost | Amortized cost | Other liabilities | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost | Amortized cost | Other liabilities | Amortized cost |

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

Classification

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

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

Financial assets at fair value through comprehensive income

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

Measurement

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

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

IFRS 15 - Revenue from Contracts with Customers; effective for annual periods beginning on or after January 1, 2018, specifies how and when to recognize revenue, based on a five-step model, and enhances relevant disclosures to be applied to all contracts with customers. The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard. The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

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

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

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

The Company is engaged with sale of cosmeceutical products by way of consumer package goods in the Latin American market along with provision of services to patients through ILANS which includes, provision of medical health services, and sale of goods.

IFRS 16 - In January 2016, the IASB issued IFRS 16, replacing IAS 17, "Leases". IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its balance sheet, providing the reader with greater transparency of an entity's lease obligations. IFRS 16 is

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effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

The Company has not yet assessed the impact of these standards on its consolidated financial statements and will not early adopt.

Management of Capital

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach in the year. The Company considers its shareholders equity as capital which as at December 31, 2018 is \$25,537,409.

Financial Instruments

Fair values

At December 31, 2018, the Company's financial instruments consist of cash and cash equivalents, and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments.

Fair value hierarchy

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

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

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

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

- Level 1 – cash and cash equivalents
- Level 2 – none
- Level 3 – contingent consideration related to transactions

Financial risks

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

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents. All of the Company's cash is held at financial institutions which are Colombian Chartered Banks or fund held in trust with legal counsel in which management believes that the risk of loss is minimal, but the Company is subject to concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations with out of cash. As at December 31, 2018, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one year. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. There have been no changes in the Company's strategy with respect to credit/liquidity risk in the year.

Foreign currency risk

The Company's functional and reporting currency is the Canadian dollar but is exposed to foreign currency risk with respect to the expenditures incurred by its Colombian subsidiary, Khiron Colombia.

Off-Balance-Sheet Arrangements

As of the date of this MD&A, the Company does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

Share Capital

As at the date of this MD&A, the Company had 92,072,502 issued and outstanding common shares.

Stock options outstanding for the Company as at the date of this MD&A were as follows:

| Number of stock options | Expiry Date | Exercise Price |
|-------------------------|--------------------|----------------|
| 1,665,000 | April 19, 2022 | \$1.00 |
| 712,500 | September 19, 2022 | 1.00 |
| 200,000 | October 5, 2022 | 1.00 |
| 100,000 | October 18, 2022 | 1.00 |
| 1,305,000 | May 23, 2023 | 1.40 |
| 3,982,500 | | \$1.13 |

As at the date of this MD&A the Company had the following warrants and compensation options outstanding:

| Number of warrants | Expiry Date | Exercise price |
|--------------------|--------------------|----------------|
| 1,222,969 | May 24, 2020 | \$1.05 |
| 19,503 | May 24, 2020 | 1.00 |
| 252,255 | September 13, 2020 | 0.90 |
| 786,600 | February 28, 2021 | 2.20 |

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2,281,327

\$1.43

The Company issued 5,135,000 restricted share units (“RSUs”) to officers, employees, and other participants of the Company during the year 2018. The RSUs vest quarterly and will vest in full on May 23, 2023 and settled in shares.

Significant accounting estimates

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

Share-based compensation

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

Useful lives of property and equipment and intangible assets

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

Income taxes

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

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

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

Purchase price allocation

On the acquisition of subsidiaries, the Company is required to allocate the purchase price based on the fair value of identifiable assets and liabilities acquired. There is significant estimation required in this allocation, and there could be a difference between the estimated and actual fair values.

Risk Factors

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Due to the nature of Khiron's business, the legal and economic climate in which it operates and its present stage of development, Khiron is subject to significant risks. Additional risks and uncertainties not presently known to Khiron or that Khiron currently considers immaterial may also impair the business and operations.

For further discussion of the risks faced by the Company, refer to the Company's Annual Information Form for the year ended December 31, 2018, filed with the Canadian securities regulatory authorities, under the profile of the Company on SEDAR, at www.sedar.com

Subsequent Events

Acquisitions and investments

- i) On January 30, 2019, the Company announced the signing of a binding letter of intent with Dixie Brands Inc. ("**Dixie**") to enter into a joint venture to manufacture and distribute a line of cannabis-infused Dixie products (the "**Dixie Products**") to the Latin American market (the "**Dixie Transaction**"). On March 13, 2019, the Company, Dixie and the newly-incorporated Dixie Khiron JV Corp. (the "**JV**") entered into a master joint venture agreement to facilitate the manufacture and distribution of the Dixie Products (the "**JV Agreement**"). Subject to the JV Agreement and subsequent agreements to be negotiated by the parties, it is contemplated that the initial capital and operating costs of the JV will be borne equally by each of the Company and Dixie. The Company will provide, among other things, a supply of active cannabis ingredients to the JV, while Dixie will, among other things, licence its brand, market portfolio and product formulation and processes to the JV. Under the joint venture, it is also intended that Dixie will manufacture and distribute the Company's Kuida brand of CBD-based cosmeceuticals in the United States, marking the Company's entrance into U.S.'s legal hemp CBD market. Completion of the Dixie Transaction is subject to, among other things, the completion of due diligence, the negotiation and execution of subsequent agreements, receipt of governmental or third party consents and approvals and final TSXV approval.
- ii) On February 28, 2019, the Company increased its ownership of Jemarz to 78% from 54%, with the transfer of \$1,733,000 in additional consideration, pursuant to the terms of the ILANS Agreement. The ILANS Agreement provides the means for the Company to purchase a 100% interest in ILANS.
- iii) On April 9, 2019, the Company announced that it had signed a definitive agreement to acquire 100% of NettaGrowth, which at the time of the closing of the transaction, will own all the shares of Dormul (doing business as "**Cannapur**"). Dormul has obtained the first license to produce medical cannabis with THC for commercialization in Uruguay. Khiron will issue 8,498,821 common shares to the shareholders of NettaGrowth in connection with the transaction. A finder's fee of 420,000 common shares is due as a result of the transaction, subject to the satisfaction of the terms of a finder's fee agreement. In addition, Michael Beck, an experienced capital markets professional and entrepreneur, and Joseph Mimran, an experienced brand builder and entrepreneur, have agreed to join the board of Khiron and Khiron Colombia, respectively. The completion of the acquisition, the issuance of the finder's fee and the appointments of Mr. Beck and Mr. Mimran are subject to anti-money laundering approval from the Uruguayan government and final approval of the TSXV, among other customary closing conditions.
- iv) On April 25, 2019, the Company announced the signing of a non-binding letter of intent for the acquisition of 100% of the outstanding securities of Canapalife S.r.l. and 100% of the economic interest in Campodoro S.r.l. ("**Canapalife Group**") from Alvaro Garro and Paolo Puggioni (the "**Vendors**"), being the sole shareholders of Canapalife Group. For consideration, the Company will issue common shares equal to \$10,500,000 (the "Purchase Price") at a deemed price per share equal to the trailing 20-day volume weighted average closing price of its common shares

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on the TSXV. An earn out of additional common shares for up to C\$4,500,000, will be payable by Khiron to the Vendors over the course of two years, subject to Canapalife Group attaining certain revenue milestones.

As part of the transaction, the Company will issue shares to a finder whom acted as advisor on this agreement. Issuance of any finder's fee, is subject to the execution of a definitive agreement and receipt of all required regulatory approvals, including final acceptance of the TSXV.

Financings

- i) On February 28, 2019, the Company announced that it had closed a bought deal equity financing, including the exercise in full of the over-allotment option, resulting in the issuance of 13,110,000 common shares at a price of \$2.20 per common share (the "**Issue Price**") for aggregate gross proceeds of \$28,842,000 (the "**Offering**").

In consideration for their services, the Company agreed to pay the underwriters a cash commission equal to 6% of the gross proceeds and non-transferable broker warrants equal to 6% of the common shares sold under the Offering. Each broker warrant issued will be exercisable at the Issue Price to acquire one common share for a period of 24 months following the closing of the Offering. In total, a cash commission of \$1,730,520 was paid to the underwriters and 786,600 broker warrants were issued.

The Company applied the following assumptions based on the Black-Scholes model to determine the fair value of the broker warrants as at the date of issuance: expected dividend yield of 0%; share price of \$2.20; exercise price of \$2.20; expected volatility of 108%; risk-free interest rate of 3.00%; and an expected average life of 24 months. As a result, the Company allocated \$982,000 to the fair value of the broker warrants and \$24,322,640 to share capital of the Company.

- ii) As at April 30, 2019, 275,000 common shares were issued on the exercise of 275,000 stock options for gross proceeds of \$275,000.
- iii) As at April 30, 2019, 3,263,804 common shares were issued on the exercise of 3,263,804 warrants and compensation options for gross proceeds of \$3,241,162.