Khiron Life Sciences Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE QUARTER ENDED June 30, 2019

August 23, 2019

Introduction

The following interim management's discussion and analysis ("**Interim MD&A**") of Khiron Life Sciences Corp. (the "**Company"** or **"Khiron**") for the three and six months ended June 30, 2019 has been prepared to provide material updates to the business operations, liquidity and capital resources of the Company since its last annual management's discussion and analysis, being the management's discussion and analysis for the year ended December 31, 2018 ("**Annual MD&A**"). This Interim MD&A does not reflect any non-material events since the date of the Annual MD&A.

For the purposes of preparing this interim 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 discussion should be read in conjunction with the Company's Annual MD&A, audited annual consolidated financial statements for the years ended December 31, 2018 and 2017, together with the notes thereto, and unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2019, together with the notes thereto.

The Company's unaudited condensed interim consolidated 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**"). The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Standard 34, Interim Financial Reporting. Accordingly, information contained herein is presented as of August 23, 2019, unless otherwise indicated.

This interim 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 interim MD&A contains or incorporates 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, objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, or estimates or predictions of actions of customers, suppliers, partners, distributors, competitors or regulatory authorities. 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 interim MD&A speak only as of the date of this interim MD&A or as of the date specified in such statement.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company's ability to predict or control. Please also refer to those risk factors set out under the "*Risk Factors*" below. Readers are cautioned that the list of risk factors that may affect the forward-looking statements is not exhaustive, 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 interim 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 interim 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 interim 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.

Description of The Business

Khiron was incorporated under the *Business Corporations Act* (British Columbia) on May 16, 2012. The Company's shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol "KHRN", the OTCQB Venture Market ("OTCQB") under the symbol "KHRNF" and on the Frankfurt Stock Exchange ("FSE") under the symbol "A2JMXC".

The Company combines global scientific expertise, agricultural advantages, branded product market entrance experience and education to drive prescription and brand loyalty to address priority medical conditions such as chronic pain, epilepsy, depression and anxiety in the Latin American market of over 620 million people. Khiron is focused on improving the quality of life of people by developing high-quality cannabis-based products in the medical and wellness categories across Latin America. Khiron is fully licensed in Colombia and Uruguay for the cultivation, production, domestic distribution, and international export of both tetrahydrocannabinol (THC) and cannabidiol (CBD) medical cannabis. The Company delivers best in class regulatory compliance, has the first approved set of CBD cosmetic products (Kuida) on shelf in Colombia, and is currently facilitating testing to meet and surpass all license requirements for commercial cannabis derived products.

Overview

Key developments during Q2 2019 and up to August 23, 2019

Advancements in multi-country operator strategy

- On June 19, 2019, the Company completed the acquisition of NettaGrowth International Inc. ("**NettaGrowth**") and its wholly-owned subsidiary Dormul S.A. ("**Dormul**") through the issuance of 8,498,821 common shares of the Company valued at $2.49 per share. The acquisition provides the Company with an additional 120 tonnes of licensed production capacity and entry into the Uruguay market. Uruguay is the first country to legalize cannabis for adult use and Dormul is the first company in Uruguay to obtain a license to provide and export medical cannabis with THC for commercialization.
- On May 31, 2019, the Company amended the purchase agreement for its acquisition of Jemarz SAS doing business as the Latin American Institute of Neurology and the Nervous System ("**ILANS**"). The Company paid a final cash payment of $937,873 and removed the provisions to pay the remaining $1.3 million and $5 million potential earn-out payment.
- On August 6, 2019, the Company and Dixie Brands Inc. ("**Dixie**") received conditional approval from the TSX-V for the distribution and sale of Kuida cosmeceutical products in the United States. Dixie will be responsible for the distribution of Khiron's portfolio of Kuida cosmeceutical products in the United States targeted for commercialization in early 2020. At the same time, Dixie is targeting a Latin American commercialization of Dixie CBD-infused products for the beginning of 2020.
- Khiron's subsidiary in Peru has received authorization to register as a pharmacy by the Ministry of Health of Peru. This is an important and necessary step to obtaining import and commercialization licenses for medical cannabis products, once all final regulatory approvals in Peru are finalized.
- Key leadership positions placed in Mexico and Europe, as well as placement of a new Chief Financial Officer for the Company.

Strengthened balance sheet and positive advancements in start-up operations

- On May 28, 2019, the Company closed a bought deal financing issuing a total of 9,914,150 common shares at a price of $2.90 per common share for aggregate gross proceeds of $28,751,035. The proceeds of which are to be used to build out facilities in Uruguay, global expansion of the wellness line, including Kuida, and for working capital requirements.
- The Company's distribution channels for Kuida were expanded substantially (see below) and sales of the products are on the rise.
- The transition and integration of ILANS clinics with Khiron progressed well through the second quarter showing progressively stronger gross margins. In August, the Company launched a 4-month pilot program with EPS SURA, a leading Colombian insurance provider with presence in nine countries including Mexico, Chile, and Uruguay as part of their affiliation with Suramerica S.A., to provide medical services to an initial group of 450 patients. The pilot program is designed to follow an integrated health care management model under a fixed fee structure.
- Cannabis production:
  - During June 2019, the Company completed the construction of and commenced operations in its cultivation, extraction, and analysis facilities in Ibagué, Colombia making significant progress towards the production of medical cannabis. The facility includes an 80,000 square foot greenhouse, and a 14,000 square foot GMP-compliant post-harvest facility that includes drying, extraction and vault areas, as well as a fully fitted, state-of-the-art physical-chemical analysis lab, and a microbiological analysis lab, along with administrative, mother plants, cloning, and support infrastructure areas.

- In July 2019, the Company obtained final approval to commercialize CBD production and received approvals for an additional 17 cannabis strains from the Colombian Agricultural Institute (ICA). Khiron now has a total of 22 strains registered. The Company intends to begin commercial production of CBD medical products in September 2019 and is now seeking commercial quotas for the domestic commercialization of THC strains.
- Construction commenced for additional greenhouses to complement the initial 80,000 square foot greenhouse.
- Distribution networks were established to over 900 pharmacies across Colombia in advance of full commercialization of the cultivation site in September 2019.

Expanded distribution of Kuida

- In April, the Company signed multi-channel distribution agreements for its Kuida cosmeceutical brand with Fedco and Linio, two of the largest consumer distribution channels for wellness and beauty products in Colombia.
- On April 30, 2019 the Company announced a distribution deal with Cafam, which operates in 60 markets in Colombia through their 270 stores.
- On August 7, 2019, the Company signed a distribution agreement with Grupo Éxito, one of South America's market leading retail groups. The agreement begins with initial Kuida presence in 21 stores including 5 key market high end Exito WOW concept stores. Grupo Éxito has a multinational retail presence in Colombia, Brazil, Argentina and Uruguay and operates 1,533 stores. Kuida is to be introduced as a key addition to the retailer's cosmetics products category, with experience centres and consultants in each Éxito WOW store to support sales and brand awareness. Grupo Éxito is part of the Groupe Casino family in France and has had a successful 110-year presence in the Latin American market and is the only retail company in the region included in the Dow Jones Sustainability index, under the "Emerging Markets" category.
- As of August 2019, the Company has signed distribution agreements for at least 190 stores across various retailers in Colombia.

Continued focus on education and awareness

- In April, the Company initiated a clinical research study in Latin America in developing new dermo cosmetic and dermatological product lines for the Kuida portfolio of products. The Company entered into a multi-year agreement with Centro Dermatológico Federico Lleras Acosta (CDFLLA), a leading Latin American dermatological institution, to jointly conduct medical cannabis research and host educational activities focusing on skin conditions and symptoms.
- In July, the Company was the sole cannabis company to participate in the XLIV International Course of Internal Medicine conference in Monterrey, Mexico. The conference hosted over 2,000 physicians and medical specialists to discuss medical cannabis developments and knowledge.
- In August, initiated pre-clinical medical cannabis studies with the Universidad de la República of Uruguay and Institut Pasteur de Montevideo. These studies, which have been approved by the IRCCA (Instituto de Regulación y Control del Cannabis - the Regulatory Cannabis State Authority of Uruguay), will focus on the effects of three licensed Khiron strains targeting inflammation, oxidative and nervous system disorders.

Review of Operations for the Three and Six months Ended June 30, 2019 and 2018

The following is a summary of Khiron's income statement:

	For the three months ended June 30		For the six months ended June 30	
(Canadian dollars)	**2019**	2018	**2019**	2018
	$	$	**$**	$
Medical services:				
Revenues	**2,190,997**	-	**4,212,141**	-
Cost of sales	**1,820,138**	-	**3,477,226**	-
Gross profit medical services	**370,859**	-	**734,915**	-
Consumer products:				
Revenues	**16,683**		**86,516**	
Cost of sales	**5,823**	-	**26,954**	-
Gross profit consumer products	**10,860**		**59,562**	
Gross profit	**381,719**	-	**794,477**	-
Expenses				
General and administrative costs	**5,962,792**	4,622,950	**10,933,961**	6,214,178
Share-based compensation	**1,723,791**	640,149	**2,426,327**	745,332
Selling, marketing and promotion	**986,857**	413,610	**1,703,162**	640,771
Research and development	**1,073,603**	-	**2,171,887**	-
Transaction fees	**1,128,059**	521,157	**2,010,247**	521,157
Other	**152,343**	9,285	**198,358**	309
	11,027,445	6,207,151	**19,443,942**	8,121,747
Net loss	**10,645,726**	6,207,151	**18,649,465**	8,121,747

Gross profit – medical services
Medical services include the revenues and costs from the ILANS clinics, which were acquired on November 30, 2018. Revenues are in line with expectations and gross margins in the second quarter were consistent with the first quarter of 2019. In June 2019 the Company started to see gross margins improve from 17% and continues to focus on strengthening margins by rebalancing the services of the clinics to focus on higher margin and/or higher volume services.

Gross profit – consumer products
Consumer products revenues are largely from sales to distributors of the Company's Kuida products, which started distribution in the fourth quarter of 2018. In the first quarter of 2019, the Company had some larger shipments to distributors which still remained in their inventories through the second quarter resulting in less revenues in the second quarter; however, sales to the end consumer have almost doubled in the second quarter compared to the first quarter. Awareness for the Kuida products continues to grow through the Company's marketing channels and increased distribution networks and as such the Company expects Kuida revenues to increase substantially in the second half of the year.

General and administrative costs

General and administrative costs include the following:

	For the three months ended June 30		For the six months ended June 30	
(Canadian dollars)	**2019**	2018	**2019**	2018
	$	$	**$**	$
Salaries	**2,048,719**	1,687,533	**3,569,554**	2,093,950
Professional fees	**1,168,771**	1,132,988	**2,320,073**	1,416,153
Consulting	**658,839**	291,726	**893,382**	622,560
Investor relations	**601,746**	356,664	**1,328,379**	561,387
Travel and development	**451,355**	310,469	**908,254**	504,865
Corporate governance	**313,609**	201,183	**656,078**	257,831
Donations	**76,133**	-	**149,779**	-
Office and general	**643,620**	642,387	**1,108,462**	757,432
	5,962,792	4,622,950	**10,933,961**	6,214,178

General and administrative costs have increased period over period because of the following:

- With the growth of the business and in preparation to operate in multiple countries the Company's head count has increased in comparison to 2018 resulting in higher salaries, travel costs and office expenses. Salaries in the three months ended June 30, 2018 include signing bonuses for key management positions.
- Professional fees include accounting and legal fees, both of which have increased in connection with increased acquisitions and financing transactions in 2019. 2018 professional fees are mostly costs related to costs of listing on the TSX-V in the second quarter of 2018.
- Consulting fees and investor relations costs have increased from 2018 with the Company's efforts to expand and grow its business.
- Corporate governance includes directors fees, and filing and listing fees. The increase from 2018 is mostly due to additional fees incurred with the 2019 share issuances.
- Donations were made under the agreement with Centro Fox (see *Commitments*).

Share-based compensation

Share-based compensation includes expenses related to both stock options and restricted share units. The increase from the prior year is largely due to the issuance of 5,135,000 restricted share units in May 2018.

Selling, marketing and promotion

These costs are related to corporate communications, educational conferences and costs associated with selling Kuida. Increased focus on selling the Kuida products in 2019 resulted in higher costs compared to 2018.

Research and development

Research and development include non-capital related operating costs at the Company's cultivation, extraction, and analysis facilities in Ibagué, Colombia. Successful commercialization of the cannabis products is expected in September 2019 and therefore the Company expects to capitalize a biological asset related to the plants in the third quarter of 2019. In addition, $562,357 was expensed for the six months ending June 30, 2019 ($411,030 in the three months ending June 30, 2019) as payment to Fundacion Daya – Chile's leading medical cannabis institution and holder of the only medical cannabis license through DayaCann, to begin clinical trials and create an education platform in Chile.

Transaction fees

In the three months ending June 30, 2019 the Company paid a finder's fee in the form of equity amounting to $1,045,800 related to the acquisition of NettaGrowth. In addition, during the first quarter of 2019, a finder's fee of $750,000, also in the form of equity, was issued in relation to the joint venture arrangement with Dixie.

Liquidity and Financial Condition

Cash flows

A summary of the Company's cash flow is as follows:

	For the three months ended June 30		**For the six months ended June 30**	
(Canadian dollars)	**2019**	2018	**2019**	2018
	$	$	**$**	$
Cash used in operating activities	**(8,207,409)**	(4,902,008)	**(13,710,979)**	(6,181,564)
Cash used in investing activities:				
Purchase of property, plant and equipment	**(1,161,409)**	(768,937)	**(3,418,076)**	(1,024,317)
Acquisition of ILANS	**(937,873)**	-	**(2,670,873)**	-
	(2,099,282)	(768,937)	**(6,088,949)**	(1,024,317)
Cash provided from financing activities:				
Proceeds from share issuances	**26,545,640**	10,865,581	**53,139,228**	11,770,581
Proceeds from exercise of options and warrants	**1,131,060**	96,352	**4,175,035**	96,352
Repayment of long-term debt	**(517,208)**	-	**(709,482)**	-
	27,159,492	10,961,933	**56,604,781**	11,866,933
Change in cash	**16,852,801**	5,290,988	**36,804,853**	4,661,052
Opening cash and short-term investments	**38,387,860**	1,208,610	**18,963,272**	1,809,645
Cash acquired on acquisition	**68,299**	-	**68,299**	-
Foreign exchange on cash	**477,593**	(1,551)	**(49,871)**	27,350
Closing cash and short-term investments	**55,786,553**	6,498,047	**55,786,553**	6,498,047

Cash used in operating activities

For the three and six months ended June 30, 2019 additional cash was spent on general and administrative costs and research and development compared to the previous year, as explained above in *Review of Operations.*

Cash used in investing activities

In 2019, additional capital was spent to build the Company's cultivation, extraction, and analysis facilities in Ibagué, Colombia.

On November 30, 2018, the Company acquired ILANS for an initial consideration of $1,393,000 in cash and 1,400,000 common shares of the Company (valued at $1.48 per share as at the date of acquisition).

In addition, cash payments totaling $3,130,242 million were to be paid in four instalments over a 24 month period, of which $1,800,000 was paid by February 28, 2019 ($1,733,000 paid in the first quarter of 2019). The Company also agreed to an earn-out payment of up to $5 million payable upon the satisfaction of certain conditions on or before December 3, 2020 (the "Earn-out Payment").

On May 31, 2019 the purchase agreement for ILANS was amended. A final cash payment of $937,873 was made and the remaining cash payment of $1,330,242 and the Earn-out Payment were eliminated.

Cash provided by financing activities

In 2019, the Company completed two equity financings:

- In the first quarter, on February 28, 2019, the Company completed a bought deal financing issuing 13,110,000 common shares at a price of $2.20 per common share for aggregate gross proceeds of $28,842,000 (the "**February offering**"). In consideration for their services, the Company paid the underwriters a cash commission equal to 6% of the gross proceeds and non-transferable compensation options equal to 6% of the common shares sold under the February offering. Each compensation option issued will be exercisable at the issue price of $2.20 to acquire one common share for a period of 24 months following the closing of the February offering. Share issuance costs totaled $2,247,412 and 786,600 compensation options were issued valued at $983,000.
- In the second quarter, on May 28, 2019, the Company completed a bought deal financing issuing 9,914,150 common shares at a price of $2.90 per common share for aggregate gross proceeds of $28,751,035 (the "**May offering**"). In consideration for their services, the Company paid the underwriters a cash commission equal to 6% of the gross proceeds and non-transferable compensation options equal to 6% of the common shares sold under the May offering. Each compensation option issued will be exercisable at the $2.90 issue price to acquire one common share for a period of 24 months following the closing of the May offering. Share issuance costs totaled $2,206,395, 420,000 common shares were issued as a finder's fee at a value of $2.49 per common share or $1,045,800, and 594,849 compensation options were issued valued at $932,000.

In 2018, the Company completed the following financings:

- The Company completed a non-brokered private placement offering of 905,000 units at a price of $1.00 per unit for aggregate gross proceeds of $905,000. Each unit consisted of one common share and one common share purchase warrant of the Company. Each warrant entitles the holder thereof to acquire one common share of the Company at a price of $1.20 for a period of 24 months following the closing of the Qualifying Transaction, subject to adjustment and acceleration.
- The Company issued 11,230,000 subscription receipts in connection with its qualifying transaction at a price of $1.00 per subscription receipt for total proceeds of $11,230,000. Each subscription receipt automatically converted, for no additional consideration, into 11,230,000 units upon closing of the Qualifying Transaction. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of $1.20 per share for a period of two years from closing of the Qualifying Transaction, subject to an acceleration provision.

Commitments

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

	Payments due by period			
Contractual obligations	**2019**	**2020-2024**	**2025+**	**Total**
	$	$	$	$
Financial lease - land	70,447	704,468	774,915	1,549,830
Financial lease – corporate and medical offices	274,446	1,613,829	218,536	2,106,811
	344,893	**2,318,297**	**993,451**	**3,656,641**

On September 27, 2018, the Company signed and committed to pledge US$1,000,000 to Fundacion Daya over two years. Fundacion Daya is Chile's leading medical cannabis institution and holder of the only medical cannabis license through DayaCann. As at June 30, 2019, the Company spent $562,357 (US$400,000) to begin clinical trials and the creation of an education platform.

On October 23, 2018, the Company entered into a donation agreement with Centro Fox, a not-for-profit organization, where Khiron will provide US$1,000,000 over three years, ending in the year 2021. As at June 30, 2019, the Company has donated $600,823 (US$450,000). During the quarter ended June 30, 2019, the Company amended the donation agreement with Centro Fox to provide for an acceleration of the scheduled donation in return for additional participation by Centro Fox relating to the medical cannabis industry. As of August 23, 2019, no outstanding balance remains between Centro Fox and the Company.

Financial Condition

The application of the going concern concept assumes that the Company will continue in operation for at least the next twelve months and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at June 30, 2019, the Company has not yet achieved profitable operations and had a loss of $18,649,465. However, management believes that the Company has sufficient liquidity to continue operations for at least the next twelve months, satisfy all commitments and repay its liabilities arising from normal business operations as they become due. The Company had cash and short-term investments of $55.8 million and a working capital balance of $53.2 million at June 30, 2019.

See "*Risk Factors*" below and "*Caution Regarding Forward-Looking Statements*" above.

Summary of Quarterly Results

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
	$	$	$	$	$	$	$	$
Revenues	2,207,680	2,090,977	891,677	-	-	-	-	-
Net loss	10,645,726	8,003,739	6,504,379	5,277,844	6,207,151	2,010,370	1,712,466	1,163,261
Basic and diluted loss per share	0.11	0.12	0.09	0.12	0.15	0.06	0.05	0.04
Weighted average shares outstanding	95,973,144	75,894,884	70,187,318	49,851,687	40,566,495	33,042,295	32,570,281	29,017,396

The Company began generating revenue in the fourth quarter of 2018 with the product launch of Kuida and the acquisition of Ilans on November 30, 2018.

Transactions with Related Parties

Related parties and related party transactions impacting the accompanying consolidated financial statements are summarized below and include transactions with key management personnel, which includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	**2019**	2018
	$	$	**$**	$
Management fees and salaries	**1,017,992**	495,330	**1,997,577**	659,580
Share-based compensation	**1,721,147**	421,730	**1,745,303**	444,132
Donations	**76,133**	-	**149,779**	-

Change in Accounting Policy

(a) Leases ("IFRS 16")

The Company has adopted IFRS 16 using the modified retrospective approach with an initial application date of January 1, 2019. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to asset and liability accounts and applies the standard prospectively.

On adoption of IFRS 16, the Company has recognized lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments. The associated right-of-use assets were measured at the amount equal to the lease liability on January 1, 2019, adjusted by the amount of any prepaid or accrued lease payments relating to that lease.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The Company has elected to apply the exemptions not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

The impact of the adoption of IFRS 16 as at January 1, 2019 was to increase property, plant and equipment by $1.7 million to capitalize the right-of-use assets and correspondingly increase long-term debt by the same amount.

(b) Goodwill

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Currently, the Company has three reportable segments, the medical services segment, the cultivation segment and the wellness products segment. The Company has determined that the goodwill associated with all acquisitions to date belongs to the medical services segment as this is the segment that holds the acquired entities and the lowest level at which management monitors goodwill.

Goodwill is measured at historical cost and is evaluated for impairment annually or more often if events or circumstances indicate there may be an impairment. Cash Generating Units ("CGUs") have been grouped for purposes of impairment testing. Impairment is determined for goodwill by assessing if the carrying value of CGUs which comprise the CGU segment, including goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of the CGUs are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGUs. Any goodwill impairment is recorded in income in the reporting period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

(c) Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized in net loss as incurred.

(d) Uncertainty over income tax treatments ("IFRIC 23")

The Company adopted IFRIC 23 on January 1, 2019 on a modified retrospective basis without restatement of comparative information. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgment in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The adoption of the new standard had no impact on the unaudited condensed interim consolidated financial statements as at June 30, 2019.

Recent Accounting Pronouncements

Business combinations ("IFRS 3")

In October 2018, the IASB issued an amendment to IFRS 3, effective for annual periods beginning on or after January 1, 2020 with early adoption permitted. The amendment clarifies that a business must include, at minimum, an input and a substantive process that together contribute to the ability to create outputs, and assists companies in determining whether an acquisition is a business combination or an acquisition of a group of assets by providing supplemental guidance for assessing whether an acquired process is substantive. For acquisitions that are determined to be acquisitions of assets as opposed to business combinations, the Company allocates the transaction price to the individual identifiable assets acquired and liabilities assumed on the basis of their relative fair values, and no goodwill is recognized. Acquisitions that continue to meet the definition of a business combination are accounted for under the acquisition method, without any changes to the Company's accounting policy. The Company is currently assessing the impact of this standard.

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 adjusts 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 June 30, 2019 is $89,135,293.

Financial Instruments

Fair values

At June 30, 2019, the Company's financial instruments consist of cash and cash equivalents, short-term investments and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments.

Fair value hierarchy

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

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

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

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

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

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, short-term investments and accounts receivable. The risk for cash and short-term investments is mitigated by holding these instruments with highly rated financial institutions. The Company provides credit to its customers in the normal course of business and has mitigated this risk by managing and monitoring the underlying business relationships. Collection terms on average, are between 30 to 60 days. As at June 30, 2019, the Company is not exposed to any significant 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 cash. As at June 30, 2019, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one year. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. There have been no changes in the Company's strategy with respect to credit/liquidity risk in the year.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Included in net loss is interest income on Canadian dollar cash and short-term investments. As at June 30, 2019, the Company is not exposed to any significant interest rate risk.

Foreign currency risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company's functional and reporting currency is the Canadian dollar and holds the majority of its cash and short-term investments in Canadian dollars, but is exposed to foreign currency risk with respect to the expenditures incurred by its Colombian subsidiary, Khiron Colombia.

Off-Balance-Sheet Arrangements

The Company does not have any off-balance-sheet arrangements.

Share Capital

As at the date of this MD&A, August 23, 2019, the Company had 113,909,253 common shares issued and outstanding, 2,544,886 warrants outstanding, 4,652,500 stock options outstanding and 6,847,500 restricted share units outstanding.

Risk Factors

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. Factors that could cause actual results to differ materially from those set forth in forward-looking information include, but are not limited to: financial risks; inflationary risks; foreign exchange risks; international taxation risks; the Company's ability to obtain or maintain insurance at reasonable rates; product development, facility and technological risks; agricultural risks; changes to applicable laws or regulations; ability to obtain or maintain licences or certifications; product recall and product liability risks; import, export and transportation risks; expected number of medical cannabis users and the willingness of physicians to prescribe medical cannabis to patients in the markets in which the Company operates; ability to access financing on commercially attractive terms.

For a discussion of the risks faced by the Company, please refer to the Company's Annual Information Form for the year ended December 31, 2018 ("2018 AIF"), available under the Company profile on SEDAR, at www.sedar.com. Readers should note that, since the Company filed the 2018 AIF, the Transactions described under *RISK FACTORS* at page 50 of the 2018 AIF have been completed substantially on the terms announced and have been approved by the TSX-V.

Internal Controls Over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There was no material change in the Company's internal controls over financial reporting that occurred during the second quarter of 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Disclosure controls and procedures

Disclosure controls and procedures have been designed to provide reasonable assurance that all relevant information required to be disclosed by the Company is accumulated and communicated to senior management as appropriate to allow timely decisions regarding required disclosure.

Limitations of controls and procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any internal controls over financial reporting and disclosure controls and procedures, no matter how well designed, can have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance that the objectives of the control system are met.