Khiron Life Sciences Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED December 31, 2019

May 1, 2020

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, 2019. This discussion should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended December 31, 2019, 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 May 1, 2020, 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 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 MD&A speak only as of the date of this 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 in ***Risk Factors***. 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 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.

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 (TSXV) under the symbol "KHRN", the OTCQX Best Market (OTCQX) under the symbol "KHRNF" and on the Frankfurt Stock Exchange (FSE) under the symbol "A2JMXC".

Khiron's objective is to become the global leader in creating high quality cannabis derived medical and wellbeing products for sale around the world. Khiron's mission is to improve the quality of life of patients and consumers through the applied use of medical cannabis. With core operations in Latin America the Company's strategy focuses on achieving first mover advantage in the Latin American market of over 620 million people and is evolving its strategy towards global expansion. The Company's wholly owned subsidiary, Khiron Colombia S.A.S. (Khiron Colombia), is licensed in Colombia 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 an approved line of CBD cosmetic products on shelf in Colombia, the United States (US) and the United Kingdom (UK) and is fully authorized to manufacture high- and low-THC medical cannabis, and to fill prescriptions and sell low-THC medical cannabis in Colombia.

The Company has three operating segments:

(1) Medical cannabis products, in which the Company grows, produces and sells branded products and services to patients with medical conditions where cannabis can be an acceptable, proven option;

(2) Health services, where the Company operates its own network of medium complexity health centres (operating under the ILANS and Zerenia brands) offering a suite of health, medical and surgical services in alignment with insurance company partners; and

(3) Wellbeing products, focused on delivering the benefits of CBD and hemp across an array of various branded consumer packaged goods, such as its Kuida® cosmetics line.

The Company leverages its branded product market experience, scientific expertise, agricultural advantages and educational platforms to introduce its products and services across markets in Latin America, Europe, UK, and the US.

Medical cannabis products

Khiron believes in the benefits of cannabis for improving health conditions through high quality pharmaceutical products. With a focused regional strategy and patient oriented approach, the Company combines global scientific expertise and educational initiatives to drive prescription and brand loyalty to address priority medical conditions such as chronic pain, epilepsy, depression, sleep disorders and anxiety, amongst others.

Khiron's medical cannabis strategy is focused on leveraging the complete value chain from plant to patient, as follows:

- *Strain Selection*: Obtaining clinically-validated strains for the optimization of efficient production of cannabinoids and other phytochemicals;
- *Cultivation*: Developing standard operating procedures to increase yields and consistency, while implementing sustainable cultivation standards and leading international site security standards;
- *Product*: Developing medically endorsed products based on scientific research, and manufacturing these products in accordance with Good Manufacturing Practices (GMP) Standards to ensure quality, consistency and long-term stability;
- *Physician Engagement*: Engaging with the medical community to develop medications for specific indications. Continuously working with healthcare professionals to provide the latest training and information on medicinal cannabis;
- *Medical and Scientific Research and Development*: Participating in research studies with leading health organizations to understand and validate the benefits of medicinal cannabis;
- *Patient-Focus*: Working with healthcare professionals to offer patients an alternative to existing medications. Developing meaningful relationships with patients by offering them information, support, and learning resources through outreach channels.

The Company's current portfolio of 22 THC and CBD strains registered by Khiron Colombia with the Colombian Agricultural Institute (ICA) is key to building agronomic and chemical profiles to treat a variety of medical conditions. See ***Cultivation*** for a discussion on the Company's cultivation strategy and performance.

Latin America

With regulatory change happening rapidly across Latin America, eleven countries have legalized medical cannabis, and three have decriminalized the use of personal amounts. From its primary operations in Colombia and a presence in countries across the region, Khiron is positioned to be a leading, established player in the Latin American market. The Company's current focus for developing and commercializing medical cannabis product is predominantly in Colombia, Peru and Brazil.

The regional strategies are described below.

Colombia

Effective March 20, 2020, Khiron Colombia has all licenses and certifications in Colombia to manufacture psychoactive (high-THC) and non-psychoactive (low-THC) cannabis magistral preparations. Magistral preparations are custom formulations prescribed by physicians according to the individual needs and symptoms of patients and prepared as prescribed by a certified pharmaceutical establishment using cannabis derivatives. As of March 2020, Khiron Colombia is legally permitted to fill prescriptions and sell low-THC medicinal cannabis, making it the first licensed producer authorized to sell medical cannabis in Colombia. The Company expects to commence filling prescriptions for high-THC medicinal cannabis when its health centre dispensary receives authorization from the Narcotics National Fund (NNF), which is expected during Q2 2020.

In November 2019, Khiron Colombia was granted supplementary commercial quotas to cultivate, harvest and transform dry cannabis flower between the period of November 2019 and December 2019. The dry flower harvested under the November 2019 quotas may be used to prepare cannabis extract which may be sold during 2020. Khiron Colombia also received its ordinary 2020 commercial cultivation quotas from the Colombian Technical Quotas Group (TQG), to cultivate 9.2 million tonnes of psychoactive cannabis plants in 2020 utilizing the 22 strains already registered with the ICA's National Cultivar Registry. This quota represents 17 percent of Colombia's total production quota for 2020. Khiron Colombia was then further approved to manufacture the psychoactive whole plant extract for both export and domestic purposes. Fifty percent of the quota is for Colombian domestic use and the remaining 50 percent export quota allows for international distribution to countries such as Peru, Uruguay and Brazil.

The Company commenced commercial sales of low-THC medical cannabis through its health centres in March 2020 and expects to have first commercial sales of high-THC medical cannabis through its health centres in Q2 2020. The Company is also implementing a series of actions to ensure faster access to potential patients and doctor outreach such as launching a teleconsultation platform at its health centres in Colombia to provide virtual services to patients across Colombia.

Khiron's health centres encompass physicians who have been educated and trained in the area of medical cannabis and will serve as a primary distribution channel for the Company (see ***Education and awareness***). In addition, commercial agreements were initiated with over 900 pharmacies across Colombia in anticipation of impending medical cannabis sales. In April, 2020 the Company entered into a sales and distribution agreement with Locatel Colombia S.A.S. (Locatel), a pharmacy, healthcare products, and medical equipment retailer with a database of over 2 million patients in Colombia. Khiron's low-THC magistral preparations will be available immediately through Locatel stores across Colombia's largest urban centres. Locatel will also be able to dispense prescriptions for high-THC cannabis once its pharmacies are licensed by the NNF.

Peru

Khiron's wholly owned subsidiary, Khiron Peru S.A. (Khiron Peru), was established for the purpose of importation of medicinal cannabis products for commercial sale - initially magistral preparations.

In Peru, only licensed pharmaceutical establishments that have received Good Storage Practices (GSP) certification are authorized to participate in wholesale import and commercialization of cannabis products. Khiron Peru currently holds the necessary pharmaceutical establishment license and is one of the first cannabis companies in the country to have received GSP certification from Peru's Directorate General of Drug Supplies and Drugs (DIGEMID), as well as its import license.

Khiron Peru intends to import the whole cannabis plant extract from Khiron Colombia and has entered into an exclusive 2-year agreement with Farmacia Universal S.A.C. of Peru, a leading pharmacy chain and manufacturing laboratory based in Lima, to manufacture and distribute Khiron-branded medical cannabis products in Peru. On March 13, 2020, the Company obtained the import license from DIGEMID which allows the Company to import and commercialize medical cannabis derivatives. Farmacia Universal S.A.C. has received GSP certification but still requires authorization for commercialization from DIGEMID. Once this final authorization is received and high-THC import quotas are received from the Peruvian authorities the Company expects to begin sales in Peru.

Brazil

Brazil's new regulatory framework for medical cannabis, administered by the Health Regulatory Agency (ANVISA), establishes a comprehensive procedure for the manufacture and import of medical cannabis products and requirements for commercialization, prescription and dispensing. The regulations, first announced in December 2019 under Resolution RDC #327/2019 and which came into force on March 10, 2020, create a new class of medical cannabis-based products that may be prescribed by doctors and sold through pharmacies, enabling safe and legal access for patients. Among other things, RDC #327/2019 prohibits the import of all parts of the cannabis plant, (including dried flower) and only permits the import of fully manufactured extracts or formulated products of cannabis. Local cultivation of cannabis in Brazil continues to be prohibited.

In January 2020, ANVISA published RDC No. 335/2020 in order to establish the criteria and procedures for the special import of cannabis-based products by individuals, for personal use in a health treatment, upon prescription of a medical professional. The new measures create a more simplified process for personal importation of cannabis-based products than under the previous regulations revoked by RDC No. 335/2020. Khiron Colombia has received authorization from ANVISA for its cannabis-based products to be imported by patients into Brazil for personal use under a medical prescription. This authorization will enable the Khiron Colombia to apply for a permit to export the product from Colombia. The export of cannabis-based products to Brazil under the personal importation regulations is also conditional on TSXV approval.

In April 2020, the Company entered into an agreement with Medlive S.A.S. (Medlive), a leading marketer and distributor of pharmaceutical products to clinics, hospitals and pharmacies in southern Brazil. The agreement provides that the Company's medical cannabis products will be marketed through the Medlive network of doctor offices, clinics, hospitals and governmental institutions. Physicians in Medlive's extensive network will receive medical education and training related to Khiron's products.

Europe and United Kingdom

With an eye for global expansion, Khiron Colombia has also entered into an agreement to be the exclusive Latin American provider of cannabis medicines to Project Twenty21 in the UK. Project Twenty21, Europe's first and biggest national medical cannabis registry, was launched on November 7, 2019 at the Royal College of Psychiatrists in London. The project will enrol 20,000 patients into clinical trials by the end of 2021, creating the largest body of evidence for the effectiveness and tolerability of medical cannabis, with an aim to then convince UK policy makers that medical cannabis should be as widely available, and affordable, as other approved medicines for patients who would benefit from them.

The Company is evaluating multiple entry routes to establish sustainable and profitable businesses with continental Europe, including but not limited to, supply agreements and distribution partnerships for Khiron branded products.

Research and development

Khiron has collaborated with leading health organizations to understand and validate the benefits of medical cannabis in Colombia, Uruguay and Chile. Initiatives undertaken in 2019 are described below:

- In August 2019, 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.
- In April 2019, 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. CDFLLA focuses on assessing the effectiveness of using medical cannabis for dermatological conditions defined in three main lines of research: melanoma, keratinocytes and mycobacterial growth. The lines of research mark important progress towards the identification and validation of cannabis as a potential therapy for certain medical skin conditions. The clinical evaluations aim to identify the effectiveness of CBD in modulating inflammatory responses in certain melanoma cells and in keratinocytes, whose primary function is to form a barrier against environmental damage, with the possibility to establish potential therapeutic uses in some dermatological conditions.
- In January 2019, the Company entered into the Fundacion Agreement, under which the Company and Fundacion Daya would cooperatively develop and conduct clinical trials and academic activities aimed at educating the Chilean market on the use of medicinal cannabis products. Under the terms of the Fundacion Agreement, Fundacion Daya agreed to conduct clinical studies on two or more medicinal cannabis products capable of being commercialized under Chilean regulations, and targeting various medical conditions and symptoms as chosen by the Company. The clinical trials were to be fully funded by the Company. The Company spent US$412,500 towards the US$1 million commitment stipulated under the Fundacion Agreement. In March 2020, the Company terminated the Fundacion Agreement to focus its resources in other countries where cannabis regulatory frameworks are advancing on a timelier basis. A final settlement amount of US$20,000 was paid with no further obligations remaining.

Education and awareness

Khiron has been building brand awareness in Latin America through education of healthcare professionals. In the domestic market of Colombia and elsewhere in Latin America, Khiron has built partnerships with some of the region's most respected medical associations and universities. As a result of these initiatives, Khiron is building a regional network of medical prescribers that will serve as the primary distribution channel for medical cannabis.

Initiatives undertaken in 2019 and Q1 of 2020 are described below:

- In July 2019, 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 2019, the Company entered into an exclusive endorsement agreement with the Colombian Association of Gerontology and Geriatrics (CAGG), a scientific and professional association dedicated to the advancement of health and social services for aging population and geriatric patients at all levels of care. The endorsement agreement provides the Khiron Colombia medical leadership team access to CAGG's annual congress and outreach programs.
- In January 2020, enter into an agreement with Universidad Peruana Cayetano Heredia, a university in Lima, Peru, to sponsor workshops and remote talks for the university's international course on medicinal use of cannabis.
- In March 2020, entered into an agreement with Tecnologico de Monterrey (Monterrey Institute of Technology) in Mexico, a leading University ranked third in Latin America, bringing science-based online medical cannabis education to an initial group of up to 1,500 healthcare practitioners.
- Through 2019, Khiron participated in more than 30 medical events around Latin America geared towards educating physicians on the use and benefits of medical cannabis.

Cultivation

Khiron's strategy to become a global leader in creating high quality medical products requires high quality inputs through the entire value chain, starting with cultivation and culminating in the production of high-quality cannabinoids and other phytochemicals. The Company plans to supply the demand for medical cannabis products in Colombia and internationally from its own cultivation, extraction, and analysis facilities near Ibagué, Colombia. As demand grows and cannabis regulation advances globally, the Company will explore alternatives for cannabis supply on a country by country basis.

Colombia

In June 2019, the Company completed the construction of and commenced operations at its cultivation, extraction, and analysis facilities near Ibagué, Colombia. The facility includes an 80,000 square foot greenhouse that includes areas for mother plants and cloning, a 14,000 square foot GMP-compliant post-harvest facility, processing areas for drying and extraction operations, state of the art physical-chemical and microbiological laboratories, storage vaults and administrative offices. Plans to construct a new mother plant greenhouse and newer, improved production greenhouses to complement the initial 80,000 square foot greenhouse are currently underway. In addition to the additional cultivation capacity, the new greenhouse designs are expected to improve control of climatic conditions and ventilation, lower energy costs, and improve control of pests and microorganisms and overall quality of the crop.

As described above Khiron Colombia received its ordinary 2020 commercial cultivation and manufacturing quotas from the TQG.

Uruguay

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 $1.61 per share. The acquisition provides the Company with an additional cultivation capacity of up to 120 tonnes and 170,000 plants through licenses held by Dormul. These licenses provided the potential for the Company to both distribute locally and export cannabis flower, as a complement to the Company's extract-only medical market of Colombia.

In September 2019, the Company initiated construction of the cultivation and processing facility in Juan Lacaze, Uruguay, breaking ground in October. Subsequently the Company decided to suspend construction based on the Company's analysis of Brazil's new cannabis regulations and a review of the Company's optimal allocation of capital resources. The nature, capabilities and size of the Juan Lacaze operations are being re-assessed considering the Brazilian regulatory framework that came into effect on March 10, 2020 that, among other things, prohibits the import of all parts of the cannabis plant, (including dried flower) and only permits the import of fully manufactured extracts or formulated products of cannabis. In November 2019, the Company received authorization from the Colombia TQG for the commercialization of medical use high-THC cannabis for domestic and export purposes, making it possible to supply the Brazilian market from Colombia. In addition, construction has been postponed as part of a broader initiative by the Company to preserve cash in light of the economic impacts of the COVID-19 pandemic. The licenses associated with the Juan Lacaze cultivation site remain in good standing.

Chile

In January, 2019, the Company entered into the Dayacann Agreement, under which the Company and Dayacann SpA (Dayacann), a Chilean company dedicated to cultivate and process cannabis with medicinal purpose, agreed to cooperate in cultivating, manufacturing and commercializing medical cannabis products in Chile. Under the terms of the Dayacann Agreement (and the related agreements), the Company agreed to purchase one tonne of dried cannabis flower (the "Dayacann Product") cultivated by Dayacann in Chile, and Dayacann agreed to assist in the development of medicinal cannabis products extracted from the Dayacann Product, with a goal to commercialize said products within two years of the date of the agreement. The agreement anticipated receiving the cannabis cultivation permit in February 2019; however, the permit was not received by Dayacann until December 2019, approximately 10 months later than expected. In light of the permitting delay, the concurrent, worsening political unrest in Chile and delays in the development of the cannabis regulatory framework by the Chilean government, the Company does not expect that commercialization of medical cannabis products in Chile will be possible during the 2020 calendar year. The Company is currently in discussions with Dayacann on how to move forward with the agreement, considering the significant delays in the receipt of the permits and the commercial feasibility of the Dayacann Product in terms of cost and timing. In 2019, the Company spent US$120,000 towards the US$1.2 million commitment stipulated under the Dayacann Agreement.

Health services

Khiron's health centres are responsible for leading Khiron's retail presence and access to doctors and patients in the Company's markets of interest. The health centre model will allow Khiron to gather patient data, which will be instrumental in the development of new formulations and products to address specific patient needs. The Company intends to develop the clinic strategy through a combination of organic growth and acquisitions. Consistent with the strategy, Khiron acquired ILANS, a neurological clinic with a network of around 120,000 patients in Colombia. The services provided by the ILANS health centres include medical and surgical treatments for patients with neurological, psychiatric, urological and orthopedic diseases, amongst others. Using this distribution model for its medical products, the Company intends to commercialize branded cannabis products as well as leverage physician networks that will generate a significant patient base. Health centre physicians will conduct consultations and write prescriptions for patients.

In January 2020, the Company opened Zerenia, an integrative medical care clinic designed to treat "body, mind and spirit" with medical cannabis and other services. The clinic increases Khiron's clinical capacity by 75% and forms part of the Company's patient acquisition strategy as it begins filling medical cannabis prescriptions in Colombia. Zerenia offers a person-centered integrated care model, with the concept of integrative medicine combining traditional and complementary medicine, and with evidence-based treatments and high standards of professional practice. Services are delivered across multiple clinical units which include: Pain management, mental health, surgical, neurology and dentistry. These services are supported by rehabilitation, complementary medicine and diagnostic technology, involving programs for managing multiple symptoms in different pathologies. Zerenia is located in Bogota's city centre and builds on the integration and growth of the ILANS neurological clinics.

In response to the COVID-19 crisis, the Company is prepared to adapt some of ILANS' services to respond to the COVID-19 pandemic, such as COVID testing, pulmonary capacity testing, and other related services.

Wellbeing products

Kuida cosmeceuticals, the first mass-market branded CBD skincare line in Latin America, is distributed at retail and online across Colombia, in permissive States in the US and in the UK. Kuida is the first brand in Colombia to develop cosmeceutical products based on the benefits of CBD. Kuida combines the best of both the natural and technological worlds, taking the CBD from cannabis and using highly specialized cosmetic active skin care ingredients turning them into CBDERM®, a unique technology that provides a potent antioxidant action on the skin. Seven products were initially offered from its facial and body line and by the end of 2019 an additional four products were offered focused on anti-aging, hydration and everyday skin care.

Sales of Kuida in Colombia commenced in the last quarter of 2018 and are currently sold through over 300 point of sales in Colombia. Sales were launched in both the UK and the US in Q4 2019 and Q1 2020, respectively. With respect to the sales in the US market, the Company, initially through Dixie Khiron JV, and subsequently through Khiron Colombia and its recently incorporated US company, Khiron Life Sciences (USA) Inc., is solely engaged in the business of hemp-based products as legalized under the 2018 Farm Bill.

Brand awareness through education is an important strategy in marketing the Kuida products and advancements in research which can demonstrate the benefits of CBD based products is also critical. In April 2019, 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.

Other consumer packaged goods

On March 13, 2019, the Company, Dixie Brands, Inc. (Dixie) and the newly-incorporated Dixie Khiron JV Corp. (Dixie JV) entered into a master joint venture agreement (the JV Agreement) to facilitate the manufacture and distribution of a line of cannabis-infused Dixie products.

The companies worked towards the implementation of a full operational, marketing, sales and distribution plan in various countries; however, following an announcement on March 9, 2020 by Dixie to merge with BR Brands, LLC, the Company and Dixie mutually agreed to terminate the JV Agreement.

Selected Annual Consolidated Information

(Canadian dollars)	**2019**	2018	2017
	$	$	$
For the year ended December 31:			
Revenues	**9,582,366**	891,677	-
Cost of sales	**(7,146,509)**	(594,313)	-
Expenses	**(38,813,636)**	(20,103,901)	(3,779,412)
Net loss	**(36,377,779)**	(19,806,537)	(3,779,412)
Adjusted EBITDA(1)	**(24,504,376)**	(13,969,189)	(2,770,452)
Loss per share – basic and diluted	**(0.36)**	(0.41)	(0.14)
Weighted average shares outstanding (#)	**101,966,057**	48,518,873	27,757,213
As at December 31:			
Cash and short-term investments	**36,904,781**	18,963,272	1,809,645
Total assets	**81,912,191**	40,348,817	2,897,540
Current liabilities	**8,440,888**	6,595,578	704,263
Long-term liabilities	**3,432,549**	8,215,830	-
Shareholders' equity	**70,038,754**	25,537,409	2,193,277
Shares outstanding (#)	**116,612,318**	75,042,988	32,570,281

(1) Defined as net loss before interest, taxes, depreciation and amortization adjusted for additional fair value items and other non-cash items, which is a non-GAAP measure discussed in the "Adjusted EBITDA" section.

* There have been no distributions or cash dividends declared by the Company in any year.
**The Company has applied consistent accounting principles and has maintained consistent presentation and functional currency principles between years.

The three-year financial information shows the progression of the Company towards achieving its objective to become the global leader in creating high quality medical and wellbeing cannabis brands to sell around the world. From its start in 2017, Khiron has:

- developed, produced, marketed and sold its own line of wellbeing products (first sales commenced in the fourth quarter of 2018);
- built a cultivation site in Colombia, harvested its first crops in 2019 and sold its own manufactured medical cannabis in the first quarter of 2020;
- acquired the ILANS health centres in November 2018 continuing its services through 2019 with expanded facilities and services commencing in the first quarter of 2020 with the launch of the Zerenia clinic; and
- prepared for global growth, added key leadership positions in Latin America, Europe and Canada, and altered the composition of its Board in 2019.

As a result, the Company's expenditures have grown to build a global team, to expand its marketing and investor relations efforts, and develop and explore new growth opportunities both through acquisition and organically. At December 31, 2019 the Company held $36.9 million in cash and short-term investments. The Company has been funded through equity financings.

Outlook and Impact of COVID-19

At the time of writing this MD&A the World Health Organization has declared a pandemic stemming from the coronavirus disease (COVID-19). The pandemic has had far-reaching impacts on every business and every individual globally. For the time being and until economies stabilize, Khiron has shifted its strategic approach to limit global expansion, alter marketing methods and conserve cash, but has maintained its overall strategic direction to improve the quality of life of patients and consumers. The Company has defined its strategic approach during this global crisis as follows:

- prioritizing the physical and mental health of its employees and health professionals;
- prudent cash management by limiting global expansion and altering marketing efforts to focus on the already established markets of the Company;
- ensuring continuity of health services and treatment of patients, following appropriate safety guidelines;
- maintaining continuity of production operations in Colombia and the ensuing supply chain; and
- building a strong strategic position in the medical cannabis space and ensuring sales growth in Colombia and sales entry into new markets in the UK, Peru and Brazil.

On March 22, 2020, the Colombian government issued Decree 457 declaring a national quarantine (presently until May 11, 2020). In this decree and subsequent regulations, the government listed what it considers to be essential services that can remain in operation during the crisis. Khiron applied for and received the essential service exemption for its cultivation site, laboratory facilities and health centres in Colombia. As a result, the Company continues to employ all 348 of its employees and doctors, including 167 employees at ILANS and Zerenia (105 whom are healthcare practitioners) and 50 employees at its cultivation site and laboratory. The majority of the Company's employees are based in Colombia and any layoffs in the country must be approved by the Ministry of Labour. In response to the pandemic, Khiron has implemented several cost-saving measures including pay reductions for the CEO, President, Board members, and most employees and executives, as well as reductions in employee benefits. The Company has also implemented additional health and safety measures that include a prohibition on international travel and work from home policy for all functions that can be performed remotely. Khiron is in discussions with regulators in Colombia with the aim of ensuring that the Company is doing everything it can to assist authorities and communities with COVID-19 suppression efforts. Specifically, the Company has acquired COVID-19 automatic testing equipment for use in Bogota's central hospital. This equipment will have further application in the future to bring increased respiratory testing services to Khiron patients. The Company also continues to work closely with its community in the Doima region of Colombia, where cultivation continues at full capacity applying social distance measures. The Company has donated nutrition kits to vulnerable families in need, essential hospital supplies to the Hospital of San Sebastián in Piedras, Tolima and a health professional to support the work of the hospital centre.

With all approvals received to sell medical cannabis, significant quotas awarded to the Company to harvest and manufacture high-THC cannabis along with an established patient network and growing demand for medical cannabis products, the Company's core focus will be on its higher-margin, medical businesses where revenue growth has the greatest potential and immediate impact. Despite the crisis arising from the COVID-19 pandemic the Company has continued to achieve results towards its medical cannabis strategy, including the following:

- In Colombia –
    - on March 19, 2020, received the certification of Good Elaboration Practices for Magistral Preparations with Cannabis (GEP). This certificate was given to the exclusive third-party manufacturing laboratory that manufactures Khiron's medical products, allowing the Company to manufacture high and low-THC magistral preparations in Colombia
    - commenced sales of medical cannabis and implemented a series of actions to ensure improved access to potential patients and doctor outreach
    - launched a teleconsultation platform at its health centres to provide virtual services to patients across Colombia
    - entered into a sales and distribution agreement with Locatel, a pharmacy, healthcare products, and medical equipment retailer to dispense the Company's magistral preparations and continued to pursue additional distribution options
    - launched a home delivery service from the Company's health centres, ensuring safe and convenient access to low-THC cannabis by doctors and patients
    - obtained high-THC cultivation and extraction quotas for export to the UK.
- In Peru, obtained a license to import and commercialize medical cannabis.
- In Mexico, finalized the agreement with Tecnologico de Monterrey to bring Khiron's online education program to reach 1,500 physicians and health practitioners in the region.
- In Brazil, entered into an agreement with Medlive to market the Company's medical cannabis products through Medlive's network of doctor offices, clinics, hospitals and governmental institutions.

The Company's health centres are currently the only locations in Colombia where medical cannabis can be dispensed and most of the Company's locations remain open. Certain invasive procedures have been suspended (e.g. neurosurgeries), and measures are in place to ensure adequate spacing of appointments and patients in clinic waiting areas. The Company has also introduced a teleconsultation service, leveraging its medical team and existing patient network to meet essential patient needs during the COVID-19 pandemic. From an initial beta launch, the Company anticipates rapidly expanding services across its entire patient network amidst the growing acceptance of telemedicine services. This method of delivering services will allow the Company to move swiftly to continue to deliver clinical services and prescriptions for medical cannabis and other drugs directly to patients. A number of third-party payers have already approved teleconsultation services to be covered under their insurance programs. Between the teleconsultations, in-person visits to the clinics and in-home visits, the Company is able to provide care to as many patients as possible in Colombia.

Khiron will also concentrate on export sales to the UK through the Project Twenty21 program for which quotas which already been approved, to Brazil under the compassionate use program, and to Peru under its pharmaceutical establishment license and cannabis import and commercialization license, once all regulatory requirements are fulfilled. The Company will continue its assertive efforts to enter these countries and leverage its Colombian expertise to prescribe, sell and distribute medical cannabis, but with COVID-19 there may be regulatory delays and other barriers to entry until the pandemic is concluded.

Physician education on the benefits and application of cannabinoid therapies is an important element of building awareness for the Khiron brand of cannabis products. A shift to virtual and digital platforms has been a key tactical change in the Company's strategy for marketing medical products. One such initiative being the agreement the Company entered into with Tecnologico de Monterrey in Mexico.

Sales of the Company's wellness product line are expected to be impacted by the COVID-19 crisis and the follow-on of store closures and economic instability. As a result, the Company has delayed the launch of the new Kuida® product lines and significantly limited marketing efforts in the US and UK. The focus on marketing and sales globally will be through digital strategy and on-line platforms. In the meantime, the Company continues to uncover new distribution networks globally for launch of the wellness product line once stores re-open while looking to alternative distribution methods, such as direct sales.

While the Company starts the year 2020 with a cash balance of $36.9 million, the Company must prudently manage its cash and maintain its liquidity amidst the uncertainty of incoming cash flows during the COVID-19 pandemic. The Company's core focus will be on its medical businesses using a predominantly digital strategy focus to grow its patient network and sell its medical cannabis products both locally in Colombia and globally. Maintaining high quality growth and extracts at its cultivation site will be critical to the Company's success. Cost reductions in salaries, marketing and other administrative functions have been implemented. Capital expenditure programs have been postponed, where possible. The Colombian government has resolved to provide health care service companies with financial relief, which could result in the deferral of loan repayments and lease payments by ILANS. While the Company will avail itself of financial relief measures, management believes that the Company should be able to maintain a positive cash balance through 2020. Maintaining liquidity through the crisis and continuing with its core strategy should place the Company in a very strong competitive position once the crisis ends.

Review of Operations for the Years Ended December 31, 2019 and 2018

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

	For the years ended December 31	
(Canadian dollars)	**2019**	2018
	$	$
Health services:		
Revenues	**9,266,690**	795,716
Cost of sales	**7,066,157**	553,742
Gross profit health services	**2,200,533**	241,974
Wellness products:		
Revenues	**315,676**	95,961
Cost of sales	**80,352**	40,571
Gross profit wellness products	**235,324**	55,390
Gross profit	**2,435,857**	297,364
Expenses		
General and administrative costs	**(20,524,510)**	(14,176,066)
Share-based compensation	**(9,371,090)**	(3,289,370)
Selling, marketing and promotion	**(4,787,333)**	(1,104,464)
Research and development	**(3,732,557)**	(352,640)
Transaction fees	**(1,750,000)**	(1,271,157)
	(40,165,490)	(20,193,697)
Gain on acquisition amendment	**1,037,748**	-
Other income, net of other expenses	**314,106**	89,796
Net loss	**(36,377,779)**	(19,806,537)

Gross profit – health services

Health services include the revenues and costs from the ILANS clinics, which were acquired on November 30, 2018. The Company reviews the ILANS financial results through 5 business units – consultation, pain therapy, sleep therapy, minor day surgery procedures and deep brain stimulation surgery.

Revenues, costs and gross profits increased in 2019 compared to 2018 because 2019 represents a full year of health services compared to one month in 2018. No revenues in 2019 and 2018 were derived from the sale of medical cannabis. In 2020, sales of medical cannabis will be considered a new separate business unit and further emphasis will be placed on services that should strengthen margins by rebalancing the services of the clinics to focus on higher margin and/or higher volume services.

The following table shows the quarterly gross margin results of the clinics since a year-over-year comparison is not available because of the timing of the acquisition, being November 30, 2018.

(Canadian dollars)	**Q1 2019**	**Q2 2019**	**Q3 2019**	**Q4 2019**	**Total**
	$	$	$	$	$
Revenues	2,021,144	2,190,997	2,684,739	2,369,810	9,266,690
Cost of sales	1,657,088	1,820,138	2,159,608	1,429,323	7,066,157
Gross profit	364,056	370,859	525,131	940,487	2,200,533
Gross margin	18%	17%	20%	40%	24%

Revenues have been consistent between quarters with an increase in the third and fourth quarters from a higher number of surgeries. Day surgery procedures yield the highest margins and the number of these procedures have steadily increased quarter over quarter lending to the higher gross margins overall. In the fourth quarter, an adjustment of $350,000 was recorded reducing cost of sales and increasing the gross margin. The adjustment reversed a provision that was related to costs expensed in the first and second quarters.

Gross profit – wellness products

Wellness products revenues are largely from sales to distributors of the Company's Kuida products in Colombia, which started distribution in the fourth quarter of 2018. 2019 includes a full year of sales, which have ramped up in the second half of the year as distributors replenish inventories and new distributors commence sales. Points of sale in Colombia for its seven products increased to over 300 by the end of 2019 and marketing channels were opening for sales of the Kuida products in the US and UK. Moderate marketing efforts will continue within Colombia in 2020 for the Kuida line but until the COVID-19 epidemic has ended and economies stabilize further marketing and sales efforts outside of Colombia will be limited.

The table below shows the revenue build of the Kuida products since the launch in 2018.

(Canadian dollars)	**Q4 2018**	**Q1 2019**	**Q2 2019**	**Q3 2019**	**Q4 2019**
	$	$	$	$	$
Consumer products revenues	95,961	69,833	16,683	88,500	140,660
Units sold (#)	5,801	4,498	1,865	6,065	9,243

Expenses

General and administrative costs

General and administrative costs include the following:

	For the years ended December 31	
(Canadian dollars)	**2019**	2018
	$	$
Salaries	**6,680,330**	3,934,902
Professional fees	**3,778,447**	2,585,175
Consulting	**2,072,719**	1,655,002
Investor relations	**1,841,778**	1,162,184
Travel and development	**1,608,605**	1,341,424
Corporate governance	**1,101,272**	636,435
Donations	**149,779**	1,208,585
Office and general	**2,921,535**	1,581,069
Depreciation and amortization	**370,045**	71,290
	20,524,510	14,176,066

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.
- Professional fees include accounting and legal fees, both of which have increased in connection with increased acquisition and financing related transactions in 2019. 2018 professional fees are mostly costs related to costs of listing on the TSXV and other transactional advice.
- Consulting fees and investor relations costs have increased from 2018 with the Company's efforts to expand and grow its business. Consulting fees have increased in 2019 largely due to additional compliance procedures at the cultivation site in Colombia in connection with the first harvest. Investor relations increased in 2019 in connection with the increased shareholder base and enhanced efforts to communicate the Company's strategic progress through various media channels.
- Corporate governance includes directors' fees, directors' and officers' insurance, 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 ***Transactions with Related Parties***).

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 4,090,000 restricted share units in May 2019 as well as 340,000 restricted share units in August 2019. The May 2019 issuance had a fair value of approximately $10 million which is mostly amortized over a two-year period.

Selling, marketing and promotion

These costs are related to corporate communications, educational conferences, costs associated with selling Kuida and preparing to launch medical cannabis through educational forums. Increased focus on selling the Kuida products in 2019 resulted in higher costs compared to 2018. Specifically, the Company focused on increasing brand awareness and cannabis education through the operation of nine pop-up stores, employing brand ambassadors to represent the Kuida brand and image, representation at cosmetic expos, billboards and other media and through its retail distribution agreements direct marketing in the stores. The Company had anticipated opening 20 pop-up stores but by the end of 2019 had only opened nine and instead focused on campaigning its products through expos and other events. Finally, the Company participated in a greater number of educational medical conferences and produced several educational and promotional videos.

Research and development

Research and development included non-capital related operating costs at the Company's cultivation, extraction, and analysis facilities in Ibagué, Colombia. The Company has successfully harvested licensed strains of cannabis and processed the dried flower into a cannabis extract in the last half of 2019 and in March 2020 the Company received its final certification required to manufacture and sell medical cannabis in Colombia. At December 31, 2019, the Company recorded the cost of cannabis inventory and biological assets for plants that will be used for commercial purposes amounting to $92,643 on the balance sheet. A fair value measurement will be used in 2020 for cannabis inventory and biological assets once a fair value can be measured reliably. All other costs related to production through 2019 were expensed as research and development.

In addition, $562,357 was expensed in 2019 as payment under the Fundacion Agreement to commence clinical trials and create an education platform in Chile and $161,180 was paid under the terms of the Dayacann Agreement for cultivation in Chile. In Uruguay, the Company spent $170,963 towards pre-clinical studies as part of an initiative co-sponsored by the government of Uruguay using the Company's cannabis strains.

Transaction fees

In 2019 the Company paid a finder's fee of $750,000 in relation to the joint venture arrangement with Dixie, paid in the form of equity and paid $1,000,000 in compensation bonuses related to the financing transactions. The transaction fee in 2018 was in relation to the fees incurred for the reverse takeover of the Company and $750,000 related to compensation bonuses in conjunction with the equity raises.

Gain on acquisition amendment

The Company acquired ILANS on November 30, 2018, and on May 31, 2019 amended the purchase agreement. See ***Cash used in investing activities*** for more details. Essentially the amendment caused the Company to pay less for ILANS which resulted in a gain of $1,037,748.

Liquidity and Financial Condition

Cash flows

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

	For the years ended December 31	
(Canadian dollars)	**2019**	2018
	$	$
Cash used in operating activities:		
Before working capital changes [(1)]	**(26,333,160)**	(16,100,668)
Working capital changes	**(3,182,384)**	1,326,758
	(29,515,544)	(14,773,910)
Cash used in investing activities:		
Purchase of property, plant and equipment	**(6,094,749)**	(3,825,834)
Acquisition of ILANS	**(2,670,873)**	(1,444,587)
Acquisition of NettaGrowth	**(159,765)**	-
	(8,925,387)	(5,270,421)
Cash provided from financing activities:		
Proceeds from share issuances	**53,139,228**	22,833,347
Proceeds from exercise of options and warrants	**5,128,783**	14,751,880
Repayment of long-term debt	**(1,272,705)**	-
	56,995,306	37,585,227
Change in cash and short-term investments	**18,554,375**	17,540,896
Opening cash and short-term investments	**18,963,272**	1,809,645
Foreign exchange on cash and other	**(612,866)**	(387,269)
Closing cash and short-term investments	**36,904,781**	18,963,272

(1) Adjusted for accrued interest paid on maturity attributable to short-term investments.

Cash used in operating activities

Cash used in operating activities before working capital changes mainly includes cash provided by profits from health services and sales of wellness products less general and administrative costs, selling, marketing and promotion, and research and development. For the year ended December 31, 2019 additional cash was spent on general and administrative costs, selling, marketing and promotion, and research and development compared to the previous year, as explained above in ***Review of Operations***. In 2019, working capital changes reflect additional cash used, including payments of commodity taxes not yet refunded, increased receivables from health services revenues, signing bonuses paid but not fully expensed and higher inventories.

Cash used in investing activities

In 2018, the Company started the construction of its cultivation, extraction, and analysis facilities in Ibagué, Colombia. In 2019, additional capital was spent to expand the facility as well as incurring leasehold improvement costs at its corporate offices in Bogota, Colombia and at its newly established Zerenia clinic.

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 and $67,000 in December 2018). 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.

On June 19, 2019 the Company acquired NettaGrowth through the issuance of 8,498,821 common shares of the Company valued at $13,683,102 and incurred transaction costs of $1,205,565, of which $1,045,800 was paid through the issuance of common shares and $159,765 paid as cash.

Cash provided by financing activities

The Company completed the following financings in 2018 and 2019:

2018

- 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 expiring May 16, 2020 subject to adjustment and acceleration.
- Issued 11,230,000 subscription receipts 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 expiring May 16, 2020, subject to an acceleration provision. Issuance costs totaled $894,000.
- In September 2018, issued 14,375,000 common shares at a price of $0.90 per share for total gross proceeds of $12,937,500. In connection with the share issuance, the Company issued 1,006,250 compensation options which were assigned a value $440,000. Share issuance costs totaled $1,345,153.

2019

- 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. 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. Each compensation option issued will be exercisable at the issue price of $2.20 to acquire one common share expiring February 28, 2021. Share issuance costs totaled $2,247,412 and 786,600 compensation options were issued valued at $1,770,000.

- 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. 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. Each compensation option issued will be exercisable at the $2.90 issue price to acquire one common share expiring May 28, 2021. Share issuance costs totaled $2,206,395 and 594,849 compensation options were issued valued at $918,000.

Proceeds from the 2019 financings and September 2018 financing were intended for the following purposes.

(Canadian dollars)	September 2018	February 2019	May 2019	Total financings	Use of proceeds
Intended use of proceeds:	$	$	$	$	$
Colombia cultivation facility expansion and equipment	6,476,040	3,500,000	-	9,976,040	5,200,000
Clinic construction	520,000	-	-	520,000	520,000
Cosmeceutical product launch and marketing	1,150,000	1,550,000	5,000,000	7,700,000	2,400,000
International expansion	-	8,519,200	-	8,519,200	3,750,000
Future acquisitions	-	4,000,000	-	4,000,000	1,200,000
Uruguay facility build	-	-	13,000,000	13,000,000	310,000
Working capital, general and administrative and issuance costs	4,791,460	11,272,800	10,751,035	26,815,295	26,815,295
	12,937,500	28,842,000	28,751,035	70,530,535	40,195,295

The Company still intends to expand the cultivation facility in Colombia and expand internationally to launch medical cannabis and wellness products. With COVID-19 the Company's growth is tempered, particularly with the wellness products, but with available cash resources can still focus on executing its medical cannabis strategy both in Colombia and internationally. The $13 million of proceeds allocated to the build of the cultivation and processing facility in Juan Lacaze, Uruguay have been put on hold (described further below). The Company intends to build-out additional infrastructure at the cultivation site in Ibague, Colombia once the COVID-19 pandemic is settled. This additional infrastructure is to increase the number of greenhouses and complete the installation of solar panels to reduce energy power consumption. This will allow the Company to not only sell in Colombia but also to achieve its strategy of selling in the Brazilian market while also reducing the risk of crop failure.

The following is an update on the cultivation and processing facility in Juan Lacaze, Uruguay, based on previously disclosed phases of the build:

Phase 1:

- By the end of 2019, completed activities related to site and ground preparation as well as enclosing of the site.

- Completed the engineering and architect design for the greenhouses and plant drying process, which included the detailed design of the upstream area of the facility and initial civil works, which includes seedling, cutting, mother plants, drip irrigation, electrical systems, cultivation greenhouses, trimming areas and quality control labs.

- The Company capitalized $0.5 million in 2019 in relation to the facility and expects to acquire the land by the second quarter of 2020 at a cost of US$155,000.

- Due to the impending definition of the regulatory framework in Brazil (the country to which the Company planned to export cannabis products from Uruguay), particularly related to the technical specifications and the nature of imported products, the Company has not pursued detailed design of downstream facilities such as extraction and final processing (GMP-compliant biotechnology and extraction lab). The definition, timing and execution of design and construction of these areas will depend on the Brazilian regulations regarding importing (quality definitions, GMP requirements, etc.). The Brazilian government published guidelines on regulation on December 4, 2019, which are yet to be fully enacted. The Company expects some changes and further definitions to occur, which may alter the definition and location of the downstream area of the facility.

Phases 2 and 3:

- The Company has halted any further construction and design of the facility and will review the definitions and details of the Brazilian regulation to make further changes or definitions to the already finished designs before starting further phases (Phase 2 and Phase 3) in the Uruguay project.

- The Uruguay facility was intended to supply the Brazil market. The Company intends to pursue the market but initially will supply the market by using a registered product manufactured in Colombia while regulation is enacted and interpreted in Brazil.

The Company has recently assessed the optimal use of the proceeds which were allocated to the Uruguay cultivation site based on the most recent regulatory updates for the Brazil market as well as considering the impacts from COVID-19. The Company intends to redirect the funds as follows:

- Build-out of a new larger clinic (Zerenia) in Bogota, to accommodate the expected demand from current ILANS customers (insurance companies), which were not met by the previous design and size of the ILANS clinics.

- Sustain the Company's administrative costs while the impact of COVID-19 continues to impact on the business.

Subsequent to 2019, the Company received final approval from the TSXV for a normal course issuer bid to repurchase, for cancellation, up to 5,830,615 common shares of the Company, representing approximately 5% of the Company's presently issued and outstanding common shares (the "NCIB") commencing on or about March 4, 2020. The NCIB will expire on the earlier of: (i) one year from such commencement; or (ii) the date on which the Company has purchased the maximum number of common shares to be acquired under the NCIB. The purchase and payment for the common shares will be made in accordance with TSXV requirements at the market price of the applicable securities at the time of acquisition, plus applicable brokerage fees. The actual number of common shares that may be purchased and the timing of any such purchases will be determined at management's discretion and will be made in accordance with the requirements of the TSXV. As of May 1, 2020 the Company repurchased 511,500 common shares for a total cost of $212,389.

Commitments and contingencies

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

	Payments due by period				
Contractual obligations	**2020**	**2021-2023**	**2024-2025**	**2026+**	**Total**
	$	$		$	$
Financial lease - land	136,266	408,799	272,532	624,553	1,442,150
Financial lease – corporate and medical offices	786,355	1,429,887	390,200	16,258	2,622,700
Loans	362,778	201,431	-	-	564,209
Signing bonuses	2,202,555	-	-	-	2,202,555
	3,487,954	**2,040,117**	**662,732**	**640,811**	**6,831,614**

Under the terms of the Dayacann Agreement (and the related agreements), the Company agreed to purchase the Dayacann Product cultivated by Dayacann in Chile, and Dayacann agreed to assist in the development of medicinal cannabis products extracted from Dayacann Product, with a goal to commercialize said products within two years of the date of the agreement. The agreement anticipated receiving the cannabis cultivation permit in February 2019 whereas the permit was received by DayaCann in December 2019, approximately 10 months later than was expected. In light of the permitting delay, together with the concurrent ever worsening political unrest in Chile, the Company believes there are likely to be further delays to the development of the cannabis regulatory framework and commercialization of medical cannabis products in Chile. The Company is currently in discussions with DayaCann on how to move forward with the agreement, considering the significant delays in the receipt of the permits and the feasibility of the agreement in terms of cost and timing. In 2019, the Company spent US$120,000 towards the US$1.2 million commitment as defined in the Dayacann Agreement. The remaining commitment is contingent on the timing for planting, harvesting and testing.

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

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 December 31, 2019, the Company has not yet achieved profitable operations and had a loss of $36,377,779. As described earlier in ***Outlook and COVID-19***, management believes that with reduced spending, deferral of growth opportunity and capital spending and relief from the Colombian government on debt repayments and receivable collection, the Company should have 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 $36.9 million and a working capital balance of $36.4 million at December 31, 2019.

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

Fourth Quarter

	For the three months ended December 31	
(Canadian dollars)	**2019**	2018
	$	$
Medical services:		
Revenues	**2,369,810**	795,716
Cost of sales	**1,429,323**	553,742
Gross profit medical services	**940,487**	241,974
Consumer products:		
Revenues	**140,660**	95,961
Cost of sales	**33,224**	40,571
Gross profit consumer products	**107,436**	55,390
Gross profit	**1,047,923**	297,364
Expenses		
General and administrative costs	**(6,260,150)**	(5,109,680)
Share-based compensation	**(2,274,740)**	(1,050,307)
Selling, marketing and promotion	**(1,261,437)**	(158,197)
Research and development	**(905,071)**	(352,640)
Transaction fees	**1,260,247**	(250,000)
	(9,441,151)	(6,919,825)
Gain on acquisition amendment	**1,037,748**	-
Other income, net of other expenses	**248,267**	118,082
Net loss	**(7,107,213)**	(6,504,379)

Gross profit – medical services and consumer products

In 2018 medical services profits represent one month of profits and in 2019 represents the full 3 months. Further details are provided above in ***Review of Operations*** in regard to both medical services and consumer products.

Expenses

General and administrative costs

General and administrative costs include the following:

	For the three months ended December 31	
(Canadian dollars)	**2019**	2018
	$	$
Salaries	**2,362,126**	1,074,214
Professional fees	**1,234,899**	405,023
Consulting	**777,870**	711,345
Investor relations	**458,836**	308,795
Travel and development	**338,240**	616,323
Corporate governance	**148,400**	177,128
Donations	**-**	1,208,585
Office and general	**878,406**	585,575
Depreciation and amortization	**61,373**	22,692
	6,260,150	5,109,680

Salaries have increased due to a higher head count to support the growth of the business and expansion of operations into multiple countries. Professional fees include accounting and legal fees, both of which have increased in connection with increased acquisition related transactions and accounting/audit related fees in 2019. Investor relations costs have increased from 2018 with the Company's efforts to expand and grow its business and communicate the Company's strategic progress through various media channels. Donations were made under the agreement with Centro Fox (see ***Transactions with Related Parties***).

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 4,090,000 restricted share units in May 2019 as well as 340,000 restricted share units in August 2019. The May 2019 issuance had a fair value of approximately $10 million which is mostly amortized over a two-year period.

Selling, marketing and promotion

Costs in the quarter are largely related to marketing campaigns and selling costs with respect to the Kuida line of products.

Transaction fees

In June of 2019, the Company paid a finder's fee of $1,045,800 (paid in common shares of the Company) and $214,447 in legal and other costs related to the acquisition of NettaGrowth. The acquisition was originally treated as a business combination and as such these costs were expensed in the statement of net loss. In the fourth quarter of 2019, the Company elected to early adopt the amendment to IFRS 3 Business Combinations and as a result accounted for the acquisition as an asset acquisition and capitalized the related transaction fees. This reversal in fees resulted in a reduction in the net loss of the Company recorded in the fourth quarter. Transaction fees in the fourth quarter of 2018 are in regard to bonus incentives related to an equity financing transaction.

Gain on acquisition amendment

The amendment to the purchase agreement for ILANS resulted in a gain of $1,037,748 which was recorded in the fourth quarter of 2019.

Cash flows

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

	For the three months ended December 31	
(Canadian dollars)	**2019**	2018
	$	$
Cash used in operating activities	**(8,024,466)**	(4,074,630)
Cash used in investing activities:		
Purchase of property, plant and equipment	**(2,206,297)**	(1,648,778)
Acquisitions	**-**	(1,444,587)
	(2,206,297)	(3,093,365)
Cash provided from financing activities:		
Proceeds from share issuances	**-**	-
Proceeds from exercise of options and warrants	**-**	11,348,457
Repayment of long-term debt	**(255,038)**	-
	(255,038)	11,348,457
Change in cash and short-term investments	**(10,485,801)**	4,180,462
Opening cash and short-term investments	**47,857,584**	14,698,341
Foreign exchange on cash and other	**(467,302)**	84,469
Closing cash and short-term investments	**36,904,781**	18,963,272

Cash used in operating activities have increased quarter over quarter due to the increase in salaries, professional fees and marketing costs as described above. Purchase of property, plant and equipment in the fourth quarter of 2019 largely is for infrastructure projects at the cultivation site, and for the start of the build out for the Zerenia clinic and the Uruguay cultivation site. Acquisitions in 2018 is in regard to ILANS, as described above.

Summary of Quarterly Results

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
	$	$	$	$	$	$	$	$
Revenues	2,510,470	2,773,239	2,207,680	2,090,977	891,677	-	-	-
Net loss	7,107,213	10,621,101	10,645,726	8,003,739	6,504,379	5,180,411	6,207,151	1,914,596
Basic and diluted loss per share	0.06	0.09	0.11	0.12	0.09	0.10	0.15	0.06
Weighted average shares outstanding	115,399,465	113,996,724	95,973,144	75,894,884	70,187,318	49,851,687	40,566,495	33,042,295

(1) The Company has applied consistent accounting principles and has maintained consistent presentation and functional currency principles between periods.

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. Gross margins increased modestly over the periods.

Items affecting net loss:

- Higher salaries were incurred in the second quarter of 2018 which included signing bonuses for key management positions and higher professional fees resulting from the Company listing on the TSXV in the second quarter of 2018.
- Kuida was launched in the fourth quarter of 2018 and as a result additional costs were incurred for marketing and selling. These costs further increased through each of the quarters in 2019 as the Company stressed brand awareness and expanded distribution channels and markets.
- In 2019, the Company completed the construction of and commenced operations in its cultivation, extraction, and analysis facilities in Ibagué, Colombia expensing non-capital related costs from the start of 2019.
- Salaries increased on a quarterly basis as the Company prepared for growth on a global scale.
- Q4 of 2019 includes a gain realized on the amendment to the acquisition agreement for ILANS.
- Q2 of 2019 includes transaction fees of $1.3 million related to the acquisition of NettaGrowth. In Q4 of 2019 these fees were reversed and capitalized to Intangible Assets.

Adjusted EBITDA

The Company has included adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) as a non-GAAP performance measure in this document. This performance measure is employed by management to assess the Company's operating and financial performance and to assist in business decision-making. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors and other stakeholders use this information to evaluate the Company's operating and financial performance; however, this non-GAAP performance measure does not have a standardized meaning. Accordingly, the performance measure is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

The following table provides a reconciliation of net loss to adjusted EBITDA.

	For the three months ended December 31		For the year ended December 31		
(Canadian dollars)	**2019**	2018	**2019**	2018	2017
	$	$	**$**	$	$
Net loss before tax	**(7,084,467)**	(6,425,799)	**(36,355,033)**	(19,727,957)	(3,779,412)
Add back (deduct):					
Interest expense	**85,862**	14,034	**463,287**	60,322	-
Depreciation and amortization	**313,876**	314,746	**938,531**	337,919	389
Share-based compensation	**2,274,740**	1,050,307	**9,371,090**	3,289,370	1,008,571
Gain on acquisition amendment	**(1,037,748)**	-	**(1,037,748)**	-	-
Amortization of signing bonus	**365,497**	-	**365,497**	800,000	-
Transaction fees	**(1,260,247)**	250,000	**1,750,000**	1,271,157	-
Adjusted EBITDA	**(6,342,487)**	(4,796,712)	**(24,504,376)**	(13,969,189)	(2,770,452)

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 years ended December 31	
	2019	2018
	$	$
Management fees and salaries	**3,756,023**	3,024,751
Share-based compensation	**5,330,089**	1,928,915
Donations	**149,779**	1,208,585

As at December 31, 2019, prepaid expenses and other current assets includes $1.8 million of signing bonuses relating to key management personnel of the Company. This amount was paid in 2019 and will be expensed on a straight-line basis through March 2021.

On October 23, 2018, the Company signed and executed a donation agreement with Centro Fox, a non-for-profit organization controlled by Vicente Fox, a Khiron board member, where Khiron committed to provide US$1 million over three years, ending in the year 2021. In July 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. The final payment of US$555,000 was made in July 2019, which amount was accrued and expensed in 2018.

A member of Khiron's Board of Directors is party to an agreement with the Company whereby in certain defined transactions that member would receive a fee equal to two percent of the transaction value. The agreement terminates on the earlier of completion of a transaction or a date either party notifies of termination. No transaction has occurred to warrant payment and no amount has been accrued in the financial statements.

Critical Accounting Estimates

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, 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 and warrants

The fair value of stock options and warrants are 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, expected risk-free interest rate and expected life of the stock options.

Biological assets and cannabis inventory

In calculating the value of the biological assets and cannabis inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices, expected yields for the cannabis plants, and oil conversion factors. In calculating final inventory values, management compares the inventory cost to estimated net realizable value.

Business combinations and assets acquisitions

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition.

Judgment is also required to assess whether the amounts paid on achievement of milestones represents contingent consideration or compensation for post-acquisition services. Judgment is also required to assess whether contingent consideration should be classified as equity or a liability. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a liability is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in net income (loss).

Functional and presentation currency

Judgment is required to determine the functional currency of the Company and its subsidiaries. These judgments are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances.

Going concern

Judgment and estimates are required to determine whether the Company and its subsidiaries are a going concern. These judgments and estimates include expected future cash flows, access to capital and regulatory changes, and are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances.

Impairment of trade receivables

Judgment is required to determine the expected credit losses. These judgments include the collectability of individual receivables and are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances.

Impairment of non-current assets and goodwill

The Company performs an annual impairment test for goodwill and indefinite life intangible assets and whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit.

For the purpose of impairment testing, goodwill and indefinite life intangible assets are allocated to CGUs representing the lowest level that the assets are monitored for internal reporting purpose. Goodwill and indefinite life intangible assets are tested for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value-in-use.

Determining whether an impairment has occurred requires valuation of the respective CGU, which management estimates using a discounted cash flow method. The discounted cash flow method uses estimates and assumptions, including actual operating results, future business plans, economic projections and market data.

Useful lives of property, plant 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 financial 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.

Changes in Accounting Policies

(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 $1.2 million to capitalize the right-of-use assets and correspondingly increase long-term debt by the same amount.

(b) 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 audited consolidated financial statements as at December 31, 2019.

(c) 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 early adopted the amendment to IFRS 3 effective from January 1, 2019 and as a result accounted for the acquisition of NettaGrowth as an acquisition of an asset in the consolidated financial statements.

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 December 31, 2019 is $70.0 million.

Financial Instruments

Fair values

At December 31, 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 – none
- Level 2 – cash and cash equivalents
- Level 3 – contingent consideration related to acquisitions

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, Canadian credit unions, or funds 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. Trade and accounts receivables consist of trade accounts receivable created in the course of normal business along with recoverable service taxes. The aging of the trade accounts receivable is shown in the table below.

	As at December 31	
	2019	2018
	$	$
0 – 30 days	**1,653,973**	629,265
31 – 90 days	**199,912**	1,306,062
91 – 120 days	**34,546**	555,701
>121 days	**487,078**	580,210
Total	**2,375,509**	3,071,238

Due to the nature of the ILANS operations (health centres in Colombia), the aging of accounts receivables is generally subject to collectability greater than 30 days. The historical average receivable is settled around 88 days after revenue recognition which is typical for the industry in Colombia.

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, 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 period.

Foreign currency risk

The Company's functional and reporting currency is the Canadian dollar but it is exposed to foreign currency risk with respect to the expenditures incurred by its foreign subsidiaries, predominately its Colombian subsidiary, Khiron Colombia SAS. If the currency were to increase or decrease by 5%, the foreign exchange loss or gain would be $185,000.

Off-Balance-Sheet Arrangements

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

Share Capital

As at the date of this MD&A, May 1, 2020, the Company had 116,100,818 common shares issued and outstanding, 2,527,029 warrants outstanding, 5,159,167 stock options outstanding and 6,571,250 restricted share units outstanding. Each warrant, stock option and restricted share unit is exercisable or exchangeable for common shares of the Company on a one for one basis.

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 year ending 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.

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. The risks presented below should not be considered to be exhaustive and may not be all of the risks that Khiron may face. Additional risks and uncertainties not presently known to Khiron or that Khiron currently considers immaterial may also impair the business and operations. If any of the following or other risks occur, the Company's business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted. In that event, the trading price of Khiron Shares could decline and investors could lose all or part of their investment. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

Risks Relating to the Company's Business and Operations

Limited Operating History

Khiron was founded in 2017 and, as such, it has a limited operating history upon which its business and future prospects may be evaluated. Khiron will be subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that it will not achieve its operating goals. In order for Khiron to meet future operating and debt service requirements, Khiron will need to be successful in its growing, marketing and sales efforts. Additionally, where Khiron experiences increased sales, Khiron's current operational infrastructure may require changes to scale Khiron's business efficiently and effectively to keep pace with demand and achieve long-term profitability. If Khiron's products and services are not accepted by new customers, Khiron's operating results may be materially and adversely affected.

Managing Growth

In order to manage growth and change in strategy effectively, Khiron must (i) maintain adequate internal systems and controls to meet customer demand; (ii) expand sales and marketing, distribution capabilities and administrative functions; (iii) expand the skills and capabilities of its current management team; and (iv) attract and retain qualified employees. While it intends to focus on managing its costs and expenses over the long term, Khiron expects to invest to support its growth and may have additional unexpected costs. It may not be able to expand quickly enough to exploit potential market opportunities.

Dependence Upon Management and Key Employees

The Company's success is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management and key employees. While employment agreements and incentive programs are customarily used as primary methods of retaining the services of key employees, these agreements and incentive programs cannot assure the continued services of such employees. Any loss of the services of such individuals, or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on the Company's business, operating results or financial condition. Competition for qualified technical, sales and marketing staff, as well as officers and directors can be intense and no assurance can be provided that the Company will be able to attract or retain key employees in the future, which may adversely impact Khiron's operations.

Dependence on Suppliers and Skilled Labour

The Company's ability to compete and grow will be dependent upon having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining the required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by capital expenditure programs may be significantly greater than anticipated or available, in which circumstance there could be a materially adverse effect on the Company's financial results.

Conflicts of Interest

The Company may be subject to various potential conflicts of interest because of the fact that some of its officers, directors and consultants may be engaged in a range of business activities. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers conflict with or diverge from the Company's interests. In accordance with the British Columbia Business Corporations Act, directors who have a material interest in any person who is a party to a material contract or a proposed material contract are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In accordance with applicable laws, the Company's directors are required to act honestly, in good faith and in the best interests of Khiron.

Reliance on One Facility

The cultivation facility in Colombia is currently Khiron's only licensed facility to cultivate and sell cannabis. The Company's revenue is dependent on the uninterrupted operation of its production at this facility. Khiron's operations may be disrupted by a variety of risks and hazards that are beyond its control, including, but not limited to, fires, power outages, labour disruptions, supply disruptions, natural disasters, public health emergencies and the inability to obtain suitable or adequate machinery, equipment or labour as well as any interruption in its operations as a result of any failure to comply with all applicable laws and regulations involved or security breaches in the cultivation and production of medicinal cannabis.

Frequent or prolonged occurrence of any of the aforesaid events may have a material adverse effect on the Company's business, financial condition and results of operation. If there is any damage to the Company's production facilities, it may not be able to alleviate the impact of such damage in a timely and proper manner or at all. Any breakdown or malfunction of any of the Company's information technology systems and equipment could cause a material disruption of its operations. Adverse changes or developments affecting this facility could have a material and adverse effect on the Company's business, financial condition and prospects.

Certain contemplated capital expenditures of Khiron may require approval of Colombian regulatory authorities. There is no guarantee that Colombian Regulatory Authorities will approve any contemplated expansion and/or renovation, which could adversely affect the business, financial condition and results of Khiron's operations.

Product Viability

If the products Khiron sells are not perceived to have the effects intended by the end user, its business may suffer and the business may be subject to products liability or other legal actions. Many of Khiron's products contain innovative ingredients or combinations of ingredients. There is little long-term data available with respect to efficacy, unknown side effects and/or interaction with individual human biochemistry, or interaction with other drugs. Moreover, there is little long-term data available with respect to efficacy, unknown side effects and/or its interaction with individual animal biochemistry. As a result, Khiron's products could have certain side effects if not taken as directed or if taken by an end user that has certain known or unknown medical conditions.

Demand for Cannabis and Derivative Products

The legal cannabis industry is at an early stage of its development. Consumer perceptions regarding legality, morality, consumption, safety, efficacy and quality of medicinal cannabis are mixed and evolving and can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medicinal cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medicinal cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for medicinal cannabis and on the business, results of operations, financial condition and cash flows of Khiron. Further, adverse publicity reports or other media attention regarding cannabis in general or associating the consumption of medicinal cannabis with illness or other negative effects or events, could have such a material adverse effect. Public opinion and support for medicinal cannabis use has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medicinal cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization. Khiron's ability to gain and increase market acceptance of its business may require substantial expenditures on investor relations, medical education, strategic relationships and marketing initiatives. There can be no assurance that such initiatives will be successful and their failure may have an adverse effect on Khiron.

Third party transportation

The Company relies on third party transportation services and importation services to deliver its products to its customers. Khiron is exposed to the inherent risks associated with relying on third party transportation service-providers, including logistical problems, delays, loss or theft of product and increased shipping and insurance costs. Any delay in transporting the product, breach of security or loss of product, could have a material adverse effect on the Company's business, financial performance and results of operations. Further, any breach of security and loss of product during transport could affect Khiron's status as a licensed producer.

Security breaches

Breaches of security at our facilities may occur and could result in damage to or theft of products and equipment. A security breach at any one of our facilities could result in a significant loss of inventory or work in process, expose us to liability under applicable regulations and increase expenses relating to the investigation of the breach and implementation of additional preventative security measures, any of which could have an adverse effect on our business, financial condition and results of operations.

Cyber-security and privacy risks

The Company may be subject to risks related to our information technology systems, including cyber-attacks, malware, ransomware and phishing attacks that could target our intellectual property, trade secrets, financial information, personal information of our employees, customers and patients, including sensitive personal health information. The occurrence of such an attack could disrupt our operations and expose the Company to financial losses, contractual damages, liability under labour and privacy laws, reputational damage and additional expenses. We have implemented security measures to protect our data and information technology systems; however, such measures may not be effective in preventing cyber-attacks. We may be required to allocate additional resources to implement additional preventative measures including significant investments in information technology systems. A serious cyber-security breach could have a material adverse effect on our business, financial condition and results of operations.

The Company may collect and store certain personal information about customers and are responsible for protecting such information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions. In addition, theft of data is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such privacy breach or theft could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, there are a number of laws protecting the confidentiality of certain patient health information, including patient records, and restricting the use and disclosure of that protected information. If the Company were found to be in violation of privacy or security rules or other laws protecting the confidentiality of medical cannabis patient health information, the Company could be subject to sanctions and civil or criminal penalties, which could increase its liabilities, harm its reputation and have a material adverse effect on the Company's business, financial condition and results of operations.

Liability, Enforcement, Complaints, etc.

Khiron's participation in the cannabis industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by third parties, other companies and/or various governmental authorities against Khiron. Litigation, complaints, and enforcement actions involving Khiron could consume considerable amounts of financial, management and other corporate resources, which could have an adverse effect on Khiron's future cash flows, earnings, results of operations and financial condition.

Intellectual Property

The ownership and protection of trademarks, patents, trade secrets and intellectual property rights are significant aspects of the Company's future success. Unauthorized parties may attempt to replicate or otherwise obtain and use the Company's products and technology. Policing the unauthorized use of the Company's current or future trademarks, patents, trade secrets or intellectual property rights could be difficult, expensive, time-consuming and unpredictable, as may be enforcing these rights against unauthorized use by others.

In addition, other parties may claim that the Company's products infringe on their proprietary and perhaps patent protected rights. Such claims, regardless of their merit, may result in the expenditure of significant financial and managerial resources, legal fees, injunctions, temporary restraining orders and/or require the payment of damages. As well, the Company may need to obtain licenses from third parties who allege that the Company has infringed on their lawful rights. Such licenses, however, may not be available on terms acceptable to the Company or at all. In addition, the Company may not be able to obtain or utilize on terms that are favorable to it, or at all, licenses or other rights with respect to intellectual property that it does not own.

Product Liability

As a manufacturer and distributor of products designed to be ingested by humans or applied to the human body, Khiron faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused loss or personal injury. In addition, the sale of Khiron's products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Adverse reactions resulting from consumption or use of Khiron's products alone or in combination with other medications or substances could occur. Khiron may be subject to various product liability claims, including, among others, that Khiron's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning health risks, possible side effects or interactions with other substances. A product liability claim or regulatory action against Khiron could result in increased costs, could adversely affect Khiron's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of Khiron. There can be no assurances that Khiron will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities.

Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of Khiron's potential products.

Insurance Coverage

While the Company has obtained insurance policies to protect its assets, operations and employees, certain losses and liabilities of the Company may exceed the coverage limits or be excluded altogether by the terms of such policies. Insurance may not be available for all of the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial loss or liability not covered by insurance or in excess of policy limits, or if it were to incur such loss or liability at a time when it is not able to obtain insurance, the Company's business, financial condition and results of operations may be adversely affected.

Ability to Establish and Maintain Bank Accounts

In certain countries, cannabis businesses may have difficulty accessing the services of banks and processing credit card payments, which may make it difficult for the Company to operate in those countries. In addition, there is a risk that banking institutions in countries where Khiron operates will not accept payments related to the cannabis industry. As a result, the Company may have limited or no access to banking or other financial services in certain countries. The inability or limitation on the Company's ability to open or maintain bank accounts in certain countries, obtain other banking services and/or accept credit card and debit card payments may make it difficult to operate and conduct its business as planned in these countries or increase costs for Khiron. To-date, Khiron has managed banking restrictions with minimal additional cost or impact on operations, but Khiron's inability to manage such risks in future could adversely affect Khiron's operations and financial performance.

Research and Development

Rapidly changing markets, technology, emerging industry and regulatory standards and frequent introduction of new products characterize the Company's business. The introduction of new products embodying new technologies and regulatory developments may render the Company's equipment obsolete and its products and services less competitive or less marketable. The process of developing the Company's products and services is complex and requires significant continuing costs, development efforts, third-party commitments and regulatory approvals. The Company may not be successful in developing or effectively commercializing such new products and services, or obtaining any required regulatory approvals, which, together with any capital expenditures made in the course of developing such products and services, may have a material adverse effect on the Company's business, financial condition and operating results.

The Company may be unable to anticipate changes in its potential client requirements that could make the Company's existing products and services obsolete. The Company's success will depend, in part, on its ability to continue to enhance its product and service offerings so as to address the increasing sophistication and varied needs of the market, and respond to technological and regulatory changes and emerging industry standards and practices on a timely and cost-effective basis.

Shelf Life of Inventory

The Company holds finished goods in inventory and its inventory has a shelf life. Finished goods in the Company's inventory include cannabis flower, cannabis oil products and cosmeceutical products from its Kuida line. The Company's inventory may reach its expiration and not be sold. Although management regularly reviews the quantity and remaining shelf life of inventory on hand, and estimates manufacturing and sales lead times in order to manage its inventory, write-downs of inventory may still be required. Any such write-down of inventory could have a material adverse effect on the Company's business, financial condition, and results of operations.

Maintenance of Effective Quality Control System

The Company may not be able to maintain an effective quality control system. The Company ascribes its success to its commitment to product quality and its effective quality control system. The effectiveness of the Company's quality control system and its ability to obtain or maintain Good Manufacturing Practices (GMP) certification with respect to its manufacturing, processing and testing facilities depend on a number of factors, including the design of its quality control procedures, training programs, and its ability to ensure that its employees adhere to the Company's policies and procedures. The Company also depends on service providers such as toll manufacturers and contract laboratories to manufacture, process or test its products, that are subject to GMP and Good Elaboration Practices (GEP) certification requirements. Regulatory agencies periodically inspect our and our service providers' facilities to evaluate compliance with applicable GMP and GEP requirements. Failure to comply with these requirements may subject us or our service providers to possible regulatory enforcement actions. Any failure or deterioration of the Company's or its service providers' quality control systems, including loss of GMP or GEP certification, may have a material adverse effect on the Company's business, results of operations and financial condition.

Product Recalls

Manufacturers may recall products for a variety of reasons, including defects or deficiencies in the product, packaging or labelling, product contamination, or due to the occurrence of serious and unexpected adverse events reported by patients or consumers. If any of Khiron's products are recalled for any reason, Khiron could be required to incur significant, unexpected expenses including the cost of recalling and withdrawing the product from the market and conducting an appropriate investigation, replacing or refunding the price of the recalled products and legal expenses of any litigation that might arise in connection with the recall. A recall could result in backorders and lost sales and Khiron may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although Khiron has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid product recalls, regulatory action or lawsuits. Additionally, if Khiron's products are subject to a recall, the image of Khiron and its brands could be harmed. A recall could lead to decreased demand for Khiron's products and could have a material adverse effect on the results of operations and financial condition of Khiron. Additionally, product recalls may lead to increased scrutiny of Khiron's operations by regulatory agencies, potential loss of applicable licenses, increased demand on management resources, and potential legal fees and other expenses.

Risks Inherent in an Agricultural Business

Khiron's business involves the growing of cannabis, which is an agricultural product. Khiron grows its cannabis in a controlled, outdoor environment. The occurrence of severe adverse weather conditions, especially droughts, hail, floods or frost, is unpredictable and may have a potentially devastating impact on agricultural production. Adverse weather conditions may be exacerbated by the effects of climate change and may result in the introduction and increased frequency of pests and diseases. The effects of severe adverse weather conditions may reduce Khiron's yields or require Khiron to increase its level of investment to maintain yields. Additionally, higher than average temperatures and rainfall can contribute

to an increased presence of insects and pests, which could negatively affect cannabis crops. Future droughts could reduce the yield and quality of Khiron's cannabis production, which could materially and adversely affect Khiron's business, financial condition and results of operations.

The occurrence and effects of plant disease, insects and pests can be unpredictable and devastating, potentially rendering all or a substantial portion of the affected harvests unsuitable for sale. Even when only a portion of the production is damaged, Khiron's results of operations could be adversely affected because all or a substantial portion of the production costs may have been incurred. Although some plant diseases are treatable, the cost of treatment can be high and such events could adversely affect Khiron's operating results and financial condition. Furthermore, if Khiron fails to control a given plant disease and the production is threatened, Khiron may be unable to supply its customers, which could adversely affect its business, financial condition and results of operations. There can be no assurance that natural elements will not have a material adverse effect on any such production.

Risks Inherent in Rural Real Estate

The Colombian Constitution protects the right to own private property and related rights acquired in compliance with civil regulations. According to the Colombian Constitution, legally acquired private property ownership rights cannot be affected if the owner is in compliance with applicable laws.

Except in the case of public necessity or social interest, subject to due process and the payment of an indemnification, expropriations without just cause or on a discriminatory basis are restricted.

In August 2011, Colombia and Canada entered into a Free Trade Agreement, which outlines the issue of expropriations in Article 811 as well as dispute settlements in Chapter 21. The Free Trade Agreement provides that Canadian investments in Colombia will be granted fair and equitable treatment with full protection and security and will be accorded no less favourable treatment than Colombia grants to its own investors or investors of any other country. It also provides that an investment will not be expropriated except in a non-discriminatory manner in accordance with due process of law with prompt and adequate compensation. The expropriation provisions cover both traditional "direct" takings and so-called "indirect" or "creeping" expropriation, which results from a measure or a series of measures by a government that have an effect equivalent to direct expropriation without a formal transfer of title or outright seizure of the investment. An investor-State dispute resolution process is provided for in the event that the investment is not provided the protections set out in the Free Trade Agreement. Through this process, a Canadian investor can challenge a Colombian measure through binding international arbitration instead of relying on the Colombian courts.

Protected Areas Established by the National System of Protected Areas

Cannabis licenses may not be granted to individuals or legal persons who intend to conduct the licensed activities on lands that are in national parks or in protected areas established by the National System of Protected Areas. The government has the right to establish new protected areas in areas with certain environmental relevance that might result in the prohibition to conduct any type of activities on those areas or the need to obtain environmental authorizations.

Khiron does not operate in a protected area and no expropriation proceedings are pending with respect to Khiron, pursuant to the National System of Protected Areas.

Energy Prices and Supply

Khiron requires substantial amounts of diesel and electric energy and other resources for its cultivation and harvest activities and for transportation of cannabis. Khiron relies upon third parties for its supply of energy resources used in its operations. The prices for and availability of energy resources may be subject to change or curtailment, respectively, due to, among other things, new laws or regulations, imposition of new taxes or tariffs, interruptions in production by suppliers, imposition of restrictions on energy supply by government, worldwide price levels and market conditions. Although Khiron has invested in the construction of a solar power facility at its Doima cultivation site in order to significantly reduce its dependence on external suppliers and to mitigate the effects of fuel shortages, electricity outages and cost increases, the Company's operations will continue to depend on external suppliers of fuel and electricity. If energy supply is cut for an extended period of time and Khiron is unable to find replacement sources at comparable prices, or at all, Khiron's business, financial condition and results of operations would be materially and adversely affected.

Supply of Cannabis Seeds

Khiron has already registered 22 strains of cannabis which the Company uses to produce seeds for commercial growing purposes. If for any reason the supply of cannabis seeds from the registered strains ceases or is delayed, Khiron would have to seek alternative suppliers and all necessary authorizations for the new seeds. If replacement seeds cannot be obtained at comparable prices, or at all, or if the necessary authorizations are not obtained, Khiron's business, financial condition and results of operations would be materially and adversely affected. There are over 200 strains already registered in Colombia and the market for seeds is increasing in size, as competing suppliers register their strains.

Changes in Corporate Structure

Colombian cannabis licenses are granted on a non-transferable, non-exchangeable and non-assignable basis. Any breach of this restriction may give rise to unilateral termination of the license by the governmental authority.

Notwithstanding the above, Colombian laws do not provide for specific regulations or restrictions regarding the effects of a change in control, modification of the corporate structure, issuance of shares, or any changes in holders or final beneficiaries of cannabis licenses.

Colombian legislation gives special attention to the identification and background of the legal representatives of licensees. Licensees must file a declaration of the legality of the proceeds of the legal representatives. Furthermore, Decree 613 of 2017 provides a set of resolutory conditions, which enable the Ministry of Health or the Ministry of Justice, as applicable, to terminate a license if the licensee fails to request the amendment of the license within 30 calendar days following any changes in (i) the legal representation of the licensee; or (ii) the declaration that a legal representative is criminally liable for drug trafficking or related crimes, after having issued the respective license.

As the Company expands its operations to other jurisdictions, it may be subject to additional or similar transfer restrictions that could have the effect of limiting the Company's ability to derive the full value of its licenses on a sale of the business, business combination or corporate reorganization.

Public Health Crises, including COVID-19

A local, regional, national or international outbreak of a contagious disease, such as COVID-19, could have an adverse effect on local economies and potentially the global economy, which may adversely impact the price and demand for the Company's products. COVID-19 could affect the Company's ability to conduct operations and may result in shortages of staff. In addition, mandatory quarantine or isolation measures may result in closures of clinics for non-emergency treatments or consultations, including a potential reduction in patient visits at the Company's Clinics and, as a result, potential lost revenue. Such measures could also require the closure of retail stores where the Company's products are sold, resulting in lost sales. Such an outbreak, if uncontrolled or prolonged, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Country Risks

The Company has operations in various countries, including emerging market countries, and may have operations in additional countries in the future. Such operations expose the Company to the socio-economic conditions as well as the laws governing the cannabis industry in such countries. Inherent risks with conducting foreign operations include, but are not limited to: high rates of inflation; extreme fluctuations in currency exchange rates, military repression; war or civil war; social and labour unrest; organized crime; hostage taking; terrorism; violent crime; expropriation and nationalization; renegotiation or nullification of existing licenses, approvals, permits and contracts; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political norms, banking and currency controls and governmental regulations that favour or require the Company to award contracts in, employ citizens of, or purchase supplies from, the jurisdiction.

Governments in certain foreign jurisdictions intervene in their economies, sometimes frequently, and occasionally make significant changes in policies and regulations. Changes, if any, in cannabis industry policies or shifts in political attitude in the countries in which the Company operates may adversely affect its operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, importation of product and supplies, income and other taxes, royalties, the repatriation of profits, expropriation of property, foreign investment, maintenance of licenses, approvals and permits, environmental matters, land use, land claims of local people, water use and workplace safety. Failure to comply strictly with applicable laws, regulations and local practices could result in loss, reduction or expropriation of licenses, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests. The Company continues to monitor developments and policies in the countries in which it operates and assess the impact thereof to its operations; however, such developments cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

Global Economy

An economic downturn of global capital markets has been shown to make the raising of capital by equity or debt financing more difficult. Khiron may be dependent upon the capital markets to raise additional financing in the future, while it establishes a user base for its products. As such, the Company is subject to liquidity risks in meeting its development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact Khiron's ability to raise equity or obtain loans and other credit facilities in the future and on terms favourable to the Company and its management. If uncertain market conditions persist, the Company's ability to raise capital could be jeopardized, which could have an adverse impact on operations and the trading price of its Shares.

TSXV Restrictions on Business

As a condition to initially listing on the TSXV, the TSXV required that Khiron deliver an Undertaking (the "**Undertaking**") confirming that, while listed on TSXV, Khiron will only conduct the business of the production, sale and distribution of medicinal marijuana in Colombia pursuant to the Licenses and in accordance with applicable law, unless prior approval is obtained from TSXV. The Undertaking could have an adverse effect on Khiron's ability to do business or operate outside of Colombia and on its ability to expand its business into other areas, including the provision of non-medical marijuana in the event that the laws were to change to permit such sales, if Khiron is still listed on the TSXV and remains subject to the Undertaking at such time. Compliance with the Undertaking may delay or prevent Khiron from expanding into new areas of business when Khiron's competitors have no such restrictions. All such restrictions could materially and adversely affect the growth, business, financial condition and results of Khiron's operations.

Expansion into New Jurisdictions

The Company's expansion and proposed expansion into other jurisdictions is subject to all the normal risks associated with operating in a new jurisdiction. The Company may face new or unexpected risks or significantly increase its exposure to one or more existing risk factors, including economic instability, changes in laws and regulations (including those specifically related to the cannabis industry and related activities), the effects of competition, opposition to the Company's activities and other risks and uncertainties associated with conducting business in such jurisdictions. The Company will also be subject to new political, legal and regulatory regimes and other risks including but not limited to taxation, price controls, export/import controls, permitting and licensing regimes, environmental laws, labour laws, changing political conditions, repatriation restrictions and currency fluctuations.

The legal and regulatory requirements and local business culture and practices in the foreign countries in which the Company may expand are different from those in which it currently operates. The officers and directors of the Company will rely, to a great extent, on the Company's local legal counsel and local consultants and advisors in respect of legal, banking, labour, financing and tax matters in order to ensure compliance with material legal, regulatory and governmental developments as they pertain to and affect the Company's operations, particularly with respect to cannabis or related operations. Increased compliance costs will be incurred by the Company. Further, there can be no assurance that any market for the Company's products will develop in these new jurisdictions. These factors may limit the Company's ability to successfully expand its operations into such jurisdictions and may have a material adverse effect on the Company's business, financial condition and results of operations.

Regulatory Risks

Legal Proceedings

From time to time, Khiron may be a party to legal and regulatory proceedings, including matters involving governmental agencies, entities with whom it does business and other proceedings arising in the ordinary course of business. Khiron will evaluate its exposure to these legal and regulatory proceedings and establish reserves for liabilities (where such liabilities can be estimated) in accordance with generally accepted accounting principles. Assessing and predicting the outcome of these matters involves substantial uncertainties and it may not be possible to estimate Khiron's potential liability if any. Unexpected outcomes in these legal proceedings, or changes in management's evaluations or predictions and accompanying changes in established reserves, could have an adverse impact on Khiron's financial results.

While the Company has insurance that may cover the costs and awards of certain types of litigation, the amount of insurance may not be sufficient to cover any costs or awards, while certain other types of litigation may be excluded from coverage entirely. Substantial litigation costs or an adverse result in any litigation may adversely impact the Company's business, operating results or financial condition.

Regulatory Compliance Risks

Achievement of Khiron's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. Khiron may not be able to obtain or maintain the necessary licenses, permits, authorizations or accreditations, or may only be able to do so at great cost, to operate its business. Khiron cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by local governmental authorities. To date, Khiron has received the Licenses to cultivate low-THC Medicinal Cannabis and licenses to cultivate and produce high-THC Medicinal Cannabis from the Colombian government. In addition, as Khiron expands its business operations in jurisdictions outside Colombia, including the EU, UK, Brazil, Peru and Uruguay, the Company will be required to obtain additional licenses, authorizations and permits in order to conduct business. The impact of the various compliance regimes, and any delays in obtaining, or failure to obtain or maintain the necessary regulatory approvals, may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of Khiron.

The officers and directors of Khiron must rely, to a great extent, on Khiron's legal counsel and consultants in order to keep abreast of material legal, regulatory and governmental developments as they pertain to and affect Khiron's business operations, and to assist Khiron with its governmental relations in each jurisdiction where the Company operates. With respect to its Colombian operations, Khiron relies to a certain extent, on those members of management and the board who have previous experience working and conducting business in Colombia in order to enhance its understanding of and appreciation for the local business culture and practices in Colombia. Khiron also relies on the advice of local experts and professionals in connection with current and new regulations that develop in respect of banking, financing and tax matters in Colombia. Developments or changes in such legal, regulatory or governmental requirements or in local business practices in foreign jurisdictions are beyond the control of Khiron and may adversely affect its business.

Khiron will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Khiron may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to Khiron's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of Khiron.

Canadian Regulatory and Civil Proceedings

Khiron operates in Colombia pursuant to licenses and authorizations granted by the Ministry of Justice and the Ministry of Health. Consequently, certain activities conducted by Khiron are permissible under one regulatory regime while not under another. In the past, Canadian courts and regulatory authorities have taken the view that it is not contrary to Canadian federal or provincial law for a person to be engaged in, or for an entity to hold interests in affiliates that are engaged in, certain regulated activities where such activities may be regulated differently than in the home jurisdictions and have enforced extra-territorial laws even where such laws (or regulatory regimes applicable to certain activities or industries) differs from those in the Canadian jurisdiction. There is a risk however that the Canadian courts or applicable Canadian or other governmental authorities may take a contrary view with respect to the business of Khiron and view Khiron as having violated their local laws, despite Khiron having obtained all applicable Colombian licenses or authorizations and despite that Khiron does not carry on business in Canada. Therefore, there is a risk that civil and criminal proceedings, including class actions, could be initiated against Khiron. Such potential proceedings could involve substantial litigation expense, penalties, fines, seizure of assets, injunctions or other restrictions being imposed upon Khiron or its business partners, while diverting the attention of key executives. Such proceedings could have a material adverse effect on Khiron's business, revenues, operating results and financial condition as well as impact upon Khiron's reputation.

Change of Cannabis Laws, Regulations and Guidelines

Cannabis laws and regulations are dynamic and subject to evolving interpretations which could require Khiron to incur substantial costs associated with compliance or alter certain aspects of its business plan. It is also possible that regulations may be enacted in the future that will be directly applicable to certain aspects of Khiron's businesses. Khiron cannot predict the nature of any future laws, regulations, interpretations or applications, nor can it determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on Khiron's business. Management expects that the legislative and regulatory environment in the cannabis industry in Colombia and internationally will continue to be dynamic and will require innovative solutions to try to comply with this changing legal landscape in this nascent industry for the foreseeable future. Compliance with any such legislation may have a material adverse effect on Khiron's business, financial condition and results of operations.

Public opinion can also exert a significant influence over the regulation of the cannabis industry. A negative shift in the public's perception of the cannabis industry could affect future legislation or regulation in different jurisdictions.

Reliance on Licenses and Authorizations

Khiron's ability to grow, store and sell cannabis is dependent on Khiron's ability to sustain and/or obtain the necessary licenses and authorizations by certain authorities in Colombia and around the globe. The licenses and authorizations are subject to ongoing compliance and reporting requirements and the ability of Khiron to obtain, sustain or renew any such licenses and authorizations on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions. Failure to comply with the requirements of the licenses or authorizations or any failure to maintain the licenses or authorizations would have a material adverse impact on the business, financial condition and operating results of Khiron.

Although Khiron believes that it will meet the requirements to obtain, sustain or renew the necessary licenses and authorizations, there can be no guarantee that the applicable authorities will issue these licenses or authorizations. Should the authorities fail to issue the necessary licenses or authorizations, Khiron may be curtailed or prohibited from the production and/or distribution of cannabis or from proceeding with the development of its operations as currently proposed and the business, financial condition and results of the operation of Khiron may be materially adversely affected.

Money Laundering Laws

The United Nations defines money laundering as "any act or attempted act to disguise the source of money or assets derived from criminal activity." According to FINTRAC (which stands for Financial Transactions and Reports Analysis Centre of Canada), money laundering is the process whereby "dirty money"—produced through criminal activity— is transformed into "clean money," the criminal origin of which is difficult to trace. The three recognized stages in the money laundering process involve introducing the proceeds of crime into the financial system, converting the proceeds of crime into another form and disguising their source and ownership by complex layers of financial transactions, and integrating the laundered proceeds back into the economy to create a perception of legitimacy. FINTRAC is an agency of the government of Canada. It operates at arm's length from law enforcement agencies, and collects, analyzes and discloses information to help detect, prevent and deter money laundering and the financing of terrorist activities in Canada and abroad. FINTRAC will disclose suspected money laundering to law enforcement agencies and other agencies as appropriate, including Canada Revenue Agency (CRA), Canada Border Services Agency (CBSA) and foreign agencies with which FINTRAC has agreements to share such information. Money laundering is a criminal offence under the laws of Canada including the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada)*, the *Criminal Code (Canada)*, as amended and the rules and regulations thereunder, and in other countries where the Company conducts business or maintains operations, such as Colombia and the US.

The Company's business practices and the nature of its products and services mitigate the risk that proceeds of crime will be attributed to the Company. All financial transactions are processed via electronic funds through the Colombian financial system (as opposed to cash). The Company receives payments from sales from sales of Kuida cosmetic products from well-established retail stores and distributors. Services and medicines supplied through the Company's clinics in Colombia are paid for predominantly by government regulated insurance companies that will only pay for approved services and medications. When approved, medical cannabis sales by the Company will be conducted through licensed pharmacies and dispensaries to patients with medical prescriptions. In addition, the Company's compliance team regularly conducts background checks of its customers and business partners (including natural persons and corporate entities).

Colombia has implemented regulations for the control, mitigation, and prevention of money laundering from terrorist activities. Colombian Law 526 of 1999 created the Special Administrative Unit for Financial Information and Analysis ("UIAF"), which is responsible for detecting money laundering operations and centralizing and analyzing data related to money laundering operations. While some companies in Colombia such as banks, financial institutions and insurance companies, are required to implement anti-money laundering (AML) and counter-terrorism financing risk management systems in accordance with the External Circular 0055 of 2016 from the Finance Superintendence of Colombia and Laws 1121 from 2006 and 1762 from 2015, the Company is not legally required to comply or implement the anti-money laundering and counter-terrorism system (in Spanish, SARLAFT). Nevertheless, the Company has taken several steps, in addition to those described above, to mitigate the risks associated with the proceeds of crime, including obtaining qualifications and certifications in good security practices from the Colombian National Police, training our security and compliance personnel in AML and anti-bribery management systems such as ISO 37001, and continuously monitoring its operations in the context of AML prevention and compliance.

The United States also has implemented an anti-money laundering regime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act). [See **Risks Related to the United States –** *Anti-money Laundering Laws and Regulations*.]

While the Company believes that the risk of proceeds of crime being distributed to shareholders from the Company's services and products is very low under existing laws, changes to existing AML laws or the introduction of new AML laws may require the Company to expend additional resources for compliance related activities. If the Company becomes the subject of AML investigations or charges, the Company

may need to incur significant legal and other expenses and allocate management resources in response to such enforcement actions. The such events were to occur, the business, financial condition and results of the operation of Khiron may be materially adversely affected. If any of Khiron's investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States or Canada were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of Khiron to declare or pay dividends, effect other distributions or subsequently repatriate such funds. Furthermore, while Khiron has no current intention to declare or pay dividends in the foreseeable future, Khiron may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Risks Related to the United States

Marijuana remains illegal under U.S. federal law

Marijuana is a Schedule 1 controlled substance and is illegal under federal U.S. law. Even in those states in which the use of marijuana has been legalized, its use remains a violation of federal law. Despite cannabis having been legalized at the state level for medical use in many states and for adult-use in a number of states, cannabis meeting the statutory definition of "marihuana" continues to be categorized as a Schedule I controlled substance under the federal *Controlled Substances Act*, or the CSA, and subject to the *Controlled Substances Import and Export Act,* or the CSIEA. Hemp and marijuana both originate from the Cannabis sativa plant and CBD is a constituent of both. "Marihuana" or "marijuana" is defined in the CSA as a Schedule I controlled substance whereas "Hemp" is essentially any parts of the Cannabis sativa plant that has not been determined to be marijuana.

Pursuant to the *Agriculture Improvement Act of 2018*, or the Farm Bill, "hemp," or cannabis and cannabis derivatives containing no more than 0.3% of THC, is now excluded from the statutory definition of "marijuana" and, as such, is no longer a Schedule I controlled substance under the CSA. Our activity in the United States is limited to (a) certain corporate and administrative activities, including accounting, sales and marketing, and (b) commercial supply of hemp-derived cosmetic products containing CBD and with no more than 0.3% THC, in compliance with the Farm Bill. The Company does not produce or distribute marijuana products in the United States as defined in the CSA. Therefore, we believe that we are not currently subject to the CSA or CSIEA.

Khiron would be subject to regulation by the FDA and other agencies as a result of the manufacture and sale of its CBD products in the United States. The FDA focuses its enforcement activities on products that put the health and safety of consumers at risk, such as those claiming to prevent, diagnose, mitigate, treat, or cure diseases in the absence of requisite approvals. Changes in FDA regulation of CBD products could require us to alter our formulations, labelling or marketing, or recall or discontinue the products altogether.

State laws vary significantly as to regulation of hemp-derived CBD products. The shifting compliance environment, patchwork of state laws, and the need to build and maintain robust systems to comply with different regulations in multiple jurisdictions increases the possibility that Khiron may violate one or more of the requirements. If Khiron's operations are found to be in violation of any of such laws or any other governmental regulations, or perceived to be in violation, Khiron may be subject to penalties or other negative effects, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of Khiron's operations or asset seizures and the denial of regulatory applications (including those regulatory regimes outside of the scope of DEA and FDA jurisdiction, but which may rely on the positions of the DEA and FDA in the application of their respective regimes), any of which could adversely affect Khiron's business and financial results.

Failure to comply with FDA requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions. Khiron's advertising is subject to

regulation by the Federal Trade Commission (FTC) under the Federal Trade Commission Act as well as subject to regulation by the FDA, and applicable state laws. In recent years, the FTC has initiated numerous investigations of dietary and nutritional supplement products and companies based on allegedly deceptive or misleading claims. At any point, enforcement strategies of a given agency can change as a result of other litigation in the space or changes in political landscapes, and could result in increased enforcement efforts, which would materially impact Khiron's business. Additionally, some states also permit advertising and labeling laws to be enforced by state attorney generals, who may seek relief for consumers, class action certifications, class wide damages and product recalls of products sold by Khiron. Private litigations may also seek relief for consumers, class action certifications, class wide damages and product recalls of products sold by Khiron. Any actions against Khiron by governmental authorities or private litigants could have a material adverse effect on Khiron's business, financial condition and results of operations.

Restricted access to banking

In February 2014, the Financial Crimes Enforcement Network (FinCEN) bureau of the U.S. Treasury Department issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis business, including burdensome due diligence expectations and reporting requirements. This guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the Department of Justice, FinCEN or other federal regulators. Thus, most banks and other financial institutions in the United States do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time by the Trump Administration. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis-related businesses. As a result, Khiron, by virtue of its medical cannabis business in Colombia and other jurisdictions, may have limited or no access to banking or other financial services in the United States. In addition, federal money laundering statutes and Bank Secrecy Act regulations discourage financial institutions from working with any organization that sells a controlled substance, regardless of whether the state it resides in permits cannabis sales. The inability or limitation in Khiron's ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for Khiron to operate and conduct its business as planned or to operate efficiently in the United States.

Anti-money Laundering Laws and Regulations

Khiron is subject to a variety of laws and regulations in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States.

In February 2014, the Financial Crimes Enforcement Network (FCEN) of the U.S. Department of the Treasury issued a memorandum providing instructions to banks seeking to provide services to marijuana related businesses (the ''FCEN Memo''). The FCEN Memo states that in some circumstances, it may not be appropriate to prosecute banks that provide services to marijuana-related businesses for violations of federal money laundering laws. It refers to supplementary guidance that former Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA. It is unclear at this time whether the current administration will follow the guidelines of the FCEN Memo. Under U.S. federal law, banks or other financial institutions that provide a cannabis-related business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy. While this risk would appear to be diminished because the Company's hemp related activities that are in compliance with the 2018 Farm Bill are not in violation of the CSA, the risk remains that the Company's medical cannabis business in Colombia and other jurisdictions could attract sanctions under the FCEN Memo.

If any of Khiron's investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States or Canada were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of Khiron to declare or pay dividends, effect other distributions or subsequently repatriate such funds. Furthermore, while Khiron has no current intention to declare or pay dividends in the foreseeable future, Khiron may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Limited trademark protection

Khiron will not be able to register any United States federal trademarks for its cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a crime under the CSA, the United States Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, Khiron likely will be unable to protect its cannabis product trademarks within the United States. The use of our trademarks by third-parties could have a material adverse effect on the value of such trademarks and our business.

Uncertainty Caused by Potential Changes to Regulatory Framework

There is substantial uncertainty and different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses as to the importation of derivatives from the Cannabis plant and the scope of 2014 Farm Bill-compliant hemp production and commercialization, the 2018 Farm Bill and the emerging regulation of cannabinoids. These different opinions include, but are not limited to, the regulation of cannabinoids by the DEA and or the FDA, as well as applicable state agencies, and the extent to which manufacturers of products containing imported raw materials and/or 2014 and 2018 Farm Bill-compliant cultivators and processors may engage in interstate commerce. The USDA and FDA are currently in the process of rulemaking to establish standards governing the production and sale of hemp products in the U.S., and there is uncertainty as to whether such rules will be unfavorable or could negatively impact operations. The uncertainties cannot be resolved without further federal, and perhaps even state-level, legislation, regulation or a definitive judicial interpretation of existing legislation and rules. If these uncertainties continue, they may have an adverse effect upon the introduction of the Khiron's products in different markets.

Disclosure Under *CSA Staff Notice 51-352 (Revised) Issuers with U.S. Marijuana-Related Activities*The Company is engaged in the importation and distribution of cosmetics with hemp-derived CBD in the U.S., through Khiron Colombia, its recently incorporated US subsidiary Khiron Life Sciences USA Inc., and previously through the Dixie JV. The Canadian Securities Administrators (CSA) set out expectations for disclosure by issuers that currently have, or are in the process of developing, marijuana-related activities in U.S. states where such activity has been authorized within a state regulatory framework ("U.S. Marijuana Issuers") in *CSA Staff Notice 51-352 (Revised) Issuers with U.S. Marijuana-Related Activities*, dated February 8, 2018 (the "CSA 51-352"). CSA 51-352 defines "marijuana-related activities" as marijuana-related practices or activities, including the cultivation, possession or distribution of marijuana, which are illegal under U.S. federal law. As explained above, under the Farm Bill, "hemp," or cannabis and cannabis derivatives containing no more than 0.3% of tetrahydrocannabinol (THC), is excluded from the statutory definition of "marijuana". The Company's products currently distributed in the U.S. are hemp-derived, cosmetics containing CBD with no more than 0.3% THC and are therefore excluded from the definition of marijuana. As the Company does not cultivate, possess or distribute marijuana in the U.S., the Company is not engaged in "marijuana-related activities" and is not a U.S. Marijuana Issuer subject to the disclosure requirements in CSA 51-352.

Risks Related to Foreign Operations

Operational Risks

Khiron's operations outside of Canada could be substantially affected by foreign economic, political, social and regulatory risks. The Company's operations in Colombia are subject to risk due to ongoing problems including but not limited to inflation, unemployment and inequitable income distribution. Colombia's history has witnessed South America's longest running guerilla insurgency, narcotics-related violence, a prevalence of kidnapping and extortionist activities and civil unrest in certain areas of the country. While the situation has improved dramatically in the last decade, there can be no guarantee that the situation will not again deteriorate. Foreign operations are always subject to the risk that governments may adopt regulations or take other actions such as nationalization of private enterprises, imposition of exchange control regulations, or the imposition of restrictions of foreign investment or involvement in certain industries. If any of these economic or political risks materialize, we may experience adverse effects on our business and results of operations.

Repatriation of Funds from Colombia

Currently there are no restrictions on the repatriation from Colombia of earnings to foreign entities and Colombia has never imposed such restrictions. Exchange control regulations require that any proceeds in foreign currency originated on exports of goods from Colombia (including minerals) be repatriated to Colombia. However, purchase of foreign currency is allowed through any Colombian authorized financial entities for purposes of payments to foreign suppliers, repayment of foreign debt, payment of dividends to foreign stockholders and other foreign expenses.

Currently, Mr. Alvaro Yanez and Mr. Alvaro Torres have control over the bank accounts of Khiron Colombia by virtue of their positions as director and legal representative of Khiron Colombia, respectively. Mr. Torres also has control over the bank accounts of ILANS by virtue of his position as director of ILANS. Mr. Torres is the CEO and director of the Company, and Mr. Yanez is a director of the Company. The authorization of transfer of funds from Khiron Colombia and ILANS to the Company, according to the bylaws and Colombian regulations, can only be given by the shareholders of Khiron Colombia. Khiron Colombia is 100% owned by the Company. ILANS is 22% owned by Khiron Colombia and 78% owned by the Company. As the Company is the sole or majority shareholder of Khiron Colombia and ILANS, respectively, there is currently no risk under the existing laws that the earnings of the Colombian subsidiaries could not be repatriated to Canada. However, there can be no assurance that restrictions on repatriation of earnings from Colombia will not be imposed in the future.

Control of Colombian Subsidiaries by the Company

Khiron is the 100% owner, either directly or indirectly, of every subsidiary within the corporate structure. Khiron controls all the cash of every subsidiary within the organization. Directors or executive officers of Khiron hold positions on the board of directors of each of the major subsidiaries. As 100% direct or indirect shareholder, and as majority shareholder in each case where it is not the sole shareholder, the Company has the requisite control to cause the removal of any or all of the directors, officers or legal representatives of each of its subsidiaries and to cause funds to be transferred as it deems appropriate.

The respective shareholders of Khiron Colombia S.A.S and ILANS may remove the directors at a meeting of shareholders, in accordance with the corporate by laws and applicable corporate laws. As the Company is the sole or majority shareholder of each of the Colombian subsidiaries, the risk that the Company will not be able to exert control over the Colombian subsidiaries is very low under the current corporate structure and applicable bylaws and regulations,

Inflation in Colombia

Colombia has in the past experienced double-digit rates of inflation. If Colombia experiences substantial inflation in the future, Khiron's costs in Colombian peso terms will increase significantly, subject to movements in applicable exchange rates. Inflationary pressures may also curtail Khiron's ability to access global financial markets in the longer term and its ability to fund planned capital expenditures, and could materially adversely affect Khiron's business, financial condition and results of operations. The Colombian government's response to inflation or other significant macro-economic pressures may include the introduction of policies or other measures that could increase Khiron's costs, reduce operating margins and materially adversely affect its business, financial condition and results of operations.

Operations in Spanish

As a result of Khiron conducting its operations in Colombia, the books and records of Khiron, including key documents such as material contracts and financial documentation are principally negotiated and entered into in the Spanish language and English translations may not exist or be readily available. However, it is the Company's policy to preferentially hire management employees who are fluently bilingual in Spanish and English at its Colombian operations. In addition, the Company relies on the use of professional translators for in person meetings with non-Spanish speakers where required, and for document translation. The Company does not foresee that significant additional accommodations will be required.
The Company does not have a formal communication plan that sets out measures that will be taken to mitigate any potential communication-related issues as it does not consider one necessary. All material documents provided to the Directors are in the English language. If any material documents are in an original language other than English, the documents are translated by certified translators. All members of the Company's Board of Directors are fluent in English.

Meetings of the Board of Directors and Committees are held on a quarterly basis to approve the financial statements and MD&A for the Company. Additional meetings of the Board of Directors and Committees are held as appropriate to conduct other business of the Company. During the 2019 fiscal year, meetings of the Board of Directors were held in Bogota, Colombia, in January and August. All meetings of the Board of Directors and Committees are conducted (and minutes are prepared) in the English language.

Enforcement of Judgments

Khiron is incorporated under the laws of British Columbia, Canada; however, except for certain cash deposits, the Company's assets are located outside Canada. Furthermore, several of Khiron's directors and officers reside outside Canada. As a result, investors may not be able to effect service of process within Canada upon certain directors or officers or enforce judgments against them in Canadian courts. It may also be difficult for an investor to enforce judgments obtained in Canadian courts in jurisdictions outside Canada.

As a result of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the Board or controlling shareholders than they would as public shareholders of a Canadian company.

Financial and Accounting Risks

Access to Capital

In executing its business plan, Khiron makes, and will continue to make, substantial investments and other expenditures related to acquisitions, research and development and marketing initiatives. Since its incorporation, Khiron has financed these expenditures through offerings of its equity securities. Khiron will have further capital requirements and other expenditures as it proceeds to expand its business or take advantage of opportunities for acquisitions or other business opportunities that may be presented to it. Khiron may incur major unanticipated liabilities or expenses. Khiron can provide no assurance that it will be able to obtain financing to meet the growth needs of Khiron.

Foreign Sales

Khiron's functional currency is denominated in Canadian dollars. Khiron currently expects that sales will be denominated in Colombian pesos and may, in the future, have sales denominated in the currencies of additional countries in which it establishes sales offices. In addition, Khiron incurs the majority of its operating expenses in Colombia Pesos. In the future, the proportion of Khiron's sales that are international may increase. Such sales may be subject to unexpected regulatory requirements and other barriers. Any fluctuation in the exchange rates of foreign currencies may negatively impact the Company's business, financial condition and results of operations. Khiron has not previously engaged in foreign currency hedging. If Khiron decides to hedge its foreign currency exposure, it may not be able to hedge effectively due to lack of experience, unreasonable costs or illiquid markets. In addition, those activities may be limited in the protection they provide Khiron from foreign currency fluctuations and can themselves result in losses.

Estimates or Judgments Relating to Critical Accounting Policies

The preparation of financial statements in conformity with International Financial Reporting Standards, or IFRS, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Khiron bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue and expenses that are not readily apparent from other sources. Khiron's operating results may be adversely affected if the assumptions change or if actual circumstances differ from those in the assumptions, which could cause Khiron's operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the share price of the Company. Significant assumptions and estimates used in preparing the financial statements include those related to the credit quality of accounts receivable, income tax credits receivable, share based payments, impairment of non-financial assets, fair value of biological assets, as well as revenue and cost recognition.

Tax Risks

The Company will operate and will be subject to income tax and other forms of taxation (which are not based upon income) in multiple tax jurisdictions. Taxation laws and rates which determine taxation expenses may vary significantly in different jurisdictions, and legislation governing taxation laws and rates is also subject to change. Therefore, the Company's earnings may be impacted by changes in the proportion of earnings taxed in different jurisdictions, changes in taxation rates, changes in estimates of liabilities and changes in the amount of other forms of taxation. Khiron may have exposure to greater than anticipated tax liabilities or expenses. Khiron will be subject to income taxes and non-income taxes in a variety of jurisdictions and its tax structure is subject to review by both domestic and foreign taxation authorities and the determination of the Company's provision for income taxes and other tax liabilities will require significant judgment.

Khiron will be subject to different taxes imposed by the Colombian government and any changes within such tax legal and regulatory framework may have an adverse effect on our financial results. All current tax legislation is a matter of public record and the Company will be unable to predict which additional legislation or amendments may be enacted.

Risks Related to Khiron Shares

Khiron Share Price Volatility

The market for Khiron's Shares may be volatile and subject to wide fluctuations in response to numerous factors, including changes in global financial markets and global economies and general market conditions, such as interest rates, access to capital and product price volatility. Khiron cannot predict the prices at which Khiron's Shares will trade. Fluctuations in the market price of the Khiron Shares could cause an investor to lose all or part of its investment. Factors that could cause fluctuations in the trading price of the shares include: (i) announcements of new offerings, products, services or technologies; commercial relationships, acquisitions or other events by Khiron or its competitors; (ii) price and volume fluctuations in the overall stock market from time to time; (iii) significant volatility in the market price and trading volume of agriculture companies; (iv) fluctuations in the trading volume of Khiron Shares or the size of Khiron's public float; (v) actual or anticipated changes or fluctuations in Khiron's results of operations; (vi) whether Khiron's results of operations meet the expectations of securities analysts or investors; (vii) actual or anticipated changes in the expectations of investors or securities analysts; (viii) litigation involving Khiron, its industry, or both; (ix) regulatory developments in the Canada, Colombia and foreign countries; (x) general economic conditions and trends; (xi) major catastrophic events; (xii) escrow releases, sales of large blocks of Khiron Shares; (xiii) departures of key employees or members of management; (xiv) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by Khiron or its competitors or (xv) an adverse impact on Khiron from any of the other risks cited herein.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities and have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Such volatility has been particularly evident with regard to the share prices of cannabis companies that are public issuers in Canada. Accordingly, the market price of the shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are lasting and not temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in share price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the shares may be materially adversely affected.

Limited Market for Securities

There can be no assurance that an active and liquid market for Khiron shares will be maintained and an investor may find it difficult to resell any securities of the Company.

No History of Payment of Cash Dividends

Khiron has never declared or paid cash dividends on Khiron Shares. Khiron intends to retain future earnings to finance the operation, development and expansion of the business. Khiron does not anticipate paying cash dividends on Khiron Shares in the foreseeable future. Payment of future cash dividends, if any, will be at the discretion of the Board and will depend on Khiron's financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that the Board considers relevant. As a result, investors may not receive any return on investment in Khiron's shares unless shares are sold for a price that is greater than that at which such investors purchase them.

Reporting Issuer Status

As a reporting issuer, Khiron will be subject to reporting requirements under applicable securities law and stock exchange policies. Khiron is working with its legal, accounting and financial advisors to identify those areas in which changes should be made to Khiron's financial management control systems to manage its obligations as a subsidiary of a public company. Compliance with these requirements will increase legal and financial compliance costs, make some activities more difficult, time consuming or costly and increase demand on existing systems and resources. Among other things, Khiron will be required to file annual, quarterly and current reports with respect to its business and results of operations and maintain effective disclosure controls and procedures and internal controls over financial reporting. In order to maintain and, if required, improve disclosure controls and procedures and internal controls over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm the Khiron's business and results of operations. Khiron may need to hire additional employees to comply with these requirements in the future, which would increase its costs and expenses. Management of Khiron expects that being a reporting issuer will make it more expensive to maintain director and officer liability insurance. This factor could also make it more difficult for Khiron to retain qualified directors and executive officers.

Tax Issues

There may be income tax consequences in relation to Khiron Shares, which will vary according to circumstances of each investor. Prospective investors should seek independent advice from their own tax and legal advisers.