# 2021

## Management Discussion & Analysis

Khiron Life Sciences Corp. December 31, 2021

## MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis (MD&A) of the financial condition and results of operations is intended to help the reader understand the current and prospective financial position and operating results of Khiron Life Sciences Corp. (the "Corporation" or "Khiron"). The MD&A discusses the operating and financial results for the year ended December 31, 2021, is dated April 29, 2022, and takes into consideration information available up to that date.

The MD&A is based on the annual financial statements for the year ended December 31, 2021. The MD&A should be read in conjunction with the annual financial statements and related notes for the year ended December 31, 2021, prepared in accordance with International Financial Reporting Standards (IFRS). The Corporation's audited financial statements have been prepared on a "going concern" basis, which presumes that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

Unless otherwise identified, the MD&A is presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

Additional information is available on Khiron's website (khiron.ca) and all previous public filings, are available through SEDAR (www.sedar.com).

## FORWARD-LOOKING STATEMENTS

The MD&A contains certain forward-looking statements relating to the Corporation's plans, strategies, objectives, expectations and intentions. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "confident", "might" and similar expressions are intended to identify forward-looking information or statements. Various assumptions were used in drawing the conclusions or making the projections contained in the forward-looking statements throughout this MD&A. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Forward-looking statements are based on current expectations, estimates, and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated and described in the forward-looking statements. Such information and statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements.

In particular, but without limiting the foregoing, this MD&A may contain forward-looking information and statements pertaining to the fluctuations in the demand for the Corporation's services; the ability for the Corporation to attract and retain qualified personnel; the existence of competitors; technological changes and developments; the existence of operating risks inherent in the medical cannabis industry; assumptions regarding foreign currency exchange rates and interest rates; the existence of regulatory and legislative uncertainties; the possibility of changes in tax laws and general economic conditions including the capital and credit markets and the impact of COVID-19; assumptions made about future sustainability, performance and operations. The Corporation cautions that the foregoing list of assumptions, risks, and uncertainties is not exhaustive. The forward-looking information and statements contained in this MD&A speak only as of the date of this MD&A, and the Corporation assumes no obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

## NON-GAAP MEASURES AND ADDITIONAL GAAP MEASURES

Throughout this document, reference is made to "gross profit", "working capital", and "Adjusted EBITDA", which are all non-IFRS measures. Management believes that *gross profit* is a useful supplemental measure of operations and that *working capital* is a useful indicator of the Corporation's liquidity and its ability to meet its current obligations. While EBITDA, which is earnings before finance costs including unrealized gains and losses on financial instruments, tax, and depreciation and amortization, is a useful measure, Management believes that *Adjusted EBITDA* is a more appropriate measure for comparing results from one period to another as Adjusted EBITDA normalizes earnings to exclude certain non-operating, non-cash, and extraordinary amounts. All these terms are defined below. Readers are cautioned that these non-IFRS measures may not be comparable to similar measures used by other companies. Readers are also cautioned not to view these non-IFRS financial measures as an alternative to financial measures calculated in accordance with International Financial Reporting Standards ("IFRS").

## NON-GAAP MEASURES DEFINITIONS

"**Adjusted EBITDA**" is a measure of the Corporation's operating profitability. Adjusted EBITDA provides an indication of the results generated by the Corporation's principal business activities prior to how these activities are assets are financed (including mark-to-market movements of the warrant value), depreciated and amortized or how the results are taxed in various jurisdictions, impairment of property, plant, and equipment, impairment of intangible assets, changes in fair value of inventory, unrealized changes in fair value of biological assets, prior to the effect of foreign exchange, other income and expenses, and non-cash share-based payment expense. Adjusted EBITDA is not intended to represent net earnings as calculated in accordance with IFRS.

Adjusted EBITDA is calculated as follows:

| **For the years ended December 31,**<br>**($ Cdn thousands)** | **2021** | 2020 | 2019 |
|---|---|---|---|
| Net loss | **(33,129)** | (24,039) | (36,378) |
| Plus: | | | |
| Depreciation and amortization | **1,115** | 1,167 | 939 |
| Gain on acquisition amendments | **-** | - | (1,037) |
| Finance costs | **445** | 468 | 463 |
| Taxes | **(465)** | 89 | 23 |
| Unrealized gain on changes in fair value of biological assets | **(1,459)** | (5,527) | - |
| Impairment on receivables | **497** | - | - |
| Impairment on inventory | **318** | - | - |
| Impairment on property, plant, and equipment | **749** | - | - |
| Impairment on intangible assets and goodwill | **13,720** | - | - |
| Share-based payments | **2,322** | 5,716 | 9,371 |
| Amortization of signing bonus | **840** | 3,364 | 365 |
| Unrealized gain on warrants | **(2,332)** | - | - |
| Transaction fees | **-** | - | 1,750 |
| Adjusted EBITDA | **(17,379)** | (18,762) | (24,504) |

"**Working capital**" is used by management and the investment community to analyze the operating liquidity available to the Corporation. Working capital is calculated based on current assets less current liabilities.

Working capital is derived from the statements of financial positions and is calculated as follows:

| **As at**<br>**($ Cdn thousands)** | **December 31, 2021** | December 31, 2020 | Increase (decrease) in working capital |
|---|---|---|---|
| Current assets | | | |
| Cash and cash equivalents | **8,923** | 21,649 | (12,726) |
| Accounts receivable | **2,880** | 4,583 | (1,703) |
| Inventory and biological assets | **9,454** | 8,337 | 1,117 |
| Prepaid expenses and other current assets | **2,517** | 1,846 | 671 |
| Total current assets | **23,774** | 36,415 | (12,641) |
| | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | **4,308** | 6,264 | (1,956) |
| Current portion of long-term debt and lease liabilities | **1,626** | 1,078 | (549) |
| Warrant liability | **1,783** | - | 1,783 |
| Total current liabilities | **7,717** | 7,342 | 376 |
| **Working capital** (1) | **16,057** | 29,073 | (13,017) |

## ADDITIONAL GAAP MEASURES DEFINITIONS

"**Funds used in operations**" is used by management to analyze the funds generated by the Corporation's principal business activities prior to consideration of working capital, which is primarily made up of highly liquid balances. This balance is reported in the Statements of Cash Flows included in the cash provided by operating activities section.

"**Gross profit**" is used by management to analyze overall and segmented operating performance. Gross profit is not intended to represent an alternative to net earnings or other measures of financial performance calculated in accordance with IFRS. Gross profit is calculated from the statements of operations and comprehensive income (loss) and from the segmented information contained in the notes to the financial statements. Gross profit is defined as revenue less cost of revenue, changes in fair value of inventory sold, and unrealized gain (loss) on changes in fair value of biological assets.

"**Gross profit before fair value adjustments**" or "**Gross margin**" is used by management to analyze overall and segmented operating performance. Gross profit before fair value adjustments is not intended to represent an alternative to net earnings or other measures of financial performance calculated in accordance with IFRS. Gross profit fair value adjustments is calculated from the statements of operations and comprehensive income (loss) and from the segmented information contained in the notes to the financial statements. Gross profit fair value adjustments is defined as revenue less cost of revenue before changes in fair value of inventory sold and unrealized gain (loss) on changes in fair value of biological assets.

"**Gross profit percentage**" is used by management to analyze overall and segmented operating performance. Gross profit percentage is calculated from the statements of operations and comprehensive income (loss) and from the segmented information in the notes to the financial statements. Gross profit percentage is defined as gross profit divided by revenue.

"**Gross profit before fair value adjustments percentage**" or "**Gross margin percentage"** is used by management to analyze overall and segmented operating performance. Gross profit before fair value adjustments percentage is calculated from the statements of operations and comprehensive income (loss) and from the segmented information in the notes to the financial statements. Gross profit before fair value adjustments percentage is defined as gross profit before fair value adjustments divided by revenue.

**"Health services revenue"**, is comprised of revenue generated from the Corporation 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.

**"Medical cannabis products revenue"**, is comprised of revenue from the products that the Corporation grows, produces and sells branded products and services to patients with medical conditions where cannabis can be an acceptable, proven option.

**"Wellbeing products revenue"**, is comprised of revenue from the products that the Corporation sells that utilize the benefits of CBD and hemp across an array of various branded consumer packaged goods, such as its Kuida® cosmetics line.

**FINANCIAL AND OPERATION HIGHLIGHTS**

| **For the years ended December 31,** | | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| **Key Operating Statistics** | | | | |
| *Medical cannabis* | | | | |
| Revenue generating countries | # | **4** | 2 | 1 |
| Latin America | *Bottles (30 ml/ 50 ml)* | **54,651** | 4,130 | - |
| Europe | *Grams* | **133,140** | 6,870 | - |
| *Health services* | | | | |
| Patient interactions | # | **140,915** | 99,145 | 90,000 |

| **For the years ended December 31,** **($ Cdn thousands)** | **2021** | 2020 | 2019 |
|---|---|---|---|
| Health services [(1)] | **8,078** | 7,430 | 9,266 |
| Medical cannabis products [(1)] | | | |
| - LatAm | **3,082** | 328 | - |
| - Europe | **1,526** | 42 | - |
| Wellbeing products [(1)] | **109** | 217 | 316 |
| Total revenue | **12,795** | 8,017 | 9,582 |
| Gross profit [(1)] | **6,371** | 7,008 | 2,436 |
| Gross profit percentage [(1)] | **49.8%** | 87.4% | 25.4% |
| Adjusted EBITDA [(1)] | **(17,379)** | (18,762) | (24,504) |
| Net loss | **(33,129)** | (24,039) | (36,378) |
| Comprehensive loss | **(39,109)** | (25,253) | (38,617) |

**Health services, Medical cannabis products, and Wellbeing products Revenue [(1)]**

The Corporation continues to expand and improve its product to meet the evolving needs of existing and prospective new patients. Over the last several quarters, the Corporation has been focusing on generating access to medical cannabis to patients and medical practitioners all across the target markets in Latin America and Europe, by leveraging the real-world evidence on the benefits of medical cannabis the Corporation collects through its clinical data, and a hiqh-quality medical cannabis product portfolio. The Corporation is continuously focused on growing its new patient acquisition rates, conversion rates, retention rates, and expansion of its target market to fuel growth.
The Corporation's revenue stream is based primarily on two business segments: 1) Health Services, where Khiron, through its own network of specialized clinics and health centers (named ILANS and/or Zerenia), provides consultations, procedures, and other medium-complexity services to patients with conditions such as chronic pain, neurological conditions, sleep disorders and mental health in Colombia, UK, and Peru; and 2) Medical cannabis

[(1)] See Non-GAAP measures and additional GAAP measures products, where Khiron sells, either through its own medical center channel or external channels, high-quality medical cannabis products in various forms, primarily as tinctures in Latin America or dried flower in Europe.

In 2021, overall revenues increased by 60% from $8.0 million to $12.8 million, driven by medical cannabis products, which accounted for 36% of the Corporation's overall revenues, compared to 4.6% in 2020. In the last quarter of 2021, medical cannabis product revenues represented over 55% of the Corporation's overall revenues for Q4 2021. As the Company continues to increase patient demand, patient acquisition, patient conversion and retention, medical cannabis products will continue to represent the majority of the Khiron's sustainable revenue stream.

In 2021, the Company's medical cannabis product revenues increased by more than 1,200% from $0.37 million to $4.6 million, with gross profitability of 73%. In Q4 2021, the Company sold over $2.0 million in medical cannabis, representing 43% of the entire year's medical cannabis product sales. This is attributable to the continuous growth in patient demand for the Company's products across all the target markets, as evidenced by growth in patient acquisition, patient conversion and patient retention.

In Q4 2020, the Company entered the European medical cannabis market, with the conviction that leveraging the real-world evidence generated by the Company's own health centers with a high-quality and agile supply chain strategy, would allow the Company to make an impact in the European medical cannabis market and diversify its revenue base and provide more growth opportunities. In 2021, the Company generated revenues of $1.5 million in Europe (Germany and the UK), representing more than 33% of the Company's medical cannabis products, compared to $0.04 million in 2020. In Q1 2021, European medical cannabis sales represented 44% of the Company's medical cannabis revenues, showcasing the region's importance to Khiron's global strategy.

In Health Services, the Company continued to grow the number of annual consults by 42%, from 99k to 140k patient interactions per year, driven mostly by the growth in the Company's Colombian operations, which represent the majority of the revenues of Health Services. In 2021, the Company recorded revenues of $8.1 million, up 9% from 2020. Furthermore, the Company increased the gross margins of its Health Services division from 13.6% in 2020 to 20.5% in 2021. However overall revenue from health services was lower in the current year compared to the previous year for a few reasons. The first one is due to the foreign exchange conversion of health services revenues recorded in Colombia in COP to CAD and secondly although the number of interactions increased mainly for cannabis consultations this left very little income for health services but provided a growth in medical cannabis products which resulted in increased number of bottle sales. And lastly surgery which remained steady year over year but had an impact in the current year as the surgery room was closed for nearly 2 months due to certification process resulting in reduced revenue for health services for the current year. These three items resulted in a lower average income per patient, but helped in the growth of medical cannabis products.

In 2018, the Company launched its Wellness division with the introduction of its CBD-based cosmeceutical brand Kuida. In 2019, the Company reached sales of $0.3 million while achieving gross margins of 74%, and the Company had established an objective of creating a leading CBD-based CPG (Consumer Packaged Goods) product line that could be introduced in global markets and become category leader. In 2020, as the COVID-19 pandemic began, the Company decided to reduce the sales and marketing efforts that such CPG product introductions require, attempting to pivot to digital and direct-to-consumer sales strategies. In 2021, as the COVID-19 pandemic continued, the Company decided to focus its efforts on the growing medical cannabis division in LatAm and Europe, and subsequently, suspended sales and marketing efforts for its Kuida product line in LatAm, Europe and North America. In Q4 2021, Khiron decided to discontinue sales of its Kuida portfolio, and therefore will not continue to actively pursue sales opportunities in the short term. Subsequently, the Company has made all the accounting entries to impair the existing inventory of Kuida and continue to focus on its high-margin, high-growth medical cannabis product division in Latin America and Europe. In 2021, the Company recorded sales of $0.1 of wellbeing products, with a negative gross margin of -116% reflecting the inventory write-offs associated.

**Continued investment impacts Adjusted EBITDA[1] and Net Loss**

The gross profit percentage was 49.8% for the year ended December 31, 2021 (2020: 87.4%). The lower gross profit percentage was largely due to the higher fair value gain on biological assets recognized in 2020 compared to 2021, resulting in a better percentage. On a dollar basis, the increase in gross profit was due to higher health services and medical cannabis revenues more than offsetting the decreased gain on biological assets recognized in 2021.

Adjusted EBITDA losses decreased to $17.4 million in 2021 (2020: loss $18.8 million) primarily due to an overall increase in revenues. The Corporation's comprehensive loss increased to $39.1 million in 2021 compared to $25.3 million in 2020. The increased loss is due to $15.0 million of impairments and a $3.0 million decrease in the gain on fair value of biological assets partially offset by a $2.3 million gain in the non-cash fair value the Corporation's outstanding warrants and having $2.5 million less amortization of signing bonuses compared to 2020.

**HIGHLIGHTS**

In March 2021, following the successful launch of the Medellin Zerenia™ clinic, the Corporation opened its two additional Zerenia™ clinics in Cali and Bucaramanga, Colombia, widening the Corporation's national presence.

Also in March 2021, the Corporation successfully exported its registered cannabis strains, in the form of live clones, from Colombia to Europe, as part of an asset light growth strategy in Europe. The Corporation also commenced sales of Khiron-branded medical cannabis in Germany through its European EU-GMP supply chain, and licensed distribution partner, Nimbus Health GmbH.

In April 2021, the Corporation received UK Continuing Professional Development ("CPD") accreditation for Khiron Academy, the Corporation's global medical cannabis education platform. The Corporation also entered into a strategic partnership with Cellen Therapeutics, a leader in digital healthcare in the UK and fellow founding member of Project Twenty21, to increase patient access through medical cannabis education. Khiron Academy will be made available to prescribers in the UK that have registered with Cellen's MedCanHub, an emerging education portal. The Corporation also expand its product offering in UK and increase patient access.

On June 2021, the Corporation announced the receipt by its German distribution partner, Nimbus Health GmbH, of Khiron 20/1 medical cannabis product, making it the Corporation’s largest shipment of EU-GMP certified medical cannabis product for distribution and sale into the German market.

On June 2021, the Corporation announced the launch of its first Zerenia™ clinic outside of Colombia, in Lima, Peru. The new clinic was established as a strategic partnership between the Corporation and Clinica Montesur, a specialized medical provider in Lima.

On June 2021, the Corporation announced the appointment of Franziska Katterbach as President of Khiron Europe Ms. Katterbach had been Managing Director and Chief Legal Counsel of Khiron Europe since October 2019.

On June 2021, the Corporation announced that one of its subsidiaries, Khiron Colombia SAS, received authorization to include Mexico as a destination country within its international export quota, with over 700 kg of high-THC extract available for export to Mexico. The Corporation also finalized agreements for the manufacture of finished medical cannabis products in Mexico.

On July 2021, the Corporation announced that it successfully completed its first sale of medical cannabis product in Brazil.

On July 2021 the Corporation announced that it had Closed its offering to U.S. institutional investors of 27,435,000 units of the Corporation (the “Offered Units”), at a price of $0.45 per Offered Unit, for aggregate gross proceeds to the Corporation of $12,345,750.

On August 2021, the Corporation announce the registration of its two medical cannabis products in Peru, following approval by the Peruvian sanitary agency, DIGEMID. These products were available for sale nationwide in late Q4 2021.

On October 2021, the Corporation announced the appointment of Swapan Kakumanu as Interim CFO following the resignation of former CFO, Joel Friedman.

On November 2021, the Corporation opened its first clinic in Europe with Zerenia™ Clinics in UK with a hybrid model including digital and in-person appointments with medical cannabis specialists practitioners. Zerenia™ Clinics UK is a specialist medical cannabis clinic in London and another strategic approach by Khiron to improve access to medical cannabis for patients in the UK.

**Khiron announces grants of restricted share units**

On February 8, 2021, the board of directors approved a grant of 888,298 restricted share units of to one new and one existing director, and a new officer of the Corporation, in accordance with the terms of the respective agreements between the Corporation and each individual.

**Khiron announces expansion of small-format Zerenia™ clinics in Colombia following success of initial launch changes to management and directors**

On February 10, 2021, Khiron announced that it launched two additional small-format Zerenia™ clinics in first quarter of 2021. The new clinics, which follow on the successful launch of the Corporation's first small-format clinic in Medellin, are located in high-traffic, medical-hub neighbourhoods in two of Colombia's largest metropolitan centres outside of Bogota. The two new small-format Zerenia™ clinics expanded Khiron's network to six clinics, improving regional access to the Corporation's clinic services and medical cannabis products for patients across the country.

Supported by Khiron's larger clinics licences, the two new Zerenia™ small-format clinics provide consultations both in person and through the Doctor Zerenia™ telemedicine platform, connecting patients with medical specialists trained in the ethical, safe, and responsible prescription of cannabis-based medications. Medical cannabis continues to be validated as an effective treatment of pathologies such as chronic pain, anxiety, insomnia, depression, headache, epilepsy, and Parkinson's Disease.

**HIGHLIGHTS SUBSEQUENT TO PERIOD END**

In January 2022, the Government of Colombia stipulates that every insurance provider in Colombia, is now mandated to cover the costs of high and low THC medical cannabis prescriptions.

On January 2022, the Corporation opens its fourth Zerenia™ branded medical cannabis clinics in Bogota with a capacity of up to 40,000 consults per year, adding 20% to the existing capacity in Colombia. Located on one of the busiest shopping centers in Bogota and adjacent to referral locations of four of the largest insurance companies in Colombia.

On February 2022, the Corporation adds another clinic location in Peru through a partnership with a specialized pain clinic called Clinica del Dolor (”CDL”) to provide medical cannabis treatment access to its over 10,000 chronic pain patient populations.

On March 2022, the Corporation announces a partnership in Mexico with Teleton, to establish Zerenia™ medical cannabis clinics in Teleton’s hospitals and distribute the Corporation’s products in its pharmacies. The partnership also includes training of Teleton’s health care practitioners on delivery of medical cannabis.

## OUTLOOK AND GUIDANCE

This Outlook and Guidance contains forward-looking statements that the Corporation does not intend, and does not assume any obligation, to update, except as required by law. The forward-looking information and statements include:

- The current economic climate and its effect on the Corporation's client base business;
- The Corporation's ability to successfully acquire new customers;
- The Corporation's ability to successfully implement its technology; and
- Management's assumptions regarding the sustainability of recurring revenue streams and the Corporation's expected profitability.

The Corporation has experienced increased revenue in 2021 which it plans to build upon into 2022 focusing on two operating segments: Latin America and Europe.

Khiron will continue to focus on expanding operating capacity and utilization in each market in which it operates for its health services. While the Corporation expects to continue to expand its clinic network internationally, revenues from health services are expected to be driven by the core operations in Colombia. The Corporation expects for revenues from health services to stabilize at approximately $1.0 million per month.

Khiron plans to expand its medical cannabis products into two new markets in Latin America in 2022: Brazil and Mexico. Through leveraging the Corporation's expertise gained in Colombia to advance operational strategies in other markets as they develop, subject to regulatory conditions. The Corporation expects that it will continue to rely on its asset-light supply and distribution strategies that leverage the Corporation's existing infrastructure coupled with outsourced supply and distribution partnerships.

Khiron has been successful in establishing its existing brand recognition in Colombia which it is leveraging to support continued e-commerce sales and distribution with local partners as it continues to grow its wellness products business. In the Corporation's European expansion focused currently in the United Kingdom, Spain, and Germany, the Corporation is pursuing distribution agreements to expand market presence while reducing marketing and distribution costs.

## CORPORATE PROFILE

### Organization

Khiron Life Sciences Corp. ("Khiron" or the "Corporation") was incorporated under the Business Corporations Act (British Columbia) on May 16, 2012. The Corporation's shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol "KHRN", the OTCQX Best Market under the symbol "KHRNF" and on the Frankfurt Stock Exchange under the symbol "A2JMXC".

The registered office of the Corporation is located at 2300 - 500 Burrard Street, Vancouver, Canada and its main office in Colombia is located at Carrera 11 No. 84-09 Of. 402, Bogotá, Colombia.

### Operations

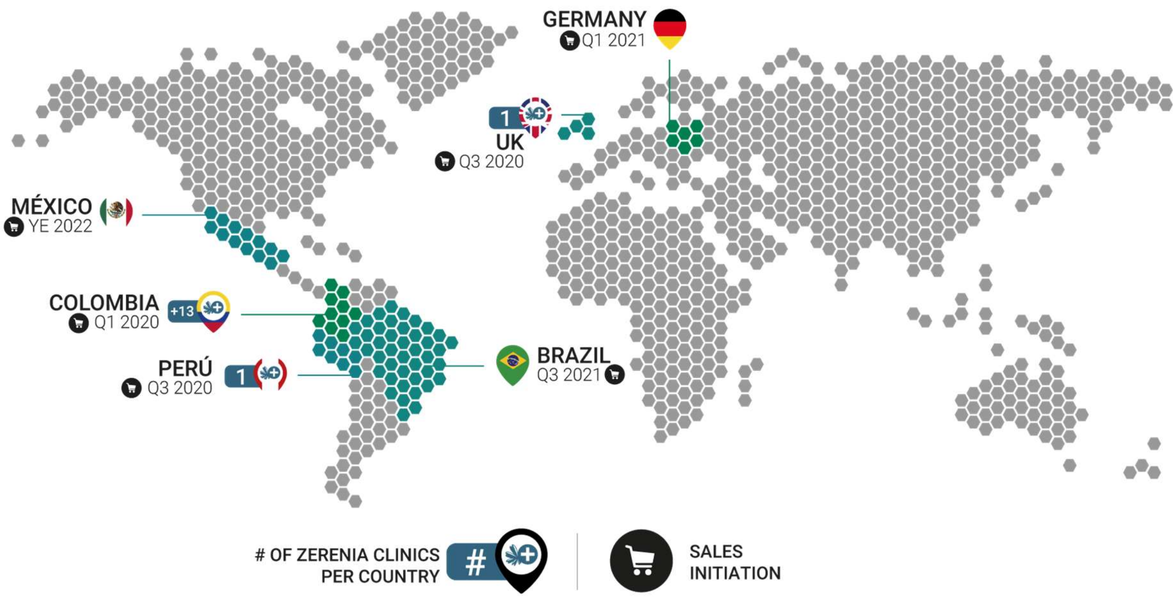
Khiron is a leading medical cannabis company with core operations in Latin America and Europe. Leveraging wholly-owned medical health centres and proprietary telemedicine platforms, Khiron combines a patient-oriented approach, physician education program, scientific expertise and real-world evidence, product innovation, and cannabis production expertise to drive prescriptions and brand loyalty with patients worldwide.

The Corporation focuses on achieving a first mover advantage in the Latin American market and is evolving its strategy towards global expansion. The Corporation's wholly owned subsidiary, Khiron Colombia S.A.S., is licensed in Colombia for the cultivation, production, domestic distribution and international export of both tetrahydrocannabinol (THC) and cannabidiol (CBD) medical cannabis.

The Corporation is authorized to manufacture and fill prescriptions for high-THC and low-THC medical cannabis in Colombia, works with local partners to provide medial cannabis products to patients in Peru, Brazil, Germany, Mexico, and the United Kingdom (UK), and retails an approved line of CBD cosmetic products in Colombia and the UK.

The Corporation has the following streams of revenue from two operating segments, Europe and Latin America:

- **Health services**, where the Corporation 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;
- **Medical cannabis products**, in which the Corporation grows, produces and sells branded products and services to patients with medical conditions where cannabis can be an acceptable, proven option; and
- **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.


GERMANY
Q1 2021
1
UK
Q3 2020
MÉXICO
YE 2022
COLOMBIA
+13
Q1 2020
PERÚ
1
Q3 2020
BRAZIL
Q3 2021
# OF ZERENIA CLINICS
PER COUNTRY
#
SALES
INITIATION

## RESULTS OF OPERATIONS

| For the years ended December 31, ($ Cdn thousands) | 2021 | 2020 | 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | **8,923** | 21,649 | 36,905 |
| Accounts receivable | **2,880** | 4,583 | 4,239 |
| Inventories and biological assets | **9,454** | 8,337 | 961 |
| Prepaid expenses and other current assets | **2,517** | 1,846 | 2,705 |
| **Total current assets** | **23,774** | 36,415 | 44,810 |
| **Non-current assets** | | | |
| Non-current deposits and other assets | **-** | - | 1,340 |
| Property, plant and equipment | **13,557** | 17,518 | 15,859 |
| Intangible assets | **868** | 15,134 | 15,554 |
| Goodwill | **4,075** | 4,112 | 4,349 |
| **Total assets** | **42,274** | 73,179 | 81,912 |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | **4,308** | 6,264 | 7,434 |
| Current portion of deferred consideration | **104** | - | - |
| Current portion of long-term debt and lease liabilities | **1,522** | 1,078 | 1,007 |
| Warrant liability | **1,783** | - | - |
| **Total current liabilities** | **7,717** | 7,342 | 8,441 |
| **Non-current liabilities** | | | |
| Differed consideration | **209** | - | - |
| Long-term debt and lease liabilities | **705** | 1,712 | 2,545 |
| Deferred tax liabilities debt and lease liabilities | **313** | 896 | 887 |
| **Total liabilities** | **8,944** | 9,950 | 11,873 |
| **Shareholders' Equity** | | | |
| Share capital | **146,449** | 137,081 | 121,291 |
| Other reserves | **13,580** | 13,739 | 11,405 |
| Accumulated other comprehensive income | **(9,888)** | (3,908) | (2,693) |
| Deficit | **(116,812)** | (83,683) | (59,964) |
| **Total shareholders' equity** | **33,329** | 63,229 | 70,039 |
| **Total liability and shareholders' equity** | **42,274** | 73,179 | 81,912 |

[1] See Non-GAAP measures and additional GAAP measures

### Health services

| For the years ended December 31, ($ Cdn thousands) | 2021 | 2020 | 2019 |
|---|---|---|---|
| Health services – revenue (1) | **8,078** | 7,430 | 9,266 |
| Health services – cost of revenue (1) | **(6,417)** | (6,165) | (7,065) |
| Gross margin (1) | **1,661** | 1,265 | 2,201 |
| Gross margin percentage (1) | **20.5%** | 13.6% | 23.8% |

Health services include the revenues and costs from the ILANS and Zerenia™ health centres. Zerenia™ is the integrative medical care clinic designed to treat "body, mind and spirit" with medical cannabis and other services. These services are supported by rehabilitation, complementary medicine and diagnostic technology, involving programs for managing multiple symptoms in different pathologies.

Health services revenue increased by $0.7 million, from $7.4 million in 2020 to $8.1 million 2021. The Corporation has been able to increase sales as the COVID-19 restrictions are lifted as well as expanding operations opening up its first international Zerenia™ clinic in Peru through a strategic partnership with Lima-based Cinica Montesur in the third quarter of 2021 to be quickly followed by the acquisition of its first Zerenia™ clinic in London, UK in the fourth quarter of 2021. The UK Clinic utilizing a hybrid model, including digital and in-person appointments with medical cannabis specialist practitioners.

A key metric that Corporation uses to evaluate its growth in the Health services operations is the number of patient interactions. In 2020, the Corporation had 99,145 of patient interactions starting with 23,749 in the first quarter and increase to 28,457 by the fourth quarter of 2020. The Corporation was able to grow and increase its number of patient interactions to 140,915 patient interactions in 2021, with 36,700 patient interactions in the fourth of quarter of 2021 compared to 32,331 in the first quarter of 2021.

The gross margin percentage was 20.5% for the year ended December 31, 2021 (2020: 13.6%). The higher gross margin was largely due to changes in the revenue mix.

### Medical cannabis products

| For the years ended December 31, ($ Cdn thousands) | 2021 | 2020 | 2019 |
|---|---|---|---|
| Medical cannabis products – revenue (1) | **4,608** | 370 | - |
| Medical cannabis products – cost of revenue (1) | **(1,229)** | (190) | - |
| Gross margin (1) | **3,379** | 180 | - |
| Gross margin percentage (1) | **73.3%** | 48.6% | - |

The Corporation utilizes its operations in Colombia for the cultivation, production, domestic distribution and international export of both tetrahydrocannabinol (THC) and cannabidiol (CBD) medical cannabis. The Corporation has obtained authorization to manufacture and fill prescriptions for high-THC and low-THC medical cannabis in Colombia, while developing local partners to provide medial cannabis product to patients.

Initiatives in 2021 were:

- The development of an online medical cannabis certificate course program in conjunction with Mexico's Tecnologico de Monterrey (Monterrey Institute of Technology) to enable physician in Mexico, Colombia, Brazil, and Peru, to safely prescribe medical cannabis; and

- Registration of Khiron first two medical cannabis products in Peru approved by Peruvian sanitary agency DIGEMID, exported from Colombia, to be broadly distributed throughout pharmacy chains, medical distributors, and dispensaries in Peru starting fourth quarter of 2021.

The Corporation continues to grow its medical cannabis revenue from its first sale in the first quarter of 2020. The Corporation has grown its operations achieving significant milestones with its first sales in Peru and UK in the third quarter of 2020. It continues to break into new markets with its first sales in Germany in the first quarter of 2021, followed by its first sales in Brazil in third quarter of 2021, and closing out the fourth quarter of the year with its first sale in Mexico.

The Corporation's Latin American operations are reliant on the cultivation and extraction from is Colombia operations, importing it to the other countries. While the Corporation has relied on 3rd party supply chains to supply its European operations to date.

Medical cannabis revenue increased by $4.2 million, from $0.4 million in 2020 to $4.6 million in 2021. The Corporation's medical cannabis revenue growth of 1,145.4% was accelerated by increased patient access provided by the expanding number of Zerenia™ health centres across Colombia with strategic satellite clinics in major urban centres aided by an increase number of insurance companies covering medical cannabis product which began in December 2020, along with continued growth of its revenue in UK, Peru, Germany, Brazil, and Mexico.

The gross margin percentage was 73.3% for the year ended December 31, 2021 (2020: 90.3%). The gross margin percentage decreased from the previous year due to the impact of changes in the revenue mix.

**Wellbeing products**

| **For the years ended December 31,**<br>**($ Cdn thousands)** | **2021** | 2020 | 2019 |
|---|---|---|---|
| Wellbeing products – revenue [1] | **109** | 217 | 316 |
| Wellbeing products – cost of revenue [1] | **(237)** | (181) | (81) |
| Gross margin [1] | **(128)** | 36 | 235 |
| Gross margin percentage [1] | **(116.5%)** | 16.6% | 74.4% |

Wellbeing products revenues are from sales to distributors of the Corporation's Kuida™ products in Colombia, which started distribution in the in the fourth quarter of 2018. In first quarter of 2020, the Corporation initiated sales of Kuida™ in the UK, however, since the onset of the COVID-19 pandemic, the Corporation has limited Kuida™ related activities outside of Colombia.

Wellbeing products revenue decreased by $0.1 million, from $0.2 million in 2020 to $0.1 million 2021. The decrease is due to the decisions made by the Company following and during the COVID-19 pandemic, which prompted the Company to reduce its sales and marketing efforts and focus on its medical cannabis strategy. In 2021, the Company decided to discontinue active sales of its wellbeing products to focus attention towards the high-margin, high-growth medical cannabis strategy in Europe and Latin America

The gross margin percentage was negative 116.5% for the year ended December 31, 2021 (2020: 63.1%). The negative gross margin percentage was caused by an inventory impairment recognized in the year.

KHIRON LIFE SCIENCES CORP

## GENERAL AND ADMINISTRATIVE

| For the years ended December 31,<br>($ Cdn thousands) | 2021 | 2020 | 2019 |
|---|---|---|---|
| Salaries, subcontractors, and benefits | **8,776** | 11,806 | 6,680 |
| Corporate governance | **3,127** | 1,527 | 1,101 |
| Office and general administration | **2,558** | 2,406 | 2,922 |
| Professional fees | **1,733** | 1,664 | 3,778 |
| Consulting fees | **1,501** | 1,385 | 2,073 |
| Investor relations | **1,060** | 1,153 | 1,842 |
| Travel and development | **270** | 258 | 1,609 |
| Donations | **239** | - | 150 |
| Share-based payments | **2,322** | 5,716 | 9,371 |
| Depreciation and amortization | **953** | 678 | 370 |
| General and administrative | **22,539** | 26,593 | 29,896 |

For the year ended December 31, 2021, total general and administrative (G&A) expenses decreased by $4.1 million, compared to 2020 as a result of the decreased in personnel costs and lower share-based payments being partially offset by higher expenses in the other areas. Corporate governance increased by $1.6 million due to higher insurance costs.

## RESEARCH AND DEVELOPMENT

| For the years ended December 31,<br>($ Cdn thousands) | 2021 | 2020 | 2019 |
|---|---|---|---|
| Research and development expenditures | **2,986** | 2,580 | 3,733 |
| Capitalized costs to biological assets | **(1,770)** | (1,054) | - |
| Research and development | **1,216** | 1,526 | 3,733 |

Research and development (R&D) expenses for the year ended December 31, 2021, decreased by $0.3 million to $1.2 million compared to $1.5 million in 2020. The decrease is the result of the Corporation is due to lower R&D activities during 2021 compared to 2020.

## FOREIGN EXCHANGE

| For the years ended December 31,<br>($ Cdn thousands) | 2021 | 2020 | 2019 |
|---|---|---|---|
| Foreign exchange (gain) loss | **(1,021)** | (21) | (17) |

Foreign exchange gains and losses are the result of foreign currency fluctuations during the period and the timing of when items are settled. Foreign exchange gains and losses fluctuate primarily in relation to changes in the US/Canadian and Euro/Canadian exchange rate. The continued devaluation of Colombian Peso against the Canadian dollar has impacted the overall results of the Company as the Company reports in Canadian dollars.

## FINANCE COSTS

| For the years ended December 31, ($ Cdn thousands) | 2021 | 2020 | 2019 |
|---|---|---|---|
| Bank related charges | **134** | 106 | 129 |
| Interest on long-term debt | **186** | 289 | 290 |
| Other interest and charges | **125** | 73 | 44 |
| Finance costs | **445** | 468 | 463 |
| Unrealized (gain) loss on warrants | **(2,332)** | - | - |

Finance costs decreased for the year ended December 31, 2021, compared to the same period in the prior year, mainly due to lower interest on long-term debt partially offset by higher bank charges and other interest and charges.

The 2021 warrants are hybrid contracts with embedded derivatives. The Corporation has measured the entire hybrid contract at fair value with adjustments recorded in profit or loss.

## NET EARNINGS, TOTAL COMPREHENSIVE INCOME (LOSS), AND CASH FLOWS

| For the years ended December 31, ($ Cdn thousands) | 2021 | 2020 | 2019 |
|---|---|---|---|
| Adjusted EBITDA [1] | **(17,379)** | (18,762) | (24,504) |
| Net loss | **(33,129)** | (24,039) | (36,378) |
| Comprehensive loss | **(39,109)** | (25,253) | (38,617) |
| Funds used in operations before changes in non-cash working capital | **(33,571)** | (22,593) | (26,892) |
| Total funds used in operating activities | **(20,362)** | (24,532) | (30,075) |

For the year ended December 31, 2021, the funds used in operations increased. The increase is largely due to the increased loss, higher depreciation and amortization, and lower fair value gain on biological assets adjustment partially offset by lower share-based compensation and a larger change in non-cash working capital.

## FINANCIAL AND OPERATING HIGHLIGHTS - QUARTERLY ANALYSIS

| ($ Cdn thousands) | 2021 Q4 | 2021 Q3 | 2021 Q2 | 2021 Q1 |
|---|---|---|---|---|
| Health services [1] | **1,613** | 2,282 | 1,944 | 2,239 |
| Medical cannabis products [1] | | | | |
| - LatAm | **1,130** | 834 | 611 | 507 |
| - Europe | **881** | 374 | 215 | 56 |
| Wellbeing products [1] | **12** | 29 | 33 | 35 |
| Total revenue | **3,636** | 3,519 | 2,803 | 2,837 |
| General and administrative | **(5,303)** | (5,183) | (5,740) | (6,313) |
| Selling, marketing, and promotion | **(755)** | (839) | (650) | (398) |
| Research and development | **(371)** | (400) | (98) | (347) |
| Net income (loss) | **(19,502)** | (3,337) | (4,796) | (5,494) |
| Net income (loss) per share – basic and diluted | **(0.11)** | (0.02) | (0.03) | (0.04) |
| Comprehensive income (loss) | **(21,431)** | (3,317) | (5,456) | (8,905) |

[1] See Non-GAAP measures and additional GAAP measures

| ($ Cdn thousands) | 2020 Q4 | 2020 Q3 | 2020 Q2 | 2020 Q1 |
|---|---|---|---|---|
| Health services [(1)] | 2,236 | 1,785 | 1,591 | 1,819 |
| Medical cannabis products [(1)] | | | | |
| - LatAm | 192 | 110 | 25 | - |
| - Europe | 42 | - | - | - |
| Wellbeing products [(1)] | 48 | 33 | 54 | 82 |
| Total revenue | 2,518 | 1,928 | 1,670 | 1,901 |
| General and administrative | (5,842) | (6,881) | (5,874) | (7,996) |
| Selling, marketing, and promotion | (702) | (340) | (693) | (759) |
| Research and development | (211) | (267) | (105) | (944) |
| Net income (loss) | (2,374) | (6,715) | (5,713) | (9,237) |
| Net income (loss) per share – basic and diluted | (0.01) | (0.06) | (0.05) | (0.08) |
| Comprehensive income (loss) | (1,583) | (7,987) | (5,147) | (10,536) |

## FOURTH QUARTER ANALYSIS

### Revenue

Health services revenue for the three-month period ended December 31, 2021 was $1.6 million, a decrease from the comparable period in 2020. This is due to the reduction of high-volume surgery services due to unexpected cancellations and suspensions of service, driven by the COVID-19 pandemic

Medical cannabis products revenue for the three-month period ended December 31, 2021 was up $1.7 million over the comparable period in 2020. The is due to the increase in sales in both Europe and Latin America.

Wellness products revenue for the three-month period ended December 31, 2021 saw a $36 thousand decrease from the comparable period in 2020.

The gross profit percentage was 32.2% for the quarter ended December 31, 2021 (2020: 184.0%). The gross profit percentage in the fourth quarter of 2020 was higher due to the recognition of $4.2 million of unrealized gains on the fair value of the biological assets in the period. Not including the changes in the fair value of the biological assets, gross profit was $2.2 million in the fourth quarter of 2021, $1.8 million higher than the $0.4 million gross profit in the fourth quarter of 2020. This is due to the change in product mix as well as the $1.9 million increase in medical cannabis product sales more than offset the decrease in health services and wellbeing product sales.

### General and administration

For the three-month period ended December 31, 2021, total general and administrative (G&A) expenses decreased by $0.5 million, compared to 2020 as a result of the decreased in personnel costs being partially offset by higher expenses in the other areas. Corporate governance increased by $1.6 million due to higher insurance costs for.

### Selling, marketing, and promotion

For the three-month period ended December 31, 2021, total selling, marketing and promotion expenses increased by $0.1 million, compared to same period in 2020 which was not a significant change.

### Research and development

Research and development (R&D) expenses for the three-month period ended December 31, 2021, increased by $0.2 million to $0.4 million when compared to same period in 2020 as the Corporation continues to invest in its research and development efforts.

## LIQUIDITY AND CAPITAL RESOURCES

### Working capital

| As at<br>($ Cdn thousands) | December 31, 2021 | December 31, 2020 | Increase (decrease) in working capital |
|---|---|---|---|
| Current assets | | | |
| Cash and cash equivalents | **8,923** | 21,649 | (12,726) |
| Accounts receivable | **2,880** | 4,583 | (1,703) |
| Inventory and biological assets | **9,454** | 8,337 | 1,117 |
| Prepaid expenses and other current assets | **2,517** | 1,846 | 671 |
| Total current assets | **23,774** | 36,415 | (12,641) |
| | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | **4,308** | 6,264 | (1,956) |
| Current portion of long-term debt and lease liabilities | **1,626** | 1,078 | (549) |
| Warrant liability | **1,783** | - | 1,783 |
| Total current liabilities | **7,717** | 7,342 | 376 |
| **Working capital** [(1)] | **16,057** | 29,073 | (13,017) |

### Liquidity

As at December 31, 2021, the Corporation's cash and cash equivalents were $8.9 million (December 31, 2020: $21.6 million). The Corporation had a positive net working capital position of $16.1 million (December 31, 2020: $29.1 million). However, the Corporation had a net loss for the year ended December 31, 2021 of $33.6 million (2020: $24.0 million), used cash in operations of $20.3 million (2020: $24.5 million), and had a deficit of $116.8 million at December 31, 2021 (2020: $83.7 million).

While the Corporation has been able to demonstrate the ability to raise capital to fund its operations, the Corporation has not yet been able to generate the sales volumes required to create positive cash flows from operations. Whether and when the Corporation can generate sufficient operating cash flows to pay for its expenditures and settle its obligations as they fall due after December 31, 2021 is uncertain. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that may cast significant doubt upon the Corporation's ability to continue as a going concern. These financial statements do not include necessary adjustments to reflect the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Corporation be unable to continue as a going concern. Such adjustments could be material.

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally, resulting in an economic slowdown. Global equity markets have experienced increased volatility during this period. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The Corporation's core focus has been on its medical businesses using a predominantly digital strategy to grow its patient network and sell its medical cannabis products both locally in Colombia and globally. High quality growth

[(1)] See Non-GAAP measures and additional GAAP measures and extraction at its cultivation site has continued throughout COVID-19. Cost reductions in salaries, marketing and other administrative functions were implemented. Capital expenditure programs were postponed, where possible. While the Corporation will avail itself of financial relief measures, management believes that the Corporation 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. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation in future periods and, accordingly, the going concern uncertainty.

## SHAREHOLDERS' EQUITY

### Issued and Outstanding

| **Number of common shares** | **Issued** |
|---|---|
| Balance as at December 31, 2019 | 116,612,318 |
| Share issuance | 32,200,000 |
| Shares repurchased and cancelled | (511,500) |
| Shares issued on conversion of restricted share units | 2,416,250 |
| Balance as at December 31, 2020 | 150,717,068 |
| **Share issuance** | **27,435,000** |
| **Shares issued on conversion of restricted share units** | **1,110,000** |
| **Balance as at December 31, 2021** | **179,262,068** |
| **Shares issued on conversion of restricted share units** | **410,417** |
| **Balance as at April 29, 2022** | **179,672,485** |

### Common shares

On November 26, 2020, the Corporation completed a bought deal financing issuing 32,200,000 units at a price of $0.45 per Unit for aggregate gross proceeds of $14.5 million (the "November Offering"). Each Unit was comprised of one common share and one warrant. Each warrant entitles the holder thereof to purchase one Common Share at an exercise price of $0.75, for a period ending five years from the closing of the Offering. In consideration for their services, the Corporation paid the underwriters a cash commission equal to 6.0% of the gross proceeds raised, and non-transferable compensation options equal to 6.0% of the Units sold in the November Offering. Each compensation option will be exercisable at $0.45 to acquire one Unit for a period of 24 months following the closing of the November offering.

On July 7, 2021, the Corporation completed an offering to U.S. institutional investors of 27,435,000 units of the Corporation (the "Offered Unit") at a price of $0.45 per Offered unit for aggregate gross proceeds to the Corporation of $12.3 million. Each Offered Unit was comprised of one common share and one common share purchase warrant (each a "Warrant"), with each Warrant entitling the holder thereof to purchase one common share of the Corporation at an exercise price of $0.75 per share, expiring on November 26, 2025.

### Warrant liabilities

The share purchase warrants issued in the July 7, 2021 unit offering are considered derivative liabilities in accordance with IAS 32, as the warrant holders are entitled to a "cashless exercise" option, subject to TSXV approval. This "cashless exercise" option entitles the warrant holders to elect to receive fewer Warrant Shares without paying the cash exercise price, with the number of shares to be issued in a "cashless exercise" being determined by a formula based on the volume weighted average price for the Corporation's common shares over the ten trading days immediately prior to the date of the notice of exercise.

As a result, these warrants are initially measured at fair value and subsequent changes in fair value are recorded through Net and Comprehensive Loss for the period. A proportional amount of costs associated with the issue of shares and warrants is allocated to the warrants and recorded through Net and Comprehensive Loss for the period.

At each reporting date, the Warrant Liability of listed warrants is adjusted to fair value measured at the market price of the listed warrants is adjusted to fair value determined using a comparable warrant quoted in an active market, adjusted for differences in the terms of the warrant, the changes in fair value are recorded through Net and Comprehensive Loss for the period.

At the issuance date the warrants' market price was $0.15 per warrant and as at December 31, 2021 the warrants' market price was $0.065.

**Contributed surplus**

The contributed surplus included in the Shareholders' Deficiency section of the Statement of Financial Position comprises of private placement proceeds allocated to unexercised share purchase warrants, unexercised stock options, restricted share units, and all share-based payment transactions that do not involve the issuance of shares.

**Warrants**

In the year ended December 31, 2021, 1,381,449 warrants expired and 27,435,000 were granted.

**Options**

The Corporation has adopted a stock option plan whereby a maximum of 10% of the issued and outstanding Shares, from time to time, may be reserved for issuance pursuant to the exercise of options. Under the terms of the stock option plan, options may be granted only to: (i) employees, officers, directors, and consultants of the Corporation; and (ii) employees, officers, directors, and consultants of an affiliate of the Corporation.

During the year ended December 31, 2021, the Corporation granted 4,706,000 stock options, 2,400,000 stock options were forfeited and nil stock options were exercised. The share price during the year ended December 31, 2021, averaged $0.21 per common share.

As at December 31, 2021, 4,681,083 options were exercisable (December 31, 2020: 4,067,500).

The Corporation uses the Black-Scholes option-pricing model to determine the estimated fair value of the options granted. The weighted average fair value of options granted during the years ended December 31, 2021 and 2020 were $1.45 and $2.01 per share, respectively, using graded vesting.

**Restricted Share Unit Plan**

The Corporation has a Restricted Share Unit plan ("RSU Plan"), under which it can grant restricted share units ("RSUs") to directors and management.

On February 8, 2021, the Corporation granted 888,298 RSUs to officers and employees, vesting 1/3 every 12 months from the grant date. These RSUs were valued at $0.47 per RSU, being the value of the Corporation's common shares on the issuance date.

On May 31, 2021, the Corporation granted RSUs to employees. In aggregate, 2,535,500 RSUs were granted, vesting 1/10 immediately, 3/20 after 6 months and then the remainder vesting evenly every 6 months. Each RSU represents the right to receive one common share of the Corporation upon vesting. The RSUs were valued at $0.47 per RSU, being the Corporation's common share price on the grant date.

On November 23, 2021, the Corporation granted RSUs to employees, officers, and consultants. In aggregate, 1,297,000 RSUs were granted. Each RSU represents the right to receive one common share of the Corporation upon vesting. The majority of the RSUs granted on November 23, 2021 will vest evenly every 12 months over three years. The RSUs are valued at $0.23 per RSU, being the Corporation's common share price on the issuance date.

As at December 31, 2021, 8,093,798 RSUs were outstanding (December 31, 2020: 6,376,500).

**LONG-TERM DEBT AND LEASE LIABILTIES**

The carrying values for lease liabilities and loans are as follows:

Lease liabilities include office leases, health centre leases and a land lease for the cultivation site in Colombia.
The loans and lease liabilities are held in Colombia and denominated in Colombian pesos and therefore subject to higher interest rates than in Canada. The change in the foreign exchange rate between Colombian Pesos and the Canadian Dollar from December 31, 2020 to December 31, 2021, of approximately 16%, contributed to a decrease in the long-term debt and lease liabilities in Canadian Dollars of $0.1 million.

| | **Interest rate** | **Maturity date** | **December 31, 2021** | December 31, 2020 |
|---|---|---|---|---|
| Lease liabilities | 10.96% | 2021-2030 | **1,492** | 2,290 |
| Loan | 9.88% | March 16, 2021 | **-** | 19 |
| Loan | 7.58% | September 1, 2021 | **-** | 41 |
| Loan | 11.30% | October 30, 2021 | **-** | 158 |
| Loan | 8.44% | November 1, 2021 | **-** | 18 |
| Loan | 11.00% | November 1, 2021 | **-** | 47 |
| Loan | 9.00% | January 15, 2026 | **505** | - |
| Loan | 10.13% | February 4, 2022 | **6** | - |
| Loan | 7.58% | February 1, 2022 | **5** | - |
| Loan | 8.44% | April 5, 2022 | **4** | - |
| Loan | 10.13% | May 8, 2022 | **17** | 69 |
| Loan | 8.15% | May 15, 2022 | **21** | 74 |
| Loan | 8.06% | June 21, 2022 | **28** | 74 |
| Loan | 8.06% | July 22, 2024 | **151** | - |
| | | | **2,226** | 2,790 |
| **Current portion** | | | **1,522** | 1,078 |
| **Non-current portion** | | | **704** | 1,712 |

**ACQUISITION**

**Khiron acquired MCS Clinic in UK**

On October 7, 2021, the Corporation completed the acquisition of the entire issued share capital of MCS Clinics Limited, a company incorporated and registered in England and Wales, for $0.6 million.

| ($ Cdn thousands, except per share amounts) | $ |
|---|---|
| Fair value of acquisition | 575 |
| Allocated as follows: | |
| Cash | 1 |
| Accounts payable | (82) |
| **Total additions through acquisition** | (80) |
| **Goodwill** | **656** |
| **Total consideration** | **575** |

**SUBSEQUENT EVENTS**

In February 2022, the Corporation granted 200,000 RSUs to a contractor, under the 2020 plan, in accordance with the terms of the engagement letter.

**COMMITMENTS AND CONTINGENCIES**

**Contractual obligations**

| For the year ended December 21, 2021 ($ Cdn thousands) | Less than 1 year | 1 to 3 years | 4 to 5 years | After 5 years |
|---|---|---|---|---|
| Financial lease - land | 253 | 327 | 170 | 279 |
| Financial lease – corporate and medical offices | 247 | 216 | - | - |
| Loans | 246 | 489 | - | - |
| Deferred consideration | 104 | 209 | - | - |
| **Total** | **850** | **1,241** | **170** | **279** |

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

**RELATED PARTY TRANSACTIONS**

Related party transactions in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As at December 31, 2021, less than $0.1 million (December 31, 2020: $nil) included in accounts payable and accrued liabilities is an amount payable to an accounting firm where an officer of the Corporation is a partner and to a legal services firm where a director of the Corporation is a partner. The amount due was not collateralized and was due on normal trade terms. Total professional fees incurred with these related parties during the year ended December 31, 2021 were less than $0.2 million (2020: $0.15 million).

**OFF-BALANCE SHEET ARRANGEMENTS**

The Corporation has no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources.

**RISK FACTORS**

Khiron is exposed to a number of market risks arising through the use of financial instruments in the ordinary course of business. Specifically, Khiron is subject to credit risk, liquidity risk, currency risk, and interest rate risk.

This section presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Khiron's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. Khiron's management identifies and analyzes the risks faced by the Corporation and manages/monitors these risks, including the impact of changes in market conditions and changes in the Corporation's activities.

| **As at December 31 ($ Cdn thousands)** | **Risk** | | | |
|---|---|---|---|---|
| | | | **Market risks** | |
| | **Credit** | **Liquidity** | **Currency** | **Interest rate** |
| Measured at cost or amortized cost | | | | |
| Cash and cash equivalents | X | | X | |
| Accounts receivable | X | | X | |
| Accounts payable and accrued liabilities | | X | X | |
| Lease obligation | | X | | |
| Long term debt | | X | | X |

***Credit risk***

Credit risk is the risk of financial loss to the Corporation if a counterparty to a financial instrument fails to meet its contractual obligations.

The Corporation manages credit risk by holding its cash in major financial institutions and in a trust held by our lawyers.

Khiron is exposed to credit risk related to accounts receivable as a result of extending credit to customers for goods and services provided, creating exposure on accounts receivable balances with trade customers. This exposure to credit risk is managed through a corporate credit policy whereby upfront evaluations are performed on all customers and credit is granted based on payment history, financial conditions, and anticipated industry conditions. Customer payments are continuously monitored to ensure the creditworthiness of all customers with outstanding balances and a expected credit loss provision is established based on lifetime expected credit loss.

The following table represents the aging of the Corporations ILANS operations (health centres in Colombia), which has extended credit terms.

| As at<br>($ Canadian thousands) | December 31,<br>2021 | December 31,<br>2020 |
|---|---|---|
| 0 - 30 days | **508** | 2,003 |
| 31 - 90 days | **580** | 277 |
| 91 - 120 days | **250** | 12 |
| > 120 days | **979** | 1,174 |
| | **2,317** | 3,466 |

For 2021, there was a provision for an expected credit loss of $0.1 million (2020: $nil)

***Liquidity risk***

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. Khiron actively manages its liquidity through daily, weekly, and longer-term cash outlook and debt management strategies. The Corporation's policy is to ensure that sufficient resources are available either from cash balances or cash flows, to ensure all obligations are met as they fall due.

The following maturity analysis shows the remaining contractual maturities for the face value of the Corporation's financial liabilities:

| ($ Canadian thousands) | Less than 1 year | After 1 year less than 3 years | After 3 years less than 5 years | After 5 years |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | 4,308 | - | - | - |
| Lease liabilities | 500 | 543 | 170 | 279 |
| Loan payable | 350 | 698 | - | - |
| Warrant liability | 1,783 | - | - | - |
| Deferred consideration | 104 | 209 | - | - |

Management regularly reviews its level of capital resources and actively manages its affairs. This review will consider factors such as the current economic environment, changes in demand for the Corporation's services, capital spending requirements, foreign exchange rates, working capital needs, and profitability of the Corporation's operations, any of which could materially affect the Corporation's ability to meet its obligations.

Additional financing may be necessary in a variety of circumstances, including the requirement of working capital to ramp up operations, the occurrence of adverse circumstances, fluctuations in foreign currency translation, or the decision to expand geographically into new markets or by acquisition. In addition, in order to maintain or adjust its capital structure, the Corporation may issue new shares, new debt, or scale back the size and nature of its operations. It is anticipated that the financing may be raised by bank debt, other forms of debt, or the issue of equity. It is possible that such financing will not be available, or if available, will not be available on favorable terms.

***Market risk***

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Corporation's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the returns. The Corporation is subject to market rate risk on the calculation of fair value of the warrants. The warrants fair value of the conversion feature is determined using the exchange trading value of the warrants, which is affected by changes in the Corporation's stock price.

***Currency risk***

The Corporation has operations and customers in a variety of countries and transacts in several currencies. Future fluctuations in exchange rates will have an effect on the Corporation's operating results, financial position, and cash flows. The Corporation is also exposed to currency risk on working capital and borrowings that are denominated in currencies other than Khiron's functional currency, being the Canadian dollar.

Sensitivity analysis:

A strengthening of the Canadian dollar against the Colombian Peso by 10% at December 31, 2021, would have resulted in a change in net earnings of $0.6 million (2020: $0.4 million). The analysis assumes that all other variables, interest rates in particular, remain constant. A weakening of the Canadian dollar by 100 basis points at December 31, 2021 and 2020 would have had an equal but opposite effect on net earnings, and equity, on the basis that all other variables remain constant.

***Interest rate risk***

The Corporation's objective in managing interest rate risk is to monitor expected volatility in interest rates while also minimizing financing expense levels. Interest rate risk mainly arises from fluctuations of interest rates on the renewal of long-term debt, which can vary between 4.73% and 11.3% as a result of the level of cash burn, as compared to the cash balance. On an ongoing basis, management monitors changes in short-term rates and considers long-term forecasts to assess potential cash flow impacts to the Corporation.

Sensitivity analysis:

The Corporation is not subject to interest rates cash flow risk. Interest on the Corporation's loan payable also does not vary as a result in changes in market interest rates or other factors.

***Economic Conditions***

The Corporation's revenues and operating results are and will continue to be influenced by prevailing general economic conditions and financial market conditions. In such cases, customers may reduce their purchases of new outsourced and existing software solutions. In addition, the deterioration of economic conditions could adversely affect payment patterns which could increase the Corporation's bad debt expense or the level of client renewals. During an economic downturn, there can be no assurance that the Corporation's operating results, prospects and financial condition would not be adversely affected.

***History of Operating Losses***

The Corporation has a history of operating losses since its inception. While the Corporation expects revenues to increase, it also expects to incur marketing and business development costs and that, as a result, the Corporation may incur net losses in the future. There can be no assurance that the Corporation will achieve higher profitability, or that profitability will be sustained.

***Negative Operating Cash Flow***

The Corporation had negative operating cash flow for the year ended December 31, 2021. The Corporation may require additional financing to fund its operations to the point where it is generating positive operating cash flow. Continued negative operating cash flow may restrict the Corporation's ability to pursue its business objectives.

***Our levels of Indebtedness can have Negative Implications for our Shareholders***

The Corporation's ability to make payments of principal and interest on any debt it carries will depend on its future operating performance and its ability to enter into additional debt and equity financings, which to a certain extent, is subject to economic, financial, competitive and other factors beyond its control. If, in the future, the Corporation is unable to generate sufficient cash flow to service its debt, it may be required to refinance all or a portion of its existing debt or obtain additional financing. There can be no assurance that any such refinancing would be possible or that any additional financing could be obtained on terms acceptable to the Corporation. The inability to obtain additional financing could have a material adverse effect on its operating performance and any additional equity financing would result in the dilution of shareholders.

The Corporation's indebtedness could have significant consequences to shareholders, such as increased vulnerability to adverse general economic and industry conditions. The Corporation may find it more difficult to fund future working capital, capital expenditures, general corporate purposes or other purposes and it would have to allocate a substantial portion of its cash resources to the payment on its indebtedness, which would reduce the funds available for operations and for distribution to shareholders.

***Control of the Corporation***

Consideration is any shareholder holder over 10%, should disclose if anyone has over 25% as this would be considered significant influence.

***Market Price of the Common Shares***

The Corporation's business is in an early stage of development and an investment in the Corporation's securities is highly speculative. There can be no assurance that an active trading market in the Corporation's securities will be established and maintained. Securities of companies involved in the fintech industry have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. The price of the common shares is also likely to be significantly affected by short-term changes in the Corporation's financial condition or results of operations as reflected in its quarterly earnings reports.

***Dilution***

The Corporation will require additional funds in respect of the further development of the Corporation's business. If the Corporation raises funds by issuing additional equity securities, such financing will dilute the equity interests of its shareholders.

***Dividend Policy***

The Corporation does not intend to declare or pay any cash dividends in the foreseeable future.

***Conflicts of Interest***

Directors and officers of the Corporation may also serve as directors and/or officers of other fintech companies and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Corporation and its shareholders. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest in accordance with the procedures set forth in the Alberta Business Corporations Act ("ABCA") and other applicable laws.

***Pandemic Diseases – COVID-19 Response***

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods.

***Foreign Sales***

The Corporation's functional currency is denominated in Canadian dollars. The Corporation currently have sales denominated in various currencies. The Corporation incurs most of its operating expenses in Colombia Pesos. In the future, the proportion of the Corporation'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 Corporation's business, financial condition and results of operations. The Corporation has not previously engaged in foreign currency hedging. If the Corporation decides to hedge its foreign currency exposure, it may not be able to do so effectively due to lack of experience, unreasonable costs or illiquid markets. In addition, those activities may be limited in the protection they provide from foreign currency fluctuations and can themselves result in losses.

**Risks Relating to the Corporation's Operations**

***Risks Inherent in Agriculture***

The Corporation's business involves the growing of cannabis, which is an agricultural product. Medicinal cannabis is grown in open air greenhouses. 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 and may otherwise adversely affect the supply of cannabis. 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 the Corporation's yields or require the Corporation 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 the Corporation's cannabis production, which could materially and adversely affect the Corporation's business, financial condition and results of operations.

The occurrence and effects of plant disease, insects and pests can be unpredictable and devastating to agriculture, potentially rendering all or a substantial portion of the affected harvests unsuitable for sale. Although some plant diseases are treatable, the cost of treatment can be high, and such events could adversely affect the Corporation's operating results and financial condition. Furthermore, if the Corporation fails to control a given plant disease and the production is threatened, the Corporation 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.

***Limited Operating History***

The Corporation is an early-stage company having been founded in 2017 and, as a result, it has a limited operating history upon which its business and future prospects may be evaluated. The Corporation will be subject to all the business risks and uncertainties associated with any new business enterprise, including the risk that it will not achieve its operating goals. For the Corporation to meet future operating and debt service requirements, the Corporation will need to be successful in its growing, marketing and sales efforts. Additionally, where the Corporation experiences increased sales, the Corporation's current operational infrastructure may require changes to scale the Corporation's business efficiently and effectively to keep pace with demand and to achieve long-term profitability. If the Corporation's products and services are not accepted by the customer market, the Corporation's operating results may be materially and adversely affected.

***Operational Risks***

Operations in Colombia are subject to risk due to the potential for social, political, economic, legal and fiscal instability. The government in Colombia faces ongoing problems including but not limited to unemployment and inequitable income distribution. Colombia has been home to South America's largest and longest running insurgency, and regional portions of the countryside are under guerrilla influence. In addition, Colombia has experienced narcotics-related violence, a prevalence of kidnapping and extortionist activities and civil unrest in certain areas of the country.

Currently there are no restrictions on the repatriation from Colombia of earnings to foreign entities and Colombia has never imposed such restrictions. However, there can be no assurance that restrictions on repatriation of earnings from Colombia will not be imposed in the future. Exchange control regulations require that any proceeds in foreign currency originated on exports of goods from Colombia 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.

***Failure to Continue to Adapt to Technological Change and New Product Development***

The markets for the Corporation's products are characterized by rapid technological advances, evolving industry standards, changes in end-user requirements and frequent new product introductions and enhancements. The Corporation's future success will depend upon its ability to enhance its current products, and to develop and introduce new products that keep pace with technological developments, respond to evolving end-user requirements and achieve market acceptance.

The development of such new products or enhanced versions of existing products entails significant technological risks. There can be no assurance that the Corporation will be successful in marketing its existing products or be successful in developing or marketing new products or product enhancements, any of which could have a material adverse effect on the Corporation's business, results of operations, financial condition, and liquidity.

***Risk of Defects in the Corporation's Solution***

Software products as complex as those offered by the Corporation may contain errors or defects, especially when first introduced or when new versions or updates are released. The Corporation regularly introduces new releases and periodically introduces new versions of its software. There can be no assurance that, despite testing by the

Corporation and by its customers, defects and errors will not be found in existing products or in new products, releases, versions or enhancements after the commencement of commercial deployment. Any such defects and errors could result in litigation, adverse customer reactions, negative publicity regarding the Corporation and its products, harm to the Corporation's reputation, loss or delay in market acceptance or required product changes, any of which could have a material adverse effect upon the Corporation's business, results of operations and financial condition.

***Competition***

The Corporation has experienced and will continue to experience competition from other organizations with more established sales and marketing presence, more technical services, the ability to bundle solutions with a broader set of ancillary services and greater financial resources. The Corporation's competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards. Furthermore, additional competitors may enter the market and competition may intensify. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Corporation's business, results of operation and financial condition.

***Protection of Intellectual Property***

The Corporation relies primarily on a combination of confidentiality procedures and contractual provisions to protect its proprietary rights. The Corporation generally enters into confidentiality agreements with clients, employees, and outsourced development companies, including offshore software development companies assisting the Corporation with its development activities. Despite the Corporation's efforts to protect its proprietary rights, unauthorized parties may attempt to copy and may succeed in copying aspects of the Corporation's products or may attempt to obtain and use information that the Corporation regards as proprietary. Furthermore, there can be no assurance that others will not independently develop products similar to those of the Corporation. In addition, the laws of some foreign countries do not protect the Corporation's proprietary rights to as great an extent as do the laws of Canada and the US. There can be no assurance that the Corporation's competitors will not independently develop similar technology or that the Corporation's means of protecting its proprietary rights will be adequate, and, consequently, the Corporation's business, results of operations, liquidity, and financial condition could be materially adversely affected.

The Corporation is not aware that any of its products infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim infringement by the Corporation with respect to current or future products. Defense of such claims, with or without merit, could be time-consuming, result in costly litigation, cause product delivery delays or require the Corporation to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Corporation or at all, either of which could have a material adverse effect on the Corporation's business, results of operations, liquidity, and financial condition.

**Risks Related to the Corporation’s Operations**

***Ability to Manage Future Growth***

Future growth, if any, may cause a significant strain on the Corporation’s management and its operational, financial, human, and other resources. The Corporation’s ability to manage growth effectively will require it to implement and improve operational, financial, software development and management information systems and to expand, train, manage and motivate employees. These demands may require the addition of management and other personnel and the development of additional expertise. Any increase in resources devoted to research, product development and marketing and sales efforts without a corresponding increase in operational, financial, product development and management information systems could have a material adverse effect on the Corporation's business, financial condition, and results of operations. There can be no assurance that the Corporation will be able to manage such growth effectively, that its management, personnel, or systems will be adequate to support the Corporation's operations or that the Corporation will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth. The Corporation is exposed to a variety of financial risks by virtue of its activities, including currency risk, credit risk, and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

***Risks Associated with Market Expansion***

The Corporation may explore opportunities to expand its operations into new markets abroad by increasing the number of eligible countries from which users may use the Corporation's services. Any future expansion into new markets could place the Corporation in unfamiliar competitive environments and involve various risks, including incurring losses or failing to comply with applicable laws and regulations. Such expansion would also require significant resources and management time, and there is no guarantee that, after expending such resources and time, the Corporation will receive the necessary approvals to operate in such new markets. If the Corporation is granted authority to operate in such new markets, it is possible that returns on such investments will not be achieved for several years, if at all. There is no guarantee that the Corporation's business model will be successful in a new market, that the Corporation could maintain acceptable profit margins in these new markets, or that international expansion would help grow the Corporation's business. If the Corporation is unable to successfully expand operations into new markets, future growth rates may be harmed.

***Dependence on Market Growth***

There can be no assurance that the market for the Corporation's existing solutions will continue to grow, that customers will continue to adopt the Corporation's solutions or that the Corporation will be successful in establishing markets for its new products. If the various markets in which the Corporation's products are offered fail to grow, or grow more slowly than the Corporation currently anticipates, or if the Corporation is unable to establish markets for its new products, the Corporation's business, operating results and financial condition could be materially adversely affected.

***Dependence on Management and Key Employees***

The Corporation's continued success will depend, to a very significant extent, on the performance and continued services of its senior management and certain other key employees; the loss of any of whom could have a material adverse effect upon the Corporation. In addition, the Corporation has hired a number of key managers in recent years and may continue to expand its management team in the future. The Corporation believes that its future success will also depend in large part upon its ability to attract and retain highly skilled technical, managerial, and sales/marketing personnel. Competition for such personnel is intense and the Corporation may experience difficulties recruiting qualified personnel in the future. There can be no assurance that the Corporation will be successful in attracting and retaining the personnel it requires to continue to maintain and expand its business.

***Risk Associated with a Change in the Corporation's Pricing Model***

The competitive market in which the Corporation conducts business may require it to change its pricing model. If the Corporation's competitors offer deep discounts on certain products or services to recapture or gain market share or to sell other products, the Corporation may be required to lower prices or offer other favourable terms to compete successfully. Any such changes would likely result in a margin reduction and could adversely affect the Corporation's operating results.

***Dependence on Partners***

The Corporation has engaged certain service partners as part of the delivery of its solutions. Failure of any partner to perform required services could have an adverse effect on the Corporation's business, and results of operations. Although the Corporation believes that it has a good relationship with its partners, the termination of these relationships for any reason whatsoever could have an adverse effect on the Corporation's business, and results of operations.

***Delay or Failure to Realize Anticipated Benefits of Key Account Installations***

The Corporation's business has grown rapidly in the last several years. The Corporation's growth places a strain on managerial, financial and human resources. The Corporation will need to provide adequate operational, financial and management controls and reporting procedures to manage the continued growth in the number of employees, scope of operating and financial systems and the geographic area of operations. Expanding the business into new geographic areas and to new customers requires the Corporation to incur costs, which may be significant, before any associated revenues materialize.

While the Corporation has been successful in securing key customers, the management of these relationships during a dispute or disagreement (if any) can affect the Corporation's reputation and ability to leverage these relationships for future growth.

***Use of the Corporation's Services for Improper or Illegal Purposes***

While the Corporation endeavours to ensure adequate precautionary and security measures are in place, its services remain susceptible to potentially illegal or improper uses as criminals are using increasingly sophisticated methods to engage in illegal activities involving internet services and payment providers. Because the Corporation's clients transact via the internet, and these are not face-to-face transactions, these transactions involve a greater risk of fraud. Other illegal or improper uses of the Corporation's services may include money laundering, terrorist financing, drug trafficking, human trafficking, illegal online gaming, romance and other online scams, illegal sexually oriented services, prohibited sales of pharmaceuticals, fraudulent sale of goods or services, piracy of software, movies, music and other copyrighted or trademarked goods, unauthorized uses of payment cards or bank accounts and similar misconduct.

Users of the Corporation's services may also encourage, promote, facilitate or instruct others to engage in illegal activities. If the measures the Corporation takes are too restrictive and inadvertently screen proper transactions, this could diminish the Corporation's client experience which could harm the Corporation's business. Despite the Corporation's best efforts, there can be no assurance that measures taken by the Corporation will stop all illegal or improper uses of the Corporation's services. The Corporation's business could be harmed if clients use the Corporation's system for illegal or improper purposes.

***Uninsured and Underinsured Losses***

While the Corporation may obtain insurance against certain risks in such amounts as it considers adequate, the nature of these risks is such that liabilities could exceed policy limits or be excluded from coverage. The potential costs that could be associated with any liabilities not covered by insurance or in excess of insurance coverage may cause substantial delays and require significant capital outlays, thereby materially and adversely affecting the Corporation's prospects, business and financial condition and results of operations.

***Misconduct and/or Errors by Employees and Service Providers***

While the Corporation endeavours to ensure adequate precautionary and security measures are in place, the Corporation is exposed to many types of operational risk, including the risk of misconduct and errors by our employees and third-party service providers. Our business depends on our employees and third-party service providers to process a large number of increasingly complex transactions, including transactions that involve significant dollar amounts and loan transactions that involve the use and disclosure of personal and business information. We could be materially adversely affected if transactions are redirected, misappropriated, or otherwise improperly executed, if personal and business information is disclosed to unintended recipients or if an operational breakdown or failure in the processing of other transactions occurs, whether as a result of human error, a purposeful sabotage or by means of a fraudulent manipulation of our operations or systems. In addition, the manner in which we store and use certain personal information and interact with clients is governed by applicable laws.

If any of our employees or third-party service providers take, convert or misuse funds, documents or data or fail to follow our protocol when interacting with clients, we could be liable for damages and subject to regulatory actions and penalties. As a result, we could also be perceived to have facilitated or participated in illegal misappropriation of funds, documents, or data, or failed to have followed protocol, and therefore be subject to civil or criminal liability. It is not always possible to identify and deter misconduct or errors by employees or third-party service providers, and the precautions we take to detect and prevent such activities may not be effective in controlling unknown or unmanaged risks or losses. Any of these occurrences could result in our diminished ability to operate our business, potential liability to our clients, inability to attract future clients, reputational damage, regulatory intervention and financial harm, which could negatively impact our business, financial condition and results of operations.

***Insurance and Uninsured Risks***

The Corporation's business is subject to a number of risks and hazards generally, including general liability. Such occurrences could result in damage to property, facilities, personal injury or death, damage to the properties of the Corporation, or the properties of others, monetary losses and possible legal liability. The Corporation may be subject to product liability claims, which may adversely affect its operations. The Corporation's industry is highly regulated, and we may be subject to regulatory scrutiny for violations of regulations and laws. The Corporation could be adversely affected by the time and cost involved with regulatory investigations even if it has operated in compliance with all laws. Investigations could also adversely affect the timely payment of receivables.

Although the Corporation does maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance will not cover all the potential risks associated with its operations. The Corporation may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. The Corporation might also become subject to liability which may not be insured against or which the Corporation may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Corporation to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

**Legal and Regulatory Risks**

***Regulatory Compliance Risks***

Achievement of the Corporation'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. The Corporation may not be able to obtain or maintain the necessary licenses, permits, quotas, authorizations or accreditations, or may only be able to do so at great cost, to operate its business. The Corporation 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, the Corporation has received the licenses relating to both the psychoactive and non-psychoactive cultivation of cannabis from the Colombian government. The impact of the compliance regime, any delays in obtaining, or failure to obtain or keep the 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 the Corporation.

The officers and directors of the Corporation must rely, to a great extent, on the Corporation's Colombian legal counsel and local consultants retained by the Corporation in order to keep abreast of material legal, regulatory and governmental developments as they pertain to and affect the Corporation's business operations, and to assist the Corporation with its governmental relations. The Corporation must rely, to some 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. The Corporation also relies on the advice of local experts and professionals in connection with current and new regulations that develop with respect to banking, financing and tax matters in Colombia. Any developments or changes in such legal, regulatory or governmental requirements or in local business practices in Colombia are beyond the control of the Corporation and may adversely affect its business. The impact of the compliance regime, any delays in obtaining, or failure to obtain or keep the 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 the Corporation.

***Reliance on Licenses and Authorizations***

The Corporation's ability to grow, store and sell cannabis is dependent on the Corporation's ability to sustain and/or obtain the necessary licenses and authorizations from certain authorities in Colombia.

The licenses and authorizations are subject to ongoing compliance and reporting requirements and the ability of the Corporation 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 the Corporation.

Although the Corporation 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, the Corporation 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 the Corporation may be materially adversely affected.

***Regulatory Environment***

Certain aspects of the Corporation's business are conducted within highly regulated industries. Changes in regulations can occur at any time and the Corporation may become subject to more strict standards in the future. Compliance with such changes in regulations could have an adverse effect on the Corporation's business, results of operation and financial condition.

***Risks of Litigation***

From time to time, the Corporation and/or its subsidiaries may become involved in legal proceedings or be subject to claims, some of which arise in the ordinary course of our business. Litigation is inherently uncertain and there can be no assurances that favorable outcomes will be obtained. The Corporation may need to settle litigation and disputes on terms that are unfavorable to the Corporation, or the Corporation may be subject to an unfavorable judgment that may not be reversible upon appeal. Any adverse outcomes could negatively affect the Corporation's business, results of operations, financial condition, brand and/or the trading price of the Common Shares. In addition, litigation can involve significant management time and attention and be expensive, regardless of outcome. During the course of litigation, there may be announcements of the results of hearings and motions and other interim developments related to the litigation. If securities analysts or investors regard these announcements as negative, the trading price of the Common Shares may decline. In addition, the Corporation evaluates these litigation claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, the Corporation may establish reserves or disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. Actual outcomes or losses may differ materially from the Corporation's current assessments and estimates.

**CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES**

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these judgements and estimates.

The key judgements identified in applying accounting policies that have a significant effect on the amounts recognized in the financial statements include the following:

- The determination of whether it is probable that sufficient taxable earnings will be generated in future periods to utilize tax losses and tax credits for the purpose of recognizing related tax assets. If sufficient taxable earnings are not generated or estimates change, the Corporation would be required to reverse the related tax assets, or a portion thereof, which would impact income tax expense.
- Performance obligations are accounted for separately if they are distinct. Judgements are required in determining when a performance obligation is satisfied, and revenue may be recognized. In making its judgements, management considers whether a performance obligation is distinct from other performance obligations, when a customer obtains control of the services promised in a contract and in allocating consideration to a specific part of the contract.
- As part of assessing whether an instrument is a hybrid financial instrument and contains an embedded derivative, significant judgement is required in evaluating whether the host contract is more akin to debt or equity and whether the embedded derivative is clearly and closely related to the underlying host contract. Management concluded that the host instrument of the convertible debenture was a debt host due in part to the holder's right to repayment unless specific criteria are met and the Corporation elects to force conversion. Management concluded that there are several elements of the convertible debenture required to be accounted for as embedded derivatives. In applying its judgement, management relied primarily on the economic characteristics and risks of the instruments as well as the substance of the contractual arrangement. Management has designated the entire hybrid contract to be measured at fair value through profit or loss.
- As part of calculating the fair value the warrant liabilities at each reporting period, management is required to make significant judgements about the probability of future events occurring and, as a result, features within the hybrid contract being triggered. The probability of these features being triggered impacts the selection of appropriate valuation models. As such, judgements are required as to the applicability and selection of the valuation models used.
- The determination of functional currency of the Corporation.

- The determination of cash generating units and reportable segments that are managed separately because of the unique characteristics and requirement of each business.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are as follows:

- ***Measuring deferred income taxes.*** Key estimates and assumptions include the availability of future taxable earnings as explained above, timing of reversals for temporary differences, and future enacted tax rates.
- ***Revenue recognition.*** Estimates are also used to determine the stand-alone selling price of performance obligations and the allocation of the transaction price between performance obligations. When contracts involve more than one distinct performance obligation, consideration is allocated amongst the obligations based on their relative estimated stand-alone selling prices. The best evidence of a stand-alone selling price is the observable price of a service when the entity sells that good or service separately in similar circumstances and to similar customers. In certain circumstances, when a stand-alone selling price is not observable, management estimates the stand-alone selling price by utilizing an expected cost-plus margin approach.
- ***Allowance for uncollectible accounts receivable.*** Management makes use of estimates when making allowances for uncollectible accounts receivable. Management evaluates each receivable at year end using factors such as age of receivable, payment history, and credit risk. The calculation of the allowance is based on the lifetime expected credit loss.
- ***Fair value of warrant warrants.*** Management makes use of estimates and assumptions in the calculation of the initial fair values of warrant liabilities and subsequent re-measurements are made at fair value at each reporting date using the warrants market price.
- ***Share-based payments.*** Management makes use of estimates and assumptions in the calculation of the share-based payments of restricted share units and stock options using the Black-Scholes option-pricing model.
- ***Right of use assets and lease obligations.*** Management makes use of estimates and assumptions in the calculation of the right of use assets and lease obligations. These estimates include calculating the appropriate discount rate to use, estimating the lease term, and estimating variable lease payments.
- ***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 the determination of selling prices for biological assets, management makes estimates with respect to the allocation of margin earned at the various stages throughout the value chain including cultivation, post-harvest processing and extraction, manufacturing and formulation, and distribution and sales to customers. In calculating final inventory values, management compares the inventory cost to estimated net realizable value.
- ***Impairment calculations for property, plant and equipment, and intangible assets and goodwill.*** Key estimates and assumptions included future cash flows and discount rates unused for calculating the recoverable amounts of cash generating units.
- ***Amortization of intangible assets and goodwill.*** The key estimate and assumption of the useful life of each asset.

CORPORATE INFORMATION

**Head Office**

2300 – 500 Burrard Street
Vancouver, BC
V6C 2B5
Canada

Telephone: 647.556.5750

Khiron.ca

**Directors**

Chris Naprawa
Chair of the Board

Deborah Rosati, FCPA, FCA, ICD.D
Audit Committee Chair

Alvaro Yanez
Compensation Chair

Alvaro Torres
Director and Chief Executive Officer

Vicente Fox
Director

Juan Carlos Echeverry
Nominating and Corporate Governance Chair

**Officers**

Alvaro Torres
Chief Executive Officer

Swapan Kakumanu, CPA, CGA
Chief Financial Officer

Franziska Katterback
President, Europe

Additional information relating to the Corporation is available on SEDAR at www.sedar.com