



KHIRON LIFE SCIENCES CORP.

MANAGEMENT DISCUSSION & ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2022 and 2021
May 30, 2022



Introduction

The following interim management's discussion and analysis (Interim MD&A) of Khiron Life Sciences Corp. (the "Corporation" or "Khiron") for the three months ended March 31, 2022 has been prepared to provide material updates to the business operations, liquidity and capital resources of the Corporation since its last annual management's discussion and analysis, being the management's discussion and analysis for the year ended December 31, 2021 (Annual MD&A). This Interim MD&A does not reflect any non-material events since the date of the Annual MD&A.

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

This discussion should be read in conjunction with the Corporation's Annual MD&A, audited annual consolidated financial statements for the years ended December 31, 2021 and 2020, together with the notes thereto, and unaudited condensed interim consolidated financial statements for the three months ended March 31, 2022 and 2021, together with the notes thereto.

The Corporation's unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (IFRIC). The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Standard 34, Interim Financial Reporting. Accordingly, information contained herein is presented as of May 30, 2022, unless otherwise indicated.

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.

This interim MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 Continuous Disclosure Obligations (NI 51-102) of the Canadian Securities Administrators. Additional information regarding Khiron is available on its website at (khiron.ca) and all previous public filings, are available through SEDAR (www.sedar.com).

Caution Regarding Forward-Looking Statements

This MD&A contains or incorporates certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Corporation's future performance, objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, or estimates or predictions of actions of customers, suppliers, partners, distributors, competitors or regulatory authorities. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken,



occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Corporation's ability to predict or control. Please also refer to those risk factors set out in Risk Factors. Readers are cautioned that the list of risk factors that may affect the forward-looking statements is not exhaustive, and that the assumptions underlying such statements may prove to be incorrect. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.

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

Description of The Business

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

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

The Corporation has a sales presence in Colombia, Germany, UK, Peru, and Brazil and is positioned to commence sales in Mexico. 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, Peru, Brazil and dried flower products in Germany and the UK.

The Corporation has three product lines:

1. Medical Cannabis Products - in which the Corporation sells branded medical cannabis products and to patients with medical conditions where cannabis can be an acceptable, proven option.
2. Health Services - where the Corporation operates its own network of medium complexity health centres (operating under the ILANS and Zerenia™ brands) and Zerenia satellite clinics offering a suite of health, medical and surgical services in alignment with insurance company partners.
3. Wellbeing Products - focused on delivering the benefits of CBD across an array of various branded consumer packaged goods, such as its Kuida™ cosmetics line. As of December 2021, the Corporation is no longer actively pursuing sales and marketing opportunities for wellbeing products.



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.

“**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 (\$ Cdn thousands)	December 31, 2021	December 31, 2021	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	5,127	8,923	(3,796)
Accounts receivable	4,365	2,880	1,485
Inventory and biological assets	9,612	9,454	158
Prepaid expenses and other current assets	2,736	2,517	219
Total current assets	21,840	23,774	(1,934)
Current liabilities			
Accounts payable and accrued liabilities	6,430	4,308	2,122
Current portion of long-term debt and lease liabilities	2,167	1,626	540
Warrant liability	2,468	1,783	685
Total current liabilities	11,065	7,717	3,347
Working capital ⁽¹⁾	10,775	16,057	(5,281)

ADDITIONAL GAAP MEASURES DEFINITIONS

“**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.

OVERVIEW

Key developments during Q1 2022 and up to May 30, 2022

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.

In 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 in one of the busiest shopping centers in Bogota and adjacent to referral locations of four of the largest insurance companies in Colombia.

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

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

In April 2022, the Corporation added a new Zerenia™ clinic location in Bogota, with a capacity of over 40,000 consults per year, located in El Ensueño shopping mall in Bogota, Colombia. In addition, the Corporation opened its first retail pharmacy location within the same shopping mall, that allows the Corporation to sell medical cannabis products to patients outside its own Zerenia™ network, and dispense high and low THC medical cannabis to insurance companies in the country.

In April 2022, Khiron publishes its first clinical study on the effectiveness of its products at controlling chronic pain. The study was published in the international peer-reviewed journal *Frontiers in Pain Research*. This is the largest study of its kind in Latin America with more than 2,100 adult patients diagnosed with chronic pain on diverse etiology.

For the three months ended March 31,		2022	2021
Key Operating Metrics			
Medical Cannabis Products			
Revenue generating countries	#	5	4
Latin America	Bottles	22,950	7,969
Europe	Grams	127,330	2,190
Health Services			
Patient interactions	#	40,799	32,331



Medical Cannabis Products

The Corporation currently sells a diverse portfolio of medical cannabis products, primarily sublingual tinctures in Latin America and dried flower in Europe. The Corporation is actively pursuing to expand its portfolio offerings across all its markets

Q1 2022 the Corporation reported record revenues in medical cannabis of over \$2.6 million, with a gross margin of 75%, an increase of over 470% with respect to Q1 2021 and 32% quarter over quarter, driven primarily by continuous growth in Colombia, UK, and Germany. In Q1 2022, Europe (UK and Germany) represented 52% of all medical cannabis revenues, compared to 10% in Q1 2021

Colombia

- During Q1 2022, the Corporation sold more than 21,400 bottles in Colombia, up 284% from Q1 2021, and up 15% from the previous quarter, (lower quarter over quarter growth due to reduced patient visits during the holiday season in January. By mid-2022, the Corporation expects to surpass 10,000 bottles a month in Colombia alone.
- Over 82% of the bottles sold during Q1 2022 were sold through insurance coverage, compared to 60% in Q1 2021.
- Over 84% of the bottles sold during Q1 2022 were sold to returning patients, compared to 60% in Q1 2021.
- In Q1 2022, the Corporation dispensed medical cannabis to 9,200 individual patients, up 85% from Q1 2021.
- In Q1 2022, the average monthly purchase per patient was 1.8 bottles per month, compared to 1.3 bottles per month in Q1 2021, due to higher patient volumes, greater positive patient response to medical cannabis, and insurance coverage expansion.

United Kingdom

- In Q1 2022, Khiron surpassed \$1 million in medical cannabis revenues in the United Kingdom (“UK”) alone.
- With over 110Kg of dried flower sold, Q1 2022 represented a 245% increase in volume sales compared to the entire 2021.
- In late 2021, Khiron opened its first European Zerenia™ Medical Cannabis Clinics in the UK, offering telemedicine service to patients around the country, and contributing to the Corporation’s patient acquisition and retention growth.
- Khiron's growing portfolio in the UK includes **KHIRON 20/1**, one of the best-selling THC-predominant cannabis flowers in the UK market
- With a population of almost 67 million, the UK has a potential of at least 1 million medical cannabis patients (as per management estimates based on industry benchmarks). Khiron addresses the great potential in the UK with its medical cannabis products and clinical services, which are increasingly used by patients and medical practitioners.

Germany

- The total potential for cannabis patients in Europe's largest country with 83 million inhabitants and only about 100,000 existing medical cannabis patients is at least 1% of the total population (830,000 patients)
- The Corporation is working with its steadily growing sales team to untap the huge potential for medical cannabis in Germany
- Khiron already distributes with **KHIRON 1/14**, one of the most popular CBD-predominant cannabis flower products in Germany among patients and prescribers. Khiron will soon expand its existing medical portfolio

Peru

- In Peru, the Corporation sold more than 1,200 bottles in Q1 2022, representing over 5% of the Corporation’s Latin American sales

- In 2021, the Corporation registered its first two medical cannabis products in Peru following approval by the Peruvian sanitary agency DIGEMID.
- Shelf-ready Alixen™ 30 and Alixen™ 100 medical cannabis products, exported from Colombia, to be broadly distributed throughout pharmacy chains, medical distributors, and dispensaries in Peru during 2022
- The Corporation aims to register its first THC, shelf-ready branded medical cannabis product and export it from Colombia during 2022

Brazil

- Khiron introduced its first branded CBD medical cannabis product in Brazil in late 2021.
- The Corporation is currently in construction of its first Zerenia™ medical cannabis clinic in Rio de Janeiro, and have obtaining the necessary regulatory permits to introduce a high-THC, Khiron-branded product into Brazil to coincide with the opening of the clinic

Health services

The Corporation operates a portfolio of low to medium complexity health centers and clinics, that are focused on conditions for which medical cannabis can be a viable option, such as: chronic pain, neurological conditions, mental health, and sleep disorders, among others. The Corporation currently operates on its own, or through partnerships, clinic, health centers and telehealth services in Colombia, Peru, and United Kingdom, and is looking to inaugurate its first clinic in Brazil in 2022.

In Q1 2022, the Corporation reported revenues in health services of \$2 million, mostly from its Colombia and the UK operations. This represents a decrease of -12% with respect to Q1 2021 (mainly due to decrease in high-end surgeries in Colombia), and an increase of 23% quarter over quarter.

Colombia

- Khiron's health services in Colombia offer consultations, therapeutic support, low to medium-complexity procedures and surgeries, diagnosis support and sleep clinic service to patients, working with insurance companies and out of pocket patients to offer integrative services to improve quality of life.
- The Corporation operates health services through its company **ILANS SAS**, and its medical cannabis brand **Zerenia™**
- During Q1 2022, the Corporation offered approximately 41,000 patient services, up 26% from Q1 2021 and 11% quarter over quarter, due to the increase in locations in Bogota and the continuing growth of returning patients.
- Khiron's clinics in Colombia are an important channel for its medical cannabis product sales. More than 95% of the Corporation's medical cannabis sales are generated by this channel, and 100% of the products sold are dispensed through the Corporation's own pharmacies.
- In Q1 2022, 38% of all patient consults resulted in patient medical cannabis prescriptions, with an average of 1.8 units per patient, compared to Q1 2021, where 25% of all patient consults resulted in medical cannabis prescriptions with an average of 1.3 bottles per patient
- In 2022, the Corporation added 2 more medium-sized health centers located in major shopping malls in the city of Bogota, adding a total combined capacity of 80,000 consults per year

United Kingdom

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



- In Q1 2022, patient retention in Zerenia™ Clinics UK exceeded 80% in its first full quarter of operations, driven by great service reviews and growing word-of-mouth amongst patients about the high-quality standards of the clinic.

Wellbeing products

In 2021, the Corporation discontinued active sales of its Kuida™ CBD-based cosmetics product line, to continue to focus on its high growth, high margin medical cannabis business, and took the subsequent inventory impairments in 2021. Throughout 2022 the Corporation will continue to recognize smaller revenues of its available inventory. As of December 2021, the Corporation is no longer actively pursuing sales and marketing opportunities for wellbeing products.

Q1 2022 financial summary

The Corporation recorded record revenues of \$4.6 million in Q1 2022, a 65% increase from Q1 2021, and 28% quarter over quarter, as revenues from medical cannabis surpassed \$2.5 million for the first time. In Q1 2022, Medical Cannabis segment represented 57% of total revenues, compared to 20% in Q1 2021, a trend that will continue to increase over time.

Medical cannabis revenues grew 470% compared to Q1 2021 and 32% quarter over quarter, driven by strong demand in the UK and continuous post-holiday growth in Colombia during the quarter. In Q1 2022, medical cannabis revenues from Europe represented 53% of total medical cannabis revenues, compared to only 10% in Q1 2021. This growth is attributed to increase in new patient acquisition, patient retention, doctor prescriptions and growing patient average spend on medical cannabis, across all our markets.

The Corporation recorded revenues of \$2.0 million in the Health Services segment in Q1 2022, up 23% from Q4 2021, but 12% lower than Q1 2021, due to reduction of high-value, medium-complexity neurological surgeries in Colombia. Appointments of such high-end services are subject to patient and insurance company availability and remaining COVID-19 restrictions. The Corporation is actively engaged with institutional clients to increase availability of such procedures and looks to return to pre-pandemic levels in 2022.

Gross profit before fair value adjustments grew to \$2.1 million, up 96% from Q1 2021, driven primarily by its 75% gross margin medical cannabis business. In Q1 2022, medical cannabis represented 57% of total revenues and 92% of the Corporation's total gross profits before fair value adjustments.

In the medical cannabis segment, gross profit before fair value adjustments grew to \$2 million, up 390% from Q1 2021 and almost double quarter over quarter. Gross profit in this segment is driven primarily by Latin America, which represented 57% of all medical cannabis gross profits. Gross margin of 90% in Latin America is driven by Khiron's vertical integration strategy in the region, where the Corporation cultivates low-cost, high-quality medical cannabis in Colombia, produces its own pharmaceutical-grade medications, and sells through its own pharmacy in Colombia, or 3rd party pharmacies in countries such as Peru. In Europe, gross margin for medical cannabis was 60%, driven by the higher purchasing power of European patients as compared to Latin America, offset by the higher cost of cannabis production within Europe. In 2022, Khiron expects to continue its production partnerships with European-based, EU-GMP certified cannabis producers that can provide high-quality and consistent product in an agile manner to continue to serve Khiron's growing demand in the region. As other international jurisdictions allow more export of medical cannabis in different forms, such as Colombia, the Corporation will be able to improve its gross margins without sacrificing quality, consistency, and patient satisfaction.

In the health services segment, Q1 2022 gross profit was \$0.15 million representing a gross margin of 8%, compared to \$0.6 million gross profit and 25% gross margin for the segment in Q1 2021. This reduction in gross margin is



attributable to a 13% gross margin in health services in Colombia due to lower high-value, medium-complexity neurological surgeries in Colombia, and the initial cost of the new Zerenia™ clinic in the UK. Throughout 2022, the Corporation expects gross margins in Colombia to improve as scheduling for such procedures increases. In the UK, health services margins will continue to increase as more patients continue to use services, and medical cannabis revenues derived from the clinics are reflected in the medical cannabis segment in the UK. In the UK, more than 95% of patients who use the Zerenia™ Clinics UK platform become medical cannabis patients.

Expenses in Q1 2022 decreased by 13% to \$6.1 million from Q1 2021. This is driven by a reduction of 12% in General and Administrative costs compared to Q1 2021, largely due to the significant reduction in Corporate Governance expenses, particularly the reduction of cost of insurance, salaries, corporate governance, and share-based compensation. The Corporation expects to see a further reduction in cost of D&O insurance for the rest of 2022. This decrease is offset by an increase in Professional Fees mostly related to the distribution & warehousing fees paid to Khiron's distributors in Europe due to the growing sales of medical cannabis in that region, and medical staff professional fees in Brazil. Although in Q1 2022, Salaries expense was reduced by 24% compared to Q1 2021, this expense item increased 16% compared to Q4 2021, due to employee severance costs in Latin America and increase in sales and marketing employees in Europe.

The Corporation recorded an Adjusted EBITDA loss of -\$3.1 million in the first quarter of 2022, compared to an Adjusted EBITDA loss of -\$4.0 million in Q1 2021, resulting in a reduction of 24% in Adjusted EBITDA loss, and the lowest Adjusted EBITDA loss ever recorded for the Corporation. This is a result of continuous growth in the high-margin medical cannabis segment and a continuous decrease in general and administrative costs, which will continue throughout 2022.

The Corporation's Cash used in operating activities for Q1 2022 was -\$2.8 million, compared to -\$8.2 million in Q1 2021 and approximately -\$5.4 million in Q4 2021, resulting in net cash of \$5.1 million at the end of Q1 2022. This is a result of actively managing the working capital cycle, improving collection times for the Corporation's Accounts Receivable and extending payment terms on its Accounts Payables, while reducing overall general and administrative costs and increasing its high gross margin medical cannabis business.

At the end of Q1 2022, the Corporation had \$37.6 million in total assets (excluding goodwill), with more than \$9.4 million in land and buildings, high quality medical cannabis inventory of \$8.1 million, healthy Accounts Receivables with credit-worthy clients in Colombia and Europe of \$4.4 million and only \$0.8 million in financial debt.

The Corporation recorded a net loss of \$5.4 million in the first quarter of 2022 and a comprehensive loss of \$4.1 million. This compares to a net loss of \$5.5 million in the first quarter of 2021. In Q1 2022, the Company recorded higher revenues and higher gross profits before fair value adjustments, as well as lower expenses than Q1 2021, which were offset by the positive impact of unrealized gains in fair value of bio assets in Q1 2021 and the negative impact of unrealized loss on warrants and higher finance costs in Q1 2022. The \$21 million net loss in the fourth quarter of 2021 was due in large part to a \$13.7 million license impairment, a \$0.8 million fixed asset impairment, and a \$0.3 million inventory impairment.

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.



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- 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 results of Q1 2022 continue to showcase the success of Khiron's unique patient-focused strategy, as the Corporation continues to grow in its high gross margin medical cannabis business in various markets and diversifying its revenue and patient base across Latin America and Europe.

The Corporation's health services segment remains a main pillar of the Corporation's growth in high-margin medical cannabis revenues, not only in Colombia, but in Peru and UK, soon in Brazil, and eventually in Mexico. In Colombia, the recent new openings of medium-sized health centers have added around an additional capacity of 80,000 consults per year, elevating the maximum physical installed capacity to around 400,000 consults per year (without COVID-19 restrictions limiting patient consults per hour), which can be expanded using the Corporation's telehealth platform. In 2021 in Colombia, the Corporation saw over 104,000 consults with a cannabis-prescribed patient visit conversion rate of 33%, with an average purchase of 1.5 bottles per month. By April 2022, in Colombia, the Corporation had seen more than 43,000 consults (up 40% with respect to same period in 2021), and in April 2022, 45% of all monthly consults resulted in a cannabis-prescribed patient purchasing 1.8 bottles per month. By the end of 2022, the Corporation expects to surpass more than 160,000 annual consults in Colombia and growing KPIs in patient acquisition, patient retention, medication adherence, patient quality of life and average monthly spend per patient. In the UK, Zerenia™ has a patient conversion rate above 95%, and although the clinic operations are in early stages, the Corporation expects patient consults to increase and conversion rates to remain or improve. Khiron's clinic strategy is a unique approach to patient acquisition and doctor education, one that the Corporation will deploy across target markets in the short and medium term.

In 2022, Khiron will continue to focus on expanding its first-mover advantage in Colombia, where insurance coverage is allowing access for more patients, and where the Corporation is building strong evidence on the benefits of medical cannabis. As of April 2022, the Corporation has sold in Colombia more than 30,000 bottles, compared to the almost 50,000 bottles sold in the entire 2021 in the country. As the Corporation gets closer to breaking the milestone of 10,000 bottles sold per month, the Corporation looks forward to surpassing 150,000 bottles by the end of the year, maintaining its high gross margins and pricing structure.

In Peru, the Corporation aims to introduce its first-ever THC shelf-ready branded medical cannabis product, which will be exported directly from Colombia during 2022. Although Peru accounts only for 5% of the Corporation's Latin American sales, the introduction of such shelf-ready products is expected to significantly increase the Corporation's sales in this country, as patients will have more readily accessible products. In addition, the Corporation expects to obtain export permits of both CBD and THC branded products (Alixen and Khiriox respectively) to Peru, that could open the possibility of exporting to other Latin American countries, such as Brazil, reducing operation costs, improving margins, and increasing sales.

In Brazil, the Corporation is currently undergoing the construction of its first Zerenia™ medical cannabis clinic in Rio de Janeiro. Although initially expected to be completed in the first half of 2022, the Corporation aims to finish the initial stages of construction and inaugurate this facility in junction with its first permit to import high-THC medical cannabis products from Colombia. Brazil represents a tremendous opportunity for Khiron to leverage its unique business model to become a leader in this 230 million people country.

For Khiron, Mexico represents a great opportunity to leverage its unique knowledge of medical cannabis. The Corporation has announced a partnership with Teletón, one of Mexico's most renowned medical networks and is currently undergoing similar partnerships with other health service institutions to further consolidate its category



leader position once the Corporation is allowed to import medical cannabis into Mexico under the current regulations.

Q1 2022 results also highlight the importance of Khiron's European operations in the Corporation's top and bottom line. In the United Kingdom in particular, the Corporation is experiencing tremendous growth. As of April 2022, the Corporation had sold more than 150Kg of Khiron-branded dried flower product, which is already more than 3 times the amount of product sold in the entire 2021, maintaining its high gross margins and pricing structure. In 2022, the Corporation will continue to introduce new SKUs to its current product portfolio and continue to increase availability of appointments in its Zerenia™ Clinics UK, to surpass 500Kg of product for 2022.

Review of Operations for the three months ended March 31, 2022 and 2021

Health Services

Health services include the revenues and costs from the ILANS and Zerenia™ health centers across the world. Zerenia™ is a portfolio of low to medium complexity health centers and clinics, that are focused on conditions for which medical cannabis can be a viable option, such as: chronic pain, neurological conditions, mental health, and sleep disorders, among others.

Revenues from health services in Q1 2022 decreased 12% from Q1 2021 to \$1.9 million, due to reduction of high-value, medium-complexity neurological surgeries in Colombia. Gross margin reduction in health services is due to lower high-value, medium-complexity neurological surgeries in Colombia, and the initial cost of the new Zerenia™ clinic in the UK.

The following table shows the quarterly gross margin results of the clinics for the three months ended March 31, 2022 and 2021 respectively.

For the three months ended March 31, (\$ Cdn thousands)	2022	2021
	\$	\$
Revenues	1,980	2,238
Cost of sales	(1,831)	1,679
Gross profit	149	559
Gross margin	7.5%	25%

Medical Cannabis Products

The Corporation currently sells a diverse portfolio of medical cannabis products, primarily sublingual tinctures in Latin America and dried flower in Europe. Q1 2022 reported record revenue in medical cannabis sales with over \$2.6 million, with a gross margin of 75%, an increase of over 470% with respect to Q1 2021 and 32% quarter over quarter, driven primarily by continuous growth in Colombia, UK, and Germany. In Q1 2022, Europe represented 53% of all medical cannabis revenues, compared to 10% in Q1 2021

In the medical cannabis segment, gross profit before fair value adjustments grew to \$2 million, up 390% from Q1 2021 and almost double quarter over quarter. Gross profit in this segment is driven primarily by Latin America, which represented 57% of all medical cannabis gross profits.



For the three months ended March 31 (\$ Cdn thousands)	2022	2021
	\$	\$
Revenues	2,650	563
Cost of sales	(677)	58
Gross profit	1,973	505
Gross margin	75%	90%

Wellbeing products

Wellbeing products revenues in Q1 2022 were from direct channel sales to existing customers in Colombia. Throughout 2022 the Corporation will continue to recognize smaller revenues of its available inventory. As of December 2021, the Corporation is no longer actively pursuing sales and marketing opportunities for wellbeing products.

The table below shows the revenue for the Kuida® Wellbeing products:

For the three months ended March 31 (\$ Cdn thousands)	2022	2021
	\$	\$
Wellbeing product revenues (\$)	13	36
Units sold (#'000)	4	3

In Q1 2022, cost of sales was more than offset by an inventory impairment reversal, leading to a negative cost of sales, or an increase to the revenue number.

Fair value adjustments on biological assets and cannabis sales

The Corporation recorded a fair value loss on harvested and growing plants in Q1 2022 of \$0.6 million along with a fair value loss of less than \$1 million on the sale of medical cannabis products. Significant estimates and assumptions on the value of the biological asset are disclosed in note 6 to the Condensed Interim Consolidated Financial Statements for the three months ended March 31, 2022 and 2021.

Expenses

General and administrative costs

General and administrative costs include the following:

For the three months ended March 31 (\$ Cdn thousands)	2022	2021
Salaries	2,256	2,955
Corporate governance	453	980
Office and general administration	839	586
Professional fees	813	268
Consulting	234	385
Investor relations	244	170
Travel and development	53	21
Share-based payments	309	721
Depreciation and amortization	349	227
General and Administrative	5,550	6,313

Changes in general and administrative costs period over period are due to the following:

- Salaries: Decrease in Q1 2022 due to finalization of the amortization of sign-in bonus in 2020 of executive management in Europe, which was fully amortized in Q1 2021, as well as reduction of payroll related to the Wellbeing segment, offset by an increase in sales and marketing staff for the growing European sales operation
- Corporate Governance: Decrease in Q1 2022 due to a significant reduction in Directors & Officers insurance expense. The Corporation expects this expense to be reduced further throughout 2022
- Office and general administration: Increase in Q1 2022 due to the opening of 2 new medium-sized clinics in Colombia, the opening of the new Zerenia™ Clinics UK and leasing of distribution space for Brazil import operations
- Professional fees: Increase in Q1 2022 due to fees related to the distribution & warehousing margins paid to European distributors for the growing medical cannabis business in Europe, in addition to professional fees of medical staff in anticipation of the Brazil Zerenia™ clinic opening
- Consulting: Decrease in Q1 2022 due to reduction of consulting services in Colombia and Canada
- Investor Relations: Increase in Q1 2022 due to increase in participation of key events by Corporation's management
- Travel and development: Increase in Q1 2022 due to the Corporation's growing global presence and business development activities in Mexico and Brazil
- Share-based compensation includes expenses related to both stock options and restricted share units. For the three months ending March 31, 2022, the decrease from the prior year is due to the completion of vesting of higher value units, partially offset by the expense from lower valued units issued in the current year



Selling, marketing and promotion

These costs are related to corporate communications, educational conferences, costs associated with marketing new Zerenia™ facilities in Colombia, the UK and Peru, as well as marketing and educational material for external doctors in the Corporation's target markets.

Research and development

Research and development included non-capital related operating costs at the Corporation's cultivation, extraction and analysis facilities near Ibagué, Colombia, as well as support for research projects such as Project Twenty21 in the UK. Non-commercial cannabis production and extraction activities include operating costs that relate to non-commercial activities and advancing the Corporation's cultivation, extraction, and analysis facilities.

Liquidity and Financial Condition

Cash flows

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

For the three months ended March 31 (\$ Cdn thousands)	2022	2021
	\$	\$
Cash used in operating activities:		
Before working capital changes	(3,154)	(4,953)
Working capital changes	(351)	(3,242)
	<u>(2,803)</u>	<u>(8,195)</u>
Cash used in investing activities:		
Purchase of property, plant and equipment	(317)	(110)
Disposition of property, plant and equipment	1	-
	<u>(316)</u>	<u>(110)</u>
Cash provided from financing activities:		
Proceeds from debt	109	-
Repayment of lease liability	(197)	-
Repayment of long-term debt	(106)	(249)
	<u>(194)</u>	<u>(249)</u>
Change in cash and short-term investments	(3,313)	(8,555)
Opening cash and short-term investments	8,923	21,649
Foreign exchange on cash and other	(489)	(589)
Closing cash and short-term investments	<u>5,127</u>	<u>12,505</u>

Cash used in operating activities

Cash used in operating activities before working capital changes mainly includes cash provided by profits from health services sales of medical cannabis and sales of Wellbeing products less general and administrative costs, selling, marketing and promotion, and research and development. Net cash outflows were reduced due a higher collection of accounts receivable, a disciplined management of accounts payables, and reduction of expenses.



Cash used in investing activities

In Q1 2022, cash used for investing activities was mostly focused on the construction of the new Zerenia™ clinics in Colombia and the beginning of construction activities in the new Zerenia™ Brazil location.

Cash provided by financing activities

In Q1 2022, the Corporation repaid lease liabilities and long-term debt liabilities in Colombia, in addition to an extension of minor loan in Colombia for ILANS SAS.

Commitments and contingencies

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

Contractual obligations (\$ Cdn thousands)	Payments due by period				Total
	\$	\$	\$	\$	
	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	
Financial lease – land	223	350	182	299	1,054
Financial lease – corporate and medical offices	379	547	22	-	948
Research and development	263	523	-	-	786
Loans	131	182	-	-	313
	996	1,602	204	299	3,101

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 early stage of the proceedings, it is not possible to estimate the Corporation's potential liability in the litigation, if any.

Financial Condition

The application of the going concern concept which assumes that the Corporation will be able to raise the necessary capital on terms acceptable to the Corporation and be able to realize its assets and satisfy its liabilities in the normal course of business for the foreseeable future. As at March 31, 2022, the Corporation has not yet achieved profitable operations and had a loss of \$5.3 million for the first three-months of 2022 and a deficit of \$41.5 million.

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. The unaudited interim 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 Corporation had cash of \$5.1 million and a working capital balance of \$11.2 million at March 31, 2022. The net cash used in Q1 2022 was \$3.1 million, including \$0.3 million in non-cash working capital. The objective over the remainder of the year is to maintain the monthly spend and focus on increasing the inflows of cash from medical cannabis sales, particularly those in Colombia, which are derived from credit-worthy insurance institutions, while actively managing the Corporation's Accounts Payable and reducing general and administrative expenses

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



Summary of Quarterly Results

	2022	2021	2021	2021
(\$ Cdn thousands)	Q1	Q4	Q3	Q2
Health services ⁽¹⁾	1,980	1,613	2,282	1,944
Medical cannabis products ⁽¹⁾				
- LatAm	1,252	1,130	834	611
- Europe	1,398	881	374	215
Wellbeing products ⁽¹⁾	13	12	29	33
Total revenue	4,643	3,636	3,519	2,803
Net loss	(5,412)	(19,502)	(3,337)	(4,796)
Net loss per share – basic and diluted	(0.03)	(0.11)	(0.02)	(0.03)
Comprehensive loss	(4,121)	(21,431)	(3,317)	(5,456)

	2021	2020	2020	2020
(\$ Cdn thousands)	Q1	Q4	Q3	Q2
Health services ⁽¹⁾	2,239	2,236	1,785	1,591
Medical cannabis products ⁽¹⁾				
- LatAm	507	192	110	25
- Europe	56	42	-	-
Wellbeing products ⁽¹⁾	35	48	33	54
Total revenue	2,837	2,518	1,928	1,670
Net loss	(5,494)	(2,374)	(6,715)	(5,713)
Net loss per share – basic and diluted	(0.04)	(0.01)	(0.06)	(0.05)
Comprehensive loss	(8,905)	(1,583)	(7,987)	(5,147)

Adjusted EBITDA

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



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

For the three months ending March 31 (\$ Cdn thousands)	2022	2021
Net loss before tax	(5,412)	(5,494)
Add back (deduct):		
Interest expense	155	95
Taxes	(6)	(7)
Depreciation and amortization	596	298
Net fair value adjustment on biological assets and cannabis product sales	642	(471)
Impairment on other items	3	
Share-based compensation	309	721
Amortization of signing bonus	-	839
Unrealized gain on warrants	686	-
	(3,057)	(4,019)

Transactions with Related Parties

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

For the three months ending March 31 (\$ Cdn thousands)	2022	2021
Management fees and salaries	317	1,649
Share-based compensation	135	624

Management of Capital

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Corporation, is reasonable. There have been no changes to the Corporation's capital management approach in the period. The Corporation considers its shareholders' equity as capital which as at March 31, 2022 is \$29.5 million.

Financial Instruments

Fair values

At March 31, 2022, the Corporation's financial instruments consist of cash, accounts payable and accrued liabilities, and warrants. The fair values of these financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments.



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.

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 an expected credit loss provision is established based on lifetime expected credit loss.

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

(\$ Cdn thousands)	March 31 2022	December 31 2021
0 – 30 days	2,000	508
31 – 90 days	129	580
91 – 120 days	98	250
>121 days	640	979
Total	2,867	2,317

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

Liquidity risk

Liquidity risk is the risk that the 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.

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 March 31, 2022, would have resulted in an increase in net loss of \$0.3 million (2020: \$0.6 million). The analysis assumes that all other variables, interest rates in particular, remain constant. A weakening of the Canadian dollar by 10% percent at March 31, 2022 and 2021 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.

Off-Balance-Sheet Arrangements

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

Share Capital

As at the date of this MD&A, May 30, 2022, the Corporation had 179,712,485 common shares issued and outstanding, 61,567,000 warrants outstanding (including compensation options), 5,780,167 stock options outstanding and 7,839,798 restricted share units outstanding. Each warrant, stock option and restricted share unit is exercisable or exchangeable for common shares of the Corporation on a one for one basis. Compensation options are exercisable for one common share of the Corporation and one warrant, with the warrant being exercisable for on common share.

Internal Controls Over Financial Reporting

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that (i) the unaudited interim condensed consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be

stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim condensed consolidated financial statements; and (ii) the unaudited interim condensed consolidated financial statements fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate filed by the Corporation does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing such certificate are not making any representations relating to the establishment and maintenance of: i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of unaudited interim condensed consolidated financial statements for external purposes in accordance with the issuer's generally accepted accounting principles (IFRS).

The Corporation's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in such certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Risk Factors

Due to the nature of Khiron's business, the legal and economic climate in which it operates and its present stage of development, Khiron is subject to significant risks. Additional risks and uncertainties not presently known to Khiron or that Khiron currently considers immaterial may also impair the business and operations. Factors that could cause actual results to differ materially from those set forth in forward-looking information include, but are not limited to: financial risks; inflationary risks; foreign exchange risks; international taxation risks; the Corporation's ability to obtain or maintain insurance at reasonable rates; product development, facility and technological risks; agricultural risks; changes to applicable laws or regulations; ability to obtain or maintain licenses or certifications; product recall and product liability risks; import, export and transportation risks; expected number of medical cannabis users and the willingness of physicians to prescribe medical cannabis to patients in the markets in which the Corporation operates; ability to access financing on commercially attractive terms.

For a discussion of the risks faced by the Corporation, please refer to the Corporation's Annual Information Form, filed on April 29, 2022 and available under the Corporation profile on SEDAR, at www.sedar.com.



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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 Katterbach
President, Europe