

Khiron Life Sciences Corp – SPECULATIVE BUY

ACTION – Initiating Coverage with SPECULATIVE BUY Rating and \$0.90 Target Price

Demand for International Medical Cannabis to Propel Khiron’s Addressable Market

Global Expansion of Proven Clinic Business Model to Drive the Topline Growth

Key Catalysts for the Stock Price Include Positive Regulatory Developments in Various International Markets Leading to a Meaningful Revenue Growth

DETAILS: Khiron’s Investment Thesis Relies on Execution of its Proven Colombian Business Model, Internationally: Khiron is a vertically integrated company focused on medical cannabis sales in various countries in LATAM and Europe. The company started in Colombia with its business model based on a network of clinics. Khiron aims to increase medical cannabis sales by leveraging its network of doctors. The execution of this strategy seems to be encouraging so far based on the results published by the company. Khiron aims to execute its successful business model across various countries where medical cannabis is legal at the federal level. In Latin America, the company has entered the markets of Peru and Brazil and intends to enter Mexico over the next few quarters. In Europe, the company has entered Germany and the UK so far. Given the potential market opportunity associated with international medical cannabis and Khiron’s clinic model based strategy, we expect strong growth in Khiron’s revenue base over the long-term. Given the vertically integrated model with a low cost of operations, Khiron’s gross margin outlook for medical cannabis segment is strong. As the medical cannabis sales increase further, we view the profitability outlook to improve. Strong revenue growth and profitability resulting in a positive free cash flow generation will be critical for Khiron over the long-term.

Key Catalysts for the Stock Price: We believe that the visibility over sustainable and meaningful revenue generation from various international markets is the primary trigger to unlock shareholder value for Khiron. From 1st January 2022, every insurance provider in Colombia is mandated to cover the costs of THC (high and low) medical cannabis prescriptions. We view this to meaningfully improve Khiron’s growth in Colombia. Another near-term catalyst for the share price includes visibility over meaningful revenue generation from Mexico, which is expected to occur in FY22e. Favorable medical cannabis regulatory amendments in the potential operating markets of Khiron (various countries in LATAM and Europe) may be positive triggers for the stock price over the medium term. Gradual growth in Khiron’s revenue base along with strong margins resulting in a positive free cash flow generation will be key over the long-term for Khiron.

IMPACT: Our Valuation and Recommendation

We initiate Khiron with a **SPECULATIVE BUY** rating and a 12-month forward target price of \$0.90/sh. Our **SPECULATIVE BUY** rating reflects a few risks associated with Khiron. Firstly, the macro-economic factors and regulatory uncertainties related to various operating markets of Khiron may put the stock price under pressure over the near-term. Secondly, the potential risks related to the ongoing pandemic across various countries. Our target price is based on DCF valuation methodology using a cost of capital (WACC) of 17.6% and a terminal growth rate of 3%. The Cost of capital is based on a cost of equity of 22% and an after-tax cost of debt of 7.3%.

ANALYST INFORMATION

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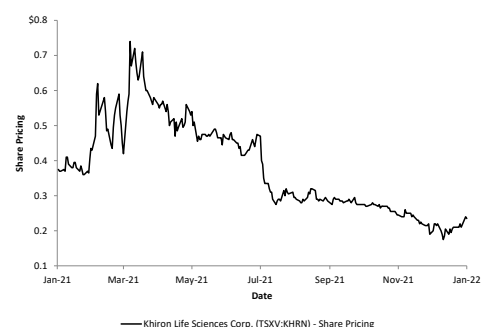
MARKET DATA

KHRN - TSXV	\$0.23
12-Month Forward Target:	\$0.90
Proected. Return:	291%

Share data

Basic shares O/S (mm)	179.1
Diluted Shares (mm)	184.6
Market Cap (\$mm)	\$42.4
Enterprise Value (\$mm)	\$29.0
Cash (\$mm)	\$15.4
Debt (\$mm)	\$1.9
Next Reporting Date	Mar-22

THOMSON CHART – ONE YEAR



COMPANY PROFILE

Khiron is a vertically integrated medical cannabis company with operations in Latin America and Europe. Currently Khiron generates revenue through medical cannabis sales, health care services, and wellness products.

UPCOMING EVENTS/CATALYSTS

Q4/21 Results- March 2022

Income Statement (\$mm)	2020	2021e	2022e	2023e
Revenue	8	13	18	40
Cost of Sales	2	7	8	12
Gross Profit	6	6	10	28
Gross Margin %	74%	44%	55%	70%
Operating Expenses	31	26	24	23
Operating Income (loss)	(25)	(20)	(14)	5
Operating Margin %	nmf	nmf	nmf	13%
Adjusted EBITDA	(17)	(15)	(13)	6
Adj. EBITDA Margin %	nmf	nmf	nmf	15%
Finance, Non-op & Taxes	2	1	1	3
Net Income (Loss)	(20)	(16)	(14)	4
Adj. EPS (FD)	(\$0.20)	(\$0.10)	(\$0.08)	\$0.02

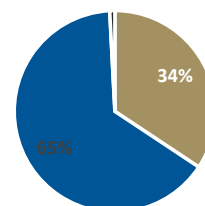
Cash Flow Statement (\$mm)	2020	2021e	2022e	2023e
Operating Cash Flow (Excl. Δ NWC)	(19)	(17)	(13)	4
Change in NWC	(6)	6	(3)	(4)
Operating Cash Flow	(25)	(11)	(16)	1
Investing Cash Flow	(3)	(1)	(1)	(1)
Financing Cash Flow	12	10	-	-
Change in Cash	(15)	(1)	(17)	(0)

Balance Sheet (\$mm)	2020	2021e	2022e	2023e
Cash and short term investments	22	20	3	2
Inventory	8	4	4	7
PP&E	18	16	16	16
Other	26	23	24	25
Total Assets	73	62	47	50
Short-term Liabilities	7	6	5	5
Long-term Liabilities	3	5	5	5
Total Liabilities	10	11	10	10
Shareholders' Equity	63	51	36	40

Potential Catalysts for the Stock Price

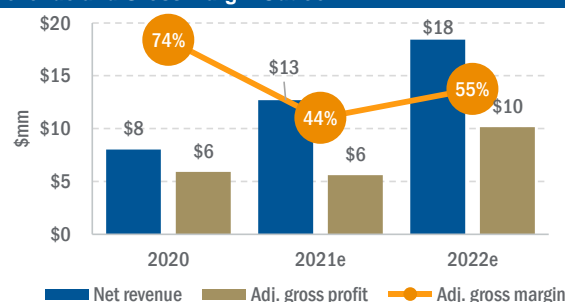
Positive Regulatory Developments in key Operating Markets
 Visibility Over Revenue Growth from Larger LATAM Markets (Mexico and Brazil)
 Visibility over Positive Free Cash Flow Generation

Revenue Mix Based on Last Reported Quarter (%)



■ Medical Cannabis Sales ■ Service Revenue
 ■ Wellness Product Sales

Revenue and Gross Margin Outlook



Key Drivers of Our Investment Thesis

Proven Business Model Based on Clinics
 Expansion of Business Model in Various Markets with a Focus on Medical Cannabis
 Large Addressable Market for International Medical Cannabis

SPECIAL SITUATIONS

KHIRON LIFE SCIENCES CORP.

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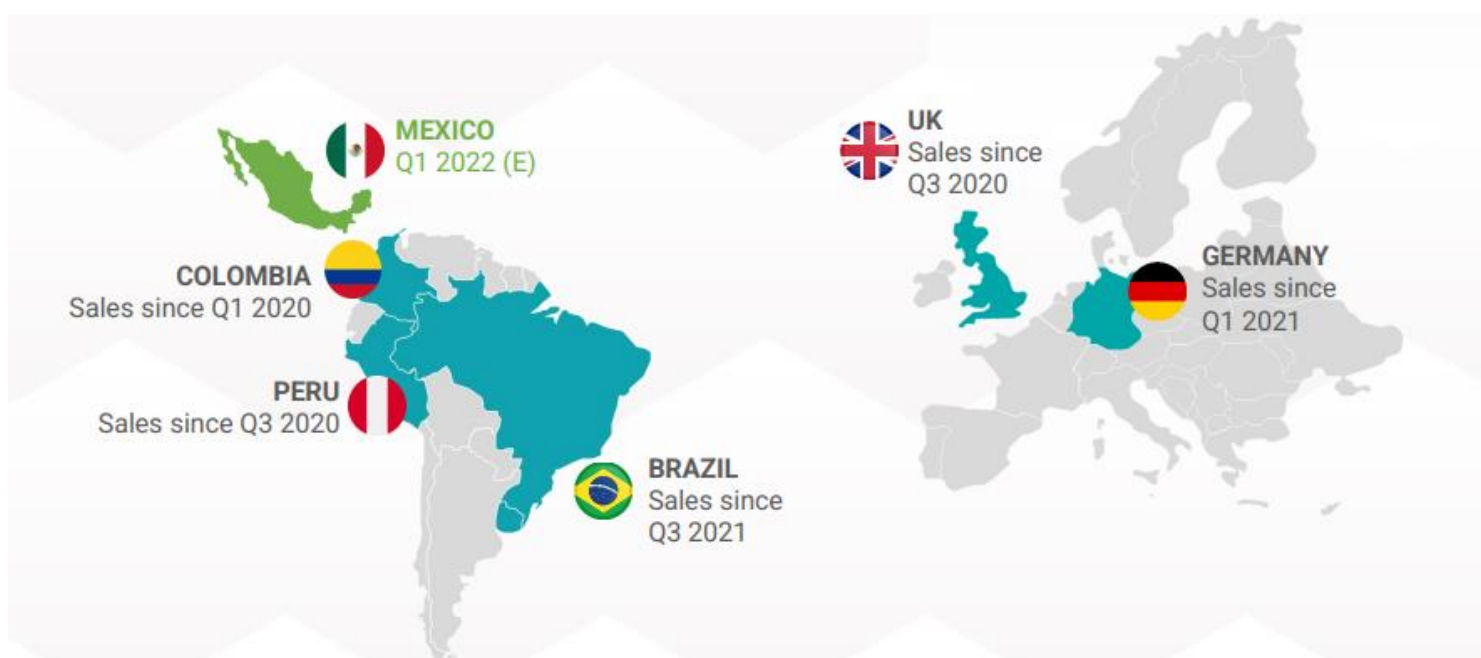
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Note: All financial figures in this report are in Canadian dollars, unless stated otherwise. Pricing date: 06-January-2022

COMPANY OVERVIEW

Khiron is a vertically integrated medical cannabis company with operations in Latin America and Europe. The company intends to expand its patient oriented approach in several countries where medical cannabis is legal at the federal level. Currently, Khiron has a presence in countries such as Colombia, Peru, and Brazil, Germany and the UK.. Khiron expects to enter the Mexican market over the next few quarters.

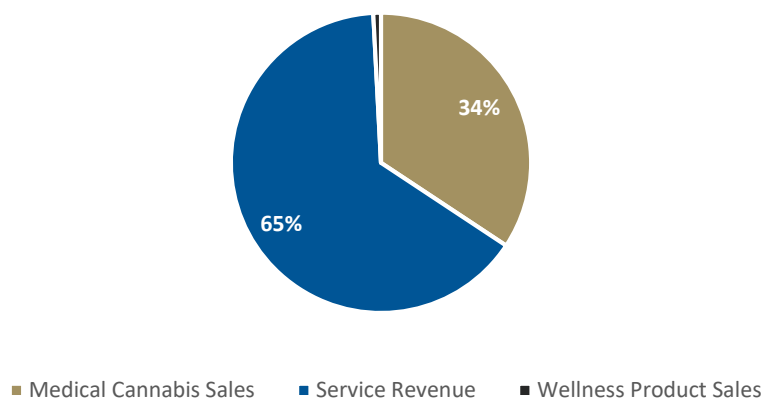
Figure 1. Khiron's Geographic Diversification across LATAM and Europe



Source: KHRN Investor Presentation

Currently, Khiron generates revenue through its sale of medical cannabis products, health care services and wellbeing products. Based on the last reported quarter (Q3/21), Khiron generated around 65% of overall revenue from its health care services. Revenue from health-care services constitutes revenue from Khiron's network of health centers and satellite clinics (operating under the ILANS and Zerenia brands) offering various health care services including surgeries. The sales from medical cannabis products contributes around 34% of the overall revenue for Khiron. The sales from wellbeing products forms around 1% of overall sales.

Figure 2. Khiron's Revenue Mix (%) Based Last Reported Quarter (Q3/21, ending Sep 30, 2021)



Source: KHRN Filings, Research Capital

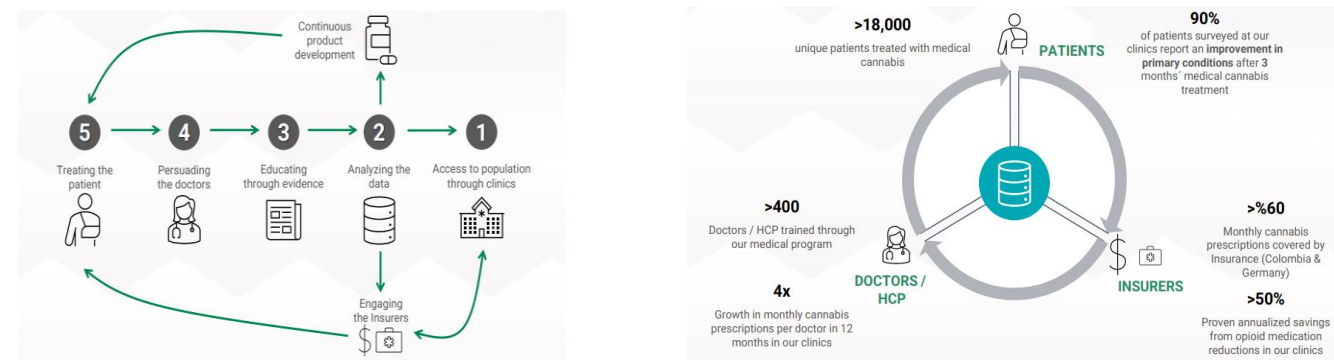
KHIRON'S PROVEN BUSINESS MODEL IN COLOMBIA BASED ON CLINIC NETWORK

Khiron's vertically integrated business model in Colombia leverages the company's manufacturing (cultivation and extraction) facilities at Colombia and a network of clinics. Currently, Khiron has 13 clinics operating in Colombia.

The company intends to increase the awareness of medical cannabis among patients (customers) leveraging its network of over 500 doctors trained through Khiron's medical program. The execution of this strategy seems encouraging based on the results published by the company. According to Khiron, over 18,000 unique patients were treated with medical cannabis and over 90% of them reported an improvement in primary conditions after 3 months of medical cannabis treatment.

Over the medium to long-term, as the customer awareness of the benefits of using medical cannabis increases, the sale of medical cannabis products will form the majority of overall revenue for Khiron, in our view.

Figure 3. Khiron's Strategy to Increase Medical Cannabis Sales through its Network of Clinics

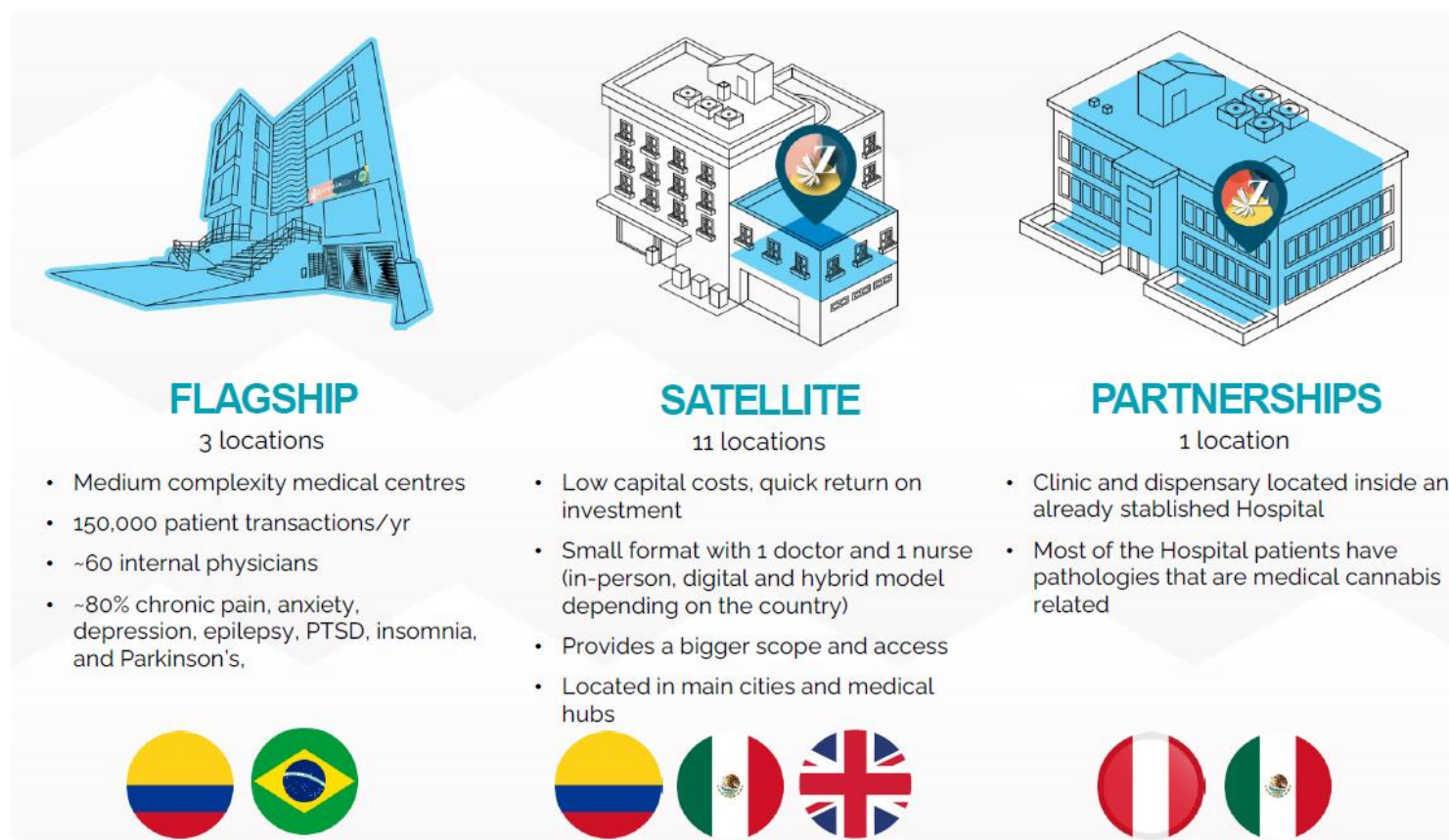


Source: KHRN Investor Presentation

KHIRON'S GLOBAL EXPANSION LEVERAGING ITS PROVEN COLOMBIAN BUSINESS MODEL

Khiron aims to execute its successful business model across various countries where medical cannabis is legal at the federal level. In Latin America, the company has entered the markets of Peru and Brazil with the intention to enter Mexico over the next few quarters. In Europe, the company has entered Germany and UK so far. Khiron intends to use its patient data collected in Colombia to increase the awareness of benefits related to medical cannabis in other markets. Until now, Khiron's clinics have recorded more than 50,000 medical cannabis prescriptions globally.

Figure 4. Khiron's Clinic Model



Source: KHRN Investor Presentation

Colombia and Germany have insurance coverage for medical cannabis among Khiron's operating markets. According to the company, over 60% of its medical cannabis prescriptions are covered by insurance. Khiron believes that the coverage of medical cannabis by insurance companies is a win-win situation for the company and insurance companies given the significant cost reduction associated with using medical cannabis instead of Opioids for medication.

Figure 5. Khiron's Status of Operations in Various Geographies

	Colombia	Peru	Brazil	Mexico	UK	Germany
First Sales	Q1 2020	Q3 2020	Q3 2021	2022	Q3 2020	Q1 2021
Current Portfolio	High/Low THC & CBD Extract	High/Low THC & CBD Extract	CBD Extract	High/Low THC & CBD Extract	Dried Flower 20/1 & 1/14	Dried Flower 20/1 & 1/14
Cannabis Production	Cultivation, Extraction	Import from Colombia	Import from Colombia	To be imported from Colombia	3 rd Party within Europe	3 rd Party within Europe
Health Centres	11 + 2	1	Q1 2022	Future	1	N/A

Source: KHRN Investor Presentation

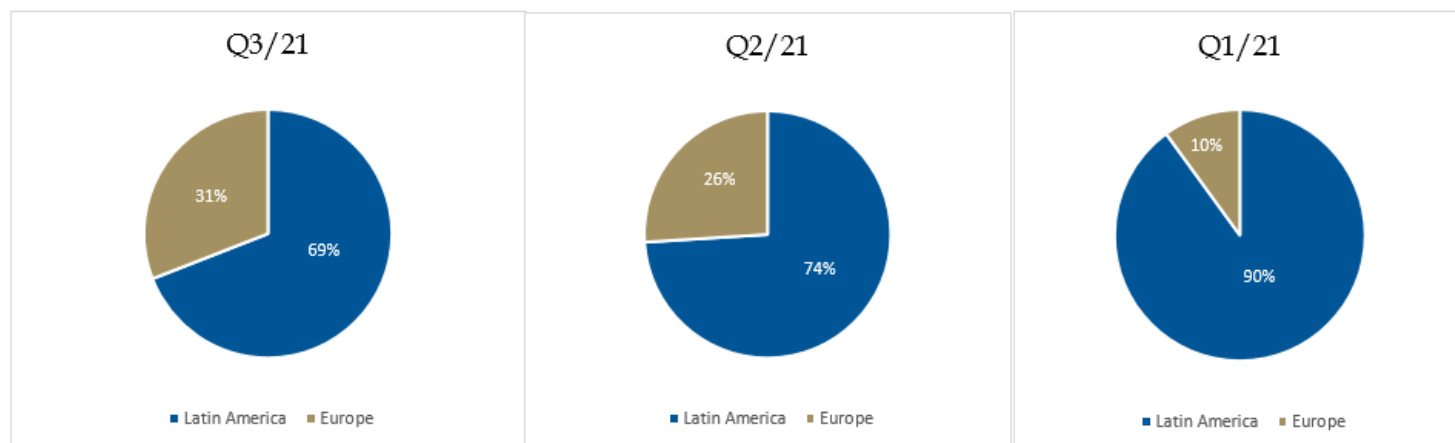
Figure 6. Khiron's Medical Cannabis Product Pipeline



Source: KHRN Investor Presentation

We are encouraged by Khiron's geographic diversification of its revenue base. Over the last 3 quarters, Khiron's revenue contribution from Europe increased to 31% from 10% of its overall sales. We view this positively as it may reduce the impact of the fluctuation in currency (more specifically the Colombian Peso) on its revenue growth.

Figure 7. Khiron's Diversifying Revenue Base across Geographies to Limit the Currency Risk



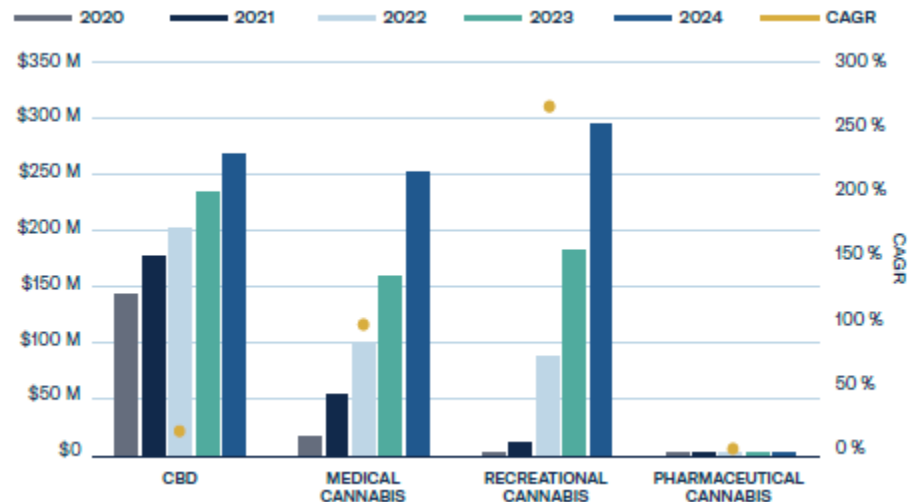
Source: KHRN Filings, Research Capital

GLOBAL DEMAND FOR MEDICAL CANNABIS AND CBD TO DRIVE TOPLINE GROWTH

We view Colombia and Germany to be critical for Khiron's near-term revenue growth. Based on the estimates published by Prohibition Partners, the market size of medical cannabis in Latin America will reach C\$125mm (~USD100mm) by the end of 2022e and C\$312mm (~USD250mm) by the end of 2024e.

We believe that the above the estimates don't factor the recently taken favourable amendments to the medical insurance policy in Colombia. Starting from 1st January 2022, every insurance provider in Colombia is mandated to cover the costs of THC (high and low) medical cannabis prescriptions. According to IMS Qunitiles, Colombia has over 6 million potential patients for medical cannabis products. Given the fact that over 97% of the population is covered with health insurance, we view the addressable market in Colombia to be meaningful. According to Khiron, the total prescriptions for medical cannabis increased to around 52,000 in 2021, compared to 5,600 in 2020. The average monthly transaction value per patient increased to \$75 in 2021, compared to \$55 in 2020.

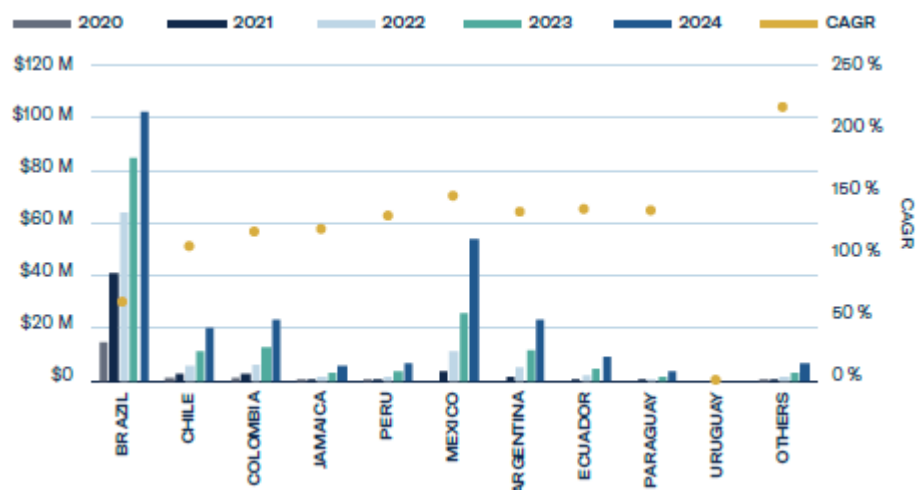
Figure 8. Estimated Total Market Size (USDmm) of Cannabis in Latin America



Source: Prohibition Partners, Market Size in USDmm

Over the medium to long-term, we expect that other countries in LATAM (mainly Mexico and Brazil, in addition to Colombia) will also drive the growth in Latin American market sales. Considering the relatively higher population, we believe that Mexico and Brazil will contribute to more than 60% of overall medical cannabis market sales in Latin America over the long term. Currently, Khiron has a minor presence in Brazil and plans to enter the Mexican market in early 2022e.

Figure 9. Estimated Legal Medical Cannabis Market Size (USDmm) of Various Countries Over 2020-24e



Source: Prohibition Partners, Market Size in USDm

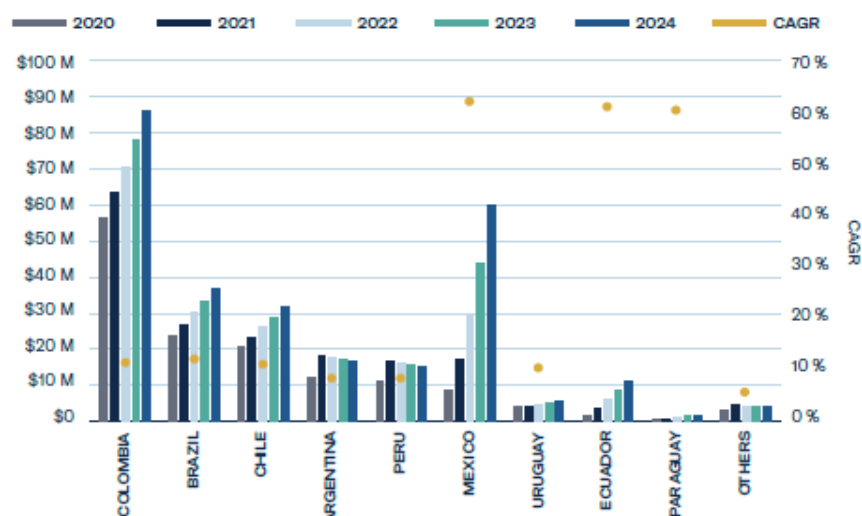
We believe the medical cannabis market size in LATAM will increase gradually driven by the positive regulatory decisions taken in each country. Given the nascent stage of the cannabis industry, the LATAM cannabis industry is not as competitive as the Canadian cannabis industry. We observe that there are a few companies exclusively focused on medical cannabis based out of LATAM, however, no other company has a clinic based business model in LATAM, to our knowledge.

Figure 10. Select Companies Operating in LATAM Medical Cannabis Market

LatAm Companies	Geographical Presence	Business Model	Description of business
Khiron	Latin America, Europe	B2C, Clinic Model	Khiron is a leading vertically integrated international medical cannabis company with core operations in Latin America and Europe. Leveraging wholly-owned medical health clinics and proprietary telemedicine platforms, combining a patient-oriented approach. It operates through three segments: Medical Cannabis Products, Health Services and Wellbeing products.
PharmaCielo	Latin America, UK	B2B, Medical Cannabis export	PharmaCielo is a Canadian headquartered company with a cultivation and processing centre in Colombia. ParmaCielo is focusing on the processing and supplying of medicinal cannabis oil-extracts and flower to large channel distributors.
Blueberries Medical	Argentina, Colombia	Medical Cannabis export	Blueberries Medical Corp is a Latin American company with a license to produce cannabis in Colombia.
Flora Growth	US, Colombia, Europe	B2B, Medical and Recreational Cannabis export	Flora Growth cultivates, processes, and supplies medicinal-grade cannabis oil and flower. The company also manufactures and sells skincare and beauty products.
Clever Leaves Holdings	Colombia	Medical Cannabis export	Clever Leaves is a multi-national cannabis company with focus on North America, Europe, and Colombia. Clever Leaves primary operations are in Colombia where it cultivates and exports EU-GMP medicinal cannabis.
Avicanna	South America, North America, Europe, Caribbean	Medical cannabis product sales to pharmacies and clinics	Avicanna is a Canadian biopharmaceutical company focused on cannabinoid R&D as well as proprietary medicinal cannabinoid products. Products are proprietary cannabinoid capsules, sublingual sprays, topical products etc. Avicanna does not sell dried flower.
Medcolcanna Organics	Colombia, Europe	B2B, Medical Cannabis product sales	Medical cannabis company operating in Switzerland and Colombia. The company cultivates, produces, and distributes medicinal cannabis and cannabis derived products.
RAMM Pharma	Uruguay, Italy	B2B, Medical Cannabis product sales	RAMM Pharma engages in the R&D, production, and sale of cannabinoid pharmaceutical formulations, pharmaceuticals, cosmetics, nutraceutical products, and resale of medical supplies products.

Source: Research Capital

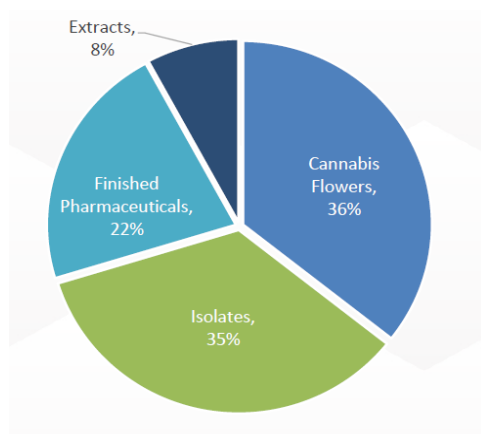
Figure 11. TOTAL CBD Market Value in Select LATAM Countries over 2020-24e



Source: Prohibition Partners, Market Size in USDmm

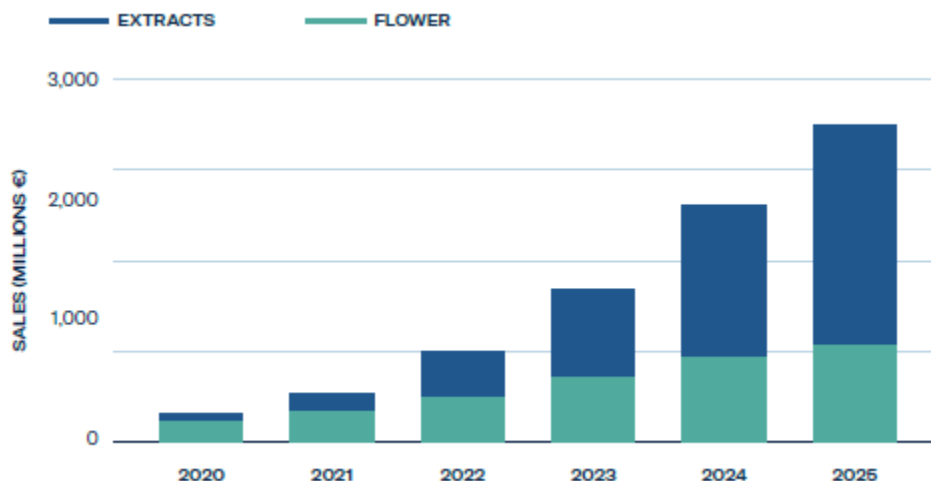
Germany's market will be the most attractive market for medical cannabis in Europe given the high reimbursement rates from insurance companies and the not overly strict prescription regulations for physicians. The medical cannabis ecosystem is still evolving in Germany with a transition towards extract-based medicine replacing flower-based medicine. Based on estimates published by Prohibition Partners, the medical cannabis market size of Germany may be around C\$1.2bn (~EUR1.2bn) by 2024e. Other countries in Europe such as UK, Denmark, Czech, France, and Poland may play a key role in driving the overall medical cannabis sales in Europe based on the regulators approach towards the industry.

Figure 12. Breakup of Insured Cannabis Sales in Germany in 2021



Source: KHRN

Figure 13. Estimated Sales (EURmm) of Medical Cannabis in Europe

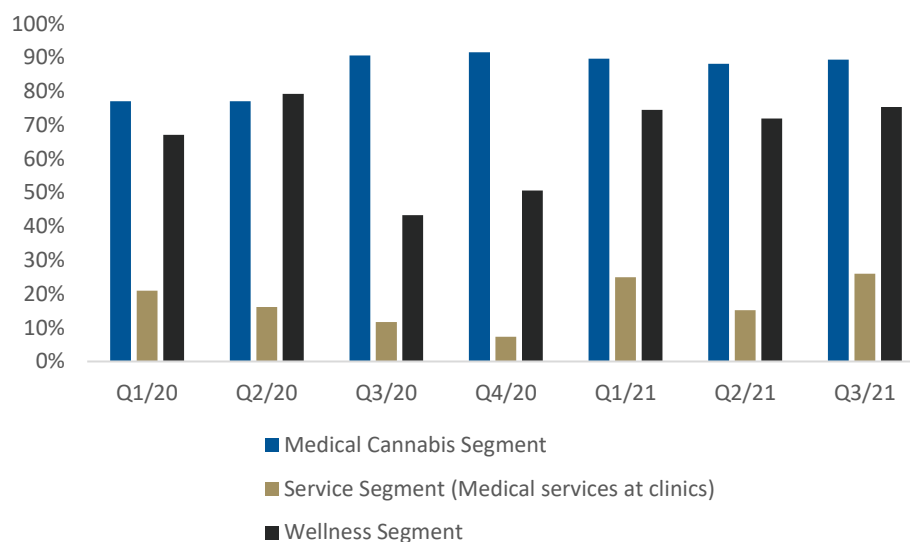


Source: Prohibition Partners, Market Size in EURmm

MEDICAL CANNABIS SALES PLAY A KEY ROLE IN MAINTAINING STRONG MARGINS

We view Khiron's margin outlook to be strong mainly driven by the increasing contribution of medical cannabis sales. Currently, Khiron generates around 34% of overall sales from the sale of medical cannabis. We expect medical cannabis sales to form over 80% of overall sales by the end of 2025e. Given the substantially higher margin profile for medical cannabis sales, we view this to drive the overall gross margin outlook for Khiron, over the long-term.

Figure 14. Segment-wise Gross Margin for Khiron over the last few quarters



Source: KHRN Filings, Research Capital

We believe that Khiron's medical cannabis segment will have strong margins mainly driven by its vertically integrated business model (B2C) and low cost cultivation capability. Khiron's manufacturing and extraction facilities in Colombia have annual capacities of over 9 tonnes and 3 tonnes respectively.

Figure 15. Khiron's Manufacturing and Extraction Facilities in Colombia with Annual Capacity of above 9 tonnes and 3 tonnes



Source: KHRN Filings

Figure 16. Comparable Table for Medical Cannabis Players Operating from LATAM

Company	Symbol	Share Price	Market Cap.	EV	Gross Margin	EV/Revenue		EV/Revenue				
						LTM	NTM	2020	2021	2022	2023	2024
PharmaCielo Ltd.	TSXV:PCLO	0.99	\$147	\$155	-278%	77.3x	9.5x	25.8x	38.3x	6.3x	3.3x	3.2x
Flora Growth Corp.	NasdaqCM:FLGC	2.28	\$88	\$114	49%	26.5x	7.3x		7.3x	2.2x	1.2x	
Clever Leaves Holdings Inc.	NASDAQ:CLVR	3.52	\$92	\$88	63%	4.7x	3.2x		4.6x	2.8x		
Leviathan Natural Products Inc.	TSX:EPIC	0.60	\$51	\$72	20%	180.1x						
Avicanna Inc.	TSX:AVCN	0.68	\$31	\$42	51%	23.4x	5.7x		13.6x	4.6x	2.8x	2.0x
Khiron Life Sciences Corp.	TSXV:KHRN	0.23	\$40	\$31	52%	2.6x	1.5x	4.0x	2.3x	1.3x	0.6x	
RAMM Pharma Corp.	CNSX:RAMM	0.35	\$43	\$25	14%	5.7x						
Blueberries Medical Corp.	CNSX:BBM	0.07	\$11	\$10	59%	49.3x						
Medcolcanna Organics Inc.	DB:MO2	0.05	\$5	\$9	-88%	28.4x						
Median						26.5x	5.7x	14.9x	7.3x	2.8x	2.0x	2.6x

Source: Company Filings, Research Capital

Figure 17. Canadian Cannabis Companies Comparables

Company	Symbol	Share Price	Market Cap.	EV	LTM Gross Margin	EV/Revenue		EV/Revenue				
						LTM	NTM	2020	2021	2022	2023	2024
Canadian Large Cap												
Canopy Growth Corporation	TSX:WEED	10.42	\$4,098	\$5,270	1%	9.3x	7.8x	10.3x	9.1x	7.8x	6.4x	5.6x
Tilray, Inc.	TSX:TLRY	8.20	\$3,778	\$4,408	25%	6.3x	4.6x	7.6x	5.6x	4.5x	3.7x	
Cronos Group Inc.	TSX:CRON	4.82	\$2,220	\$1,352	-62%	19.2x	11.2x	25.0x	15.6x	8.9x	5.2x	2.8x
Aurora Cannabis Inc.	TSX:ACB	6.81	\$1,349	\$1,342	-13%	5.5x	5.2x	4.7x	5.8x	5.1x	4.4x	3.2x
Median						7.8x	6.5x	9.0x	7.5x	6.5x	4.8x	3.2x
Canadian Mid Cap												
HEXO Corp.	TSX:HEXO	0.85	\$265	\$813	-1%	5.6x	3.2x	7.3x	4.8x	3.0x	2.4x	2.1x
Village Farms International, Inc.	TSX:VFF	7.73	\$663	\$664	12%	2.2x	1.5x	2.7x	2.0x	1.4x	1.3x	1.1x
Sundial Growers Inc.	Nasdaq:SNDL	0.74	\$1,504	\$618	-19%	13.5x	8.8x	6.9x	8.8x	1.9x	4.6x	4.1x
OrganiGram Holdings Inc.	TSX:OGI	2.06	\$615	\$572	-36%	7.7x	5.1x	7.0x	6.4x	4.0x	2.7x	1.7x
Auxly Cannabis Group Inc.	TSX:XLY	0.19	\$155	\$225	25%	3.5x	1.6x	5.0x	2.7x	1.5x	1.1x	0.7x
The Valens Company Inc.	TSX:VLNS	3.16	\$197	\$203	14%	2.7x	1.5x	2.5x	2.4x	1.2x	0.8x	0.5x
Median						4.5x	2.4x	6.0x	3.7x	1.7x	1.9x	1.4x
Canadian Small Cap												
Rubicon Organics	TSXV:ROMJ	1.80	\$101	\$111	-5%	6.7x	3.9x	11.1x	4.9x	2.2x	1.0x	0.7x
The Green Organic Dutchman Holdings Ltd.	TSX:TGOD	0.11	\$82	\$94	48%	2.6x	2.2x	4.4x	2.8x	1.9x	1.6x	
Aleafia Health	TSXV:AH	0.12	\$40	\$80	15%	2.1x	1.0x	1.6x	1.7x	1.0x	0.6x	0.5x
Indiva Ltd.	TSXV:NDVA	0.38	\$41	\$56	13%	2.2x	1.3x	1.2x	0.7x	0.4x	0.3x	0.2x
MediPharm Labs Corp.	TSX:LABS	0.21	\$56	\$21	-158%	1.0x	0.4x	0.6x	1.0x	0.6x	0.4x	
Median						2.2x	1.3x	1.6x	1.7x	1.0x	0.6x	0.5x
Canadian Retail												
High Tide Inc.	TSX:HITI	5.67	\$299	\$363	36%	2.4x	1.3x	3.4x	1.8x	1.0x		
Fire & Flower Holdings Corp.	TSX:FAF	4.68	\$168	\$166	37%	0.9x	0.8x	3.3x	1.4x	0.9x	0.6x	0.5x
Nova Cannabis Inc.	TSX:NOVC	2.96	\$169	\$154	21%	1.9x	0.6x		1.0x	0.5x	0.3x	
Delta 9 Cannabis Inc.	TSX:DN	0.30	\$32	\$79	33%	1.3x	1.2x	1.5x	1.2x	1.0x		
Choom Holdings Inc.	CSE: CHOO	0.04	\$18	\$39	37%	1.8x						
Kiara Holdings Corp.	CVE:KO	0.07	\$14	\$12	28%	0.6x	0.3x			0.4x	0.3x	
Median						1.6x	0.8x	3.3x	1.3x	0.9x	0.3x	0.5x

Source: Company Filings, Research Capital

Figure 18. US MSO Cannabis Comparables

Company	Symbol	Share Price	Market Cap.	EV	Gross Margin	EV/Revenue		2020	2021	EV/Revenue		
						LTM	NTM			2022	2023	2024
Curaleaf Holdings Inc.	CNSX:CURA	10.35	\$7,282	\$7,457	58%	5.1x	3.8x	9.2x	4.8x	3.6x	2.8x	2.2x
Green Thumb Industries Inc.	CNSX:GTII	25.92	\$5,872	\$5,867	55%	5.5x	4.3x	8.4x	5.2x	4.0x	3.2x	2.3x
Trulieve Cannabis Corp.	CNSX:TRUL	30.77	\$5,881	\$5,807	69%	5.6x	3.1x	8.8x	4.8x	2.9x	2.5x	2.2x
Cresco Labs Inc.	CNSX:CL	8.06	\$2,212	\$2,504	50%	2.6x	1.8x	4.1x	2.3x	1.7x	1.4x	1.3x
Columbia Care	CNSX:CCHW	3.79	\$1,405	\$1,752	55%	3.4x	2.0x	7.5x	2.9x	1.9x	1.5x	1.1x
TerrAscend Corp.	CNSX:TER	7.46	\$1,380	\$1,732	47%	6.4x	4.8x	8.8x	6.4x	4.2x	3.5x	
Ayr Wellness	CNSX:AYR.A	19.55	\$1,301	\$1,466	42%	3.9x	1.8x	7.4x	3.3x	1.5x	1.1x	1.0x
Ascend Wellness	CNSX:AAWH.U	7.51	\$1,297	\$1,392	43%	3.6x	2.3x		3.3x	2.1x	1.5x	1.2x
Village Farms International, Inc.	TSX:VFF	7.73	\$663	\$664	24%	2.2x	1.5x	2.7x	2.0x	1.4x	1.3x	1.1x
Sundial Growers Inc.	Nasdaq:SNDL	0.74	\$1,504	\$618	10%	13.1x	1.4x	6.9x	8.8x	1.9x	4.6x	4.1x
Greenlane Holdings	NasdaqGM:GNLN	1.18	\$312	\$281	0%	1.5x	0.9x	1.6x	1.3x	0.8x	0.7x	
Charlotte's Web Holdings	TSX:CWEB	1.27	\$178	\$157	63%	1.3x	1.1x	1.3x	1.3x	1.0x	0.9x	0.8x
Medmen Enterprises	CNSX:MMEN	0.22	\$24	\$36	44%	0.2x	0.2x	0.2x	0.1x	0.0x	0.0x	0.0x
Median						1.5x	1.1x	1.4x	1.3x	1.0x	0.9x	0.8x

Source: Company Filings, Research Capital

VALUATION METHODOLOGY AND RECOMMENDATION

We initiate Khiron with a **SPECULATIVE BUY** rating and a 12 month forward target price of \$0.90/sh. Our target price is based on DCF valuation methodology using a cost of capital (WACC) of 17.6% and a terminal growth rate of 3%. We use capital asset pricing model (CAPM) to calculate WACC. We assume a risk free rate of 2% in line with the long-term sovereign bond yield of Canada. We assume a Beta of 3.5 considering the volatility of the cannabis sector, market capitalization and the geographic footprint of the company. We use a market risk premium of 6%. We use an after-tax cost of debt of 7.3%.

Figure 19. WACC Calculation

WACC Calculation	
Risk Free Rate	2.0%
Market Risk Premium	6.0%
Beta	3.5
Cost of Equity (%)	22.0%
After-tax Cost of Debt (%)	7.3%
Proportion of Debt in Target Capital Structure (%)	30.0%
WACC (%)	17.6%

Source: Research Capital

KEY RISKS TO OUR INVESTMENT THESIS AND TARGET PRICE

Regulatory Risk: Cannabis Industry is still in a nascent stage in several countries. Any change in legislation which may impact the growth and profitability of the overall industry may impact the company valuation.

Currency Risk: Depreciation of currency in the operating markets may pose a risk to the revenue growth

Competition: Cannabis industry is highly competitive. If the competitive environment is higher than our expectation, then it may impact the profitability negatively.

Growth Risk: If the company's products are not received well in the market, growth may be lower than expected, which may pose a downside risk to our valuation

Legal Risk: The Company could face legal risk that could impact future operations of the company.

Financial Modelling Risk: Our financial modelling approach relies on assumptions and economic, statistical, mathematical, or financial theories and techniques and could differ from actual outcomes.

COVID-19: COVID-19 has squeezed supply chains globally and has hindered both domestic and international cannabis markets. It is difficult to predict the impact of COVID-19 and how it will affect the company and the rest of the cannabis industry.

Liquidity Risk: The Company may need to access capital markets to finance its future operations. If the conditions are unfavourable, the company may face a liquidity risk.

Operational Risk: Potential breakdown in the company's key operating facilities may put revenue generating capability at risk.

APPENDICES

LEADERSHIP TEAM

Key leadership consists of the following individuals:

- **Alvaro Torres, CEO.** Mr. Torres has almost two decades of experience in the Latin American market, including infrastructure projects and project finance, management strategy, team development, and mergers and acquisitions. Mr. Torres was previously head of business development for SNC-Lavalin, Colombia, and was instrumental in growing the company from two people to more than 2,000 people in Colombia over the course of three years.
- **Franziska Katterbach, President, Europe.** Ms. Katterbach is an accomplished business executive and legal expert (zugelassene Rechtsanwältin) who brings extensive experience working within Europe's emerging cannabis industry. After completing her legal studies at Universität Leipzig and Landgericht Darmstadt, Franziska joined corporate law firm Dentons, where she was involved high-profile deals in the cannabis sector across multiple jurisdictions.
- **Swapan Kakumanu, CFO.** Mr. Kakumanu has more than 25 years of senior finance and operations experience and has served at the senior executive management levels, both in public and private companies, in high growth technology, manufacturing, blockchain, medical device, and oil field services industries.
- **Juan Diego Alvarez, VP Regulatory.** Dr. Alvarez has more than 10 years of legal experience in Colombia and is an authority on medicinal cannabis regulation in LATAM. He was previously a public policy advisor to the Ministry of Health in Colombia.
- **Rodrigo Duran, VP Pharma.** Mr. Duran has over 17 years of experience in the consumer goods and pharma industry. As Consumer Brands Director for Team Foods, Rodrigo was responsible for \$70 Million in US sales through retail and digital channels.

BOARD OF DIRECTORS

Khiron's board of directors consists of the following individuals:

- **Chris Naprawa, Chair of the Board.** Mr. Naprawa has 20+ years of experience in institutional capital markets. He was a former partner at Sprott Capital Partners, Head of Equity Sales at Macquarie Canada, Head of Equity Sales and Trading at Dundee Securities and Managing Director at Primary Capital.
- **Alvarez Torres, Co-Founder & Director.** Mr. Torres is founder, CEO, and Director of Khiron. Mr. Torres was previously head of business development for SNC-Lavalin Colombia. Mr. Torres was an industrial engineer who built infrastructure projects in Colombia and LatAm, including Colombia's tallest skyscraper.
- **Deborah Rosati, Lead Director.** Ms. Rosati has been the Lead Director of Khiron and Chair of the Audit Committee since joining the Board in 2019. In addition to being the founder and CEO of Women Get On Board Inc., Ms. Rosati is an accomplished corporate director, entrepreneur, Fellow Chartered Professional Accountant (FCPA) and certified Corporate Director with more than 30 years of experience in technology, consumer, retail, cannabis, private equity and venture capital.
- **Juan Carlos Echeverry, Independent Director.** Mr. Echeverry served as Colombia's Minister of Economic Planning in 2000 and was the representative for Colombia before the Inter-American Development Bank (IDB). Former CEO and President of Ecopetrol, Colombia's largest corporation and the 4th largest Latin American oil and gas producer included in Fortune Global 500.
- **Alvaro Yanez, Independent Director.** Mr. Yanez has been a director of Khiron since 2018. He has 15 years of legal experience in Colombia and internationally, and is the former Legal Manager of Frontera Energy (formerly known as "Pacific Exploration and Production").
- **Vincente Fox, Independent Director.** Mr. Fox is a Mexican businessman and politician who served as the 55th President of Mexico. Prior to his Presidential nomination, Mr. Fox was the CEO of Coca-Cola Latin America.

APPENDIX 1 – FINANCIAL FORECAST

Figure 20: – Income Statement (\$000s)

Income Statement	Dec-20 2020	Dec-21 2021e	Dec-22 2022e	Dec-23 2023e	Dec-24 2024e	Dec-25 2025e
Revenue	8.0	12.7	18.4	40.3	64.3	75.9
Cost of goods sold	2.1	7.1	8.3	12.2	21.9	28.6
Adj. gross profit	5.9	5.6	10.1	28.1	42.4	47.3
Adj. gross margin %	74%	44%	55%	70%	66%	62%
FV adjustments	(5.5)	(3.1)	-	-	-	-
Gross profit	11.4	8.7	10.1	28.1	42.4	47.3
Operating expenses	30.6	26.0	24.3	22.7	22.7	22.8
Income (loss) from operations	(19.2)	(17.3)	(14.2)	5.4	19.7	24.5
Other income (expense)	(0.5)	1.1	-	-	-	-
Pre-tax earnings	(19.6)	(16.2)	(14.2)	5.4	19.7	24.5
Income tax expense	(0.0)	0.0	-	(1.8)	(5.2)	(6.5)
Net income (loss)	(19.6)	(16.2)	(14.2)	3.5	14.4	18.0
Adjusted EBITDA	(17.2)	(15.3)	(13.4)	6.1	20.5	25.3
Adj. EBITDA Margin %	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	15.2%	31.8%	33.4%

Source: Company reports and RCC

Figure 21. Balance Sheet

Balance Sheet	Dec-20 2020	Dec-21 2021e	Dec-22 2022e	Dec-23 2023e	Dec-24 2024e	Dec-25 2025e
ASSETS						
Cash and short-term investments	21.6	19.5	2.6	2.4	14.7	30.5
Receivables	4.6	1.8	2.7	3.3	3.7	4.0
Inventory	8.3	3.5	4.2	7.1	8.6	10.0
Other current assets	1.8	2.8	2.8	2.8	2.8	2.8
Current assets	36.4	27.6	12.3	15.6	29.7	47.3
Property, plant and equipment	17.5	15.7	15.8	16.1	16.4	16.8
Intangible assets	15.1	14.9	14.9	14.9	14.9	14.9
Other assets	4.1	3.7	3.7	3.7	3.7	3.7
Total assets	73.2	61.8	46.7	50.2	64.7	82.7
LIABILITIES						
Accounts payable and accrued liabilities	6.3	5.5	4.6	4.6	4.6	4.6
Other current liabilities	1.1	0.7	0.7	0.7	0.7	0.7
Current liabilities	7.3	6.2	5.3	5.3	5.3	5.3
Long-term liabilities	2.6	4.9	4.9	4.9	4.9	4.9
Total Liabilities	10.0	11.1	10.2	10.2	10.2	10.2
SHAREHOLDERS' EQUITY						
Share capital	137.1	146.3	146.3	146.3	146.3	146.3
Reserve for options and warrants	-	-	-	-	-	-
Warrants	-	-	-	-	-	-
Deficit	(73.9)	(95.6)	(109.8)	(106.3)	(91.9)	(73.9)
Total shareholders' equity	63.2	50.7	36.5	40.0	54.5	72.5
Total liabilities and shareholders' equity	73.2	61.8	46.7	50.2	64.7	82.7

Source: Company reports and RCC

Figure 22. Cash Flow Statement

Statement of Cash Flows	Dec-20 2020	Dec-21 2021e	Dec-22 2022e	Dec-23 2023e	Dec-24 2024e	Dec-25 2025e
OPERATING						
Net income (loss)	(19.6)	(16.2)	(14.2)	3.5	14.4	18.0
Depreciation and amortization	0.8	0.8	0.8	0.8	0.8	0.8
Share-based compensation	5.7	2.6	-	-	-	-
Other	(5.7)	(4.0)	-	-	-	-
Changes in non-cash working capital	(5.7)	5.9	(2.5)	(3.6)	(1.8)	(1.8)
Operating cash flow	(24.5)	(10.9)	(15.9)	0.7	13.4	17.0
FINANCING						
Share issuance	12.9	11.2	-	-	-	-
Issuance of convertible debt	(0.3)	(0.7)	-	-	-	-
Financing cash flow	12.2	10.4	-	-	-	-
INVESTING						
Capital expenditures	(2.7)	(0.8)	(0.9)	(1.0)	(1.1)	(1.3)
Other	-	-	-	-	-	-
Investing Cash Flow	(2.7)	(0.8)	(0.9)	(1.0)	(1.1)	(1.3)
Change in cash	(15.1)	(1.3)	(16.9)	(0.3)	12.3	15.8
Cash, beginning of period	36.9	21.6	19.5	2.6	2.4	14.7
Effects of movements in exchange rates on cash he	(0.4)	(0.8)	-	-	-	-
Cash, end of period	21.4	19.5	2.6	2.4	14.7	30.5

Source: Company reports and RCC

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