

## Prominent medical endorsement received

Khiron Life Sciences Corp. (KHRN-TSXV: C\$1.33) Speculative Buy; C\$3.40 Target

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Khiron announced it has signed an endorsement agreement with the highly respected and influential Colombian Association for the Study of Pain (ACED). As outlined in our note earlier this week, this is consistent with Khiron's overall strategy of working with the medical community to build trust and brand recognition through education. While not in the agreement, we believe the partnership (or others like it) could lead to collaboration on future clinical studies, which would continue to build credibility within the medical community and potentially support product approvals. Details are as follows.

- ACED was formed as a chapter of the Washington, D.C. -based International Association for the Study of Pain (IASP).
- ACED is a 300-member interdisciplinary association of physicians whose goal is to study and harmonize all aspects of the research, diagnosis and treatment of pain in Colombia, under the guidelines of the International Association.
- Khiron and ACED will partner on a schedule of patient and physician education programs, modules and events. This includes exploring opportunities for joint continuing education efforts for doctors, the organization of international congresses, regional and satellite professional development courses, and functional integration with other scientific societies throughout Colombia and Latin America.
- The company believes ACED's relationship with international organizations such as the International Narcotics Control Board, the Pan American Health Organization and the United Nations, among others, positions Khiron among a global pain management community.
- Khiron will be a presenting partner at ACED's XXVIII International Congress of Pain, being held Bogotá, Colombia from May 16 to 18, 2019.

## Appendix: Important Disclosures

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### Investment Recommendation

Date and time of first dissemination: December 11, 2018, 08:00 ET

Date and time of production: December 11, 2018, 08:00 ET

### Target Price / Valuation Methodology:

Khiron Life Sciences Corp. - KHRN

Using a sum-of-the-parts DCF model (10-13% discount rate), we estimate a value of ~\$3.36/sh, which reflects a target EV of ~\$245 million. Our valuation is based off funded capacity, with a small value attributed to sales outside of Colombia.

### Risks to achieving Target Price / Valuation:

Khiron Life Sciences Corp. - KHRN

### Patient acquisition risk

Khiron's patient acquisition strategy relies on physicians' willingness to prescribe medical cannabis, along with patients' openness to receiving a cannabis prescription. While we believe the company is targeting good doctor and patient candidates through strategic alliances and targeted acquisitions, Colombia is an unproven market where acceptance of medical cannabis has yet to be established.

### Production risk

As a company, Khiron has not yet commercially cultivated cannabis or produced cannabis extracts. Quality issues could result in reduced sales and negative brand associations. Additionally, if the company is unable to ramp up production of high quality cannabis, it may not meet our revenue estimates.

### Regulatory risk

Khiron operates in a highly regulated (but nascent) industry where specific regulations have yet to be fully implemented/tested. The company is reliant on INVIMA approvals to distribute CBD and branded mass marketed prescription products. Failure to receive INVIMA approvals could result in a significantly smaller distribution network, which could adversely impact our sales projections.

### Financial risk

While we believe Khiron is fully funded to meet our current production and revenue estimates, a shortfall in revenues or operating cash flow could result in the company needing to secure additional financing, which could be dilutive to our current estimates. We expect Khiron will look to expand its business through additional clinic acquisitions and cultivation capacity expansions. Funding may be at a high cost or dilutive to our estimates.

### ILANS acquisition risk

The ILANS acquisition is a material driver in our valuation but has yet to be finalized. If the acquisition were to fall through, it would have an adverse impact on our valuation.

### Pricing risk

Companies with high-quality production may not achieve the premium pricing that we forecast relative to industry averages and therefore may not meet our revenue forecasts. In addition, as the industry begins to shift towards a wholesale model, licensees may experience pricing pressure, which may erode margins.

### Foreign exchange risks

Khiron's functional currency is the Colombian peso, while its share price is denominated in Canadian dollars. With the majority of revenues and costs denominated in Colombian Pesos, Khiron investors are directly exposed to changes in the underlying currencies.

**Distribution of Ratings:**

**Global Stock Ratings (as of 12/11/18)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	566	63.45%	46.64%
Hold	200	22.42%	31.50%
Sell	9	1.01%	33.33%
Speculative Buy	117	13.12%	65.81%
	892*	100.0%	

\*Total includes stocks that are Under Review

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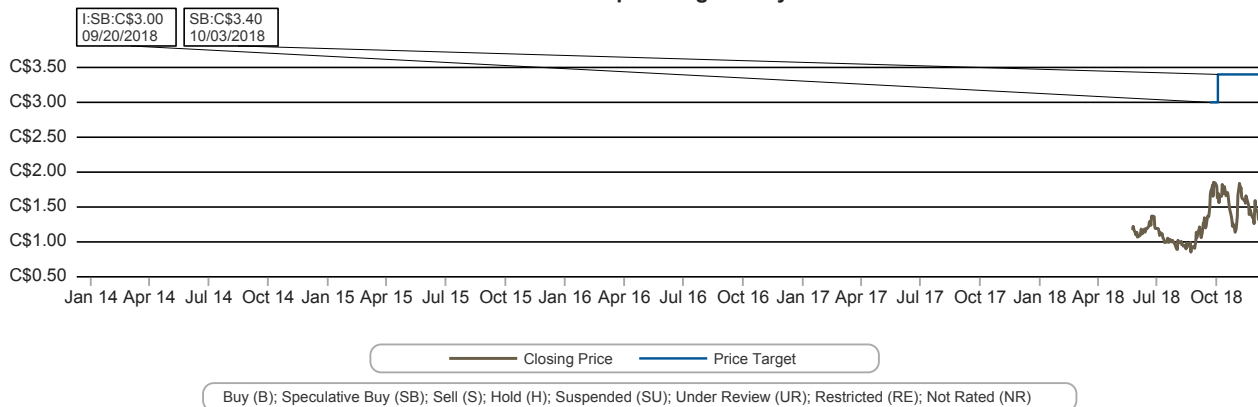
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Khiron Life Sciences Corp. Rating History as of 12/10/2018



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**Canadian Equity Research**  
10 December 2018

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**SPECULATIVE BUY**

*unchanged*

**PRICE TARGET** C\$3.40

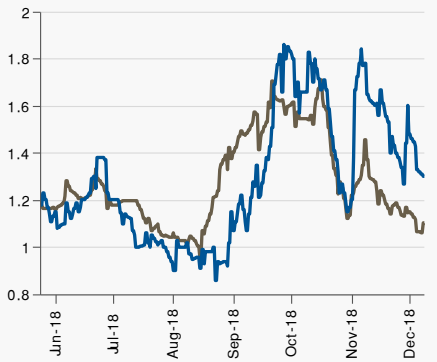
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Price (9-Dec) C\$1.30

Ticker KHRN-TSXV

52-Week Range (C\$):	0.86 - 1.99
Avg Daily Vol (000s) :	507.0
Market Cap (C\$M):	110
Shares Out., FD (M) :	84.6
Total Return to Target (%) :	161.5
Net Debt (Cash) (C\$M):	(38)
Enterprise Value (C\$M):	72.5

FYE Dec	2018E	2019E	2020E	2021E
Revenue (C\$M)	0↓	25	66↑	99
<i>Previous</i>	2	-	65	-
SG&A (C\$M)	16.3	23.2	33.4	36.9
EBITDA Adj (C\$M)	(16.1)↓	(0.6)↓	25.2↑	50.6
<i>Previous</i>	(14.0)	(0.0)	24.7	-
EPS Adj&Dil (C\$)	(0.35)↓	(0.07)	0.16↑	0.36
<i>Previous</i>	(0.34)	-	0.15	-
EV/EBITDA (x)	-	-	2.9	1.4



Source: FactSet

Priced as of close of business 9 December 2018

Khiron Life Sciences Corp. is a Canadian-listed, vertically integrated medical cannabis company with its core operations in Colombia. Khiron combines leading international scientific expertise, agricultural advantages, and branded product market entrance experience to address the unmet medical needs in a market of over 620 million people in Latin America.

**Estimates Revised**

**Latin America in the spotlight**

Given the recent focus on the LATAM cannabis sector, we are reiterating our C\$3.40 target and SPEC BUY rating on Khiron. We believe Aurora's entry into Mexico validates Khiron's LATAM strategy while short-report allegations against Aphria have no bearing on or read-throughs to Khiron. If Khiron can continue to execute on its patient acquisition strategy (through cannabis clinics, physician education, and medical association endorsements), we believe it will generate a steady revenue stream that could make it a take-out target. We remain confident in Khiron's operations, strategy, and management and view the recent pullback as a buying opportunity.

**LATAM-focused management.** With 27% ownership and strong regional ties, we believe management is focused on building long-term value. Significant milestones include:

- Signing a definitive agreement to acquire ILANS, a Bogota-based neurological clinic with ~100,000 medical patients. In our view, management's contacts in the region position Khiron to execute on similar acquisitions.
- Entering Chile through an MOU with Chile's only licensed producer.
- Sponsoring several LATAM medical cannabis conferences, including Vicente Fox's CannaMexico World Summit. Khiron later recruited the former President to its Board, significantly expanding its scope of influence, in our view.
- Receiving medical cannabis endorsements from three medical associations, two of which provide access to ~400,000 patients.

**Cultivation assets support rapid production ramp-up.** We believe key infrastructure is in place to quickly ramp up commercial production once final regulatory approvals are received, likely by year-end. As outlined on Figure 8, Khiron has built an 80,000 sq. ft greenhouse for cultivation. Additionally, GMP-certified extraction and post-harvest processing facilities are expected to be commissioned in the near term (see Figure 2). Khiron's first greenhouse is expected to yield ~8,500 kg/year, and with land holdings of 17.5 hectares, we believe production could quickly ramp up to over 90 tonnes per year.

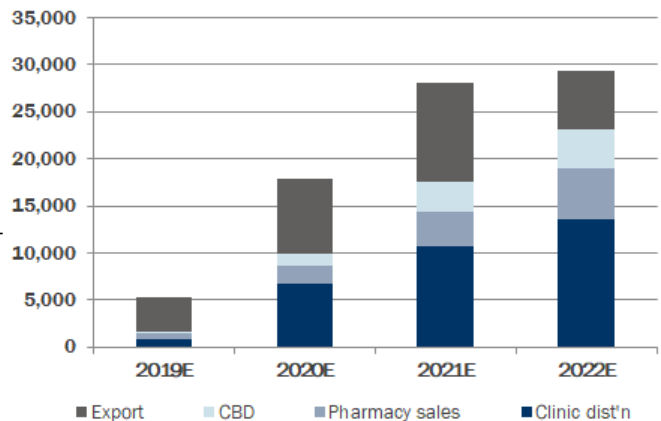
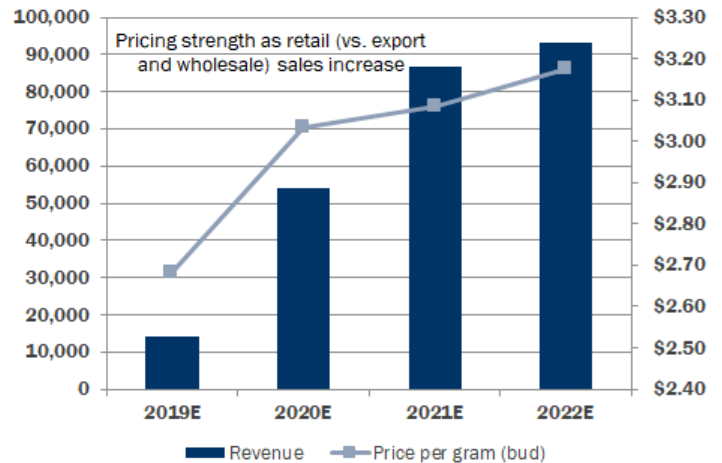
**Suite of products currently being commercialized.** We believe Khiron's product development is relatively advanced in the region. The company currently has seven Kuida cosmeceutical products under distribution through a number of channels. Four of these products have also been approved in Peru while three new CBD supplements recently received Mexican approvals. The company has also signed major agreements with large pharmacies and wholesale distributors operating in Colombia and Mexico.

**Valuation.** Using a sum-of-the-parts DCF model (10-13% discount rate), we estimate a value of ~\$3.36 (down slightly from \$3.44/sh owing to updated cash balances and a minor deferral on the ILANS clinic start date). Our valuation, which is based on funded capacity, reflects potential upside of ~160% and a target EV of ~\$245 million. With a small portion of our valuation attributed to sales outside of Colombia, we estimate that every 50,000 Khiron patients in Mexico would add ~\$1/sh to our valuation. While we see significant upside potential, given the early stage of the LATAM cannabis industry, we believe a Speculative rating is appropriate.

Figure 1: Corporate summary

Company Description					Consolidated Balance Sheet				
Khiron Life Sciences Corp. is a Canadian-listed integrated medical cannabis company with core operations in Colombia. Khiron combines leading international scientific expertise, agricultural advantages, and branded product market entrance experience to address the unmet medical needs in a market of over 620 million people in Latin America.					<b>Year end Dec 31 \$000s</b>				
					<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2021E</b>
Cash					19,245	11,479	21,860	54,811	
Current Assets					20,945	16,756	28,936	64,305	
Fixed Assets					5,622	9,756	13,448	11,374	
<b>Total Assets</b>					<b>26,567</b>	<b>26,511</b>	<b>42,384</b>	<b>75,679</b>	
Current Liabilities					658	1,650	2,322	2,689	
Debt					-	-	-	-	
Shareholders Equity					25,910	24,862	40,062	72,990	
<b>Total Liabilities &amp; S/E</b>					<b>26,567</b>	<b>26,511</b>	<b>42,384</b>	<b>75,679</b>	
P&L Forecasts					Revenue Forecasts				
<b>Year end Dec 31 \$000s</b>					<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2021E</b>
<b>Kg of cannabis sold</b>					<b>12</b>	<b>5,298</b>	<b>17,813</b>	<b>28,038</b>	
Ave. Price per gram (bud)					\$ 19.00	\$ 2.68	\$ 3.03	\$ 3.09	
<b>Revenue</b>					<b>228</b>	<b>25,013</b>	<b>65,868</b>	<b>99,160</b>	
Production Costs					64	2,371	7,336	11,712	
Operating Expenses					16,258	23,227	33,356	36,896	
<b>Adj. EBITDA</b>					<b>(16,094)</b>	<b>(585)</b>	<b>25,176</b>	<b>50,552</b>	
Depreciation/Amortization					105	2,433	3,055	2,537	
Interest Expense (Income)					-	-	-	-	
<b>Income Before Taxes</b>					<b>(18,892)</b>	<b>(5,017)</b>	<b>20,080</b>	<b>45,934</b>	
Taxes					2	1,067	6,920	15,087	
<b>Net Income</b>					<b>(18,894)</b>	<b>(6,084)</b>	<b>13,160</b>	<b>30,847</b>	
Shares o/s (basic)					53,231	90,983	91,489	91,489	
Shares o/s (FD)					53,231	90,983	84,617	84,617	
<b>EPS - FD</b>					<b>(0.35)</b>	<b>(0.07)</b>	<b>0.16</b>	<b>0.36</b>	
Cash Flow Forecasts					Valuation Ratios				
<b>Year end Dec 31 \$000s</b>					<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2021E</b>
<b>Net Income</b>					<b>(18,894)</b>	<b>(6,084)</b>	<b>13,160</b>	<b>30,847</b>	
<b>Adj. EBITDA</b>					<b>(16,094)</b>	<b>(585)</b>	<b>25,176</b>	<b>50,552</b>	
Increase in Working Capital					(697)	(2,368)	(1,213)	(2,852)	
Cash Taxes					(2)	(1,067)	(6,920)	(15,087)	
Capex					(5,459)	(6,566)	(6,747)	(463)	
<b>Free Cash Flow</b>					<b>(22,253)</b>	<b>(10,586)</b>	<b>10,296</b>	<b>32,150</b>	
Growth Analysis					Enterprise Value / Revenue				
<b>Year end Dec 31 \$000s</b>					<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2021E</b>
Revenue					nfm	nfm	163%	51%	
EBITDA					nfm	nfm	nfm	101%	
Net Income					nfm	nfm	-316%	134%	
Margin Analysis					Enterprise Value / EBITDA				
<b>Year end Dec 31 \$000s</b>					<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2021E</b>
Gross Margin					72%	83%	86%	86%	
EBITDA					n/a	-2%	38%	51%	
Net Income					nfm	nfm	20%	31%	
					Enterprise Value / Funded Capacity				
					4.3x				
					4.3x				
					4.3x				

Source: FactSet, Company Reports, Canaccord Genuity estimates





## Key Developments

We believe Khiron's recent share price weakness is short-term in nature, coinciding with an overall sell-off in the sector, exacerbated by potential selling by previous warrant holders and concerns surrounding LATAM in general.

We remain confident in Khiron's operations and LATAM strategy and view the recent pullback as a buying opportunity. We are reiterating our SPEC BUY rating and C\$3.40 target price, which reflects potential upside of 160% to the current share price. To alleviate any potential concerns regarding the company's progress and growth potential (which we would view as unfounded), we outline a number of advancements made by the company over the last year, including several images that showcase progress.

### **Influential LATAM-based management**

We believe Khiron is positioning to become a dominant player in Latin America with the recent addition of high profile members to its Board. The company also appears to be ramping up staff to execute its growth plans.

- On July 17, 2018, Khiron appointed Vicente Fox, former CEO of Coca Cola Mexico and former President of Mexico, to the Board of Directors. Fox is a vocal advocate for cannabis legalization who believes Mexico will legalize recreational cannabis in the next few months.
- We believe his seat on the Board bodes well for an early mover advantage in Mexico while broadening Khiron's scope of influence. In our view, his position on the Board should also be a comfort to investors who lack a full appreciation of the company's operations and growth plans.
- We note that in a previous Q&A session with Fox, the former Mexican president indicated that he was drawn to Khiron for its strong management team.
- We believe Latin American Institute of Neurology and the Nervous System (ILANS) management is well connected in the LATAM medical community and may assist in identifying clinic acquisition candidates.
- Khiron has also assembled a sizeable staff to progress its strategy.

**Figure 2: Vicente Fox and Khiron team in front of extraction facility**



Source: Company Reports

**Figure 3: Vicente Fox on site**



Source: Company Reports

**Figure 4: Khiron head office**



Source: Company Reports

**Figure 5: Khiron head office**



Source: Company Reports

### **Clean capital structure and solid balance sheet to execute**

Following the company's recent financings, we believe it is fully funded to meet our revenue and CAPEX projections.

- The company had working capital of \$24.9M as of November 29, 2018; in the second half of 2018, Khiron raised just under \$13M through a prospectus offering and an additional \$14M through a warrant acceleration at \$1.20/share.
- In our view, the company has a clean capital structure with 76.5 million pro forma shares outstanding (following the warrant acceleration) and an estimated 3.8 million warrants and 4.3 million options outstanding.

**Figure 6: Khiron capitalization and financings**

	Number (000s)	Price	Net proceeds
Jan 1, 2018 balance	32,570	\$0.17	5,377
March 2018 private placement	905	\$0.90	905
Shares issued on rights offering	1,441	-	-
RTO subscription receipts	11,230	\$1.00	10,747
Subscription receipt costs	-	-	(411)
Shares retained by Adent shareholders	706	\$0.89	628
Sept 2018 private placement	14,375	\$0.90	11,851
Warrants exercised	2,190	\$1.19	2,615
<b>Sept 30, 2018 balance</b>	<b>63,417</b>	<b>\$0.50</b>	<b>31,712</b>
ILANS acquisition	1,400	\$1.50	2,100
Warrants exercised	11,672	\$1.20	14,006
<b>Pro-forma shares o/s</b>	<b>76,489</b>	<b>\$0.63</b>	<b>47,819</b>
Warrants o/s (CG est.)	3,811	\$1.04	3,979
Options o/s (CG Est.)	4,318	\$1.12	4,840
<b>FD share count</b>	<b>84,617</b>	<b>\$0.67</b>	<b>56,637</b>

Source: Company Reports, Canaccord Genuity estimates

## Cultivation

We believe Khiron's cultivation facilities are ready for a rapid production scale-up pending a commercial THC quota. Additionally, post-harvest facilities are progressing and are expected to be complete by Q1/19, in time for the company's first expected harvest. We outline the steps Khiron has taken to date to prepare its site for commercial cultivation and production.

- Khiron completed initial greenhouse structures in March.
- In April, following a facility audit, the Colombian Agricultural Institute (ICA) granted the company authorization to become an official seed producer.
- On May 28, 2018, Khiron was registered by the ICA as an agronomical unit after an inspection of the greenhouse structures and propagation area conditions, cultivation procedures and the methodologies applied to analyze strains.
- The company expanded its agricultural land in Ibagu e, Colombia from 4.5 hectares to 17.5 hectares. Khiron is preparing the site for additional outdoor planting of medicinal cannabis.
- On September 6, 2018, Khiron began agronomical evaluation tests conducted by the ICA for four psychoactive varieties of cannabis and one non-psychoactive; Khiron currently has approximately 56 strains involved in this registration process.
- We note that as of Q3/18, cumulative capital spending was just over \$2 million, which in our view, highlights the cost advantages in Colombia.
- While the region is relatively humid (ranging from 45-70% and averaging 55%), we are unaware of any cultivation issues and plants appear to be healthy based on recent photo footage.

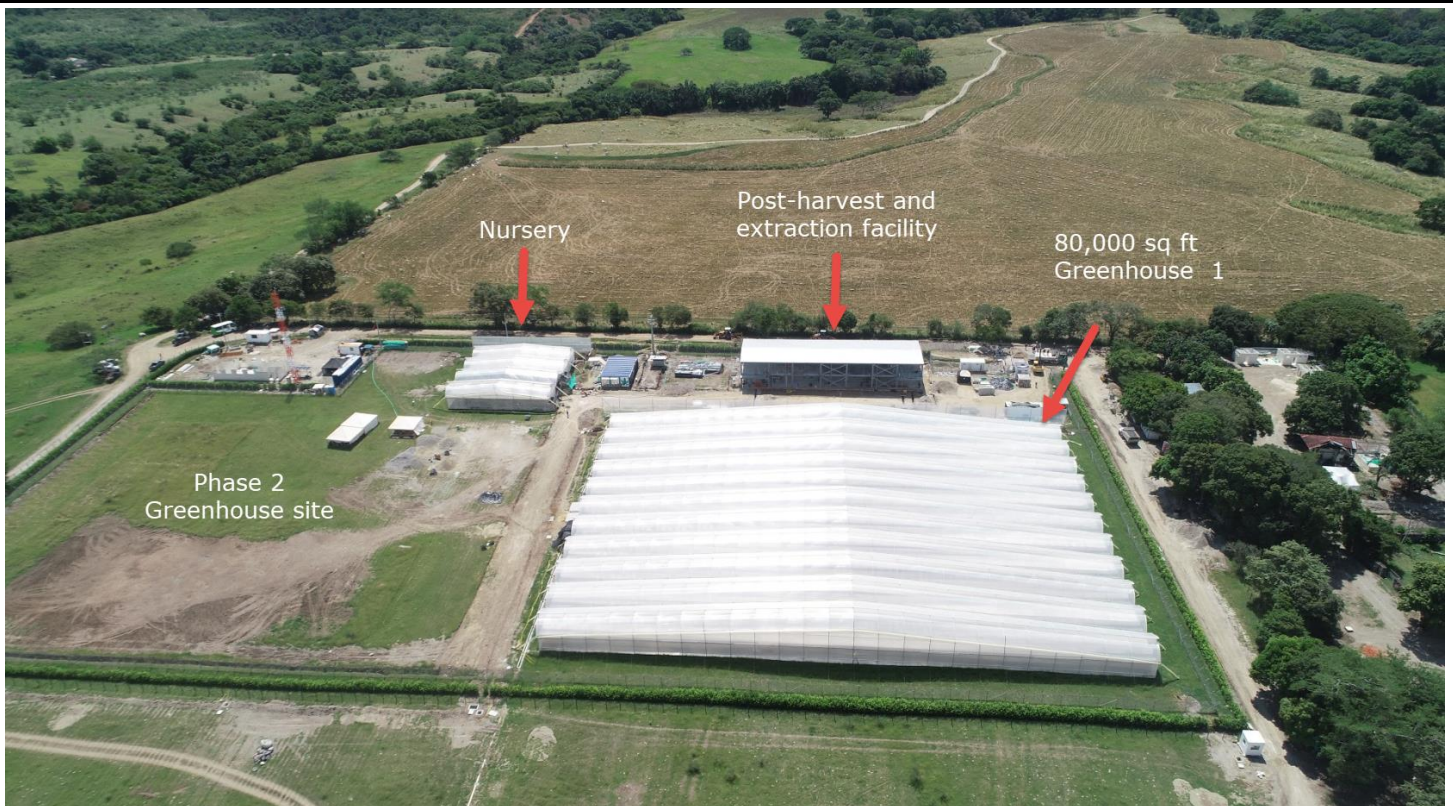


Figure 7: Khiron cultivation



Source: Company Reports

Figure 8: Cultivation site, including new extraction and processing facility



Source: Company Reports, modified by Canaccord Genuity

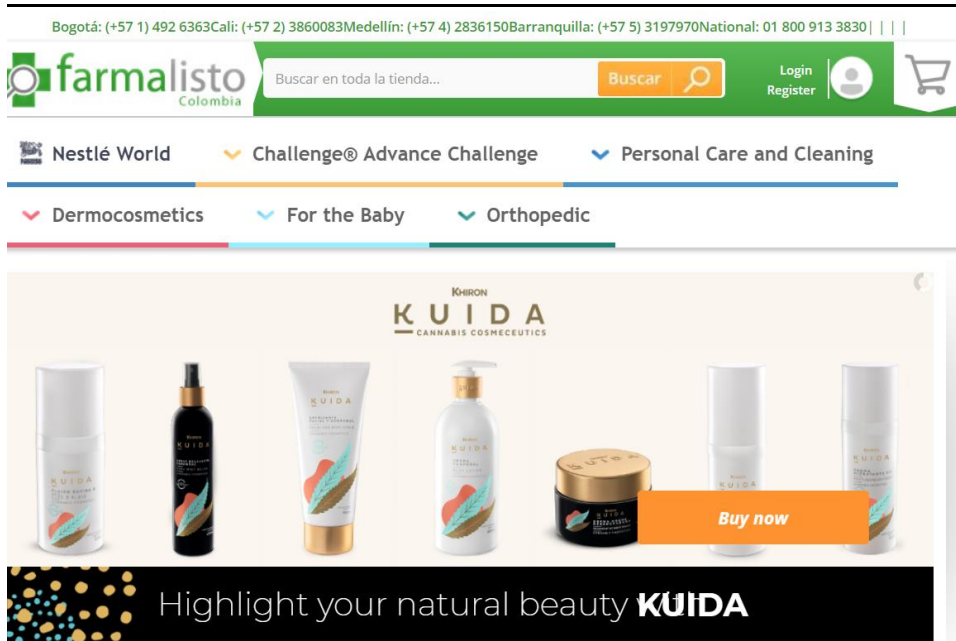


## Product development

Khiron has made excellent progress getting its Kuida products to market and expanding its presence outside of Colombia, in our view.

- Khiron was the first fully licensed medical cannabis company to receive an approval from INVIMA for cannabinoid-based products.
- Between September and October 2018, Khiron launched Kuida, the first CBD cosmeceutical brand in Colombia. The company secured distribution agreements with Farmatodo (for a period of exclusive instore retail distribution) and Farmalisto (online). These distribution platforms are shown below.
- Kuida has also entered into an agreement with Distribuciones AXA S.A., one of Colombia's largest national distributors in the pharmaceutical sector, with 14,000 product SKU's and more than 8,000 retail clients. Given its broad network of retailers and clients, we believe AXA will play an important role in product distribution.
- In Peru, Khiron was granted export authorization for four cannabidiol-based skin and body care products.

Figure 9: Kuida sales platforms – Online via Farmalisto



Source: Farmalisto Colombia (Homepage)

Figure 10: Kuida sales platforms - instore



Source: Company Reports

## Medical strategy

Khiron has also had a number of successes related to its medical platform.

- On February 15, 2018, Khiron and the Colombian Association of Neurologists co-hosted the first ever International Medical Cannabis Symposium.
- In May, Khiron acted as a key sponsor of the CannaMexico World Summit, a forum for open dialogue about legalization, strategically positioning the company to enter the Mexican market.



- On June 11, 2018, Khiron secured medical cannabis endorsements from both the Colombian Association of Internal Medicine (ACMI) and the Colombian Association of Neurology (ACN).
- On October 18, 2018, Khiron announced a signed agreement to acquire the Latin American Institute of Neurology and the Nervous System (ILANS). ILANS has ~60 physicians and ~100,000 patients.

## Valuation

### Consolidated estimate revisions

We have made minor revisions to our estimates as outlined in the table below. The main change to our estimates was the deferral of ILANS patient revenues from mid November 2018 to early January 2019, along with updated net cash balances. Otherwise, we have slightly increased our 2019 Kuida sales to account for wider product distribution approvals.

Figure 11: Estimate revisions

CAD (M)	Fiscal 2018		Fiscal 2019		Fiscal 2020	
	Old Estimates	New Estimates	Old Estimates	New Estimates	Old Estimates	New Estimates
Revenue	\$ 1.5	\$ 0.2	\$ 25.2	\$ 25.0	\$ 64.7	\$ 65.9
EBITDA	\$ (14.0)	\$ (16.1)	\$ (0.0)	\$ (0.6)	\$ 24.7	\$ 25.2
EPS	\$ (0.34)	\$ (0.35)	\$ (0.07)	\$ (0.07)	\$ 0.15	\$ 0.16

Source: Company Reports, Canaccord Genuity estimates

Using a sum-of-the-parts model, we estimate a value of \$3.36/sh for Khiron, which forms the basis of our target price of C\$3.40. Based on the current share price of \$1.30, our target reflects upside potential of ~160% and a target EV of \$246 million.

Figure 12: SOTP valuation and changes

Segment	Methodology	Prior value / share (C\$)	Prior value (C\$M)	Prior disc. rate	Prior TV growth	Value / share (C\$)	Value (C\$M)	Discount rate	Terminal Growth	\$/sh % chg	EV / 2020E EBITDA
Clinic/retail distribution	NPV	\$ 1.90	\$ 160	10%	2.0%	\$ 1.87	\$ 158	10.0%	2.0%	-1%	11.9
Pharmacy distribution	NPV	\$ 0.30	\$ 25	12%	2.0%	\$ 0.30	\$ 25	12.0%	2.0%	0%	9.7
Wholesale exports	NPV	\$ 0.25	\$ 21	10%	2.0%	\$ 0.25	\$ 21	10.0%	2.0%	1%	3.8
OTC CBD products	P.NPV	\$ 0.49	\$ 41	13%	2.0%	\$ 0.50	\$ 42	13.0%	2.0%	2%	11.4
Net cash	FV	\$ 0.51	\$ 43			\$ 0.44	\$ 38	n/a		-13%	n/a
<b>Total</b>		<b>\$ 3.44</b>	<b>\$ 291</b>		<b>2.0%</b>	<b>\$ 3.36</b>	<b>\$ 284</b>	<b>10.9%</b>	<b>2.0%</b>	<b>-2%</b>	<b>9.8</b>
<b>Current trading values</b>						<b>\$ 1.30</b>	<b>\$ 72</b>				<b>2.9</b>
# of common shares (000s)		84,602				84,617					

Source: Company Reports, Canaccord Genuity estimates

### Peer Comps

Based on our estimates, we believe the company trades at a significant discount to the Canadian and US peer group, with a 2020E EV/EBITDA multiple of 2.9x. This reflects a 50% discount to the Canadian mid-tier average of 5.8x and an ~85% discount to the large-cap multiple of 20.2x.

Figure 13: Valuation metrics

Valuation Ratios			
Year end Dec 31 \$000s	2019E	2020E	2021E
Enterprise Value / Revenue	2.9	1.1	0.7
Enterprise Value / EBITDA	n/a	2.9	1.4
Enterprise Value / Funded Capacity	4.3x	4.3x	4.3x

Source: Canaccord Genuity estimates

Figure 14: Peer comparative analysis

Company	Ticker	Share Price (\$)	Rating	Shares O/S (M)	Market Cap (M)	EV/EBITDA		EV/Revenue	
						Calendar 2019	Calendar 2020	Calendar 2019	Calendar 2020
Canopy Growth	WEED	41.75	SPEC BUY	387	\$ 16,141	50.2x	21.3x	14.5x	8.4x
Aphria Inc.	APH	6.93	SPEC BUY	254	\$ 1,759	8.6x	4.6x	3.3x	1.9x
Aurora Cannabis	ACB	7.60	SPEC BUY	1,002	\$ 7,615	37.7x	17.5x	12.8x	7.6x
Cronos Group Inc.	CRON	17.06	HOLD	209	\$ 3,566	73.8x	37.5x	23.1x	14.8x
*Tilray	TLRY	100.25	NOT RATED	93	\$ 9,333	367.8x	110.1x	65.3x	28.6x
<b>Large cap average</b>						<b>42.6x</b>	<b>20.2x</b>	<b>13.4x</b>	<b>8.2x</b>
OrganiGram Holdings	OGI	4.82	SPEC BUY	141	\$ 677	9.2x	7.3x	3.5x	2.9x
Supreme Cannabis Company	FIRE	1.48	SPEC BUY	322	\$ 476	10.1x	6.1x	3.2x	2.3x
Wayland Group Inc.	WAYL	1.20	SPEC BUY	217	\$ 260	9.1x	3.3x	1.1x	0.8x
CannTrust	TRST	7.79	SPEC BUY	109	\$ 853	21.7x	11.6x	3.8x	2.5x
HEXO Corp.	HEXO	5.20	SPEC BUY	247	\$ 1,284	16.8x	11.1x	5.2x	4.1x
Invictus MD	GENE	1.12	SPEC BUY	116	\$ 130	4.3x	2.6x	1.5x	1.0x
The Green Organic Dutchman	TGOD	3.17	SPEC BUY	322	\$ 1,019	15.0x	4.9x	1.8x	1.1x
Delta 9 Cannabis	NINE	1.29	SPEC BUY	94	\$ 121	3.8x	2.7x	0.8x	0.5x
VIVO Cannabis	VIVO	0.88	SPEC BUY	320	\$ 282	9.0x	2.2x	1.6x	0.6x
<b>Mid-tier average</b>						<b>11.0x</b>	<b>5.8x</b>	<b>2.5x</b>	<b>1.8x</b>
IAN + MPX	IAN	5.75	SPEC BUY	218	\$ 1,255	13.6x	8.9x	3.3x	2.6x
CannaRoyalty	CRZ	6.50	SPEC BUY	74	\$ 482	11.0x	5.6x	2.5x	1.5x
Trulieve	TRUL	10.95	SPEC BUY	110	\$ 1,208	8.5x	7.2x	3.7x	3.1x
Green Thumb Industries	GTII	13.30	NOT RATED	147	\$ 1,954	28.2x	8.8x	6.5x	3.1x
Liberty Health Sciences	LHS	0.88	SPEC BUY	371	\$ 326	14.5x	6.4x	3.4x	2.0x
Curaleaf	CURA	6.55	NOT RATED	509	\$ 3,331	19.9x	7.9x	7.6x	3.9x
Acreage	ACRG.U	17.76	NOT RATED	122	\$ 2,174	29.8x	11.3x	6.6x	3.4x
Harvest Health and Recreation	HARV	5.99	NOT RATED	278	\$ 1,663	18.2x	4.7x	4.6x	1.9x
<b>Average of U.S. companies</b>						<b>18.0x</b>	<b>7.6x</b>	<b>4.8x</b>	<b>2.7x</b>
<b>Khiron</b>	<b>KHRN</b>	<b>1.30</b>	<b>SPEC BUY</b>	<b>85</b>	<b>\$ 110</b>	<b>N/A</b>	<b>2.9x</b>	<b>2.9x</b>	<b>1.1x</b>

Not rated - Based on Consensus

\*Tilray estimates in USD, excluded from peer averages

Source: FactSet, Company Reports, Canaccord Genuity estimates

## Sensitivity analysis

As noted below, our valuation is impacted by our discount rates and terminal growth assumptions.

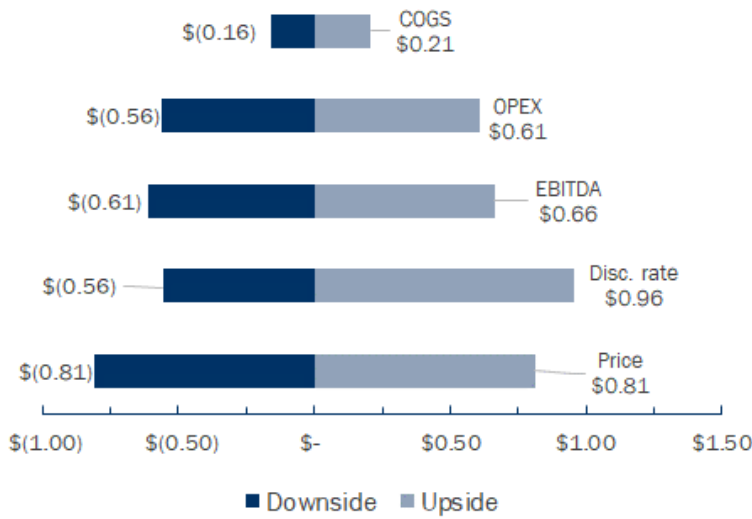
Figure 15: Discount rate and terminal growth rate sensitivity

		Discount rate				
		13%	12%	11%	10%	9%
Terminal Growth	3.0%	\$2.92	\$3.22	\$3.59	\$4.04	\$4.64
	2.5%	\$2.87	\$3.15	\$3.44	\$3.86	\$4.45
	2.0%	\$2.82	\$3.09	\$3.36	\$3.74	\$4.23
	1.5%	\$2.77	\$2.98	\$3.28	\$3.64	\$4.09
	1.0%	\$2.73	\$2.93	\$3.22	\$3.56	\$3.97
	0.5%	\$2.69	\$2.88	\$3.16	\$3.48	\$3.87

Source: Company Reports, Canaccord Genuity estimates

From an operating perspective, our estimates are also highly dependent on cannabis price assumptions, with a 20% change resulting in a 25% change in our valuation. In a blue-sky scenario, we estimate potential upside in the range of \$7-8/sh for LATAM expansion opportunities, wholesale distribution opportunities, and Colombian public insurance coverage.

**Figure 16: Change in \$/sh on 20% in assumptions**



Source: Company Reports, Canaccord Genuity estimates

**Figure 17: Upside potential**

Upside potential	\$/sh
EPS insurance coverage - medical cannabis	3.00
Full production capacity - wholesale	3.00
50,000 patients - Mexico	1.00
Kuida sales of 1.5 MM	0.50
<b>Blue-sky upside potential</b>	<b>7.50</b>

Source: Company Reports, Canaccord Genuity estimates

## Financial statements

Figure 18: Projected income statement

Fiscal Year End Dec 31 (C\$'000s)	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Revenue from cannabis and CPG	228	13,988	54,060	86,514	93,341	88,583	83,238	77,494	73,919	73,889	74,093
Insured services	-	11,025	11,808	12,646	13,544	14,091	14,660	14,954	15,253	15,558	15,869
<b>Total Revenue</b>	<b>\$ 228</b>	<b>\$ 25,013</b>	<b>\$ 65,868</b>	<b>\$ 99,160</b>	<b>\$ 106,885</b>	<b>\$ 102,674</b>	<b>\$ 97,899</b>	<b>\$ 92,447</b>	<b>\$ 89,171</b>	<b>\$ 89,447</b>	<b>\$ 89,962</b>
Revenue growth %		nfm	163%	51%	8%	-4%	-5%	-6%	-4%	0%	1%
Cost of goods sold	64	2,371	7,336	11,712	12,974	13,215	13,401	13,596	13,786	13,965	14,154
Inventory Expensed to Cost of Sales											
FV of change in biological assets											
Total Production Costs	\$ 64	\$ 2,371	\$ 7,336	\$ 11,712	\$ 12,974	\$ 13,215	\$ 13,401	\$ 13,596	\$ 13,786	\$ 13,965	\$ 14,154
<b>Gross Margin</b>	<b>\$ 164</b>	<b>\$ 22,642</b>	<b>\$ 58,532</b>	<b>\$ 87,448</b>	<b>\$ 93,912</b>	<b>\$ 89,459</b>	<b>\$ 84,498</b>	<b>\$ 78,852</b>	<b>\$ 75,385</b>	<b>\$ 75,482</b>	<b>\$ 75,809</b>
<b>Adjusted Gross Margin</b>	<b>\$ 164</b>	<b>\$ 22,642</b>	<b>\$ 58,532</b>	<b>\$ 87,448</b>	<b>\$ 93,912</b>	<b>\$ 89,459</b>	<b>\$ 84,498</b>	<b>\$ 78,852</b>	<b>\$ 75,385</b>	<b>\$ 75,482</b>	<b>\$ 75,809</b>
Adj. GM% (cannabis and CPG)	72%	83%	86%	86%	86%	85%	84%	82%	81%	81%	81%
General & Administrative	\$ 15,258	\$ 17,175	\$ 26,926	\$ 30,155	\$ 30,817	\$ 28,542	\$ 27,527	\$ 26,243	\$ 26,467	\$ 26,952	\$ 27,501
Share-based payments	2,683	2,000	2,040	2,081	2,122	2,165	2,208	2,252	2,297	2,343	2,390
Medical salaries and benefits	1,000	6,053	6,430	6,741	7,068	7,210	7,354	7,361	7,368	7,375	7,383
Depreciation	105	2,433	3,055	2,537	2,130	1,803	1,539	1,326	1,153	994	867
Interest Expense	-	-	-	-	-	-	-	-	-	-	-
Income (loss) from operations	\$ (18,882)	\$ (5,017)	\$ 20,080	\$ 45,934	\$ 51,774	\$ 49,740	\$ 45,870	\$ 41,670	\$ 38,100	\$ 37,817	\$ 37,667
<b>Adjusted EBITDA</b>	<b>\$ (16,094)</b>	<b>\$ (585)</b>	<b>\$ 25,176</b>	<b>\$ 50,552</b>	<b>\$ 56,026</b>	<b>\$ 53,708</b>	<b>\$ 49,617</b>	<b>\$ 45,248</b>	<b>\$ 41,551</b>	<b>\$ 41,155</b>	<b>\$ 40,924</b>
Adj. EBITDA %	n/a	-2%	38%	51%	52%	52%	51%	49%	47%	46%	45%
Finance Costs											
Other	10	-	-	-	-	-	-	-	-	-	-
EBT	\$ (18,892)	\$ (5,017)	\$ 20,080	\$ 45,934	\$ 51,774	\$ 49,740	\$ 45,870	\$ 41,670	\$ 38,100	\$ 37,817	\$ 37,667
Income tax expense	2	1,067	6,920	15,087	16,862	16,229	15,060	13,787	12,709	12,632	12,601
<b>Net Income</b>	<b>\$ (18,894)</b>	<b>\$ (6,084)</b>	<b>\$ 13,160</b>	<b>\$ 30,847</b>	<b>\$ 34,911</b>	<b>\$ 33,511</b>	<b>\$ 30,810</b>	<b>\$ 27,883</b>	<b>\$ 25,391</b>	<b>\$ 25,185</b>	<b>\$ 25,066</b>
Net Income (%)		-24%	20%	31%	33%	33%	31%	30%	28%	28%	28%
EPS - Basic	\$ (0.35)	\$ (0.07)	\$ 0.14	\$ 0.34	\$ 0.37	\$ 0.35	\$ 0.32	\$ 0.29	\$ 0.27	\$ 0.26	\$ 0.26
EPS -FD	\$ (0.35)	\$ (0.07)	\$ 0.16	\$ 0.36	\$ 0.41	\$ 0.40	\$ 0.36	\$ 0.33	\$ 0.30	\$ 0.30	\$ 0.30
# of shares outstanding - Basic	53,231	90,983	91,489	91,489	94,401	95,706	95,706	95,706	95,706	95,706	95,706
# of share outstanding - FD	53,231	90,983	84,617	84,617	84,617	84,617	84,617	84,617	84,617	84,617	84,617

Source: Company Reports, Canaccord Genuity estimates

**Figure 19: Projected balance sheet**

<b>Fiscal Year End Dec 31 (C\$'000s)</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>Assets</b>											
Cash and Cash Equivalents	19,245	11,479	21,860	54,811	96,274	135,780	170,656	201,863	230,428	258,689	286,688
Accounts Receivable	766	3,173	4,516	6,181	6,274	5,405	5,229	5,017	4,851	4,798	4,798
Inventory (before FV adj.)	500	1,669	2,126	2,880	3,075	3,162	2,689	2,608	2,636	2,639	2,660
Other	434	434	434	434	434	434	434	434	434	434	434
<b>Current Assets</b>	<b>20,945</b>	<b>16,756</b>	<b>28,936</b>	<b>64,305</b>	<b>106,056</b>	<b>144,782</b>	<b>179,008</b>	<b>209,921</b>	<b>238,348</b>	<b>266,561</b>	<b>294,581</b>
Property, Plant and Equipment, net	5,622	9,756	13,448	11,374	9,746	8,437	7,383	6,528	5,838	5,201	4,694
Intangibles assets and Goodwill	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>26,567</b>	<b>26,511</b>	<b>42,384</b>	<b>75,679</b>	<b>115,802</b>	<b>153,219</b>	<b>186,390</b>	<b>216,450</b>	<b>244,186</b>	<b>271,762</b>	<b>299,276</b>
<b>Liabilities</b>											
Accounts Payable & Accrued Liabilities	658	1,650	2,322	2,689	2,866	2,780	2,933	2,857	2,905	2,953	3,010
Current portion of long-term debt	-	-	-	-	-	-	-	-	-	-	-
<b>Current Liabilities</b>	<b>658</b>	<b>1,650</b>	<b>2,322</b>	<b>2,689</b>	<b>2,866</b>	<b>2,780</b>	<b>2,933</b>	<b>2,857</b>	<b>2,905</b>	<b>2,953</b>	<b>3,010</b>
Long-Term Debt	-	-	-	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>658</b>	<b>1,650</b>	<b>2,322</b>	<b>2,689</b>	<b>2,866</b>	<b>2,780</b>	<b>2,933</b>	<b>2,857</b>	<b>2,905</b>	<b>2,953</b>	<b>3,010</b>
<b>Shareholder's Equity</b>											
Share Capital	38,913	41,949	41,949	41,949	44,862	46,689	46,689	46,689	46,689	46,689	46,689
Warrants	6,905	6,905	6,905	6,905	6,905	6,905	6,905	6,905	6,905	6,905	6,905
Other	2,765	4,765	6,805	8,885	11,008	13,173	15,381	17,633	19,931	22,274	24,664
Retained Earnings (Deficit)	(22,674)	(28,758)	(15,598)	15,250	50,161	83,672	114,482	142,365	167,756	192,941	218,007
<b>Total Shareholder's Equity</b>	<b>25,910</b>	<b>24,862</b>	<b>40,062</b>	<b>72,990</b>	<b>112,936</b>	<b>150,439</b>	<b>183,457</b>	<b>213,593</b>	<b>241,281</b>	<b>268,809</b>	<b>296,266</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>26,567</b>	<b>26,511</b>	<b>42,384</b>	<b>75,679</b>	<b>115,802</b>	<b>153,219</b>	<b>186,390</b>	<b>216,450</b>	<b>244,186</b>	<b>271,762</b>	<b>299,276</b>

Source: Company Reports, Canaccord Genuity estimates



**Figure 20: Statement of cash flows**

Fiscal Year End - Dec 31 ('000s C\$)	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
<b>OPERATING ACTIVITIES</b>											
<b>Net profit (loss) for the period</b>	<b>(18,894)</b>	<b>(6,084)</b>	<b>13,160</b>	<b>30,847</b>	<b>34,911</b>	<b>33,511</b>	<b>30,810</b>	<b>27,883</b>	<b>25,391</b>	<b>25,185</b>	<b>25,066</b>
Adjustments for non-cash items											
Amortization	80	2,433	3,055	2,537	2,130	1,803	1,539	1,326	1,153	994	867
Share based compensation	2,739	2,000	2,040	2,081	2,122	2,165	2,208	2,252	2,297	2,343	2,390
Changes in working capital											
Accounts Receivable	(479)	(2,408)	(1,343)	(1,665)	(93)	869	176	212	166	52	(0)
Inventory (before FV adj.)	(500)	(1,169)	(457)	(754)	(195)	(88)	473	81	(28)	(4)	(21)
Biological Assets	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable & Accrued Liabilities	(47)	992	672	367	177	(86)	153	(76)	48	48	57
Other current assets	124	-	-	-	-	-	-	-	-	-	-
Investment in working capital	(901)	(2,584)	(1,128)	(2,051)	(111)	695	803	218	186	96	36
<b>Cash from Operations</b>	<b>(16,976)</b>	<b>(4,236)</b>	<b>17,128</b>	<b>33,414</b>	<b>39,053</b>	<b>38,174</b>	<b>35,360</b>	<b>31,679</b>	<b>29,028</b>	<b>28,619</b>	<b>28,359</b>
<b>FINANCING ACTIVITIES</b>											
Shares/warrants issued for cash	40,343	3,036	-	-	2,913	1,827	-	-	-	-	-
Proceeds (repayment) of debt	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
<b>Cash from Financing</b>	<b>40,343</b>	<b>3,036</b>	<b>-</b>	<b>-</b>	<b>2,913</b>	<b>1,827</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>INVESTING ACTIVITIES</b>											
Purchase of PP&E	(5,459)	(6,566)	(6,747)	(463)	(502)	(494)	(485)	(471)	(463)	(357)	(360)
Other	-	-	-	-	-	-	-	-	-	-	-
<b>Cash from Investing</b>	<b>(5,459)</b>	<b>(6,566)</b>	<b>(6,747)</b>	<b>(463)</b>	<b>(502)</b>	<b>(494)</b>	<b>(485)</b>	<b>(471)</b>	<b>(463)</b>	<b>(357)</b>	<b>(360)</b>
<b>Increase in cash and cash equivalents</b>	<b>17,907</b>	<b>(7,766)</b>	<b>10,380</b>	<b>32,951</b>	<b>41,463</b>	<b>39,507</b>	<b>34,876</b>	<b>31,207</b>	<b>28,565</b>	<b>28,262</b>	<b>27,999</b>
Cash and cash equivalents, beginning of year	1,810	19,245	11,479	21,860	54,811	96,274	135,780	170,656	201,863	230,428	258,689
Changes in FX	(472)	0	0	0	0	0	0	0	0	0	0
<b>Cash and cash equivalents, end of year</b>	<b>19,245</b>	<b>11,479</b>	<b>21,860</b>	<b>54,811</b>	<b>96,274</b>	<b>135,780</b>	<b>170,656</b>	<b>201,863</b>	<b>230,428</b>	<b>258,689</b>	<b>286,688</b>

Source: Company Reports, Canaccord Genuity estimates

## Appendix: Important Disclosures

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Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

### Investment Recommendation

Date and time of first dissemination: December 10, 2018, 06:13 ET

Date and time of production: December 10, 2018, 06:13 ET

### Target Price / Valuation Methodology:

Khiron Life Sciences Corp. - KHRN

Using a sum-of-the-parts DCF model (10-13% discount rate), we estimate a value of ~\$3.36/sh, which reflects a target EV of ~\$245 million. Our valuation is based off funded capacity, with a small value attributed to sales outside of Colombia.

### Risks to achieving Target Price / Valuation:

Khiron Life Sciences Corp. - KHRN

### Patient acquisition risk

Khiron's patient acquisition strategy relies on physicians' willingness to prescribe medical cannabis, along with patients' openness to receiving a cannabis prescription. While we believe the company is targeting good doctor and patient candidates through strategic alliances and targeted acquisitions, Colombia is an unproven market where acceptance of medical cannabis has yet to be established.

### Production risk

As a company, Khiron has not yet commercially cultivated cannabis or produced cannabis extracts. Quality issues could result in reduced sales and negative brand associations. Additionally, if the company is unable to ramp up production of high quality cannabis, it may not meet our revenue estimates.

### Regulatory risk

Khiron operates in a highly regulated (but nascent) industry where specific regulations have yet to be fully implemented/tested. The company is reliant on INVIMA approvals to distribute CBD and branded mass marketed prescription products. Failure to receive INVIMA approvals could result in a significantly smaller distribution network, which could adversely impact our sales projections.

### Financial risk

While we believe Khiron is fully funded to meet our current production and revenue estimates, a shortfall in revenues or operating cash flow could result in the company needing to secure additional financing, which could be dilutive to our current estimates. We expect Khiron will look to expand its business through additional clinic acquisitions and cultivation capacity expansions. Funding may be at a high cost or dilutive to our estimates.

### ILANS acquisition risk

The ILANS acquisition is a material driver in our valuation but has yet to be finalized. If the acquisition were to fall through, it would have an adverse impact on our valuation.

### Pricing risk

Companies with high-quality production may not achieve the premium pricing that we forecast relative to industry averages and therefore may not meet our revenue forecasts. In addition, as the industry begins to shift towards a wholesale model, licensees may experience pricing pressure, which may erode margins.

### Foreign exchange risks

Khiron's functional currency is the Colombian peso, while its share price is denominated in Canadian dollars. With the majority of revenues and costs denominated in Colombian Pesos, Khiron investors are directly exposed to changes in the underlying currencies.

**Distribution of Ratings:**

**Global Stock Ratings (as of 12/10/18)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	565	63.48%	46.55%
Hold	199	22.36%	31.66%
Sell	9	1.01%	33.33%
Speculative Buy	117	13.15%	65.81%
	890*	100.0%	

\*Total includes stocks that are Under Review

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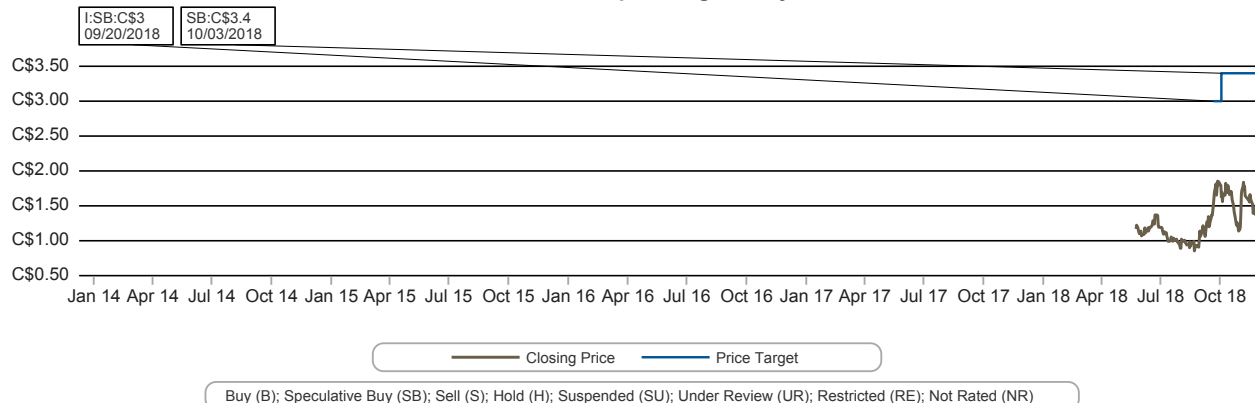
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**Khiron Life Sciences Corp. Rating History as of 12/07/2018**



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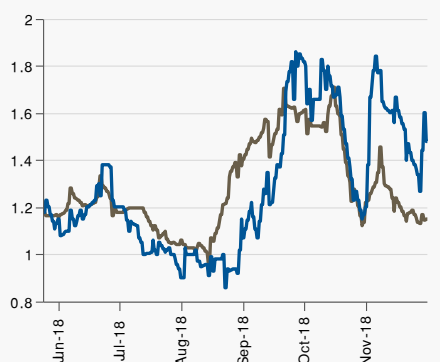
3 December 2018

Kimberly Hedlin, CPA, CMA | Associate Analyst | Canaccord Genuity Corp. (Canada) | khedlin@canaccordgenuity.com | 1.403.508.3854

### SPECULATIVE BUY

**PRICE TARGET** C\$3.40  
 Price (30-Nov) C\$1.48  
 Ticker KHRN-TSXV

52-Week Range (C\$): 0.76 - 4.00  
 Avg Daily Vol (000s) : 842.58  
 Shares Out. (M) : 65.4  
 Market Cap (C\$M): 96.8  
 Dividend / Shr (C\$): 0.00  
 Dividend Yield (%) : 0.0



— KHRN  
 — Horizons Marijuana Life Sciences Index ETF (rebased)  
 Source: FactSet

Priced as of close of business 30 November 2018

Khiron Life Sciences Corp. is a Canadian-listed, vertically integrated medical cannabis company with its core operations in Colombia. Khiron combines leading international scientific expertise, agricultural advantages, and branded product market entrance experience to address the unmet medical needs in a market of over 620 million people in Latin America.

## Company Update

### Supplements approved for Mexican distribution

Khiron announced the approval of three supplements targeting sleep, digestion and stress, in the Mexican market. In our view, this is a significant development, which allows Khiron to enter the nascent Mexican market, which we believe has limited competition at this point in time. We expect the company's Colombian celebrity spokesperson, Catalina Aristizábal, to endorse the new products. Key points as follows.

- Khiron's wholly-owned subsidiary (Kuida Life Mexico S.A.) has received approval from Mexico's Federal Commission for the Protection against Sanitary Risk (COFEPRIS) to import and commercialize three new products of the company's nutraceutical line.
- The three initial products approved by COFEPRIS include; a CBD (cannabidiol) based formulation designed to help promote sleep; a CBD based food supplement designed as a digestive aide; and a CBD based supplement that is formulated to help promote the body's recovery following periods of exertion and stress.
- The new products have been developed under Khiron's wellness business unit, which is focused on offering the full benefits of cannabis for consumers across Latin America.
- With a population of over 120 million people, Mexicans are relatively heavy supplement users, having the largest per capita consumption of dietary supplements in Latin America. At the end of 2016 the market value of this sector in Mexico alone was US\$550M, growing at 13.4% since 2011 (Source: Euromonitor).
- Khiron has a distribution deal with Farmalisto, a leading digital drugstore in the region.

### Upcoming catalysts

Khiron has a number of near-term potential catalysts, including commercial THC quotas and cultivation (Q4/18E), cannabis sales (H1/19E), Kuida sales figures, and ILANS patient conversions. Otherwise, we see potential "blue-sky" upside of over ~\$7/sh to our target from potential longer-term catalysts, including cannabis health insurance coverage, local and international expansions, and wholesale distribution agreements. Should North American cannabis import markets open up, we believe Khiron would be well positioned given its inherent cost advantages and product development focus. Moreover, we believe potential modifications to facilities could position Khiron for derivative exports into Europe.

### Valuation

Following the exercise of warrants, Khiron has \$24.9 million in cash to execute its growth strategy in LATAM. Using a sum-of-the-parts DCF model (10-13% WACC), we estimate a fully-funded value of ~\$3.44/sh, which forms the basis of our \$3.40/share target. Our target reflects an EV of \$250 million, which is in line with recent regional transactions. Khiron currently trades at a 2020E EV/EBITDA multiple of 3.3x, which is a significant discount to Canadian mid-tier trading multiples of ~7.6x; given Khiron's early entry into LATAM, we do not believe the stock should trade at a discount. We maintain our SPECULATIVE BUY rating owing to Khiron's attractive valuation, LATAM first-mover advantage, expansion upside, and potential catalysts. We believe a 'Speculative' rating is appropriate given Khiron's pre-revenue status and the risks associated with cannabis pricing and sales volumes in LATAM.

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## Appendix: Important Disclosures

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### Investment Recommendation

Date and time of first dissemination: December 03, 2018, 10:10 ET

Date and time of production: December 03, 2018, 10:10 ET

### Target Price / Valuation Methodology:

Khiron Life Sciences Corp. - KHRN

Using a sum-of-the-parts DCF model (10-13% discount rate), we estimate a value of ~\$3.44/sh, which reflects potential upside of ~150% and a target EV of \$248 million. Our valuation is based off funded capacity, with a small value attributed to sales outside of Colombia.

### Risks to achieving Target Price / Valuation:

Khiron Life Sciences Corp. - KHRN

#### Patient acquisition risk

Khiron's patient acquisition strategy relies on physicians' willingness to prescribe medical cannabis, along with patients' openness to receiving a cannabis prescription. While we believe the company is targeting good doctor and patient candidates through strategic alliances and targeted acquisitions, Colombia is an unproven market where acceptance of medical cannabis has yet to be established.

#### Production risk

As a company, Khiron has not yet commercially cultivated cannabis or produced cannabis extracts. Quality issues could result in reduced sales and negative brand associations. Additionally, if the company is unable to ramp up production of high quality cannabis, it may not meet our revenue estimates.

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The ILANS acquisition is a material driver in our valuation but has yet to be finalized. If the acquisition were to fall through, it would have an adverse impact on our valuation.

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Khiron's functional currency is the Colombian peso, while its share price is denominated in Canadian dollars. With the majority of revenues and costs denominated in Colombian Pesos, Khiron investors are directly exposed to changes in the underlying currencies.

**Distribution of Ratings:**

**Global Stock Ratings (as of 12/03/18)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	568	64.04%	46.48%
Hold	198	22.32%	31.31%
Sell	8	0.90%	25.00%
Speculative Buy	113	12.74%	64.60%
	887*	100.0%	

\*Total includes stocks that are Under Review

**Canaccord Genuity Ratings System**

**BUY:** The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

**HOLD:** The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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**Risk Qualifier**

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**12-Month Recommendation History (as of date same as the Global Stock Ratings table)**

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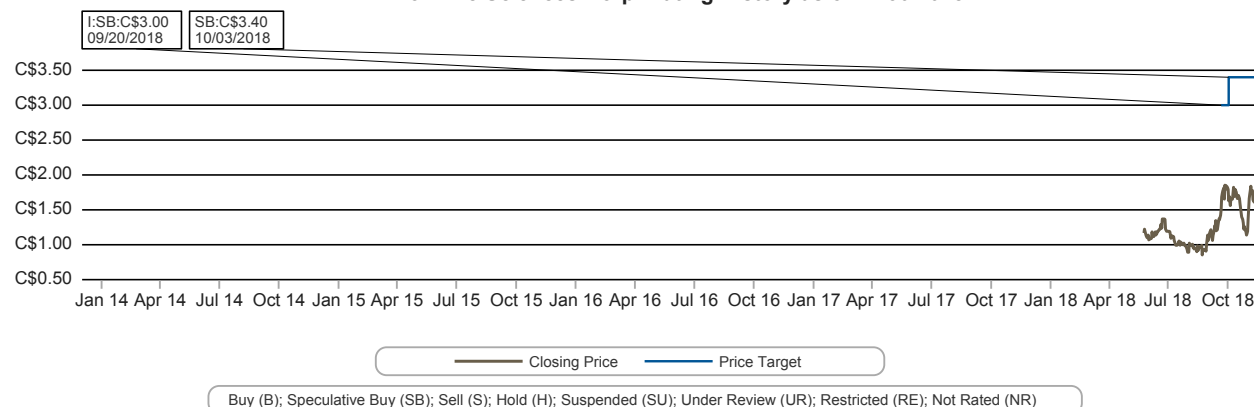
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**Khiron Life Sciences Corp. Rating History as of 11/30/2018**



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## Canadian Equity Research

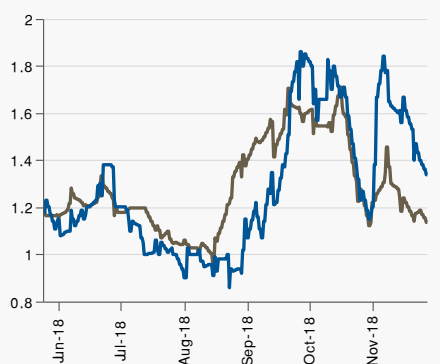
27 November 2018

Kimberly Hedlin, CPA, CMA | Associate Analyst | Canaccord Genuity Corp. (Canada) | khedlin@canaccordgenuity.com | 1.403.508.3854

### SPECULATIVE BUY

**PRICE TARGET** C\$3.40  
 Price (26-Nov) C\$1.34  
 Ticker KHRN-TSXV

52-Week Range (C\$): 0.76 - 4.00  
 Avg Daily Vol (000s): 827.32  
 Shares Out. (M): 65.4  
 Market Cap (C\$M): 87.6  
 Dividend /Shr (C\$): 0.00  
 Dividend Yield (%): 0.0



— KHRN  
 — Horizons Marijuana Life Sciences Index ETF (rebased)  
 Source: FactSet

Priced as of close of business 26 November 2018

Khiron Life Sciences Corp. is a Canadian-listed, vertically integrated medical cannabis company with its core operations in Colombia. Khiron combines leading international scientific expertise, agricultural advantages, and branded product market entrance experience to address the unmet medical needs in a market of over 620 million people in Latin America.

## Company Update

### Khiron enters Peru with Kuida product line

Khiron announced today that it has received approvals to commercialize and market its Kuida CBD cosmeceutical product line in Peru. Highlights are as follows:

- The company received approvals for 4 of 8 Kuida products currently under commercialization. Approvals were received from Peru's Executive Director of the Directorate of Medical Devices and Health Products of the General Directorate of Medications, Supplies and Drugs (DIGEMID).
- The Peruvian entry brings Kuida to a population of 32 million, broadening the products' total exposure to almost 200 million in Colombia, Peru and Mexico.
- The Chamber of Commerce of Lima (CCL) estimates that the cosmetics and personal hygiene market is anticipated to experience growth in the range of 6% – 8% in 2018.
- Peru is experiencing strong economic growth of 2.5% GDP and according to the World Economic Forum has seen competitive gains in recent years making it among the top ten economies in the region.
- Peru is the sixth country in Latin America to create a legalized medical cannabis environment, with laws that allow for the production, import and commercial sale of cannabis for medical use.

#### Our take: effective execution, with full entry into Peru expected in time

While medical cannabis was legalized in Peru in October 2017, regulations have yet to be fully developed. As such, we believe Khiron's Kuida approvals demonstrate its ability to effectively manage a myriad of regulatory complexities in Latin America. We expect Khiron will look to introduce Colombian imports of medical products in due course and apply for Peruvian cultivation licences once regulations have firmed up. In the near term, we are expecting strong Kuida sales in Colombia based on reports from management and would expect strong sales in Peru in due course.

#### Upcoming catalysts

As detailed in our [initiating report](#), we see potential "blue-sky" upside of over ~\$7/sh from potential longer-term catalysts, including cannabis health insurance coverage, local and international expansions, and wholesale distribution agreements. Khiron also has a number of near-term potential catalysts, including commercial THC quotas and cultivation (Q4/18E), cannabis sales (H1/19E), Kuida sales figures, and ILANS patient conversions.

#### Valuation

Using a sum-of-the-parts DCF model (10-13% WACC), we estimate a value of ~\$3.44/sh, which forms the basis of our \$3.40/share target. Our target reflects an EV of \$250 million, which is in line with recent regional transactions. Khiron currently trades at a 2020E EV/EBITDA multiple of 2.8x, which is a significant discount to Canadian mid-tier trading multiples of ~8x. We maintain our Speculative Buy rating owing to Khiron's attractive valuation, early entry into LATAM, expansion upside, and potential catalysts. We believe a 'Speculative' rating is appropriate given Khiron's pre-revenue status and the risks associated with cannabis pricing and sales volumes in LATAM.

## Appendix: Important Disclosures

### Analyst Certification

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### Sector Coverage

Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

### Investment Recommendation

Date and time of first dissemination: November 27, 2018, 09:00 ET

Date and time of production: November 27, 2018, 09:00 ET

### Target Price / Valuation Methodology:

Khiron Life Sciences Corp. - KHRN

Using a sum-of-the-parts DCF model (10-13% discount rate), we estimate a value of ~\$3.44/sh, which reflects potential upside of ~150% and a target EV of \$248 million. Our valuation is based off funded capacity, with a small value attributed to sales outside of Colombia.

### Risks to achieving Target Price / Valuation:

Khiron Life Sciences Corp. - KHRN

#### Patient acquisition risk

Khiron's patient acquisition strategy relies on physicians' willingness to prescribe medical cannabis, along with patients' openness to receiving a cannabis prescription. While we believe the company is targeting good doctor and patient candidates through strategic alliances and targeted acquisitions, Colombia is an unproven market where acceptance of medical cannabis has yet to be established.

#### Production risk

As a company, Khiron has not yet commercially cultivated cannabis or produced cannabis extracts. Quality issues could result in reduced sales and negative brand associations. Additionally, if the company is unable to ramp up production of high quality cannabis, it may not meet our revenue estimates.

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Hold	198	22.42%	30.81%
Sell	9	1.02%	33.33%
Speculative Buy	110	12.46%	66.36%
	883*	100.0%	

\*Total includes stocks that are Under Review

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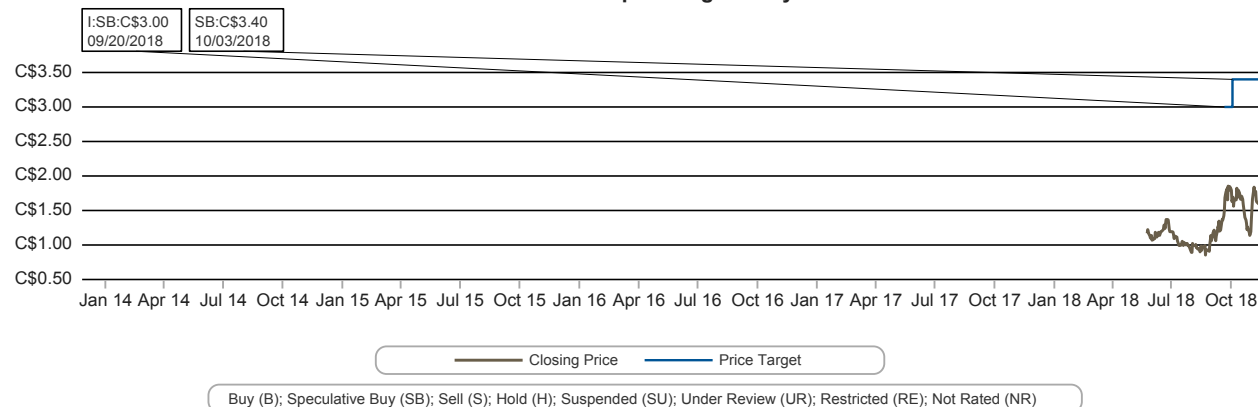
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**Khiron Life Sciences Corp. Rating History as of 11/26/2018**



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