Annual Report 2017

Knight

2 Message to our Shareholders

3 Management's Discussion and Analysis

32 Financial Statements

40 Notes to Consolidated Financial Statements

84 Management Team

86 Board of Directors

88 Corporate Information

Message to our Shareholders

We are pleased to report that 2017 marked a pivotal year for Knight's simple yet meaningful mission to make people better through the products we sell. In 2017, we launched our first commercial prescription pharmaceutical in Canada.

Building our Commercial Presence

We strengthened our ability to acquire or in-license products for the Canadian and select world markets. We re-launched Movantik® nationally in Canada in March 2017 and signed an exclusive distribution agreement for Israeli rights of Movantik® with our partner Medison.

Advancing our Pipeline

Over the past year, we have proudly submitted three products to Health Canada approval that each touch a patient in need. If approved, the launch of the Iluvien®, Probuphine® and Netildex™ will be key to the continued expansion of our commercial presence in Canada.

Contributing to our Community

We believe in giving back to our community and are proud to punch above our weight when it comes to philanthropy. In 2017, 10 Knights participated in the Ride to Conquer Cancer, raising over $100,000 in support of cancer research. In addition, our company achieved a 100% participation rate in our 2017 Centraide campaign. We are actively trying to do our part in repairing our broken world.

Financial Highlights

During 2017, we generated over $17 million of net income which contributed modestly to our $765 million of cash, cash equivalents and marketable securities.

Looking Ahead

With the launch of Movantik and the building of our sales and marketing infrastructure, we are now well positioned to execute on our strategy of in-licensing or acquiring innovative pharmaceuticals for Canada and some select international markets. We just celebrated our 4th anniversary. During this time, we have generated over $195 million of net income. While we continue to advance our pipeline, building Canada's leading specialty pharmaceutical company is a marathon, not a sprint and will take time. We continue to view our balance sheet as a significant competitive advantage and remain confident that our patience and focus on securing the rights to innovative products at fair prices will pay healthy dividends in the future.

We look forward to reporting to you on our progress at developing Knight into a company we can all be proud of supporting.

Jonathan Ross Goodman BA, LLB, MBA

Chief Executive Officer

Samira Sakhia CPA, CA, MBA

President and Chief Financial Officer

The following is Management's Discussion and Analysis of the financial condition and operating results of Knight Therapeutics Inc. ("Knight" or the "Company") for the year ended December 31, 2017. This document should be read in conjunction with the audited annual consolidated financial statements and notes thereto for the year ended December 31, 2017. Knight's audited annual consolidated financial statements as at and for the year ended December 31, 2017 have been prepared in accordance with International Financial Reporting Standards. All amounts herein are expressed in thousands of Canadian dollars (unless otherwise indicated) except for share and per share amounts. All other currencies are in thousands.

This discussion and analysis was prepared by management from information available as at March 14, 2018. Further information about Knight Therapeutics Inc., including the Annual Information Form, is available online on SEDAR at www.sedar.com.

Cautionary note regarding forward-looking statements

This Management's Discussion and Analysis may contain certain "forward-looking statements" and certain "forward-looking information" as defined under applicable Canadian securities laws. Forward-looking statements and information can generally be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue", "plans" or similar terminology. Forward-looking statements and information are subject to various known and unknown risks and uncertainties, many of which are beyond the ability of the Company to control or predict, that may cause the Company's actual results, performance or achievements to be materially different from those expressed or implied thereby, and are developed based on assumptions about such risks, uncertainties and other factors set out herein. Factors and risks which could cause actual results to differ materially from current expectations are discussed in the Company's Annual Report and in the Company's Annual Information Form for the year ended December 31, 2017 found on SEDAR at www.sedar.com. The Company undertakes no obligation to update forward-looking information except as required by applicable law. Such forward-looking information represents management's best judgment based on information currently available. No forward-looking statement can be guaranteed and actual future results may vary materially. Accordingly, readers are advised not to place undue reliance on forward-looking statements or information.

Table of contents

GLOSSARY OF ABBREVIATIONS **5**
OVERVIEW **7**
Section 1 – About Knight Therapeutics Inc. 7
Section 2 – 2017 Highlights 7
FINANCIAL RESULTS **9**
Section 3 – Results of Operations 9
FINANCIAL CONDITION **12**
Section 4 – Balance Sheet 12
Section 5 – Liquidity and Capital Resources 14
PRODUCT ACQUISITION STRATEGY **15**
Section 6 – Products 15
Section 7 – Strategic Lending 17
Section 8 – Strategic Investments 19
Section 9 – Rest of World Strategy 21
RISK MANAGEMENT **22**
Section 10 22
ADDITIONAL INFORMATION **23**
Section 11 – Selected Annual Financial Information 23
Section 12 – Selected Quarterly Financial Information 24
Section 13 – Outstanding Share Data 24
Section 14 – Use of Proceeds from Financing 24
Section 15 – Payment of Dividends 24
Section 16 – Product Pricing Regulation on Certain Patented Drug Products 25
Section 17 – Financial Instruments 25
Section 18 – Off-balance Sheet Arrangements 25
Section 19 – Commitments 26
Section 20 – Related Party Transactions 27
Section 21 – Segment Reporting 27
Section 22 – Significant Accounting Estimates and Assumptions 27
Section 23 – Recent Accounting Pronouncements 27
Section 24 – Disclosure Controls and Procedures 30
Section 25 – Internal Control Over Financial Reporting 30
Section 26 – Subsequent Events 31

GLOSSARY OF ABBREVIATIONS

Abbreviation	Calendar
YTD	Year to date
Q4-17	Fourth quarter of 2017
Q3-17	Third quarter of 2017
Q2-17	Second quarter of 2017
Q1-17	First quarter of 2017
Q4-16	Fourth quarter of 2016
Q3-16	Third quarter of 2016
Q2-16	Second quarter of 2016
Q1-16	First quarter of 2016

Abbreviation	Company
3D	3D Signatures Inc.
60P	60º Pharmaceuticals LLC
Advaxis	Advaxis Pharmaceuticals Inc.
Akorn	Akorn Inc.
Alimera	Alimera Sciences Inc.
Antibe	Antibe Therapeutics Inc.
Apicore	Apicore Inc. and Apigen Investments Ltd.
AstraZeneca	AstraZeneca AB
Braeburn	Braeburn Pharmaceuticals Inc.
Crescita	Crescita Therapeutics Inc.
Ember	Ember Therapeutics Inc.
Forbion	Forbion Capital Fund III CV
Knight or the Company	Knight Therapeutics Inc.
Medimetriks	Medimetriks Pharmaceuticals Inc.
Medison	Medison Biotech (1995) Ltd.
Merck	Merck & Co.
Merus	Merus Labs International Inc.
NEMO II	New Emerging Medical Opportunities Fund II Ltd.
NEMO III	New Emerging Medical Opportunities Fund III Ltd.
NeurAxon	NeurAxon Pharma Inc.
PBB	Pro Bono Bio PLC
Pediapharm	Pediapharm Inc.
Profound	Profound Medical Inc.
Rigontec	Rigontec GmbH
Sectoral	Sectoral Asset Management Inc.
SIFI	Società Industria Farmaceutica Italiana S.p.A.
Synergy	Synergy CHC Corp.

Abbreviation	Financial
AFS	Available for sale
Annual Financial Statements	Audited annual consolidated financial statements
C$ or $	Canadian Dollar
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DC&P	Disclosure Controls and Procedures
EPS	Earnings per share to common shareholders
EUR	Euro
FMV	Fair market value
ICFR	Internal control over financial reporting
IFRS	International Financial Reporting Standards
ILS	New Israeli Shekels
US$	U.S. Dollar

Abbreviation	Territory
CAN	Canada
CAR	Select countries in the Caribbean
ISR	Israel
QUE	Quebec
ROM	Romania
RUS	Russia
U.S.	United States of America
ZAF	Sub-Saharan Africa

Abbreviation	Other
FDA	U.S. Food and Drug Administration
IQVIA	IQVIA Incorporated, a leading pharmaceutical market research organization
NDA	New Drug Application
NDS	New Drug Submission
OIC	Opioid-induced constipation
PMPRB	Patented Medicine Prices Review Board

OVERVIEW

Section 1 – About Knight Therapeutics Inc.

Knight Therapeutics Inc. is a specialty pharmaceutical company, headquartered in Montreal, Canada, and listed on Toronto Stock Exchange under the ticker symbol "GUD". Activities performed by the Company are as follows:

- Principal business activity is developing, acquiring, in-licensing, out-licensing, marketing and distributing pharmaceutical products, consumer health products and medical devices in Canada and select international markets.
- Finances other life sciences companies in Canada and internationally with the ultimate goal of strengthening relationships in the life science industry and securing product distribution rights for Canada and select international markets.
- Invests in life sciences venture capital funds whereby the Company receives preferential access to innovative healthcare products from around the world for Canada and select international markets.
- Develops innovative pharmaceutical products including those to treat neglected tropical and rare pediatric diseases.

Section 2 – 2017 Highlights

Financial Results

- Revenues were $8,634, an increase of $2,694 or 45% over prior year.
- Net income was $17,244, a decrease of $1,316 or 7% over prior year.
- Cash flows from operations at $23,457, an increase of $8,719 or 59% over prior year.

Corporate Development

- Accepted the resignation of Ed Schutter and appointed Dr. Sarit Assouline on the Board of Directors.
- Accepted the resignation of Jeffrey Kadanoff and appointed Samira Sakhia as CFO.

Products

- Submitted Iluvien® for regulatory approval for the treatment of diabetic macular edema to Health Canada, and received a Notice of Non-Compliance from Health Canada related to the submission subsequent to year end.
- Received Notice of Deficiency Withdrawal from Health Canada with respect to regulatory submission of ATryn®.
- Announced the commercialization of Movantik® in Canada.
- Submitted Probuphine® for approval for the treatment of opioid drug dependence to Health Canada.

Strategic Lending

- Received a total of $25,587 [US$19,283] on repayment of the Apicore and PBB loans.
- Issued additional tranches of $8,051 [US$6,303] to 60P.
- Received additional 1,577,363 common shares of Medimetriks initially valued at $3,108 [US$2,453].
- Issued an additional loan of $12,705 [US$10,000] to Synergy.
- Amended loan with Crescita resulting in an early repayment of $2,488.

Strategic Investments

- Received distributions of $8,083 from strategic fund investments and realized a gain of $2,077.
- Realized gain of $1,457 on disposal of common shares of Merus upon the close of its acquisition by Norgine B.V.
- Received dividends of $4,984 [ILS14,136] from Medison.

Subsequent to year-end

- Received $29,463 [US$22,757] from Medimetriks including payment of principal of $25,894 [US$20,000] and interest and fees.
- Received $5,613 [US$4,460] as a partial repayment of the 60P loan.
- Acquired an additional 754,716 common shares of Crescita through a rights offering at $0.53 per share.
- Submitted Netildex™ for approval for the treatment of inflammatory ocular conditions of the anterior segment of the eye to Health Canada.

FINANCIAL RESULTS

Section 3 – Results of Operations

	Q4-17	Q4-16	Change $[1]	Change %[2]	2017	2016	Change $[1]	Change %[2]
Revenues	**2,544**	1,845	699	38%	**8,634**	**5,940**	2,694	45%
Cost of goods sold	**488**	473	(15)	3%	**1,585**	**1,550**	(35)	2%
Gross margin	**2,056**	1,372	684	50%	**7,049**	**4,390**	2,659	61%
Gross margin (%)	***81%***	***74%***	*6%*	*9%*	***82%***	***74%***	*8%*	*10%*
Expenses								
Selling and marketing	**1,131**	270	(861)	319%	**3,378**	**532**	(2,846)	535%
General and administrative	**1,254**	2,710	1,456	54%	**8,198**	**9,302**	1,104	12%
Research and development	**881**	712	(169)	24%	**2,750**	**1,955**	(795)	41%
	(1,210)	(2,320)	1,110	48%	**(7,277)**	**(7,399)**	122	2%
Depreciation of property and equipment	**8**	—	(8)	100%	**8**	18	10	56%
Amortization of intangible assets	**436**	156	(280)	179%	**1,621**	419	(1,202)	287%
Interest income	**(7,783)**	(6,099)	1,684	28%	**(26,300)**	(24,414)	1,886	8%
Other income	**(14)**	(360)	(346)	96%	**(1,527)**	(3,894)	(2,367)	61%
Net gain on financial assets	**(3,098)**	(2,061)	1,037	50%	**(6,734)**	(1,659)	5,075	306%
Impairment on financial assets	**1,621**	—	(1,621)	100%	**1,621**	—	(1,621)	100%
Share of net income of associate	**(341)**	(38)	303	797%	**(854)**	(2,793)	(1,939)	69%
Foreign exchange (gain) loss	**(555)**	(1,544)	(989)	64%	**3,689**	1,451	(2,238)	154%
Income before income taxes	**8,516**	7,626	890	12%	**21,199**	23,473	(2,274)	10%
Income tax expense (recovery)								
Current	**299**	(217)	(516)	238%	**1,897**	4,190	2,293	55%
Deferred	**1,072**	(96)	(1,168)	1217%	**2,058**	723	(1,335)	185%
Net income for the year	**7,145**	7,939	(794)	10%	**17,244**	18,560	(1,316)	7%
Attributable to shareholders of the Company								
Basic EPS	**0.05**	0.06	(0.01)	17%	**0.12**	0.15	(0.03)	20%
Diluted EPS	**0.05**	0.06	(0.01)	17%	**0.12**	0.15	(0.03)	20%

[1] *A positive variance represents a positive impact to net income and a negative variance represents a negative impact to net income*
[2] *Percentage change is presented in absolute values*

<table>
<tr><th></th><th>Q4-17 vs Q4-16</th><th>2017 VS 2016</th></tr>
<tr><td>Revenues</td><td colspan="2">Increase is mainly attributable to:
• Full recognition of Impavido® revenues post termination of the distribution and sale agreement, and the U.S. commercial launch, both in March 2016.
• Recognition of Movantik® revenues as of December 15th, 2016, upon in-license from AstraZeneca.</td></tr>
<tr><td>Gross Margin</td><td colspan="2">• Increase in gross margin ($) attributable to increase in revenues.
• Increase in gross margin (%) attributable to inventory provisions recorded in 2016 and change in product mix.</td></tr>
<tr><td>Selling and marketing</td><td colspan="2">• Increase due to commercial activities including sales force promotion of Movantik®.</td></tr>
<tr><td>General and administrative</td><td>• Decrease is mainly related to lower expense on stock options issued to management in 2014 and overall lower expenses.</td><td>• Decrease is mainly related to lower expense on stock options issued to management in 2014.</td></tr>
<tr><td>Research and development expenses</td><td colspan="2">• Increase due to growth of the Company's scientific affairs department and the submission of products for regulatory approval by Health Canada.</td></tr>
<tr><td>Amortization of intangible assets</td><td colspan="2">• Increase due to the acquisition of intangible assets in 2016.</td></tr>
<tr><td rowspan="2">Interest income</td><td colspan="2">• Derived primarily from interest earned on loans, cash and cash equivalents, marketable securities and accretion on loans receivable.</td></tr>
<tr><td>• Total interest income of $7,783 includes accretion of $2,001 (2016: $1,226).

Interest Income
• Interest income (excluding accretion) for Q4-17 was $5,782, an increase of 19% or $909 compared to prior year. Increase primarily due to higher cash and marketable securities and interest rates.

Interest Accretion
• Interest accretion for Q4-17 was $2,001, an increase of $775, or 63% compared to prior year mainly due to the adjustment of the carrying value the loan with Medimetriks on early repayment.
• Refer to Section 7 for further information on Knight's strategic lending portfolio.</td><td>• Total interest income of $26,300 includes accretion of $5,382 (2016: $6,201).

Interest Income
• Interest income (excluding accretion) for YTD-17 was $20,918, an increase of 15% or $2,705 compared to prior year. Increase primarily due to higher cash and marketable securities and interest rates.

Interest Accretion
• Interest accretion for 2017 was $5,382, a decrease of $819, or 13% compared to prior year due to a smaller outstanding loan balance offset by the adjustment of the carrying value the loan with Medimetriks on early repayment.
• Refer to Section 7 for further information on Knight's strategic lending portfolio.</td></tr>
<tr><td>Other income[1]</td><td colspan="2">• In 2017, other income was primarily driven by the value of additional shares of Medimetriks received and the agreement the Company entered into with its associate.
• In 2016, other income was primarily driven by the value of additional shares of Intega received prior to the close of the acquisition of Intega by Crescita.
• Refer to note 10 in the Annual Financial Statements for additional information.</td></tr>
<tr><td>Net gain on financial assets[2]</td><td colspan="2">• Net gain due to realized gains on the sale of equities, gains on distributions of strategic funds and the revaluation of derivatives.
• Refer to note 10 in the Annual Financial Statements for additional information.</td></tr>
<tr><td>Impairment on Financial Assets</td><td colspan="2">• In 2017, an impairment loss of $1,621 was recorded due to a significant decline in the fair value of a certain AFS equity instrument compared to its weighted average cost.</td></tr>
</table>

	Q4-17 vs Q4-16	2017 VS 2016
Share of net income of associate	• No significant variance.	• Decrease due to decline in Medison's net income as a result of increased promotion expenses related to new product launches and an increase in the amortization expense related to fair value adjustments on intangibles recorded by Knight.
Foreign exchange (gain) loss	• Explained by relative gains on certain U.S. dollar denominated financial assets as Canadian dollar weakened.	• Explained by relative losses on certain U.S. dollar denominated financial assets as Canadian dollar strengthened.
Income tax expense (recovery)	• Variance due to gains on investments in financial assets and deduction of expenses related to the Company's financing.	

[1] *Other income includes income earned for advisory and other services, gains from early loan repayments and income from strategic lending deals*
[2] *Net gain or loss on financial assets includes unrealized gains and losses on revaluation of derivatives and realized gains and losses on equities, derivatives and distributions from funds*

FINANCIAL CONDITION

Section 4 – Balance Sheet

	12-31-17	12-31-16	Change $	Change %[1]
ASSETS				
Current				
Cash and cash equivalents	**496,460**	514,942	(18,482)	4%
Marketable securities	**232,573**	221,108	11,465	5%
Trade and other receivables	**9,176**	6,440	2,736	42%
Inventories	**1,224**	790	434	55%
Other current financial assets	**58,848**	51,789	7,059	14%
Income taxes receivable	**792**	4,683	(3,891)	83%
Total current assets	**799,073**	799,752	(679)	0%
Marketable securities	**36,000**	—	36,000	100%
Property and equipment	**633**	32	601	1878%
Intangible assets	**12,576**	14,153	(1,577)	11%
Other financial assets	**76,988**	90,643	(13,655)	15%
Investment in associate	**75,983**	80,113	(4,130)	5%
Deferred income tax assets	**4,730**	6,077	(1,347)	22%
Total assets	**1,005,983**	990,770	15,213	2%
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	**5,025**	3,207	1,818	57%
Income taxes payable	**7,599**	5,659	1,940	34%
Other balances payable	**1,354**	537	817	152%
Deferred other income	**282**	355	(73)	21%
Total current liabilities	**14,260**	9,758	4,502	46%
Deferred other income	**167**	417	(250)	60%
Other balances payable	**348**	877	(529)	60%
Total liabilities	**14,775**	11,052	3,723	34%
Shareholders' equity				
Share capital	**761,490**	760,447	1,043	0%
Warrants	**785**	785	—	—
Contributed surplus	**12,196**	9,469	2,727	29%
Accumulated other comprehensive income	**20,907**	30,431	(9,524)	31%
Retained earnings	**195,830**	178,586	17,244	10%
Total shareholders' equity	**991,208**	979,718	11,490	1%
Total liabilities and shareholders' equity	**1,005,983**	990,770	15,213	2%

[1] *Percentage change is presented in absolute values*

	12-31-17 vs 12-31-16
Cash and cash equivalents and marketable securities	• Refer to Section 5 – Liquidity and Capital Resources for further information.
Trade and other receivables	• Increase due to growth in revenues and interest income. • Refer to Revenues and Interest Income in Section 3, and note 7 in the Annual Financial Statements for further details.
Inventories	• Increase due to increase in commercial activity.
Other financial assets (current and long term)	• Decrease of $6,596 driven by: **Loans and other receivables:** decrease of $15,912 mainly due to full repayment of the Apicore loan, PBB loan, partial repayment of the Crescita loan offset by additional loans to Synergy and 60P. Refer to Section 7 for further information on Knight's strategic lending portfolio. **Equities, Warrants and Derivatives:** decrease of $11,076 driven by the sale of equities and revaluation of strategic investments in equities, warrants and derivatives. Refer to note 10 in the Annual Financial Statements for further information. **Funds:** increase of $20,392 due to capital calls of $21,314 offset by distributions and mark-to-market adjustments of $922. Refer to Section 8 for further information on Knight's strategic investments.
Income Tax Receivable	• Decrease due to refund on tax installments received.
Property and Equipment	• Increase due to acquisitions and leasehold improvements.
Intangible assets	• Decrease due to amortization of intangible assets. • Refer to note 9 in the Annual Financial Statements
Investment in associate	• Decrease due to dividends paid by Medison offset by Knight's share of net income. • Refer to Section 9 for further information.
Accounts payable and accrued liabilities	• Increase due to timing of purchases and payments. • Refer to note 13 in the Annual Financial Statements.
Income Tax Payable	• Increase due to gains on investments in financial assets.
Share capital	• Refer to note 14 in the Annual Financial Statements for information.
Contributed surplus	• Increase related to share-based compensation expense offset by exercise of stock options. • Refer to the statement of changes in shareholders' equity in the Annual Financial Statements for further information.
Accumulated other comprehensive income	• Decrease primarily related to the unrealized loss on translation of foreign operations as the Canadian dollar strengthened. • Refer to the statement of changes in shareholders' equity in the Annual Financial Statements for further information.
Retained earnings	• Increase due to net income of 2017.

Section 5 – Liquidity and Capital Resources

The Company's Investment Policy governs the investment activities relating to cash resources. An Investment Committee composed of representatives from management and the Board of Directors monitors compliance with said policy. The Company invests in strategic investments in the form of equity funds, debt funds, equity or liquid investment securities with varying terms to maturity, selected with regard to the expected timing of investments and expenditures for continuing operations and prevailing interest rates.

The Company believes that its existing cash, cash equivalents and marketable securities as well as cash generated from operations are sufficient to finance its current operations, working capital requirements and future product and corporate acquisitions. The table below sets forth a summary of cash flow activity and should be read in conjunction with our consolidated statements of cash flows.

	2017	2016
Net cash from operating activities	**23,457**	14,738
Net cash used in investing activities	**(39,992)**	(49,218)
Net cash from financing activities	**746**	313,329
Increase in cash and cash equivalents during the year	**(15,789)**	278,849
Net foreign exchange difference	**(2,693)**	(1,388)
Cash and cash equivalents, beginning of the year	**514,942**	237,481
Cash and cash equivalents, end of the year	**496,460**	514,942
Marketable securities, end of the year	**268,573**	221,108
Cash, cash equivalents, and marketable securities, end of the year	**765,033**	736,050

The Company's cash, cash equivalents and marketable securities increased by $28,983 or 4% to $765,033 as at December 31, 2017 from $736,050 as at December 31, 2016.

Cash flows generated by operating activities for 2017 were $23,457 compared to cash generated in operating activities of $14,738 for the comparative period last year. Cash flows from operating activities primarily relate to cash generated through revenues and interest received, offset by operating expenses including salaries, research and development expenses, professional fees, and office expenses. Cash flows from operating activities exclude revenues and expenses not affecting cash, such as unrealized and realized gains or losses on financial assets, accretion of interest, share based compensation expense, depreciation and amortization, foreign exchange gains or losses, share of net income and dividends from associate, other income, deferred other income, and net changes in non-cash balances relating to operations.

Cash flows used in investing activities were $39,992 for 2017 due to net investments of marketable securities of $55,291, net investments in life sciences funds of $13,231 and the acquisition of property of $126, offset by proceeds from repayments of loan receivables net of loan issuances of $18,723 and net disposals of equities of $9,933. For the same period in 2016, cash flows used in investing activities were $49,218 mainly due to the issuance net of repayments of secured loans of $31,950, net investment in life sciences funds of $11,893, net purchase of equities of $6,799 and the acquisition of intangibles of $9,853 offset by net proceeds from investment in marketable securities of $9,127.

Cash flows from financing activities of $746 for 2017 were due to the participation of employees and directors in the Company's share purchase and option plans. For the same period in 2016, cash flows generated by financing activities of $313,329 were mainly due to the completion of two bought deals.

PRODUCT ACQUISITION STRATEGY

Section 6 – Products

Knight pursues opportunities to acquire or in-license pharmaceutical products, consumer health products and medical devices in Canada and select international markets. Knight's wholly owned subsidiary in Barbados develops innovative pharmaceuticals including those used to treat neglected tropical diseases and rare pediatric diseases. Knight expects to expand its product portfolio within existing therapeutic fields in Canada and internationally, and intends to leverage its expertise in specialty sales and marketing, product acquisition and in-licensing to gain a competitive advantage in delivering pharmaceutical products to the marketplace, thereby decreasing scientific risks, long development timelines and high development costs. The following table summarizes certain products from Knight's product portfolio.

Prescription Pharmaceutical Products

Product	Indication/Potential Indication	Licensor	Status in Territory	Territory Rights
Pain				
Movantik®	OIC	AstraZeneca	Marketed in CAN and approved in ISR	CAN, ISR
Probuphine®	Opioid addiction	Braeburn	NDS in review	CAN
NeurAxon family	Acute migraine, pain and neurological disorders	N/A	Pre-Clinical – Phase 3	CAN, ISR, RUS, ZAF
Antibe family	Chronic pain and inflammation	Antibe	Pre-clinical – Phase 2	CAN, ISR, RUS, ZAF
Ophthalmic				
AzaSite™	Bacterial conjunctivitis	Akorn	Approved	CAN
Iluvien®	Diabetic macular edema	Alimera	NDS in review	CAN
Netildex™	Ocular inflammation	SIFI	NDS in review[2]	CAN
Other				
Impavido®	Leishmaniasis	N/A	Marketed	Global
60P family	Tropical diseases	60P	Phase 2 - Pre-Registration[1]	CAN, ISR, RUS
Advaxis family	HPV-associated cancers and others	Advaxis	Phase 1 – Phase 3	CAN

[1] *Not yet submitted for approval to Health Canada or other relevant health regulatory entity*
[2] *Submission to Health Canada for approval announced on February 15, 2018*

Consumer Health Products

Product	Description	Licensor	Status in Territory	Territory Rights
Neuragen®	Pain associated with diabetic and peripheral neuropathy	N/A	Marketed[2]	Global (Ex. U.S)
Synergy Family	Various consumer health products	Synergy	Marketed[3]	CAN, ISR, ROM, RUS, ZAF
FLEXISEQ™	Pain and joint stiffness associated with osteoarthritis	PBB	Not Yet Marketed	QUE, ISR
Crescita family	Dermo-cosmetic line of products	Crescita	Not Yet Marketed	ISR, ROM, RUS, ZAF, CAR

Medical Devices

Product	Description	Licensor	Status in Territory	Territory Rights
TULSA-PRO®	Prostate ablation	Profound	Pre-Registration[1]	CAN
3D family	Diagnostic and prognostic products for cancers and neurological disorders	3D	In Development	CAN, CAR, ISR, RUS, ZAF

[1] *Not yet submitted for approval to Health Canada or other relevant health regulatory entity*
[2] *Approved and marketed in Canada only*
[3] *Select products marketed*

2017 Highlights

Iluvien®

On July 21, 2015, Knight entered into an agreement with Alimera pursuant to which Knight acquired the exclusive Canadian distribution rights to Iluvien®, a sustained release intravitreal implant for the treatment of diabetic macular edema. On February 22, 2017, Iluvien® was accepted for review by Health Canada.

Movantik®

In December 2016, Knight entered into an agreement with AstraZeneca for the rights to Movantik® in Canada and Israel under which Knight is responsible for all commercial, regulatory and certain supply chain activities. Movantik® is the first once-daily oral peripherally-acting mu-opioid receptor antagonist for the treatment of OIC in adult patients with non-cancer pain who have had an inadequate response to laxatives. According to the Canadian Family Physician Practice Guideline, it is estimated that at least 26% of chronic opioid users suffer from OIC. According to IQVIA data, Movantik® sales in Canada were $936 for the year ended December 31, 2017 (2016: $558).

Probuphine®

On February 1, 2016, Knight entered into an exclusive licensing agreement with Braeburn to commercialize Probuphine® in Canada. Probuphine®, indicated for the treatment of opioid drug dependence, is a subdermal implant designed to deliver buprenorphine continuously for six months following a single treatment, promoting patient compliance and retention. During Q2-17, Knight submitted a NDS for Probuphine® for approval by Health Canada.

Netildex™

On August 2, 2016, Knight entered into a license agreement for the exclusive rights in Canada to commercialize Netildex™, a fixed combination of netilmicin and dexamethasone for the treatment of inflammatory ocular conditions of the anterior segment of the eye, in presence or at risk of bacterial infection. On February 15, 2018, Netildex™ was accepted for review by Health Canada.

Section 7 – Strategic Lending

Knight finances other life sciences companies in all geographic markets with the goal of strengthening relationships in the life sciences industry and securing product distribution rights for Canada and select international markets. Typically, loans have low double-digit interest rates and may come with additional consideration to the Company. Loans often come with product rights or product options for Canada and select international markets. These loans strengthen Knight's ties within the life sciences industry and, in doing so, help to secure product rights for Knight either on a direct or indirect basis. As of the date hereof, Knight has eight secured loans outstanding to life sciences companies as outlined in the table below. To date, the strategic lending portfolio has led to the acquisition or in-licensing of Knight's consumer health products (as described in Section 6), the Antibe family, the 60P family and TULSA-PRO®.

	Nominal loan balance as at December 31, 2017	
Entity	**In Source Currency**	**In Canadian Dollars[1]**
Medimetriks	US$22,250	$27,913
Synergy	US$10,063	$12,624
60P	US$9,145	$11,472
Crescita	C$3,636	$3,636
Profound	C$3,429	$3,429
Pediapharm[2]	C$1,250	$1,250
Ember	US$500	$627
Antibe	C$548	$548
Total		**$61,499**

[1] *Converted at the Bank of Canada closing exchange rates on December 31, 2017*
[2] *Pediapharm debenture is held indirectly through the Bloom Burton Healthcare Lending Trust*

The following table summarizes the movement in loans and other receivables as at December 31.

	Carrying value beginning of year $	Additions[1] $	Accretion[2] $	Loan repayments[3] $	Other[4] $	Carrying value end of year $	Current other financial assets $	Non-current other financial assets $
2017	**75,731**	**20,311**	**5,520**	**(38,835)**	**(2,908)**	**59,819**	**39,057**	**20,762**
2016	45,545	44,612	6,201	(18,101)	(2,526)	75,731	21,667	54,064

[1] *Relative fair value of loans issued net of work and origination fees*
[2] *Accretion of interest income based on the effective interest rate method*
[3] *Principal repayments on loans receivable*
[4] *Net changes related to write-offs, foreign currency revaluations and other adjustments*

During the year ended December 31, 2017, the Company issued $20,112 (2016: $43,274) of strategic loans and received principal repayments of $38,835 (2016: 11,324). In addition, the Company recorded interest accretion of $5,520 (2016: $6,201) in the statement of income as interest income and a foreign exchange loss of $2,908 (2016: $2,526) in the statement of income. As at December 31, 2017, the nominal loan balance outstanding was $61,499 (2016: 82,749), including $52,636 [US$41,958] (2016: $70,112 [US$52,219]).

2017 Highlights

Apicore

On January 6, 2017, Apicore repaid the remaining principal of its loan of $8,137 [US$6,158] and all remaining accrued interest as at the date thereof.

PBB

On March 28, 2017, Knight assigned its PBB loan in exchange for payment of the principal balance of $17,450 [US$13,125] and all remaining accrued interest as at the date thereof.

60P

During the year ended December 31, 2017, Knight issued an additional $8,051 [US$6,303] to 60P, bearing interest at 15% per annum. 60P repaid $5,613 [US$4,460] of the amount on February 8, 2018. The remaining balance matures on December 31, 2020. In addition, on December 18, 2017, 60P submitted a NDA to the FDA for the use of Tafenoquine ("Product") to prevent malaria in adults traveling to areas where malaria is prevalent. Upon approval of the Product, the Company will receive a success fee of $753 [US$600]. The success fee will be recorded by Knight upon approval of the Product.

Synergy

On January 22, 2015, the Company entered into a secured debt agreement with Synergy, whereby it issued a secured loan of $7,423 [US$6,000] which bears interest at 15% per annum and is fully secured against the assets of Synergy. Effective June 30, 2016, the maturity date of the loan was extended from January 20, 2017 to January 20, 2018 as a result of Synergy exercising its option to extend the term of the loan as it had met specific revenue and earnings targets. On November 12, 2015, the Company extended an additional secured loan of $7,319 [US$5,500] to Synergy which bears interest at 15% per annum and matures on November 11, 2017.

On August 9, 2017, Knight issued an additional secured loan of $12,705 [US$10,000] with an annual interest rate of 10.5% for a three-year term to Synergy ("Additional Synergy Loan"). The loan was recorded at relative fair value of $11,454 [US$9,015] upon initial measurement and subsequently accounted for at amortized cost using effective interest rate of 16.1%. Additionally, Knight provided an ongoing credit facility of up to $25,090 [US$20,000] to be disbursed at Knight's sole discretion. As at March 14, 2018, the loans issued to Synergy in 2015 were fully repaid.

Crescita

On August 14, 2017, Knight amended its loan with Crescita ("Amended Crescita Loan"). The amendment resulted in an early repayment of $2,488 reducing the principal balance to $4,100. Furthermore, the collateral on the loan was amended with the release of a letter of credit in exchange for a general security interest over Crescita's assets. The interest rate of 9% per annum and maturity date of January 22, 2022 remain unchanged. In addition, Knight surrendered its 293,163 warrants of Crescita exercisable at $2.44 per share and was issued 216,000 warrants exercisable at a price of $0.75 per share and 180,000 warrants exercisable at a price of $1.00 per share, in each case for a term of six years.

Medimetriks

On February 17, 2016, Knight issued a secured loan of up to $27,368 [US$20,000] to Medimetriks, a private company, to support its acquisition of the exclusive U.S. development and commercialization rights for OPA-15406 from Otsuka ("Medimetriks Loan Transaction"). The secured loan, with an initial tranche of $24,631 [US$18,000], bears interest at a rate of 13% per annum for a three-year term ("Medimetriks Loan"). A second tranche of $2,598 [US$2,000] was issued on June 29, 2016, upon the FDA filing by Medimetriks of a NDA for Ozenoxacin. The loan was recorded at a relative fair value of $23,685 [US$17,370] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 18.9%.

On December 23, 2016, Knight amended its initial loan agreement and issued an additional $4,061 [US$3,000] ("Second Loan") to Medimetriks. The Second Loan matures in December 2019, and bears interest at a rate of 13%. The loan was recorded at a relative fair value of $2,761 [US$2,040] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 46.7%.

On March 7, 2018, Knight received an early repayment of $29,463 [US$22,757] from Medimetriks including payment of principal of $25,894 [US$20,000] and interest and fees. Due to the early repayment, the Company adjusted the carrying value of the loan as at December 31, 2017.

Section 8 – Strategic Investments

Fund Investments

Knight invests in life sciences venture capital funds in which the Company earns a return similar to any other limited partner in the fund and receives preferential access to innovative healthcare products from around the world for Canada and select international markets. Knight has committed to invest with the following capital fund managers for approximately $126,653 as at December 31, 2017. To date, the investments in venture capital funds have led to the Canadian in-license of Iluvien® from Alimera and a portfolio of products from Advaxis.

The fair value of the AFS funds held by Knight, as at December 31, 2017, is $54,968.

	Fund Commitments	
Entity	**In Source Currency**	**In Canadian Dollars[1]**
Teralys Capital	C$30,000	$30,000
Domain Associates LLC	US$25,000	$29,063
Forbion Capital Partners	EUR 19,500	$27,550
Sectoral Asset Management[2]	US$13,000	$13,919
Sanderling Ventures LLC	US$10,000	$11,625
HarbourVest Partners LLC	C$10,000	$10,000
TVM Capital GmbH	US$1,600	$1,996
Bloom Burton Healthcare Lending Trust[3]	C$1,500	$1,500
Genesys Capital Management (Fund III) Inc.	C$1,000	$1,000
Total		**$126,653**

[1] *Converted at the Bank of Canada noon exchange rates as of the commitment date (using the December 31, 2017 closing rates total fund commitment would be $134,075)*
[2] *Knight received a full return of capital from its US$13,000 investment in Sectoral's NEMO II and subsequently committed to reinvest US$10,000 into Sectoral's NEMO III*
[3] *Represents investments in debt funds with Bloom Burton Healthcare Lending Trust I and II, managed by Stratigis Capital Advisors Inc.*

The following table summarizes the movement in AFS fund investments as at December 31.

	Carrying value beginning of year $	Additions[1] $	Distributions[2] $	Realized gain/(loss)[3] $	Other[4] $	Carrying value end of year $	Current other financial assets $	Non-current other financial assets $
2017	**34,576**	**21,314**	**(8,083)**	**2,077**	**5,084**	**54,968**	**—**	**54,968**
2016	25,560	14,902	(4,610)	1,541	(2,817)	34,576	—	34,576

[1] *Investments in equity or debt funds*
[2] *Distributions received from funds*
[3] *Realized gains on return of capital*
[4] *Net changes due to revaluation to fair market value, foreign currency revaluations, and realized gains reclassified from other comprehensive income to consolidated statement of income upon distribution or disposal*

Knight invested $21,314 [including US$9,752 and EUR 4,774] (2016: $14,902 [including US$8,637 and EUR 1,184]) during the year and received distributions of $8,083 [including US$1,837 and EUR 2,867] (2016: $4,610 [including US$2,279 and EUR 851]). The Company recorded a net gain of $2,077 (2016: $1,541) on financial assets related to the realized gain on distributions in the statement of income. Furthermore, the Company recorded a net increase of $5,084 (2016: net decrease of $2,817) in other comprehensive income due to foreign currency revaluation, mark-to-market adjustments and realized gains or losses reclassified from other comprehensive income to consolidated statement of income upon disposal in the statement of comprehensive income.

Forbion

In September 2017, Merck announced that it will acquire Rigontec, an investment held by Forbion. The transaction closed in October 2017 for an upfront cash payment of $169,533 [EUR 115,000] and up to $514,496 [EUR 349,000] in contingent payments. On November 8, 2017, Knight received a distribution of $3,168 [EUR 2,144] from Forbion upon close of the acquisition of Rigontec and realized a gain of $971 [EUR 654].

Other investments

Merus

On July 17, 2017, on the close of the acquisition of Merus by Norgine B.V., the Company realized a gain of $1,457 upon the disposal of its 5,460,200 common shares of Merus. Prior to the sale, the company held a strategic equity interest of 4.7% of the outstanding common shares of Merus.

Increased ownership in Crescita

On October 6, 2017, Knight received 566,471 common shares of Crescita pursuant to a share transfer agreement with a shareholder of Crescita. As at December 31, 2017, Knight owns an aggregate of 2,079,973 common shares of Crescita representing approximately 14.9% of its outstanding common shares, at a carrying amount of $1,144 which were valued using the quoted market price.

On January 29, 2018, the Company entered into an agreement with Crescita, whereby it committed to invest $400 for the purchase of common shares under a rights offering conditional upon a raise of at least $2,000. As at March 14, 2018, the Company owns an aggregate of 2,834,689 common shares of Crescita representing approximately 13.5% of its outstanding common shares.

Medimetriks

As consideration for the Second Loan, Knight received a derivative in the form of an equity kicker for an additional 2.7%, or 365,492 common shares, of Medimetriks ("Additional Common Shares"). The Additional Common Shares were issued to Knight on May 31, 2017 and were recorded at fair value of $2.56 [US$1.97] per common share derived using the income approach valuation technique.

During Q3-17, pursuant to its loan agreements with Medimetriks, Knight received an additional 286,955 common shares increasing its ownership to 10% on a fully diluted basis. The additional common shares were recorded at fair value of $1.78 [US$1.43] per common share derived using the income approach valuation technique.

During Q4-17, pursuant to the same loan agreement, Knight received an additional 924,916 common shares, increasing its ownership to 15.6% on a fully diluted basis, and 19.0% on a non-diluted basis. The additional common shares were recorded at a fair value of $1.79 [US$1.43] per common share derived using the income approach valuation technique. In addition, the Company recorded $496 [US$395] as a derivative for the right to obtain a cash payment subject to a future event. The cash payment fluctuates with the value of the common shares of Medimetriks which was determined using an income approach valuation technique.

As a result of the additional 1,577,363 common shares issued to Knight, the Company recorded a total of $3,108 [US$2,453] in other income and unrealized gain on financial assets in the statement of income. As at December 31, 2017, the Company held 2,315,007 (2016: 737,644) common shares of Medimetriks, at a carrying amount of $3,237 [US$2,581] (2016: $3,973 [US$2,959]). The fair value of the common shares was derived using the income approach valuation technique less the day 1 gain on initial measurement that the Company deferred.

For additional details regarding the movement in AFS equities or derivatives held by Knight throughout the quarter, refer to note 10 "Other Financial Assets" of the Annual Financial Statements.

Section 9 – Rest of World Strategy

Knight's international strategy is focused on identifying potential products and companies that fit within its existing business model, but that are located in select areas such as Israel, Australia, Latin America, Romania, Russia, Sub-Saharan Africa, the Caribbean and other countries excluding the U.S., Western Europe, Japan and China. Knight intends to continue its growth by becoming an international specialty pharmaceutical company and believes that these countries provide potentially significant growth and value opportunities.

Investment in Medison

On September 9, 2015, Knight acquired a 28.3% ownership interest in Medison, a privately-owned specialty pharmaceutical company based in Israel. The consideration given for the equity interest in Medison amounted to $82,001, which includes the fair value of 10,330,884 common shares of Knight issued to Medison and its controlling shareholder and a contingent consideration of $1,100. In addition, the Company incurred $217 of transaction costs which were capitalized with the investment. On June 16, 2016, the Company issued 250,000 common shares at a price of $8.29 per share for $2,073 and reduced the amount of contingent consideration recorded in contributed surplus upon the initial investment in Medison by $943. Consequently, the Company recorded an increase of $1,130 in the investment in associate. There is no further contingent consideration payable to Medison.

The interest in Medison is accounted for using the equity method of accounting. The investment was originally recorded at cost and subsequently adjusted to include the Company's share of Medison's net income and any dividends issued to the Company. The net income is adjusted to reflect the amortization of the fair value adjustments related to the Company's share of the net identifiable assets of Medison acquired and their tax impact.

This selected information is derived from our financial statements.

	Q4-17	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16
Carrying value of investment	**75,983**	75,642	78,003	77,907	80,113	80,075	81,393	79,458
Amortization of FMV adjustments	**(1,529)**	(1,572)	(1,503)	(1,503)	(1,749)	(1,207)	(1,208)	(1,006)
Share of net income, net of FMV adjustment	**341**	98	96	319	38	1,096	805	854
Dividends	**—**	2,459	—	2,525	—	2,414	—	2,423

The Company is presenting select financial information derived from Medison's consolidated financial statements, excluding amortization of fair value adjustments on acquisition in ILS using Israeli GAAP converted into IFRS in CAD for information purposes:

For the year ended December 31,	**2017**	2016
	$	$
Revenue	**216,442**	206,471
Net income	**24,597**	28,138

RISK MANAGEMENT

Section 10

10.1 Currency Risk

Knight holds a significant portion of its net financial assets in US$, EUR, ILS and CHF which results in financial risk due to fluctuations in the value of the currencies relative to the Canadian dollar. Assuming that all other variables remain constant, a 5% change in the Canadian dollar against the US$, EUR, ILS and CHF would have resulted in a change in the statement of income and comprehensive income of $12,030, $880, $522 and $40, respectively.

10.2 Equity Price Risk

Equity price risk arises from changes in market prices of the AFS investments and derivatives. The carrying values of investments subject to equity price risk are $75,130 as at December 31, 2017 (December 31, 2016: $66,701). The Company monitors its equity investments for impairment on a periodic basis and at least every reporting period. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold. The Company's Board of Directors regularly reviews and approves equity investment decisions.

10.3 Interest Rate Risk

The Company is subject to interest rate risk on its cash, cash equivalents and marketable securities. Details regarding maturity dates and effective interest rates are described in notes 5 and 6 of the Annual Financial Statements. The Company does not believe that the results of operations or cash flows would be materially affected to any significant degree by a sudden change in market interest rates relative to interest rates on the investments, owing to the relatively short-term nature of the marketable securities and currently low market yields.

10.4 Liquidity Risk

The majority of the Company's financial liabilities are short term in nature. The Company generates sufficient cash from operating activities to fund its operations and fulfil its obligations as they become due. The Company has sufficient funds

available through its cash, cash equivalents and marketable securities, should its cash requirements exceed cash generated from operations to cover all financial liability obligations. As at December 31, 2017, there were no restrictions on the flow of these funds nor have any of these funds been committed in any way, except as set out in note 24 of the Annual Financial Statements.

10.5 Credit Risk

The Company considers its maximum credit risk to be $122,490 (2016: $116,020) which is the total of the following assets: trade and accounts receivable, interest receivable, loans receivable and investment in funds. The marketable securities and cash equivalent balances are subject to minimal risk of changes in value. They are invested within two large Canadian financial institutions, three Canadian credit unions guaranteed by provincial governments, two foreign affiliates of large Canadian financial institutions, and one Canadian insurance company, comprised of thirteen guaranteed investment certificates, one guaranteed investment fund and three term deposits.

The Company is exposed to credit risk from its customers and continually monitors its customers' credit. It establishes the provision for doubtful accounts based upon the credit risk applicable to each customer. The credit risk on loans and interest receivable is due to the risk of insolvency or operational failure of the partners in the strategic lending transaction. The Company also has a credit risk on its investment in funds and derivatives which are held through venture funds or issued by a counterparty.

10.6 Risk Factors

For a detailed discussion of additional risk factors, please refer to the Company's Annual Information Form for the year ended December 31, 2017 on SEDAR at www.sedar.com.

ADDITIONAL INFORMATION

Section 11 – Selected Annual Financial Information

This selected information is derived from our financial statements.

	2017	2016	2015
Revenues	**8,634**	5,940	1,037
Net income	**17,244**	18,560	34,167
Basic earnings per share	**0.12**	0.15	0.36
Diluted earnings per share	**0.12**	0.15	0.35
Total assets	**1,005,983**	990,770	648,988
Total non-current liabilities	**515**	1,294	186

The Company has not paid dividends on its common shares and does not anticipate declaring any dividends in the near future.

Section 12 – Selected Quarterly Financial Information

This selected information is derived from our Annual Financial Statements.

	Q4-17	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16
Revenues	**2,544**	1,860	2,480	1,750	1,845	1,892	1,135	1,068
Net income	**7,145**	3,593	459	6,047	7,939	5,698	4,446	477
EPS								
Basic	**0.050**	0.025	0.003	0.042	0.059	0.043	0.039	0.005
Diluted	**0.050**	0.025	0.003	0.042	0.059	0.043	0.039	0.005
Cash, cash equivalents and marketable securities	**765,033**	761,087	761,161	763,778	736,050	645,054	638,423	426,235
Total assets	**1,005,983**	993,467	991,980	994,293	990,770	877,904	867,999	638,336
Total liabilities	**14,775**	13,019	11,800	10,998	11,052	8,305	6,034	5,663

Section 13 – Outstanding Share Data

The table below summarizes the share data:

As at	**March 14, 2018**
Common Shares	142,812,097
Stock Options	3,447,659
Warrants	406,126

Section 14 – Use of Proceeds from Financing

To date, Knight has raised net proceeds of approximately $685,000 from five public offerings. In our short form prospectuses related to the offerings, Knight disclosed that its intent was to use a substantial portion of the net proceeds (i) for potential acquisitions of (a) in-licensing of over-the-counter and prescription pharmaceutical products and targeted promotion of these products, and (b) specialty pharmaceutical businesses in select international markets, (ii) for financing of other life sciences companies in Canada and internationally as well as for investments in funds focused in the life sciences sector, and (iii) the remainder for general corporate purposes.

As at December 31, 2017 Knight had deployed or invested or committed to deploy or invest over $300,000 for the purposes disclosed in the prospectuses, as described above. Pending the application of the remainder of the net proceeds, Knight has invested part of the net proceeds in short-term investment-grade securities and bank deposits, and holds the remainder in cash. Knight anticipates that it has sufficient funds available to achieve its business objectives and milestones as listed in the prospectuses.

Section 15 – Payment of Dividends

The Company has not paid dividends on its common shares since inception and does not anticipate declaring dividends in the foreseeable future. Knight's current policy is to retain earnings to finance the acquisition and development of new products and to reinvest in the growth of the Company. Any future determination to pay dividends is at the discretion of the Company's Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements and other such factors as the Board of Directors of the Company deems relevant.

Section 16 – Product Pricing Regulation on Certain Patented Drug Products

All patented drug products that form part of Knight's portfolio of products are subject to pricing regulation by the PMPRB, a federal agency tasked with ensuring that prices of patented medicines are not excessive. For new patented products, the maximum non-excessive price in Canada is limited to a range with a lower bound set by the prices of existing comparable drugs sold in Canada and an upper bound set by the median prices for the same drug sold in a specified set of developed comparator countries. For existing patented products, prices cannot be increased annually by more than a factor based on Statistics Canada's Consumer Price Index. The PMPRB monitors compliance through a review of the average transaction price of each patented drug product as reported by pharmaceutical companies like Knight on a semi-annual basis. The PMPRB may from time to time deem certain of Knight's existing or future patented products to be excessively priced based on the application of its empowering legislation and regulations, including those related to price increases, the comparative assessment of new products and reductions in the highest price in international reference countries. Such determinations by the PMPRB may have a material adverse effect on Knight's financial condition and results of operations or cash flows.

The Canadian federal government has made a commitment to reduce the cost of prescription drug pending in Canada. On December 2, 2017, Health Canada published the following proposed key changes:

- Changes in the comparator countries used to determine price ceilings. The changes include removal of the US (which generally has the highest international drug prices) and Switzerland and addition of seven new countries judged to have similar consumer protection-oriented mandates and relative wealth as Canada;
- New, economics-based price regulatory factors to allow the PMPRB to regulate based on the value of a medicine and its impact on the health care system; and,
- Changes to certain reporting requirements, including reporting all discounts and rebates provided to third-party payers, such as provincial drug plans.

The proposed amendments, if enacted, are expected to result in a decrease in the prices of patented drugs in Canada. While the proposed regulations are expected to come into force on January 1, 2019, the precise nature and timing of these changes (including the potential retroactive application of some) will not be known until the full consultation and Canada Gazette publication processes are completed. The final form of regulatory changes to the PMPRB may have a significant adverse effect on the price of patented drugs sold by the Corporation in Canada and may limit the Corporation's ability to in-license and launch products in Canada due to more restrictive pricing regulations

Section 17 – Financial Instruments

The Company's investment policy regulates the investment activities relating to cash resources. The Company invests in strategic investments in the form of equity funds, debt funds, equity or liquid investment securities with varying terms to maturity, selected with regard to the expected timing of investments and expenditures for continuing operations, and prevailing interest rates.

Knight has not entered into any currency or other hedging instrument contracts during the year ended December 31, 2017. Refer to notes 10 and 11 of the Annual Financial Statements for the year ended December 31, 2017 for additional information.

Section 18 – Off-balance Sheet Arrangements

The Company's off-balance sheet arrangements consist of contractual obligations and agreements for development, sales, marketing and distribution rights to innovative drug products. The effect of terminating these arrangements under normal operating circumstances consists of an effective transition of the remaining responsibilities and obligations to the licensor under agreed upon time frames and conditions. Please refer to note 24 of the Annual Financial Statements for the year ended December 31, 2017 for additional information. Other than these contractual obligations and commitments, the Company does

not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

Section 19 – Commitments

In the normal course of business, the Company secures development, sales, marketing and distribution rights to innovative drug products requiring royalties or product payments considered normal operating commitments and as such not included herein. The Company has entered into various agreements which include contractual obligations extending beyond the current year. These obligations are classified into four major categories: operating lease, fund commitments, milestones and purchase commitments, and equity and loan commitments. The commitments of the Company as at December 31, 2017 are as follows:

[i] Operating Lease

The Company is committed under operating leases for the lease of its premises. Future minimum annual payments are as follows:

	$
2018	273
2019	258
2020	258
2021	258
2022	215
	1,262

As at March 14, 2018, the operating lease commitment has decreased by $68.

[ii] Fund commitments

As at December 31, 2017, under the terms of Company's agreements with life sciences venture capital funds, $84,508 (2016: $103,096), including $26,664 [US$21,254] and $18,252 [EUR 12,126], may be called over the life of the funds (based on the closing foreign exchange rates).

As at March 14, 2018, $80,561 remains to be called by life science venture capital funds.

[iii] Milestones and purchase commitments

Under certain agreements, Knight may have to pay additional consideration should the Company achieve certain sales volumes or if certain milestones are met, such as regulatory approval in Canada. The Company may have to pay up to $35,614 including $24,337 [US$19,400] and $527 [EUR 350] upon achieving certain sales volumes, regulatory or other milestones related to specific products.

In addition, Knight has a commitment to purchase up to $2,015 [EUR 738 and US$721], of inventory for pharmaceutical products during the five-year period after their respective commercial launch.

[iv] Equity and loan commitments

Subject to a loan agreement with one of its borrowers, Knight has committed up to a maximum of $3,136 [US$2,500] to participate in the initial public offering of the borrower.

Subject to a loan agreement with one of its borrowers, Knight has committed to loan up to an additional $2,026 [US$1,615] should the borrower meet certain conditions.

Section 20 – Related Party Transactions

Pharmascience Inc., a company related to the Company's CEO, provided administrative services of approximately $15 to the Company for the year ended December 31, 2017.

Furthermore, during 2017, the Company entered into an agreement with its associate resulting in the recognition of a derivative. In conjunction with the agreement, Knight recorded in the statement of income, other income of $772 [ILS2,030] during the year. As at December 31, 2017, the agreement was settled and there is no further asset or liability with the associate.

Section 21 – Segment Reporting

The Company has one reportable segment, and our principal business activity is focused on developing, acquiring, in-licensing, out-licensing, marketing and distributing pharmaceutical products, consumer health products and medical devices in Canada and select international markets.

Section 22 – Significant Accounting Estimates and Assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts or revenues and expenses during the reporting period. Reported amounts and note disclosures reflect the overall economic conditions that are most likely to occur and anticipated measures management intends to take. Actual results could differ materially from those estimates.

From time to time, the Company is subject to tax audits. While the Company believes that its filing positions are appropriate and supportable, periodically, certain matters are challenged by tax authorities. On January 30, 2018, the Company received a proposed reassessment with respect to an ongoing audit by a taxation authority. Although the outcome of such matter is not predictable with assurance, no provision has been made as of December 31, 2017 in relation to such audit and its related tax risks, as the Company believes it has sufficient arguments to contest the proposed reassessment. Although the Company believes its tax provisions are adequate, the final determination of tax audits and any related disputes could be materially different from historical income tax provisions and accruals. In the event that the Company is not successful in its contestation, this could result additional taxes, interest and penalties payable up to an estimated amount of $45,000.

Our significant accounting estimates and assumptions are reported in note 3 of our 2017 Annual Financial Statements.

Section 23 – Recent Accounting Pronouncements

IFRS 9 – Financial Instruments

In July 2014, the IASB amended IFRS 9 – Financial Instruments, to bring together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 – Financial Instruments: Recognition and Measurement. The standard supersedes all previous versions of IFRS 9 and will be effective on January 1, 2018 with earlier application permitted.

IFRS 9 contains a new classification and measurement approach for financial assets. The classification determines how the financial assets are categorized and measured in the financial statements and therefore is the foundation for its accounting. IFRS 9 contains three principal classification categories for financial assets, namely: amortized cost; FVOCI; and FVPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and AFS. The Company will adopt IFRS 9 effective January 1, 2018 and has concluded the following.

Financial Assets

Strategic Loans

The Company currently classifies its loans receivable under the "loans and receivables" category which is initially measured at fair value and subsequently at amortized cost using the effective interest rate method under IAS 39. Under IFRS 9, there are three possible measurement and classification categories for a loan receivable as following:

1. Amortized cost
The amortized cost method can be used if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;
- under the amortized cost classification, IFRS 9 requires the application of an expected credit loss model.

The Company has concluded that its strategic loans to Antibe and Pediapharm will be classified in the amortized cost category and based on the past, current and expected future conditions, the credit loss provision is not significant. Therefore, there is no expected impact on the consolidated financial statements.

2. FVOCI
The FVOCI method can be used if both of the following conditions are met:

- the asset is held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company has concluded that there are no strategic loans under the FVOCI method.

3. FVPL
All loans receivable not measured at amortized cost or at FVOCI must be measured at FVPL. Under the FVPL policy, the changes to fair value of the loans receivable will be recorded as a gain or loss in the statement of income therefore increasing volatility in net income.

The Company has concluded that all strategic loans, with the exception of Antibe and Pediapharm, will be recorded using the FVPL method. The Company expects to record an increase of $521 to its financial assets with a corresponding credit to opening retained earnings as a transition adjustment on January 1, 2018. Furthermore, the Company has an opening deferred day 1 gain of $1,125, which will be amortized on a straight-line basis over the term of each loan. As at the transition date, the fair value of all loans accounted for under FVPL is $52,193.

Investments in equity instruments

The Company currently records its investments in equities as AFS financial assets at fair value with changes in value recorded in the statement of comprehensive income. Under IFRS 9, investments in equity instruments will continue to be measured at fair value and can be classified in one of the following two categories:

1. FVPL
Investments in equity instruments held for trading are classified at FVPL with dividend income recognized in profit or loss. The financial asset is classified as held for trading if it was acquired with the purpose of sale or if there is evidence of historical short-term profit making on similar instruments.

The Company has concluded that certain AFS equity instruments will be recorded at FVPL. As a result, opening retained earnings will increase by $680 as this amount will be reclassed from OCI as a transition adjustment on January 1, 2018.

2. FVOCI

On initial recognition, an entity may make an irrevocable election on an instrument-by-instrument basis to present in OCI the subsequent changes in the fair value of an investment which was made primarily for non-financial benefits such as strategic alliances and strategic investments. For investments classified as FVOCI there is no recycling of amounts from the statement of comprehensive income to the statement of income upon the disposal of the financial asset.

The Company has concluded that certain AFS equity instruments will remain at FVOCI. As a result, opening retained earnings will increase by $1,403 due to impairment on financial assets recorded under IAS 39 that will be reclassed to OCI as a transition adjustment on January 1, 2018.

Investment in Funds

The Company's strategic investments in funds are currently classified as AFS financial assets with changes in fair value recognized in the statement of comprehensive income. Under IFRS 9, investments in funds will be classified and measured at FVPL. The changes in fair value of the strategic investments in funds will be recognized as gains or losses in the statement of income therefore increasing volatility in net income.

The Company has concluded that $9,619 related to investments in funds will be reclassed from OCI increasing opening retained earnings as a transition adjustment on January 1, 2018.

Derivatives

The Company has concluded that there are no material measurement or classification changes under IFRS 9.

Marketable Securities and Accounts Receivable

The Company has concluded that there are no material measurement changes under IFRS 9.

Financial Liabilities

There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVPL and the Company does not have any such liabilities.

Transition

IFRS 9 contains a general requirement that it should be applied retrospectively and an entity may restate prior periods if it is possible without the use of hindsight. The Company will not restate prior periods and any adjustments to the carrying amount of financial assets as at January 1, 2018 will be reflected in retained earnings.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers, to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. The standard supersedes IAS 18 – Revenue, IAS 11 – Construction Contracts, and other revenue related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018.

The standard outlines the principles that must be applied to measure and recognize revenue and the related cash flows. Revenue is recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 will be applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The Company has concluded that the recognition and measurement of the sale of products in all contracts is consistent with the current revenue recognition practice and therefore does not expect any transitional adjustment. Furthermore, IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a change from current practice and will increase the volume of disclosures required in the Company's consolidated financial statements.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 – Leases ("IFRS 16"), which replaces IAS 17 – Leases ("IAS 17") and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained. The standard will be effective on January 1, 2019. The Company is currently assessing the potential impact of this standard on its consolidated financial statements.

Section 24 – Disclosure Controls and Procedures

The Company is committed to providing timely, accurate and balanced disclosure of all material information about the Company and to providing fair and equal access to such information. Management is responsible for establishing and maintaining its DC&P to ensure that information used internally and disclosed externally is complete and reliable. Due to the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute assurance, that all control issues and instances of fraud or error, if any, within the Company have been detected. Management continues to evolve and enhance its system of controls and procedures.

The Company has evaluated the effectiveness of its designed DC&P. Based on the evaluation of its DC&P, management has concluded that they are effective as of December 31, 2017 to provide reasonable assurance that material information relating to the Company is made known to management and that information required to be disclosed in the Company's annual and interim filings and other reports are reported within the timeliness specified by securities legislation.

Section 25 – Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate ICFR. The Company has designed ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with IFRS.

Management has evaluated the design and operating effectiveness of its ICFR as defined in NI 52-109. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the COSO. This evaluation was performed by management of the Company with the assistance of staff to the extent deemed necessary. Based on this evaluation, management concluded that the ICFR were appropriately designed and operating effectively, as at December 31, 2017.

All control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of the controls or procedures. As a result, there is no certainty that our DC&P or ICFR will prevent all errors or all fraud.

During the year, there was no change in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect the Company's internal controls over financial reporting.

Section 26 – Subsequent Events

[i] Crescita rights offering

On January 29, 2018, the Company entered into an agreement with Crescita, whereby it committed to invest $400 for the purchase of common shares under a rights offering conditional upon a raise of at least $2,000. As at March 14, 2018, the Company owns an aggregate of 2,834,689 common shares of Crescita representing approximately 13.5% of its outstanding common shares.

[ii] Repayment of Medimetriks Loan

On March 7, 2018, Knight received an early repayment of $29,463 [US$22,757] from Medimetriks including payment of principal of $25,894 [US$20,000] and interest and fees.

[iii] Iluvien® Notice of Non-Compliance

On March 13, 2018, Knight was advised by Health Canada that its NDS for Iluvien® will not be approved at this time. Knight received a Notice of Non-Compliance and will respond to Health Canada's issues within the prescribed 90 day window.

Audited Annual Consolidated Financial Statements

Knight Therapeutics Inc.

December 31, 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Knight Therapeutics Inc.

We have audited the accompanying consolidated financial statements of Knight Therapeutics Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2017 and 2016, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Knight Therapeutics Inc. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and 2016 in accordance with International Financial Reporting Standards.

Montreal, Canada
March 14, 2018

[1]CPA Auditor, CA, public accountancy permit No. A120254

CONSOLIDATED BALANCE SHEETS

[In thousands of Canadian dollars]

As at December 31,	Notes	2017	2016
ASSETS			
Current			
Cash and cash equivalents	*5*	**496,460**	514,942
Marketable securities	*6*	**232,573**	221,108
Trade and other receivables	*7*	**9,176**	6,440
Inventories	*8*	**1,224**	790
Other current financial assets	*10, 11*	**58,848**	51,789
Income taxes receivable		**792**	4,683
Total current assets		**799,073**	799,752
Marketable securities	*6*	**36,000**	—
Property and equipment		**633**	32
Intangible assets	*9*	**12,576**	14,153
Other financial assets	*10, 11*	**76,988**	90,643
Investment in associate	*12*	**75,983**	80,113
Deferred income tax assets	*18*	**4,730**	6,077
Total assets		**1,005,983**	990,770
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	*13*	**5,025**	3,207
Income taxes payable		**7,599**	5,659
Other balances payable		**1,354**	537
Deferred other income		**282**	355
Total current liabilities		**14,260**	9,758
Deferred other income		**167**	417
Other balances payable		**348**	877
Total liabilities		**14,775**	11,052
Shareholders' equity			
Share capital	*14 [i]*	**761,490**	760,447
Warrants	*14 [iv]*	**785**	785
Contributed surplus		**12,196**	9,469
Accumulated other comprehensive income	*15*	**20,907**	30,431
Retained earnings		**195,830**	178,586
Total shareholders' equity		**991,208**	979,718
Total liabilities and shareholders' equity		**1,005,983**	990,770

Commitments *[note 24]*
Subsequent events *[note 25]*

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME

[In thousands of Canadian dollars, except for share and per share amounts]

	Notes	**2017**	2016
Revenues		**8,634**	5,940
Cost of goods sold		**1,585**	1,550
Gross margin		**7,049**	4,390
Expenses			
Selling and marketing		**3,378**	532
General and administrative		**8,198**	9,302
Research and development		**2,750**	1,955
		(7,277)	(7,399)
Depreciation of property and equipment		**8**	18
Amortization of intangible assets		**1,621**	419
Interest income		**(26,300)**	(24,414)
Other income		**(1,527)**	(3,894)
Net gain on financial assets		**(6,734)**	(1,659)
Impairment on financial assets		**1,621**	—
Share of net income of associate	*12*	**(854)**	(2,793)
Foreign exchange loss		**3,689**	1,451
Income before income taxes		**21,199**	23,473
Income tax expense			
Current	*18*	**1,897**	4,190
Deferred	*18*	**2,058**	723
Net income for the year		**17,244**	18,560
Attributable to shareholders of the Company			
Basic earnings per share	*17*	**0.12**	0.15
Diluted earnings per share	*17*	**0.12**	0.15
Weighted average number of common shares outstanding			
Basic	*17*	**142,763,730**	120,723,270
Diluted	*17*	**143,416,666**	121,263,522

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[In thousands of Canadian dollars]

	2017	2016
Net income for the year	**17,244**	18,560
Realized gain reclassified to statement of income net of tax of $321 (2016: $247)	**(3,914)**	(1,592)
Impairment reclassified to statement of income net of tax of $218	**1,403**	–
Other comprehensive gain or loss to be reclassified to statement of income in subsequent periods:		
Unrealized gain on available-for-sale financial assets net of tax of $685 (2016: $245)	**4,859**	1,146
Unrealized loss on translation of foreign operations	**(11,872)**	(5,078)
Other comprehensive loss for the year	**(9,524)**	(5,524)
Total comprehensive income for the year	**7,720**	13,036

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[In thousands of Canadian dollars]

	Notes	**Share capital**	**Warrants**	**Contributed surplus**	**Accumulated other comprehensive income**	**Retained earnings**	**Total shareholders' equity**
Balance as at January 1, 2016		439,148	161	6,772	35,955	160,026	642,062
Net income for the year		—	—	—	—	18,560	18,560
Other comprehensive loss for the year		—	—	—	(5,524)	—	(5,524)
Comprehensive (loss) income		—	—	—	(5,524)	18,560	13,036
Share-based compensation expense	*14 [ii]*	—	—	3,640	—	—	3,640
Issuance upon bought deal, net of costs and includes deferred tax of $4,465	*14 [i][a]*	317,616	—	—	—	—	317,616
Issuance of shares to associate	*14 [i][b]*	2,073	—	(943)	—	—	1,130
Issuance upon investment	*14 [i][c]*	1,846	624	—	—	—	2,470
Issuance of share purchase loans	*14 [i][d]*	(350)	—	—	—	—	(350)
Issuance under share purchase plan	*14 [iii]*	114	—	—	—	—	114
Balance as at December 31, 2016		760,447	785	9,469	30,431	178,586	979,718
Balance as at January 1, 2017		**760,447**	**785**	**9,469**	**30,431**	**178,586**	**979,718**
Net income for the year		—	—	—	—	17,244	**17,244**
Other comprehensive loss for the year		—	—	—	(9,524)	—	**(9,524)**
Comprehensive (loss) income		—	—	—	(9,524)	17,244	**7,720**
Share-based compensation expense	*14 [ii]*	—	—	3,038	—	—	**3,038**
Issuance under share option plan	*14 [ii]*	832	—	(311)	—	—	**521**
Issuance under share purchase plan	*14 [iii]*	211	—	—	—	—	**211**
Balance as at December 31, 2017		**761,490**	**785**	**12,196**	**20,907**	**195,830**	**991,208**

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

[In thousands of Canadian dollars]

	Notes	2017	2016
OPERATING ACTIVITIES			
Net income for the year		**17,244**	18,560
Adjustments reconciling net income to operating cash flows:			
Deferred tax		**2,058**	723
Share-based compensation expense	*14 [ii]*	**3,038**	3,640
Depreciation and amortization		**1,629**	437
Accretion of interest		**(5,382)**	(6,201)
Realized gain on financial assets		**(4,421)**	(2,569)
Unrealized (gain) loss on financial assets		**(2,313)**	910
Impairment on financial assets		**1,621**	—
Foreign exchange loss		**3,689**	1,451
Share of net income of associate	*12*	**(854)**	(2,793)
Other income		**(563)**	(1,274)
Deferred other income		**(323)**	479
		15,423	13,363
Changes in non-cash working capital related to operations	*21*	**3,050**	(3,462)
Dividends from associate	*12*	**4,984**	4,837
Cash inflow from operating activities		**23,457**	14,738
INVESTING ACTIVITIES			
Purchase of marketable securities		**(314,358)**	(535,685)
Purchase of intangibles		**—**	(9,853)
Purchase of property and equipment		**(126)**	(7)
Issuance of loans receivables		**(20,112)**	(43,274)
Purchase of equities		**(2,939)**	(16,371)
Investment in funds		**(21,314)**	(16,503)
Proceeds from sale of marketable securities		**259,067**	544,812
Proceeds from repayments of loans receivable		**38,835**	11,324
Proceeds from disposal of equities		**12,872**	9,572
Proceeds from distribution of funds		**8,083**	4,610
Proceeds from disposal of derivatives		**—**	2,157
Cash outflow from investing activities		**(39,992)**	(49,218)
FINANCING ACTIVITIES			
Proceeds from share issuance, net of costs		**—**	313,574
Proceeds from exercise of stock options		**551**	—
Proceeds from contributions to share purchase plan		**195**	105
Issuance of share purchase loans	*14 [d]*	**—**	(350)
Cash inflow from financing activities		**746**	313,329
(Decrease) increase in cash during the year		**(15,789)**	278,849
Cash and cash equivalents, beginning of the year		**514,942**	237,481
Net foreign exchange difference		**(2,693)**	(1,388)
Cash and cash equivalents, end of the year		**496,460**	514,942
Supplemental cash flow information:			
Interest received		17,354	15,665
Net income taxes (refunded) paid		3,223	7,010

See accompanying notes

GLOSSARY OF ABBREVIATIONS

Abbreviation	Company
3D	3D Signatures Inc.
60P	60° Pharmaceuticals LLC
Antibe	Antibe Therapeutics Inc.
Apicore	Apicore Inc. and Apigen Investments Limited
Crescita	Crescita Therapeutics Inc.
Knight or the Company	Knight Therapeutics Inc.
Medimetriks	Medimetriks Pharmaceuticals Inc.
Medison	Medison Biotech (1995) Ltd.
Merus	Merus Labs International Inc.
Otsuka	Otsuka Pharmaceutical Co., Ltd.
PBB	Pro Bono Bio PLC
Pediapharm	Pediapharm Inc.
Synergy	Synergy CHC Corp.

Abbreviation	Calendar
Q3-17	Third quarter of 2017
Q4-17	Fourth quarter of 2017

Abbreviation	Financial
CHF	Swiss Franc
EUR	Euro
ILS	New Israeli Shekels
US$	U.S. Dollar

Abbreviation	Other
AFS	Available-for-sale
CEO	Chief Executive Officer
CFO	Chief Financial Officer
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[In thousands of Canadian dollars, except for share and per share amounts]

1. NATURE OF OPERATIONS

Description of business

The Company was incorporated on November 1, 2013 under the *Canada Business Corporations Act.* Knight is a specialty pharmaceutical company and its principal business activity is developing, acquiring, in-licensing, out-licensing, marketing and distributing pharmaceutical products, consumer health products and medical devices in Canada and select international markets. The Company is located at 3400 de Maisonneuve Boulevard West, Suite 1055, Montreal, Quebec, H3Z 3B8. Knight is listed on Toronto Stock Exchange under the ticker symbol “GUD”.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and statement of compliance

These consolidated financial statements of the Company for the year ended December 31, 2017, have been prepared in accordance with International Financial Reporting Standards (IFRS). The policies set out below have been consistently applied to all the periods presented.

The preparation of the Company’s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements have been set out in note 3 below.

These consolidated financial statements were approved by the Company’s Board of Directors on March 14, 2018.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Knight Therapeutics (Barbados) Inc., Knight Therapeutics (USA) Inc. and Abir Therapeutics Ltd. All significant inter-company transactions, balances, revenues and expenses are eliminated upon consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. These subsidiaries are fully consolidated and continue to be consolidated until the date that such control ceases.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Goodwill (the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed) is initially measured at cost. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in profit or loss. Acquisition related costs are expensed as incurred and included in administrative expenses.

Foreign currency translation

[a] Functional and presentation currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements of the Company are presented in Canadian dollars ("CAD"), which is the parent Company's functional and presentation currency.

[b] Transactions and balances

Foreign currency transactions are initially recorded by the Company using the exchange rates prevailing at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the period-end rates of exchange. Non-monetary assets and liabilities are translated at the historical exchange rates. Exchange gains and losses arising from the translation of foreign currency items are recognized in the consolidated statement of income.

[c] Foreign operations

For subsidiaries that have a functional currency different from the parent Company, on consolidation, the assets and liabilities of foreign operations are translated into CAD at the rate of exchange prevailing at the reporting date and their statements of income are translated using the average exchange rates for the period. The exchange differences arising on translation for consolidation are recognized in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents are comprised of current balances with banks and similar institutions and highly liquid investments with original maturities of three months or less. They are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

Marketable securities

Marketable securities consist of securities that are liquid and subject to an insignificant risk of change in value. Marketable securities that are classified as "available for sale" are initially measured at fair value with any resulting subsequent changes in the fair value being charged or credited to other comprehensive income and when ultimately sold to net income. Fair values for marketable securities are obtained using techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly. Marketable securities are classified as current if they mature within the year or if they are redeemable upon notice.

Inventory

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. The cost of finished goods and work-in-progress primarily includes direct costs. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and applicable selling expenses.

Financial instruments

Initial recognition and subsequent measurement

Category	Financial instruments	Description
Available for sale	Cash equivalents	Highly liquid investments that are readily convertible into a known amount of cash.
	Marketable securities	Liquid investments that are readily convertible into a known amount of cash.
	Investments in funds	Life sciences venture capital equity funds and debt funds.
	Investments in equities	Equities of publicly-traded and private entities.
Financial assets classified as Fair Value Through Profit or Loss ("FVTPL")	Cash	Cash balances with banks.
	Derivatives	Warrants, stock options, conversion features on debentures and other.
Loans and receivables	Trade and other receivables	Amounts receivable from customers and third parties.
	Loans and receivables	Loans receivable, debentures and long-term receivables.
Financial liabilities	Accounts payable and accrued liabilities	Amounts payable to suppliers and third parties.

Category	Initial measurement	Subsequent measurement	Changes in fair value
Financial assets			
Available for sale	Purchases and sales of available for sale investments are accounted for on the trade date at fair value plus transaction costs.	Re-measured at subsequent reporting dates to fair value using quoted market prices, if available. Re-measured using other techniques if quoted market prices are not available, or Carried at cost for investments, where fair value is not readily determinable.	Reported in other comprehensive income in "Accumulated other comprehensive income" when unrealized and reclassified to "Other income" in the consolidated statement of income when realized or impaired. Impairments on equity investments classified as available for sale are not reversed until disposal of the instrument.
FVTPL	Fair value at acquisition date using the Black-Scholes option pricing valuation model or other valuation techniques.	Re-measured at subsequent reporting dates to fair value using the Black-Scholes option pricing valuation model or other valuation techniques.	Reported in "Net gain on financial assets" on the consolidated statement of income.
Loans and receivables	Fair value	Amortized cost using the effective interest method.	Reported in consolidated statement of income when realized or impaired. Interest accretion on loans is recorded in "Interest income" on the consolidated statement of income.

Category	Initial measurement	Subsequent measurement	Changes in fair value
Financial liabilities			
Other financial liabilities	Fair value	Amortized cost using the effective interest method.	Reported in consolidated statement of income when liability is extinguished. The interest accretion is recorded in "Interest expense" on the consolidated statement of income.

Day 1 Gain on Initial Measurement

Upon acquisition of a financial instrument, the Company measures the fair value and compares this to the acquisition price. The difference is recognised as a gain or loss only if fair value is based on a quoted price in an active market or based on a valuation technique that uses only data from observable markets. Otherwise, the difference is deferred and recognised as follows:

- in the income statement on a straight-line basis over the term for financial assets classified as FVTPL;
- in the income statement through the application of the effective interest method for loans receivable; or,
- in the statement of comprehensive income for financial assets classified as available for sale when there is a change in a factor that market participants would consider when pricing the asset.

Impairment of financial assets

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or group of financial assets has been impaired. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment may include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments or it has become probable that the debtor will enter bankruptcy or financial reorganization;
- an adverse change in legal factors or in the business climate that could affect the value of an asset; and
- current or forecasted operating cash flow demonstrate continuing losses associated with the use of an asset.

Furthermore, at each reporting date in addition to qualitative factors, the Company assesses whether there has been a significant or prolonged decline of fair value of AFS equity instruments below its cost.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) or financial liability is derecognized when:

- the rights/obligations to receive/disburse cash flows from the asset/liability have expired/discharged; or
- the Company has transferred its rights/obligations to receive/disburse cash flows from the asset/liability.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Levels	Description	Type of financial instruments normally classified as such
Level 1	Quoted (unadjusted) prices in active markets for identical assets or liabilities.	Investments in equities[1]
Level 2	Other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.	Cash equivalents Marketable securities Investments in equities[2]
Level 3	Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.	Investments in equities[3] Investments in funds Loans and receivables[4] Derivatives

[1] Publicly-traded equities in active markets
[2] Publicly-traded equities in inactive markets
[3] Privately-held equities
[4] Initially measured at fair value and subsequently measured at amortized cost using the effective interest method

Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and/or accumulated impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to consolidated net income during the financial period in which they are incurred.

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates each separately. Depreciation of the significant components is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

Property and Equipment	Method	Term
Building	Straight-line	30 years
Computer equipment	Straight-line	3-4 years
Furniture and fixtures	Straight-line	2-3 years
Leasehold improvement	Straight-line	lesser of useful life and life of the lease

On disposal of property and equipment, the cost and related accumulated depreciation and impairments are removed from the financial statements and the net amount, less any proceeds, is included in the consolidated statement of income.

The Company periodically reviews the useful lives and the carrying values of its property and equipment and as a result the useful life of property and equipment may be adjusted accordingly.

Intangible assets

Intangible assets acquired are recorded at cost. Intangible assets consist of pharmaceutical product rights, intellectual property and process know-how covered by certain patented and non-patented information. Intangible assets with finite lives are amortized on a straight-line basis over the lesser of the term of the agreement, the life of the patent or the expected useful life of the product once they are available for commercialization. The amortization terms range from 3 to 8 years. The Company periodically reviews the useful lives and the carrying values of its intangible assets. As a result, the useful life of intangible assets may be adjusted accordingly.

The Company assesses at each reporting period whether there is an indication that an asset may be impaired. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses are charged to the consolidated statement of income in the period concerned. Impairment losses on long-term assets are only reversed if there has been a change in estimates used to determine the recoverable amounts and only to the extent that the revised recoverable amounts do not exceed the carrying values that would have existed, net of depreciation or amortization, had no impairments been recognized. A reversal is recognized in the consolidated statement of income.

Investments in associates

An associate is an entity in which the Company has significant influence. Significant influence is the power to participate in the financial and operating policies and decisions of the investee, but is not control or joint control over these policies.

The Company accounts for investments in associates using the equity method. Under the equity method, investments in associates are initially recognized at cost. The carrying amount of the investment is adjusted for the Company's share of the associates' net income, net of the amortization of fair value adjustments and dividends received. Goodwill relating to associates is included in the carrying amount of the investments and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associates are eliminated to the extent of the interest in the associates.

The share of net income from associates is shown on the face of the consolidated statement of income less amortization and tax effect of fair value adjustments. This is the net income or loss attributable to shareholders of the associates and therefore is income after tax. When the Company's share of losses in associates equals or exceeds its interest in the associates the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associates. The financial statements of the associates are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies and classifications in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investment in its associates. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates

the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as impairment in the consolidated statement of income.

Upon loss of significant influence over the associates, the Company measures and recognizes any remaining investment at its fair value. Any difference between the carrying amount of the associates upon loss of significant influence and the fair value of the remaining investment is recognized in the consolidated statement of income.

Accruals and provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The recognized provisions are mostly related to business acquisitions and product-related agreement exposures and are part of the normal course of business.

Other balances payable

As part of acquisitions of intangible assets, the Company may assume obligations to pay out certain future contractually pre-defined amounts upon meeting specific timelines or specific regulatory or sales related milestones. These obligations are recorded when the likelihood of attainment is deemed probable and are initially measured at fair value with subsequent measurements recorded at amortized cost using the effective interest rate method. The long-term portion of other balances payable are discounted to current values using appropriate rates of interest.

Share-based compensation plans

The Company has share-based compensation plans, which are described in note 14. The cost of share-based compensation plans is recognized, together with a corresponding increase in contributed surplus over the period in which the service conditions are fulfilled. The cumulative expense is recognized at each reporting date until the vesting date and reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative expense recognized for the period is recorded under general and administrative expenses on the consolidated statement of income. No expense is recognized for awards that do not ultimately vest. Any consideration paid by employees on exercise of share options or purchase of shares is credited to share capital. The dilutive effect of outstanding options, if any, is reflected as additional share dilution in the computation of diluted earnings per share.

Share purchase plan

The Company offers a share purchase plan to its employees and directors. Under this plan, the Company contributes, in the form of shares, a percentage of the employees' or directors' contribution that have been purchased and held for two years by the individual. The Company's contributions to the plan are recognized in other compensation costs in general and administrative expenses.

Equity instrument share issue costs

Issue costs incurred by the Company to issue equity instruments are recorded as a reduction of the equity instrument issued.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease (net of any incentives received from the lessor) are recognized in the consolidated statement of income on a straight-line basis over the period of the lease.

Revenue recognition

Revenue related to the sale of goods is recognized when title and risk of loss is passed to the customer. Gross revenue is reduced by discounts, credits, allowances and product returns. Revenue related to a fee arrangement with a partner, where the Company earns a fee based on certain pre-determined terms relating to the gross or net sales of products is recognized as such terms are met alongside the recording of partner product revenues. In certain circumstances, returns or exchange of products are allowed under the Company's policy and provisions are maintained accordingly. Revenue is recorded net of these provisions. In certain situations, such as initial product launches for which the Company has limited comparable information or where the market or client acceptance has not been clearly established, the Company may determine that it has not met the requirements for recognition of revenue, such as the ability to reasonably determine provisions for product returns, as a result the Company will defer the recognition of revenue for these product sales until such criteria are met.

Research and development

Research and development expenditures are charged to the consolidated statement of income in the period in which they are incurred. Development expenditures are charged to net income in the period of expenditure, unless a development project meets the criteria under IFRS for deferral and amortization. The Company has not deferred any such development expenditures to date.

Interest income/expense

Interest income or expense is recognized on a time-proportion basis. For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate method, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Other income

Other income is recognized when it is earned and includes income earned for advisory and other services, gains from early loan repayments including prepayment fees and income from strategic lending deals. Prepayment fees and other fees earned on the prepayment of loans receivable are recognized in other income when received.

Government assistance

Amounts received or receivable resulting from government assistance programs such as investment tax credits for research and development, are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the amount relates to an expense item, it is recognized as income on a systematic basis as a reduction to the costs that it is intended to compensate. When the grant relates to an asset, it reduces the carrying amount of the asset and is then recognized as income over the useful life of the depreciable asset by way of a reduced depreciation charge.

Income taxes

Income tax expense is comprised of current and deferred tax. Tax expenses are recognized in the consolidated statement of income except to the extent they relate to items recognized directly in shareholders' equity or other comprehensive income, in which case the related tax is recognized in shareholders' equity or other comprehensive income, respectively.

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in the tax returns and assessments with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets (liabilities) are recognized for all deductible (taxable) temporary differences, except to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, except:

- where the deferred tax asset (liability) relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable income or loss; and
- in respect of taxable temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Commodity tax

Expenses and assets are recognized net of the amount of sales tax, except:

- when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable;
- when receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Earnings per share

Earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated giving effect to the exercise of all dilutive instruments and assumes that any

proceeds that could be obtained upon the exercise of options would be used to purchase common shares at the average market price during the period.

3. USE OF JUDGMENTS AND ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make judgments and estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Reported amounts and note disclosures reflect the overall economic conditions that are most likely to occur and anticipated measures management intends to take. Actual results could differ materially from those estimates.

Information about significant judgments and estimates used in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to:

Fair value measurement of financial assets

When the fair values of financial assets recorded in the consolidated balance sheet cannot be measured based on quoted prices in active markets, it is measured using other valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as credit risk, discount rates, volatility and illiquidity. Changes in assumptions about these factors could affect the reported fair value of financial assets.

Investments in Funds
The Company records investments in funds at its net asset value ("NAV") and judgment is used to determine if the NAV provided by the fund approximates fair value. If it is determined that the NAV represents fair value, the investment in fund is adjusted to reflect the NAV and unrealized gains or losses are recorded in other comprehensive income.

Loans receivable
As consideration for loans issued, the Company may receive additional assets such as product rights, shares and warrants on issuance of the loan. The Company uses the relative fair value approach to allocate the nominal amount of the loan issued to the multiple financial instruments identified and any residual value to non-financial instruments. This involves assessing the fair value of the loan receivable by comparing the interest rate to third parties' loans with a similar maturity term and credit rating as the counterparty. The additional financial instruments received are measured at fair value which involves the use of judgement and estimates discussed below.

Equities classified as "Level 3" in the fair value hierarchy
When determining fair value of equities classified as "Level 3" of the fair value hierarchy judgment is involved in assessing the fair value of the financial asset. The fair value is determined through acceptable valuation techniques such as the income or market approach which involve use of judgment and estimates such as sales, gross margin, and expense projections, discount rates and long-term growth rates.

Equities classified as "Level 2" in the fair value hierarchy
When determining fair value of equities classified as "Level 2" of the fair value hierarchy judgment is involved in assessing the fair value of the financial asset. The Company will determine if observable market data is representative of the fair value. If it is not, the Company will consider other acceptable valuation techniques such as the income or market approach which involve use of judgment and estimates such as sales, gross margin, and expense projections, discount rates and long-term growth rates.

Derivatives
When determining fair value of derivatives such as warrants, the Company uses the Black-Scholes model which involves using judgment on certain inputs such as the volatility and term over which the financial asset will be held. For other types of derivatives, the fair value is determined through acceptable valuation techniques such as the income or market approach which involve use of judgment and estimates such as sales, gross margin, and expense projections, discount rates and long-term growth rates. The Company may also apply judgment in determining the present value of the expected value, and applying a probability.

Impairment

Loans receivable
If there is an indicator of impairment such as an event of default on the loan receivable, the Company assesses the recoverable amount of the loan using judgement and estimates. This assessment involves but is not limited to revenues and expenses forecasts assumptions of the debtor as well as valuing the recoverable amount of the security or collateral on which the loan was issued. Future cash flows are based on sales projections and allocated costs which are estimated based on forecast results and business initiatives. Discount rates are based on the Company's cost of capital, adjusted for asset-specific risks. Future events could cause the assumptions used in the impairment review to change with a consequential adverse effect on the results of the Company.

AFS Equity instruments
The Company assesses whether an AFS equity instrument meets the significant or prolonged criteria under IAS 39 using judgment. The following areas of judgment are used by the company:

- the Company may use different thresholds for significant and prolonged depending on whether the equity is publicly or privately owned. In addition, different thresholds may be used for publicly traded equities depending on the stock exchange the equity is trading on;
- for privately-held entities, the Company may use judgment with respect to the valuation of the equities;
- the Company applies a weighted average cost method to determine the significance of the decline in the fair value below its cost; and,
- the Company may review market transactions subsequent to the reporting period up to the approval of the financial statements to determine whether the decline of fair value below its cost was a result of market volatility.

Investment in associate
The Company uses judgement to assess whether certain events or circumstances represent an objective evidence of impairment on the investment in associate. If there is an indicator of impairment the Company assesses the recoverable amount of the investment using judgement and estimates involving but not limited to revenues and expenses forecasts, probabilities of licensing partners renewing their agreements and discount rates. Future cash flows are based on sales projections and allocated costs which are estimated based on forecast results and business initiatives. Discount rates are based on the Company's cost of capital, adjusted for asset-specific risks. Changes in these assumptions may materially change the recoverable amount of the investment in associate. The Company records an impairment on the consolidated statement of income if the recoverable amount is lower than the carrying amount of the investment. Future events could cause the assumptions used in the impairment review to change with a consequential adverse effect on the results of the Company.

Intangibles
Significant judgment is required in determining the useful lives and recoverable amounts of the Company's intangible assets, and assessing whether certain events or circumstances represent objective evidence of impairment. Estimates of the recoverable amounts of the intangible assets rely on certain factors such as future cash flows and discount rates.

Future cash flows are based on sales projections and allocated costs which are estimated based on forecast results and business initiatives. Discount rates are based on the Company's cost of capital, adjusted for asset-specific risks. Future events could cause the assumptions used in the impairment review to change with a consequential adverse effect on the results of the Company.

Share-based compensation

The Company measures the cost of equity-settled transactions with employees and others by reference to the fair value of the related instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant, which is dependent on the terms and conditions of the grant. This also requires making assumptions and determining the most appropriate inputs to the valuation model including volatility and term (see note 14 for further disclosures).

Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

From time to time, the Company is subject to tax audits. While the Company believes that its filing positions are appropriate and supportable, periodically, certain matters are challenged by tax authorities. On January 30, 2018, the Company received a proposed reassessment with respect to an ongoing audit by a taxation authority. Although the outcome of such matter is not predictable with assurance, no provision has been made as of December 31, 2017 in relation to such audit and its related tax risks, as the Company believes it has sufficient arguments to contest the proposed reassessment. Although the Company believes its tax provisions are adequate, the final determination of tax audits and any related disputes could be materially different from historical income tax provisions and accruals. In the event that the Company is not successful in its contestation, this could result additional taxes, interest and penalties payable up to an estimated amount of $45,000.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the tax assets can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on income taxes are disclosed in note 18.

Functional currency

The functional currency of foreign subsidiaries is reviewed on an ongoing basis to assess if changes in the underlying transactions, events and conditions have resulted in a change. When assessing the functional currency of a foreign subsidiary, management's judgment is applied to determine amongst other things the primary economic environment in which an entity operates, the currency in which funds the activities and the degree of autonomy of the foreign subsidiary from the reporting entity in its operations and financially. Judgment is also applied in determining whether the inter-company loans denominated in foreign currencies form part of the Company's net investment in the foreign subsidiary.

4. RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 9 – Financial Instruments

In July 2014, the IASB amended IFRS 9 – Financial Instruments, to bring together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 – Financial Instruments: Recognition and Measurement. The standard supersedes all previous versions of IFRS 9 and will be effective on January 1, 2018 with earlier application permitted.

IFRS 9 contains a new classification and measurement approach for financial assets. The classification determines how the financial assets are categorized and measured in the financial statements and therefore is the foundation for its accounting. IFRS 9 contains three principal classification categories for financial assets, namely: amortized cost; FVOCI; and FVPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and AFS. The Company will adopt IFRS 9 effective January 1, 2018 and has concluded the following.

Financial Assets

Strategic Loans

The Company currently classifies its loans receivable under the “loans and receivables” category which is initially measured at fair value and subsequently at amortized cost using the effective interest rate method under IAS 39. Under IFRS 9, there are three possible measurement and classification categories for a loan receivable as following:

1. Amortized cost

The amortized cost method can be used if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;
- under the amortized cost classification, IFRS 9 requires the application of an expected credit loss model.

The Company has concluded that its strategic loans to Antibe and Pediapharm will be classified in the amortized cost category and based on the past, current and expected future conditions, the credit loss provision is not significant. Therefore, there is no expected impact on the consolidated financial statements.

2. FVOCI

The FVOCI method can be used if both of the following conditions are met:

- the asset is held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company has concluded that there are no strategic loans under the FVOCI method.

3. FVPL

All loans receivable not measured at amortized cost or at FVOCI must be measured at FVPL. Under the FVPL policy, the changes to fair value of the loans receivable will be recorded as a gain or loss in the statement of income therefore increasing volatility in net income.

The Company has concluded that all strategic loans, with the exception of Antibe and Pediapharm, will be recorded using the FVPL method. The Company expects to record an increase of $521 to its financial assets with a corresponding credit to opening retained earnings as a transition adjustment on January 1, 2018. Furthermore, the Company has an opening deferred day 1 gain of $1,125, which will be amortized on a straight-line basis over the term of each loan. As at the transition date, the fair value of all loans accounted for under FVPL is $52,193.

Investments in equity instruments

The Company currently records its investments in equities as AFS financial assets at fair value with changes in value recorded in the statement of comprehensive income. Under IFRS 9, investments in equity instruments will continue to be measured at fair value and can be classified in one of the following two categories:

1. FVPL

Investments in equity instruments held for trading are classified at FVPL with dividend income recognized in profit or loss. The financial asset is classified as held for trading if it was acquired with the purpose of sale or if there is evidence of historical short-term profit making on similar instruments.

The Company has concluded that certain AFS equity instruments will be recorded at FVPL. As a result, opening retained earnings will increase by $680 as this amount will be reclassed from OCI as a transition adjustment on January 1, 2018.

2. FVOCI

On initial recognition, an entity may make an irrevocable election on an instrument-by-instrument basis to present in OCI the subsequent changes in the fair value of an investment which was made primarily for non-financial benefits such as strategic alliances and strategic investments. For investments classified as FVOCI there is no recycling of amounts from the statement of comprehensive income to the statement of income upon the disposal of the financial asset.

The Company has concluded that certain AFS equity instruments will remain at FVOCI. As a result, opening retained earnings will increase by $1,403 due to impairment on financial assets recorded under IAS 39 that will be reclassed to OCI as a transition adjustment on January 1, 2018.

Investment in Funds

The Company's strategic investments in funds are currently classified as AFS financial assets with changes in fair value recognized in the statement of comprehensive income. Under IFRS 9, investments in funds will be classified and measured at FVPL. The changes in fair value of the strategic investments in funds will be recognized as gains or losses in the statement of income therefore increasing volatility in net income.

The Company has concluded that $9,619 related to investments in funds will be reclassed from OCI increasing opening retained earnings as a transition adjustment on January 1, 2018.

Derivatives

The Company has concluded that there are no material measurement or classification changes under IFRS 9.

Marketable Securities and Accounts Receivable

The Company has concluded that there are no material measurement changes under IFRS 9.

Financial Liabilities

There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVPL and the Company does not have any such liabilities.

Transition

IFRS 9 contains a general requirement that it should be applied retrospectively and an entity may restate prior periods if it is possible without the use of hindsight. The Company will not restate prior periods and any adjustments to the carrying amount of financial assets as at January 1, 2018 will be reflected in retained earnings.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers, to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. The standard supersedes IAS 18 – Revenue, IAS 11 – Construction Contracts, and other revenue related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018.

The standard outlines the principles that must be applied to measure and recognize revenue and the related cash flows. Revenue is recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 will be applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The Company has concluded that the recognition and measurement of the sale of products in all contracts is consistent with the current revenue recognition practice and therefore does not expect any transitional adjustment. Furthermore, IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a change from current practice and will increase the volume of disclosures required in the Company's consolidated financial statements.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 – Leases ("IFRS 16"), which replaces IAS 17 – Leases ("IAS 17") and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained. The standard will be effective on January 1, 2019. The Company is currently assessing the potential impact of this standard on its consolidated financial statements.

5. CASH AND CASH EQUIVALENTS

As at December 31,	2017 $	2016 $
Cash in bank	**490,951**	490,435
Term deposit of US$4,391 earning interest at 1.23% and maturing February 2018 (December 31, 2016: US$18,252 earning interest at 0.80% and matured January 2017)	**5,509**	24,507
	496,460	514,942

6. MARKETABLE SECURITIES

As at December 31,	2017 $	2016 $
Current		
Guaranteed investments earning interest at rates ranging from 1.10% to 2.14% and maturing from April 2018 to August 2019 (December 31, 2016: earning interest ranging from 0.95% to 1.90% and maturing from January 2017 to April 2018)	**134,696**	110,890
Term deposits of US$68,413 earning interest at rates ranging from 1.23% to 1.48% and maturing from February 2018 to March 2018 (December 31, 2016: US$67,470 earned interest ranging from 1.29% to 1.70% and matured from May 2017 to December 2017)	**85,825**	90,592
Guaranteed investment certificates of US$9,607 earning interest rates ranging from 1.50% to 1.90% and maturing from February 2018 to November 2018 (December 31, 2016: US$9,607 earned interest rates ranging from 1.34% to 1.51% and matured from May 2017 to November 2017)	**12,052**	12,900
Term deposit of ILS19,250 earned interest at 0.08% and matured in November 2017	**—**	6,726
Total current	**232,573**	221,108
Non-current		
Guaranteed investments earning interest at rates ranging from 1.82% to 2.06% and maturing from June 2019 to August 2019	**36,000**	—
Total non-current	**36,000**	—
	268,573	221,108

7. TRADE AND OTHER RECEIVABLES

As at December 31,	2017	2016
	$	$
Trade and accounts receivable	2,116	2,606
Interest receivable	5,587	3,107
Commodity taxes receivable	392	102
Prepaid expenses and other receivable	1,081	625
	9,176	6,440

8. INVENTORIES

As at December 31,	2017	2016
	$	$
Raw materials	824	400
Work in progress	—	237
Finished goods	400	153
	1,224	790

During the year ended December 31, 2017, total inventory in the amount of $794 (2016: $1,215) was recognized as cost of goods sold including an increase in inventory provision of $311 (2016: $617).

9. INTANGIBLE ASSETS

	2017	2016
	$	$
Cost as at January 1	14,754	3,500
Additions	373	11,258
Disposals and write-offs	(111)	—
Foreign exchange	(265)	(4)
Cost as at December 31	14,751	14,754
Accumulated amortization as at January 1	601	180
Amortization charge	1,621	419
Foreign exchange	(47)	2
Accumulated amortization as at December 31	2,175	601
Net book value as at December 31	12,576	14,153

During 2016, the Company acquired $11,258 of intangible assets upon termination of its Impavido® out-license agreement, in-licensed Netildex™ and Movantik® and recorded certain milestones payable on a product. During 2017, the Company recorded an addition of $373, related to certain milestones payable under a product license agreement.

During 2017, the Company reduced the useful lives of certain intangible assets by 3 to 5 years, which resulted in an additional amortization charge of $252 [US$197].

10. OTHER FINANCIAL ASSETS

	Carrying amount	
As at December 31,	**2017**	2016
	$	$
Loans and other receivables *[i]*	**59,819**	75,731
AFS equity investments *[ii]*	**19,425**	30,936
Derivatives *[iii]*	**1,624**	1,189
AFS fund investments *[iv]*	**54,968**	34,576
	135,836	142,432

[i] Loans and other receivables

The following table summarizes the movement in loans and other receivables as at December 31.

	Carrying value beginning of year	Additions[1]	Accretion[2]	Loan repayments[3]	Other[4]	Carrying value end of year	Current other financial assets	Non-current other financial assets
	$	$	$	$	$	$	$	$
2017	**75,731**	**20,311**	**5,520**	**(38,835)**	**(2,908)**	**59,819**	**39,057**	**20,762**
2016	45,545	44,612	6,201	(18,101)	(2,526)	75,731	21,667	54,064

[1] *Relative fair value of loans issued net of work and origination fees*
[2] *Accretion of interest income based on the effective interest rate method*
[3] *Principal repayments on loans receivable*
[4] *Net changes related to write-offs, foreign currency revaluations and other adjustments*

During the year ended December 31, 2017, the Company issued $20,112 (2016: $43,274) of strategic loans and received principal repayments of $38,835 (2016: 11,324). In addition, the Company recorded interest accretion of $5,520 (2016: $6,201) in the statement of income as interest income and a foreign exchange loss of $2,908 (2016: $2,526) in the statement of income. As at December 31, 2017, the nominal loan balance outstanding was $61,499 (2016: 82,749), including $52,636 [US$41,958] (2016: $70,112 [US$52,219]).

Apicore

On December 30, 2016, the Company obtained an early repayment notice from Apicore. On January 6, 2017, Apicore repaid the remaining principal of its loan of $8,137 [US$6,158] and all remaining accrued interest as at the date thereof.

PBB

On March 28, 2017, Knight assigned its PBB loan in exchange for payment of the principal balance of $17,450 [US$13,125] and all remaining accrued interest as at the date thereof.

60P

On December 10, 2015, the Company issued a first $685 [US$500] tranche of a secured loan of up to $5,440 [US$4,000] to 60P. On January 4, 2016, Knight issued $2,096 [US$1,500] to 60P as a second tranche. On July 15, 2016, the loan agreement was amended to include additional tranches upon specific criteria being met. In the second half of 2016, Knight issued an additional two tranches for an aggregate amount of $1,134 [US$842]. The loan bears interest at 15% per annum and matures on December 31, 2020.

During the year ended December 31, 2017, Knight issued an additional $8,051 [US$6,303] to 60P, bearing interest at 15% per annum. 60P repaid $5,613 [US$4,460] of the amount on February 8, 2018. The remaining balance matures on December 31, 2020. In addition, on December 18, 2017, 60P submitted a new drug application ("NDA") to the U.S. Food and Drug Administration ("FDA") for the use of Tafenoquine ("Product") to prevent malaria in adults traveling to areas where malaria is prevalent. Upon approval of the Product, the Company will receive a success fee of $753 [US$600]. The success fee will be recorded by Knight upon approval of the Product.

Synergy

On January 22, 2015, the Company entered into a secured debt agreement with Synergy, whereby it issued a secured loan of $7,423 [US$6,000] which bears interest at 15% per annum and is fully secured against the assets of Synergy. Effective June 30, 2016, the maturity date of the loan was extended from January 20, 2017 to January 20, 2018 as a result of Synergy exercising its option to extend the term of the loan as it had met specific revenue and earnings targets. On November 12, 2015, the Company extended an additional secured loan of $7,319 [US$5,500] to Synergy which bears interest at 15% per annum and matures on November 11, 2017.

On August 9, 2017, Knight issued an additional secured loan of $12,705 [US$10,000] with an annual interest rate of 10.5% for a three-year term to Synergy ("Additional Synergy Loan"). The loan was recorded at relative fair value of $11,454 [US$9,015] upon initial measurement and subsequently accounted for at amortized cost using effective interest rate of 16.1%. Additionally, Knight provided an ongoing credit facility of up to $25,090 [US$20,000] to be disbursed at Knight's sole discretion.

Intega and Crescita

On January 22, 2016, Knight entered into a secured loan agreement whereby it issued an aggregate amount of $9,000 to Intega to support a business acquisition ("Intega Loan Transaction"). The Company issued a loan of $6,000 ("Intega Loan") at an interest rate of 13% per year and maturing on January 22, 2022, as well as a bridge loan of $3,000 ("Intega Bridge Loan") with a one-year term bearing interest at a minimum of 16% per annum. The loans were recorded at a relative fair value of $7,730 upon initial measurement and subsequently accounted for at amortized cost using effective interest rates of 19.8% and 44.1% for Intega Loan and Intega Bridge Loan, respectively.

On September 1, 2016, Crescita acquired Intega for $8,000 plus up to an additional $2,000 in milestones payable in Crescita shares valued at $2.44 each ("Crescita Transaction"). Subsequent to the close of the Crescita Transaction, the Intega Bridge Loan was fully repaid and Knight recognized a gain of $233 on de-recognition of the financial asset. The Intega Loan was amended and restated ("Crescita Loan"), matures on January 22, 2022, had a carrying and fair value of $6,841, earned interest at 9% per annum and was secured against a letter of credit. Since the economic characteristics of the Crescita Loan were substantially different from the Intega Loan, the Company recognized a gain of $1,089 on the financial asset related to the de-recognition of the Intega Loan and subsequent recognition of the Crescita Loan.

On August 14, 2017, Knight amended its loan with Crescita ("Amended Crescita Loan"). The amendment resulted in an early repayment of $2,488 reducing the principal balance to $4,100. Furthermore, the collateral on the loan was

amended with the release of a letter of credit in exchange for a general security interest over Crescita's assets. The interest rate of 9% per annum and maturity date of January 22, 2022 remain unchanged.

Medimetriks

On February 17, 2016, Knight issued a secured loan of up to $27,368 [US$20,000] to Medimetriks, a private company, to support its acquisition of the exclusive U.S. development and commercialization rights for OPA-15406 from Otsuka ("Medimetriks Loan Transaction"). The secured loan, with an initial tranche of $24,631 [US$18,000], bears interest at a rate of 13% per annum for a three-year term ("Medimetriks Loan"). A second tranche of $2,598 [US$2,000] was issued on June 29, 2016, upon the FDA filing by Medimetriks of a NDA for Ozenoxacin. The loan was recorded at a relative fair value of $23,685 [US$17,370] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 18.9%.

On December 23, 2016, Knight amended its initial loan agreement and issued an additional $4,061 [US$3,000] ("Second Loan") to Medimetriks. The Second Loan matures in December 2019, and bears interest at a rate of 13%. The loan was recorded at a relative fair value of $2,761 [US$2,040] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 46.7%.

Pediapharm

On July 15, 2016, the Company assigned its Pediapharm convertible debenture to the Bloom Burton Healthcare Lending Trust. There were no amendments to the loan agreement or significant changes to its risk and reward profile.

[ii] AFS equity investments

The following table summarizes the movement in AFS equity investments as at December 31.

	Carrying value beginning of year $	Additions[1] $	Disposals[2] $	Realized gain[3] $	Impairment[4] $	Other[5] $	Carrying value end of year $	Current other financial assets $	Non-current other financial assets $
2017	**30,936**	**6,499**	**(12,872)**	**2,342**	**(1,621)**	**(5,859)**	**19,425**	**19,194**	**231**
2016	8,478	26,025	(10,252)	2,764	—	3,921	30,936	29,386	1,550

[1] *Equities purchased or received as consideration with the strategic lending transactions*
[2] *Cash received upon disposal of equities during the year*
[3] *Realized gain on the disposals of equities*
[4] *Impairment losses reclassified from other comprehensive income to consolidated statement of income.*
[5] *Net changes due to revaluation of equities to fair market value, foreign currency translation, realized gains or losses reclassified from other comprehensive income to consolidated statement of income upon disposal and other adjustments.*

During the year ended December 31, 2017, the Company recorded a net realized gain on financial assets of $2,342 (2016: $2,764) in the statement of income. In addition, the Company recorded an impairment loss of $1,621 due to a significant decline in the fair value of a certain AFS equity instrument compared to its weighted average cost. Furthermore, the Company recorded an unrealized loss of $5,859 (2016: unrealized gain of $3,921) related to changes due to revaluation of equities to fair value, foreign currency translation and realized gains or losses reclassified from

other comprehensive income to consolidated statement of income upon disposal in the statement of comprehensive income.

Merus

On July 17, 2017, on the close of the acquisition of Merus by Norgine B.V., the Company realized a gain of $1,457 upon the disposal of its 5,460,200 common shares of Merus. Prior to the sale, the Company held a strategic equity interest of 4.7% of the outstanding common shares of Merus.

Medimetriks

As part of the Medimetriks Loan Transaction, Knight was issued 455,219 or 3.6% of the fully diluted common shares in the capital of Medimetriks. As at February 17, 2016, the common shares were assigned a relative fair value of $2,983 [US$2,180] using a fair value of $7.39 [US$5.40] per share which was derived by using a combination of the income approach and market approach valuation techniques. As consideration for the Second Loan, Knight received an additional 282,425 shares ("Additional Shares"), increasing its ownership from 3.6% to 5.4% of the fully diluted common shares. The Additional Shares were assigned a relative fair value of $1,288 [US$960] using a fair value of $6.77 [US$5.00] per share which was derived using an income approach valuation technique.

Furthermore, as consideration for the Second Loan, Knight received a derivative in the form of an equity kicker for an additional 2.7%, or 365,492 common shares, of Medimetriks ("Additional Common Shares"). The Additional Common Shares were issued to Knight on May 31, 2017 and were recorded at fair value of $2.56 [US$1.97] per common share derived using the income approach valuation technique.

During Q3-17, pursuant to its loan agreements with Medimetriks, Knight received an additional 286,955 common shares increasing its ownership to 10% on a fully diluted basis. The additional common shares were recorded at fair value of $1.78 [US$1.43] per common share derived using the income approach valuation technique.

During Q4-17, pursuant to the same loan agreement, Knight received an additional 924,916 common shares, increasing its ownership to 15.6% on a fully diluted basis, and 19.0% on a non-diluted basis. The additional common shares were recorded at a fair value of $1.79 [US$1.43] per common share derived using the income approach valuation technique.

As a result of the additional 1,577,363 common shares issued to Knight, the Company recorded a total of $3,108 [US$2,453] in other income and unrealized gain on financial assets in the statement of income. As at December 31, 2017, the Company held 2,315,007 (2016: 737,644) common shares of Medimetriks, at a carrying amount of $3,237 [US$2,581] (2016: $3,973 [US$2,959]). The fair value of the common shares was derived using the income approach valuation technique less the day 1 gain on initial measurement that the Company deferred.

Intega and Crescita

As consideration for the Intega Loan Transaction, Knight was issued 780,574 or 8% of the fully diluted common shares of Intega ("Intega Shares") which were assigned a relative fair value of $680 using a fair value of $1 per share. Prior to the Crescita Transaction, on August 31, 2016, Knight was issued an additional 1,609,555 Intega shares ("Additional Intega Shares").

As consideration for the Crescita Transaction, Knight was issued 297,707 Crescita shares valued at $1.66 based on the September 1, 2016 closing price, in exchange for the Intega Shares resulting in a realized loss of $186. In addition, Knight received a total of 347,295 Crescita common shares and recorded a balance of sale receivable of $384 in exchange for the Additional Intega Shares resulting in other income of $968. As at December 31, 2016 the balance of sale receivable

was revalued to $279 and the Company held an aggregate of 1,513,502 shares of Crescita representing approximately 10.9% of its outstanding common shares, at a carrying amount of $1,786.

On October 6, 2017, Knight received 566,471 common shares of Crescita pursuant to a share transfer agreement with a shareholder of Crescita. As at December 31, 2017, Knight owns an aggregate of 2,079,973 common shares of Crescita representing approximately 14.9% of its outstanding common shares, at a carrying amount of $1,144 which were valued using the quoted market price.

Pediapharm

On July 15, 2016, the Company acquired 11,470,920 common shares of Pediapharm in exchange of 221,126 common shares and 221,126 warrants of Knight ("Pediapharm Transaction").The shares were assigned a value of $0.21 per share. Combined with previously purchased shares, Knight owned a total of 13,418,920 or approximately 18.5% of the common shares of Pediapharm as at July 15, 2016. During 2016, Knight disposed of 1,142,500 Pediapharm shares for total proceeds of $308 and realized a gain of $70. During 2017, Knight disposed of an additional 989,000 Pediapharm shares for total proceeds of $326 and realized a gain of $121. As at December 31, 2017, Knight held 11,287,420 (2016: 12,276,420) or approximately 14.5% (2016: 16.9%) of the common shares of Pediapharm, at a carrying amount of $3,217 (2016: $3,683) which were valued using the quoted market price.

3D

On September 9, 2016, Knight invested $1,000 to purchase 2,857,140 common shares of 3D, a biotechnology company, following the completion of a business combination and public listing transaction between 3D and Plicit Capital Corp. On December 19, 2016, Knight invested an additional $180 in 3D, obtaining 240,000 common shares and two-year warrants to purchase 240,000 shares at an exercise price of $0.92. As at December 31, 2017, Knight held 2,525,712 (2016: 3,097,140) or approximately 4.0% (2016: 5.9%) of the common shares of 3D, at a carrying amount of $682 (2016: $2,818) which were valued using the quoted market price.

Synergy

On December 22, 2016, Knight entered into an agreement with Synergy to exchange its share purchase warrants and stock options in exchange for 7,500,000 common shares. As a result of the transaction, the Company de-recognized its investment on the warrants and options and recognized the shares received at the fair value of the consideration given. As at December 31, 2017, the Company held 17,645,812 (2016: 17,645,812) shares, or 19.7% (2016: 19.9%) of Synergy's common shares outstanding, at a carrying amount of $6,129 [US$4,885] (2016: $7,030 [US$5,236]) which were valued using the quoted market price (closing share price on the OTCXD) less the day 1 gain on initial measurement that the Company deferred.

Medicure

On August 31, 2016, the Company received 480,000 Medicure common shares for $1,056 through the exercise of share purchase warrants and disposed of them for net cash proceeds of $3,029.

[iii] Derivatives

The following table summarizes the movement in derivatives as at December 31.

	Carrying value beginning of year $	Additions[1] $	Disposals[2] $	Realized gain/(loss)[3] $	Other[4] $	Carrying value end of year $	Current other financial assets $	Non-current other financial assets $
2017	**1,189**	**3,610**	**(3,226)**	**—**	**51**	**1,624**	**597**	**1,027**
2016	6,621	1,417	(3,670)	(1,820)	(1,359)	1,189	736	453

[1] *Derivatives recognized during the year*
[2] *Derivatives derecognized or disposed of during the year*
[3] *Realized gain or loss on the disposals*
[4] *Changes due to revaluation to fair market value and foreign currency revaluations on derivatives held throughout the year*

During the year ended December 31, 2017, the Company recorded an unrealized net gain on financial assets of $51 (2016: realized loss of $1,820 and unrealized loss of $1,359) related to revaluation to fair value and foreign currency translation in the statement of income.

Medimetriks

During the year, the Company recorded as addition to derivatives, $1,310 [US$995], for various options to receive 1,290,408 additional shares of Medimetriks subject to certain criteria. The fair value of the derivatives was derived using the fair value of the common shares adjusted for the probability of meeting the criteria. Upon receipt of the common shares, the derivatives were derecognized at $2,631 [US$2,043] representing the fair value of the shares received.

During Q4-17, pursuant to its loan agreement with Medimetriks, the Company recorded $496 [US$395] as a derivative for the right to obtain a cash payment subject to a future event. The cash payment fluctuates with the value of the common shares of Medimetriks which was determined using an income approach valuation technique.

Synergy

On December 22, 2016, Knight entered into an agreement with Synergy to exchange its share purchase warrants and stock options in exchange for 7,500,000 common shares. As a result of the transaction, the Company de-recognized its investment on the warrants and options and recognized the shares received at the fair value of the consideration given.

During Q3-17, as consideration for the Additional Synergy Loan, the Company received a success fee payable at maturity of the loan. The success fee is a derivative as its value will fluctuate with the changes in market price of Synergy common shares. The initial fair value of the success fee of $870 [US$685] was determined based on the present value of the expected payment. As at December 31, 2017 the fair value of the success fee was at $886 [US$706].

Intega and Crescita

As consideration for the Intega Loan Transaction, the Company was issued ten-year warrants to purchase up to 762,711 (“Intega Warrants”) additional common shares at $1.18 per share. The Intega Warrants were assigned a relative fair

value of $590 using the Black-Scholes model based on the fair value of $1 per share.

As consideration for the Crescita Transaction, the Intega Warrants were exchanged for 293,153 seven-year Crescita warrants ("Crescita Warrants") to purchase up to 293,153 additional common shares at $2.44 per share and were valued at $159 resulting in a realized loss of $431. As at September 1, 2016, the fair value of $0.54 for each Crescita Warrant was determined using the Black-Scholes model. As at December 31, 2016 the fair value was determined to be $0.27 for each Crescita Warrant. In determining the fair value, the following assumptions and inputs were used:

Assumptions	December 31, 2016	September 1, 2016[1]
Risk-free interest rate	1.11%	0.76%
Expected remaining term	4.7 years	5 years
Expected volatility	50%	50%

Inputs	December 31, 2016	September 1, 2016[1]
Value per common share	$1.18	$1.66
Exercise price	$2.44	$2.44

[1] *Transaction date*

In addition, Knight received a price protection on a portion of the Crescita shares received in exchange for Additional Intega Shares which is considered to be a derivative. On the transaction date, the derivative was assigned a fair value of $538 which was recorded in other income. As at December 31, 2016, the derivative was revalued and recorded at its fair value of $668, with the difference being recorded in net gain on financial assets.

Concurrent with the closing of the Amended Crescita Loan, Knight surrendered its 293,163 warrants of Crescita exercisable at $2.44 per share and was issued 396,000 new warrants for a term of six years. On the transaction date the derivative was assigned a fair value of $144. As at December 31, 2017, the derivative was revalued and recorded at its fair value of $80, with the difference being recorded in net gain on financial assets, determined using the Black-Scholes model with the following assumptions and inputs:

Inputs	December 31, 2017	August 14, 2017[1]
Number of warrants	180,000	180,000
Value per common share	$0.55	$0.79
Exercise price	$1.00	$1.00
Assumptions		
Risk-free interest rate	1.86%	1.48%
Expected remaining term	5 years	5 years
Expected volatility	55%	55%

[1] *Transaction date*

Inputs	December 31, 2017	August 14, 2017[1]
Number of warrants	216,000	216,000
Value per common share	$0.55	$0.79
Exercise price	$0.75	$0.75
Assumptions		
Risk-free interest rate	1.86%	1.48%
Expected remaining term	5 years	5 years
Expected volatility	55%	55%

[1] *Transaction date*

Other

During 2017, the Company entered into an agreement with its associate resulting in the recognition of a derivative of $1,282 [US$964]. In conjunction with the agreement, Knight recorded in the statement of income, other income of $772 [ILS2,030] during the year. As at December 31, 2017, the agreement was settled and there is no further asset or liability with the associate.

3D

During 2016, the Company obtained warrants to buy 240,000 common shares of 3D. The fair value of each 3D warrant was valued at $0.23 on the transaction date. As at December 31, 2017 the fair value was determined to be and $0.01 (2016: $0.28), determined using the Black-Scholes model with the following assumptions and inputs:

Inputs	December 31, 2017	December 31, 2016	December 16, 2016[1]
Number of warrants	240,000	240,000	240,000
Value per common share	$0.27	$0.91	$0.83
Exercise price	$0.92	$0.92	$0.92
Assumptions			
Risk-free interest rate	1.53%	0.74%	0.63%
Expected remaining term	0.9 years	1 year	1 year
Expected volatility	80%	80%	80%

[1] *Transaction date*

The remaining derivatives held by Knight were revalued as at December 31, 2017 using the Black-Scholes model based on the following inputs and assumptions.

Pediapharm

Inputs	**December 31, 2017**	December 31, 2016	March 30, 2015[1]
Number of warrants	757,500	757,500	757,500
Value per common share	$0.29	$0.30	$0.23
Exercise price	$0.33	$0.33	$0.33
Assumptions			
Risk-free interest rate	1.61%	0.79%	0.64%
Expected remaining term	1.2 years	2.2 years	4 years
Expected volatility	72%	72%	100%
Black-Scholes value	$0.08	$0.12	$0.14

[1] Transaction date

Antibe

Inputs	**December 31, 2017**	December 31, 2016	November 13, 2015[1]
Number of warrants	1,000,000	1,000,000	1,000,000
Value per common share	$0.15	$0.17	$0.17
Exercise price	$0.31	$0.31	$0.31
Assumptions			
Risk-free interest rate	1.53%	0.74%	0.69%
Expected remaining term	0.9 years	1.9 years	3 years
Expected volatility	99.9%	120%	180%
Black-Scholes value	$0.02	$0.08	$0.14

[1] Transaction date

Inputs	**December 31, 2017**	March 27, 2017[1]
Number of warrants	120,000	120,000
Value per common share	$0.15	$0.19
Exercise price	$0.22	$0.22
Assumptions		
Risk-free interest rate	1.53%	0.75%
Expected remaining term	1.2 years	2 years
Expected volatility	99.9%	121%
Black-Scholes value	$0.05	$0.12

[1] Transaction date

Medicure

On August 31, 2016, the Company exercised its 480,000 Medicure Inc. stock options for $1,056. On exercise of the options, the Company de-recognized $2,698 from financial assets.

Apicore Inc.

As part of the 2014 loan transaction with Apicore, Knight received a total of 1,625,000 warrants in Apicore which was classified as a level 3 financial instrument and recorded at cost. Per the Apicore loan agreement, Medicure had the right to acquire all of Knights' interests in Apicore within 3 years. In December 2016, Medicure exercised its right for $2,157 [US$1,625] in exchange for Knight warrants. The Company de-recognized the carrying amount of $1,249 [US$952] and recognized a gain of $888 [US$653] recorded in gain on financial assets in the statement of income.

[iv] AFS fund investments

The following table summarizes the movement in AFS fund investments as at December 31.

	Carrying value beginning of year $	Additions[1] $	Distributions[2] $	Realized gain/(loss)[3] $	Other[4] $	Carrying value end of year $	Current other financial assets $	Non-current other financial assets $
2017	**34,576**	**21,314**	**(8,083)**	**2,077**	**5,084**	**54,968**	**—**	**54,968**
2016	25,560	14,902	(4,610)	1,541	(2,817)	34,576	—	34,576

[1] *Investments in equity or debt funds*
[2] *Distributions received from funds*
[3] *Realized gains on return of capital*
[4] *Net changes due to revaluation to fair market value, foreign currency revaluations, and realized gains reclassified from other comprehensive income to consolidated statement of income upon distribution or disposal*

Knight invested $21,314 [including US$9,752 and EUR 4,774] (2016: $14,902 [including US$8,637 and EUR 1,184]) during the year and received distributions of $8,083 [including US$1,837 and EUR 2,867] (2016: $4,610 [including US$2,279 and EUR 851]). The Company recorded a net gain of $2,077 (2016: $1,541) on financial assets related to the realized gain on distributions in the statement of income. Furthermore, the Company recorded a net increase of $5,084 (2016: net decrease of $2,817) in other comprehensive income due to foreign currency revaluation, mark-to-market adjustments and realized gains or losses reclassified from other comprehensive income to consolidated statement of income upon disposal in the statement of comprehensive income.

11. FAIR VALUE MEASUREMENTS

[i] Fair value hierarchy

The classifications of financial instruments using the fair value hierarchy measured at fair value on a recurring basis, are shown in the table below:

As at December 31,	**2017**	**Level 1**	**Level 2**	**Level 3**
	$	**$**	**$**	**$**
Recurring fair value measurements				
Cash equivalents	5,509	—	5,509	—
Marketable securities	268,573	—	268,573	—
AFS equity investments	19,425	10,059	6,129	3,237
Derivatives	1,624	—	—	1,624
AFS fund investments	54,968	—	—	54,968
Total	**350,099**	**10,059**	**280,211**	**59,829**

As at December 31,	2016	Level 1	Level 2	Level 3
	$	$	$	$
Recurring fair value measurements				
Cash equivalents	24,507	—	24,507	—
Marketable securities	221,108	—	221,108	—
AFS equity investments	30,936	19,935	7,030	3,971
Derivatives	1,189	—	—	1,189
AFS fund investments	34,576	—	—	34,576
Total	312,316	19,935	252,645	39,736

There were no transfers between levels of the fair-value hierarchy for the year ended December 31, 2017. In 2016, a publicly-traded equity investment was transferred from level 2 to level 1 due to an increase in trading activity following an equity offering.

[ii] Day 1 Gains

Upon acquisition of a financial instrument, the Company measures its fair value and compares this to the acquisition price. The difference is recognised as a gain or loss only if fair value is based on a quoted price in an active market or based on a valuation technique that uses only data from observable markets. The Company has the following day 1 gains:

As at December 31,	**2017**	2016
	$	$
AFS equity – Medimetriks[1]	**915**	980
AFS equity – Synergy[2]	**4,721**	5,053
Total	**5,636**	6,033

[1] *Original currency of day 1 gain is US$730*

[2] *Original currency of day 1 gain is US$3,764*

12. INVESTMENT IN ASSOCIATE

On September 9, 2015, Knight acquired a 28.3% ownership interest in Medison, a privately-owned specialty pharmaceutical company based in Israel. The consideration given for the equity interest in Medison amounted to $82,001, which includes the fair value of 10,330,884 common shares of Knight issued to Medison and its controlling shareholder and a contingent consideration of $1,100.

On June 16, 2016, the Company issued 250,000 common shares at a price of $8.29 per share for $2,073 and reduced the amount of contingent consideration recorded in contributed surplus upon the initial investment in Medison by $943. Consequently, the Company recorded an increase of $1,130 in the investment in associate. There is no further contingent consideration payable to Medison.

The interest in Medison is accounted for using the equity method of accounting. The investment was originally recorded at cost and subsequently adjusted to include the Company's share of Medison's net income and any dividends issued to the Company. The net income is adjusted to reflect the amortization of the fair value adjustments related to the Company's share of the net identifiable assets of Medison acquired and their tax impact.

As at December 31,	*Notes*	**2017**	2016
		$	$
Carrying value, beginning of the year		**80,113**	81,027
Change in contingent consideration	*14 [i] [b]*	**—**	1,130
Share of net income for the year before adjustments		6,961	7,963
Amortization of fair value adjustments		(6,107)	(5,170)
Share of net income for the year		**854**	2,793
Dividends		**(4,984)**	(4,837)
Carrying value, end of the year		**75,983**	80,113

The Company is presenting select financial information derived from Medison's consolidated financial statements in New Israeli Shekels (ILS) using Israeli GAAP converted into IFRS in CAD for information purposes:

Medison's statement of income data	**For the year ended December 31, 2017**	For the year ended December 31, 2016
	$	$
Revenue	**216,442**	206,471
Net income	**3,020**	9,875

Medison's balance sheet data	*Notes*	**As at December 31, 2017**	As at December 31, 2016
		$	$
Current assets		**141,175**	134,772
Non-current assets		**282,479**	304,714
Total assets		**423,654**	439,486
Current liabilities		**81,476**	85,322
Non-current liabilities		**77,418**	75,072
Total liabilities		**158,894**	160,394
Total equity		**264,760**	279,092
Knight's carrying amount of investment before reconciling item		**74,853**	78,983
Change in contingent consideration	*14 [i] [b]*	**1,130**	1,130
Knight's carrying amount of investment		**75,983**	80,113

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31,	**2017**	2016
	$	$
Trade payables	**541**	748
Accrued liabilities	**4,484**	2,459
	5,025	3,207

14. SHAREHOLDERS' EQUITY

[i] Share Capital

The authorized share capital of the Company is comprised of an unlimited number of common shares and an unlimited number of first preferred shares, which may be issued from time to time in one or more series, without par value. The issued and outstanding share capital of Knight is as follows:

	Notes	**Number of common shares**	**$**
Balance as at January 1, 2016		103,474,367	439,148
Issuance upon bought deals, net of costs and includes deferred tax of $4,465	*[a]*	38,755,000	317,616
Issuance of shares to associate	*[b]*	250,000	2,073
Issuance upon investment	*[c]*	221,126	1,846
Issuance of share purchase loans	*[d]*	—	(350)
Issuance under share purchase plan	*[iii]*	12,996	114
Balance as at December 31, 2016		**142,713,489**	**760,447**
Issuance under share option plan	*[ii]*	75,000	832
Issuance under share purchase plan	*[iii]*	23,372	211
Balance as at December 31, 2017		**142,811,861**	**761,490**

[a] Issuance of shares upon bought deal

On June 2, 2016, the Company completed a bought deal (the "Offering") for gross proceeds of $230,000 of common shares of Knight at a price of $8.00 per common share. An aggregate of 28,750,000 common shares including underwriters' over-allotment option of 3,750,000 common shares were issued. Issue costs related to the Offering were $11,463 (net of deferred tax of $3,083) for the year ended December 31, 2016. Long Zone Holdings Inc. ("Long Zone"), a company controlled by Jonathan Ross Goodman, CEO of the Company, purchased 45,000 common shares under the Offering, and Jeffrey Kadanoff, former CFO of the Company and Amal Khouri, Vice-President of Business Development of the Company each purchased 12,500 common shares.

On December 22, 2016, the Company completed a second bought deal (the "Second Offering") for gross proceeds of $100,050 of common shares of Knight at a price of $10.00 per common share. An aggregate of 10,005,000 common shares including underwriters' over-allotment option of 1,305,000 common shares were issued. Issue costs related to the Second Offering were $5,436 (net of deferred tax of $1,382) for the year ended December 31, 2016. Long Zone, a company controlled by Jonathan Ross Goodman, CEO of the Company, purchased 25,000 common shares under the Offering. Samira Sakhia, President of the Company and Jeffrey Kadanoff, former CFO of the Company, each purchased 10,000 common shares, and Amal Khouri, Vice-President of Business Development of the Company purchased 5,000 common shares.

[b] Issuance of shares to associate

On June 16, 2016, the Company issued 250,000 common shares at a price of $8.29 per share for $2,073 and reduced the amount of contingent consideration recorded in contributed surplus upon the initial investment in Medison by $943. Consequently, the Company recorded an increase of $1,130 in the investment in associate and there is no further contingent consideration payable to Medison.

[c] Issuance of shares upon investment in Pediapharm

On July 15, 2016, the Company issued 221,126 common shares at a price of $8.35 per share as consideration in the Pediapharm Transaction.

[d] Share purchase loans

During the year ended December 31, 2016, certain participating employees were granted $350 in share purchase loans bearing an interest rate of 1% per annum to help fund the acquisition of 40,000 common shares from the Offering and the Second Offering. The obligations of the employees are secured by an agreement of pledge of securities granted by the employees in favour of the Company until such time as the individual loans are repaid. The share purchase loans are due and payable to the Company upon the sale of the common shares or upon the termination of employment (refer to note 16 for the resignation agreement on share purchase loans held by Jeffrey Kadanoff), subject to certain conditions being met. These loans have been recorded against the share capital.

[ii] Share option plan

The Company has an equity-settled Share Option Plan in place for employees, directors, officers and consultants of the Company. A new Share Option Plan ("the Plan") was approved by the Board of Directors and the shareholders on May 9, 2017. All options issued under the legacy plan roll into the Plan. The aggregate maximum number of stock options outstanding under the Plan at any given time shall not exceed 10% of the outstanding shares of the Company as of the grant date. The option period may be up to ten years from the date the option is granted. The Board of Directors or its designated committee may determine when an option will become exercisable and may determine that the option will be exercisable immediately upon the date of grant, in instalments or pursuant to a vesting schedule. If no specific determination is made, the stock options vest in equal tranches of 25% per annum on each anniversary date. Stock options that have been exercised, expired, cancelled, forfeited or terminated become available for re-issuance

under the Plan. Generally, the stock options have a seven-year or ten-year term and vest over a one-year period for directors and a three or four-year period for employees.

The Company recorded compensation expense of $3,038 (2016: $3,640) for the year ended December 31, 2017 with corresponding credits to contributed surplus related to the issuance of stock options. The weighted average fair value of the options granted during the year, estimated by using the Black-Scholes option pricing model, was $4.65 (2016: $4.58). The fair value of the options was estimated on the date of grant, based on the following weighted average assumptions:

	Year ended December 31	
	2017	2016
Weighted average risk-free interest rate	**1.46%**	1.11%
Dividend yield	**Nil**	Nil
Weighted average volatility factor *[i]*	**40%**	41.2%
Unvested forfeiture rate	**2%**	2.7%
Weighted average expected life	**7.65 years**	9.3 years

[i] Volatility was determined using the historical share price of the Company and comparable companies.

	Year ended December 31			
	2017		2016	
	Number of share options #	**Weighted average exercise price $**	Number of share options #	Weighted average exercise price $
Balance beginning of the period	**3,147,112**	**7.14**	2,815,483	6.89
Options granted	**545,391**	**10.01**	336,629	9.25
Options exercised	**(75,000)**	**7.34**	—	—
Options expired/forfeited	**(169,844)**	**8.99**	(5,000)	5.65
Balance at end of the period	**3,447,659**	**7.50**	3,147,112	7.14
Options exercisable at end of period	**2,405,262**	**6.81**	1,401,554	6.43

The following table summarizes information about outstanding stock options granted by the Company as at December 31, 2017:

	Options outstanding			Options exercisable		
Range of exercise $	**Number of share options #**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price $**	**Number of share options #**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price $**
5.20 to 5.71	1,397,220	3.37	5.62	1,397,220	3.37	5.62
5.72 to 8.02	665,113	4.83	7.60	352,314	4.32	7.49
8.03 to 9.18	676,873	3.99	8.73	507,928	3.77	8.74
9.19 to 10.25	708,453	8.88	9.93	147,800	8.11	9.84
	3,447,659	**4.91**	**7.50**	**2,405,262**	**3.89**	**6.81**

The following table summarizes information about outstanding stock options granted by the Company as at December 31, 2016:

	Options outstanding			Options exercisable		
Range of exercise $	Number of share options #	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number of share options #	Weighted average remaining contractual life (years)	Weighted average exercise price $
5.20 to 5.71	1,422,220	4.43	5.62	978,148	4.43	5.62
5.72 to 8.02	738,425	6.09	7.62	126,666	5.74	7.18
8.03 to 9.18	718,570	5.28	8.73	296,740	5.22	8.75
9.19 to 9.64	267,897	9.73	9.6	—	—	—
	3,147,112	**5.47**	**7.14**	**1,401,554**	**4.72**	**6.43**

[iii] Share purchase plan

The Company has a Share Purchase Plan ("Purchase Plan") allowing employees and directors of the Company to purchase common shares at listed market prices from treasury. The plan allows for employees to contribute up to a maximum of 10% of their salary and directors to contribute up to $10 per year. During the year ended December 31, 2017, 23,372 shares (2016: 12,996 shares) were issued from treasury at fair market value under the Purchase Plan for total proceeds of $211 (2016: $114). As at December 31, 2017, a total of 1,428,119 common shares (2016: 1,427,135 common shares) reserved for share purchase arrangements can be issued under the Purchase Plan.

Under the Purchase Plan, the Company will contribute 25% of employees' or directors' contributions in the form of common shares if the employee remains employed by the Company or director remains on the Board, and has held the original shares for two years from the original purchase date. The Company's contribution in common shares is calculated using the lesser of the original common share value at the original purchase date and at the date of the Company's contribution. During the year ended December 31, 2017, the Company issued 2,006 shares (2016: 908) representing its 25% contribution.

[iv] Warrants

Pediapharm

As described in note 10 [ii], the fair value of each Knight warrant issued in the Pediapharm Transaction was valued at $2.82 [$624 in aggregate], determined using the Black-Scholes model with the following assumptions and inputs:

Assumptions	**July 15, 2016**
Risk-free interest rate	0.62%
Expected term	4 years
Expected volatility	50%

Inputs	**July 15, 2016**
Value per common share	$8.35
Exercise price	$10

Origin

On June 24, 2015, Knight acquired the assets related to Neuragen® pursuant to a default by Origin under its secured loan agreement with Knight. The Company issued 185,000 warrants on June 30, 2015 to several Origin stakeholders which are exercisable, in some instances subject to the achievement of certain prescribed financial benchmarks, at an exercise price of $10.00 per share. The Company determined the value of the warrants issued based on the likelihood of certain financial benchmarks being achieved. Warrants that are unlikely to achieve their prescribed financial benchmark were assigned a value of zero. The remaining warrants were assigned a value of $4.14 per option ($161 in aggregate) using the Black-Scholes option pricing model and the following assumptions:

Assumptions	**June 24, 2015**
Risk-free interest rate	1.73%
Expected term	10 years
Expected volatility	60%

Inputs	**June 24, 2015**
Value per common share	$6.70
Exercise price	$10

Number of warrants outstanding

As at	**December 31, 2017**	December 31, 2016
Pediapharm	**221,126**	221,126
Origin	**185,000**	185,000
	406,126	406,126

15. ACCUMULATED OTHER COMPREHENSIVE INCOME

As at	**December 31, 2017**	December 31, 2016
	$	$
Net realized gains reclassified to statement of income, net of tax of $1,913 ($1,592 as at December 31, 2016)	**(14,160)**	(10,246)
Impairment reclassified to statement of income net of tax of $218	**1,403**	—
Net unrealized gains in available-for-sale investments, net of tax of $1,323 ($1,879 as at December 31, 2016)	**19,856**	14,997
Unrealized gain on translation of foreign operations	**13,808**	25,680
	20,907	30,431

16. EMPLOYEE BENEFIT EXPENSES

For the year ended December 31,	**2017**	2016
	$	$
Wages and salaries	**3,229**	2,085
Bonuses	**216**	381
Shared-based incentive plans	**3,056**	3,837
	6,501	6,303

The compensation earned by key management personnel, including directors, in aggregate was as follows:

For the year ended December 31,	**2017** **$**	2016 $
Wages and salaries	**1,053**	908
Bonuses	**—**	252
Board fees	**70**	71
Shared-based incentive plans	**2,652**	3,439
	3,775	4,670

On October 13, 2017 the Board of Directors accepted the resignation of Jeffrey Kadanoff and appointed Samira Sakhia as CFO. The Board of Directors approved the following resignation agreement.

Long term incentive plan: stock options

Effective October 13, 2017, the Board of Directors approved the accelerated vesting of 105,168 stock options and modified the expiry date of all stock options held by Jeffrey Kadanoff to June 1, 2020. As a result of the modification and the forfeiture of certain options, the Company recorded a reversal of compensation expense of $21 with the corresponding debit to contributed surplus.

Short term incentive plan: annual bonus

A bonus of up to $45, calculated based on the number of days Jeffrey Kadanoff was employed with the Company in 2017, is payable subject to the approval by the Board of Directors in 2018. Subsequent to year end, the Board of Directors determined that no annual bonus would be paid to key management personnel for 2017.

Employee share purchase plan

On a quarterly basis up to September 15, 2019, Jeffrey Kadanoff will continue to be eligible for the employer contributions under Knight's employee share purchase plan.

Share purchase loans

During his employment with the Company, Jeffrey Kadanoff was granted $425 in share purchase loans bearing an interest rate of 1% to fund the acquisition of Knight's common shares on multiple offerings. The share purchase loans are secured by an agreement of pledge of securities granted in favour of the Company and will be repaid the earlier of September 30, 2019 or the sale of the securities under the loans.

17. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period.

	2017 **$**	2016 $
Net income	**17,244**	18,560
Weighted average of common shares outstanding	**142,763,730**	120,723,270
Basic earnings per share	**$0.12**	$0.15

Diluted

Diluted earnings per share has been calculated after adjusting the weighted average number of shares used in the basic calculation to assume the conversion of all potentially dilutive shares. A potentially dilutive share for the Company consists of share options where the exercise price is below the average market price of the Company's shares during the period.

	2017	2016
	$	$
Net income	**17,244**	18,560
Weighted average of common shares outstanding	**142,763,730**	120,723,270
Adjustment for warrants and share options	**652,936**	540,252
Weighted average shares outstanding (diluted)	**143,416,666**	121,263,522
Diluted earnings per share	**$0.12**	$0.15

18. INCOME TAX

The income tax provision differs from the amount computed by applying the combined Canadian federal and provincial tax rates to earnings before taxes. The reasons for the difference and the related tax effects are as follows:

	2017	2016
	$	$
Earnings before income taxes	**21,199**	23,473
Applicable tax rate	**26.8%**	26.9%
Income taxes at applicable statutory rate	**5,681**	6,314
Increase (decrease) resulting from:		
Rate differential between jurisdictions	**(2,745)**	(2,172)
Variation in tax rate	**11**	248
Adjustment for prior years	**110**	(123)
Non-recognition (recognition) of tax benefits related to tax losses and temporary differences	**693**	1,120
Effect of non deductible expenses and other	**205**	(474)
Total income tax expense	**3,955**	4,913
Average effective tax rate	**18.7%**	20.9%

The Company's applicable statutory tax rate is the Canadian combined rate applicable in the jurisdictions in which the Company operates.

The details of income tax expense are as follows:

	2017	2016
	$	$
Current income tax		
Current income tax charge	**1,985**	2,970
Adjustments in respect of current tax of previous year	**(88)**	1,220
	1,897	4,190
Deferred tax		
Relating to the origination and reversal of temporary differences	**1,849**	1,818
Variation in tax rate	**11**	248
Adjustment for prior years	**198**	(1,343)
	2,058	723
Income tax expense reported in statement of income	**3,955**	4,913

The details of movement in temporary differences during the year were as follows:

	Balance December 31, 2016	**Recognized in statement of income**	**Recognized in statement of comprehensive income**	**Recognized in shareholders' equity**	**Acquired in business combinations**	**Exchange rate variation**	**Balance December 31, 2017**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Property and equipment	**160**	**(19)**	**—**	**—**	**—**	**—**	**141**
Intangible assets	**(165)**	**(133)**	**—**	**—**	**—**	**—**	**(298)**
Financial assets	**328**	**(201)**	**658**	**—**	**—**	**—**	**785**
Financing fees	**5,330**	**(1,690)**	**—**	**—**	**—**	**—**	**3,640**
Tax losses	**557**	**—**	**—**	**—**	**—**	**—**	**557**
Other	**(133)**	**(17)**	**—**	**—**	**—**	**55**	**(95)**
Net deferred tax assets	**6,077**	**(2,060)**	**658**	**—**	**—**	**55**	**4,730**

	Balance December 31, 2015	Recognized in statement of income	Recognized in statement of comprehensive income	Recognized in shareholders' equity	Acquired in business combinations	Exchange rate variation	Balance December 31, 2016
	$	$	$	$	$	$	$
Property and equipment	521	(361)	—	—	—	—	160
Intangible assets	(565)	400	—	—	—	—	(165)
Financial assets	(1,111)	1,446	2	—	—	(9)	328
Financing fees	2,451	(1,587)	—	4,466	—	—	5,330
Tax losses	1,368	(811)	—	—	—	—	557
Other	(323)	190	—	—	—	—	(133)
Net deferred tax assets	2,341	(723)	2	4,466	—	(9)	6,077

The unrecognized deferred tax assets relate to the following temporary differences and unused tax losses:

	2017	2016
	$	$
Tax losses	**6,224**	7,778
Investment tax credit	**1,230**	1,230
Scientific research and experimental development expenses	**5,837**	5,789
Financial assets	**1,183**	298
Unrecognized deferred tax assets	**14,474**	15,095

19. SEGMENT REPORTING

The Company has one reportable segment, and its principal business activity is focused on developing, acquiring, in-licensing, out-licensing, marketing and distributing innovative pharmaceutical products, consumer health products and medical devices in Canada and select international markets.

20. FINANCIAL RISK

Management of capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for its shareholders and to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Managed capital includes cash and cash equivalents, marketable securities, other financial assets and shareholders' equity. To maintain or adjust the capital structure, the Company may attempt to issue new common shares, repurchase the Company's own stock, and acquire or dispose of assets. The issuance and repurchase of common shares requires approval of the Board of Directors.

The Company's investment policy regulates the investment activities relating to cash resources. An Investment Committee composed of representatives from management and the Board of Directors monitors compliance with said policy. The Company invests in strategic investments in the form of equity funds, equity or liquid investment securities with varying terms to maturity, selected with regard to the expected timing of investments and expenditures for continuing operations and prevailing interest rates.

Market risk

Currency risk

The Company maintains cash and cash equivalents, marketable securities, trade and other receivables, other financial assets, other balances payable and accounts payable and accrued liabilities in U.S. dollars, Euros, ILS, and CHF and is

therefore exposed to foreign exchange risk on these balances. The following table presents the net currency exposure on foreign-denominated balances.

2017	**USD**	**EUR**	**ILS**	**CHF**
Cash and cash equivalents	31,731	2,650	28,975	—
Marketable securities	78,021	—	—	—
Trade and other receivables	4,073	179	—	—
Other financial assets	80,053	9,186	—	—
Other balances payable	(1,278)	(65)	—	—
Accounts payable and accrued liabilities	(808)	(252)	(79)	(623)
Net exposure	**191,792**	**11,698**	**28,896**	**(623)**

2016	USD	EUR	ILS	CHF
Cash and cash equivalents	24,212	1,495	66	—
Marketable securities	77,077	—	19,250	—
Account receivable	940	705	—	—
Other financial assets	76,893	3,263	—	—
Accounts payable and accrued liabilities	(329)	(65)	—	—
Net exposure	178,793	5,398	19,316	—

Equity price risk

The carrying values of the available for sale investments subject to equity price risk are:

2017	**$**
AFS equity investments	**19,425**
AFS fund investments	**54,968**
Derivatives	**737**
Net exposure	**75,130**

2016	$
AFS equity investments	30,936
AFS fund investments	34,576
Derivatives	1,189
Net exposure	66,701

The Company monitors its equity investments for impairment on a periodic basis and at least at every reporting period. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold. The Company manages the equity price risk through the use of strict investment policies approved by the Board of Directors. The Company's Board of Directors regularly reviews and approves equity investment decisions.

Interest rate risk

The Company does not believe that the results of operations or cash flows would be materially affected to any

significant degree by a sudden change in market interest rates relative to interest rates on the investments, owing to the relatively short-term nature of the marketable securities and currently low market yields.

Credit risk

The Company considers its maximum credit risk to be $122,490 (2016: $116,020) which is the total of the following assets; trade and accounts receivable, interest receivable, loans receivable and investment in funds.

The marketable securities and cash equivalent balances are subject to minimal risk of changes in value. They are invested within two large Canadian financial institutions, three Canadian credit unions guaranteed by provincial governments, two foreign affiliates of large Canadian financial institutions, and one Canadian insurance company, comprised of thirteen guaranteed investment certificates, one guaranteed investment fund and three term deposits.

The Company is exposed to credit risk from its customers and continually monitors its customers' credit. It establishes the provision for doubtful accounts based upon the credit risk applicable to each customer. The credit risk on loans and interest receivable is due to the risk of insolvency or operational failure of the partners in the strategic lending transaction. The Company also has a credit risk on its investment in funds and derivatives which are held through venture funds or issued by a counterparty.

The table below represents the Company's maximum exposure to credit risk without taking into consideration any security obtained to mitigate the risk. The maximum exposure to credit risk is determined by the carrying value of the asset.

For the year ended December 31,	**2017**	2016
	$	$
Trade and accounts receivable	**2,116**	2,606
Interest receivable	**5,587**	3,107
Loans receivable	**59,819**	75,731
Investments in funds	**54,968**	34,576
Total	**122,490**	116,020

For trade and accounts receivable, management determines credit risk based on customers who account for more than 10% of accounts receivable. As at December 31, 2017, two customers represented 82% (2016: three customers represented 55%) of the trade and accounts receivable balance. For the year ended December 31, 2017 two customers represented 64% (2016: four customers of the Company represented 86%) of revenues.

Liquidity risk

The Company generates sufficient cash from operating activities to fulfill its obligations as they become due. The Company has sufficient funds available through its cash, cash equivalents and marketable securities should its cash requirements exceed cash generated from operations to cover all financial liability obligations.

Sensitivity Analysis

Based on the aforementioned net currency exposure, and exposure to changes in equity prices, and assuming that all other variables remain constant, a 5% change, would have resulted in a change in the statement of income or other comprehensive income as follows:

For the year ended December 31,	2017 $	2016 $
Foreign Exchange Risk (5% change)		
USD	**12,030**	12,003
EUR	**880**	382
ILS	**522**	337
CHF	**40**	—
Equity Price Risk (5% change)[1]		
AFS equity investments	**971**	1,547
AFS fund investments	**2,748**	1,729
Derivatives	**37**	59

[1] The adverse change above does not reflect what could be considered the best or worst case scenarios. Results could be worse due both to the nature of equity markets and the concentrations existing in the Company's equity investment portfolio, in particular where there is less liquidity available as in the case of the small capitalization companies included in the available for sale equity securities.

21. STATEMENT OF CASH FLOWS

Effect on cash flows of changes in working capital and other non-cash balances are as follows:

	2017 $	2016 $
Decrease (increase) in		
Trade and other receivables	**(3,201)**	(3,446)
Inventories	**(434)**	670
Income taxes receivable	**3,891**	(4,452)
Long term interest receivable[1]	**(964)**	195
Increase (decrease) in		
Accounts payable and accrued liabilities	**1,818**	1,943
Income taxes payable	**1,940**	1,628
	3,050	(3,462)

[1] Recorded in other financial assets on the balance sheet

22. PRODUCT PRICING REGULATION ON CERTAIN PATENTED DRUG PRODUCTS

All patented drug products that form part of Knight's portfolio of products are subject to pricing regulation by the PMPRB, a federal agency tasked with ensuring that prices of patented medicines are not excessive. For new patented products, the maximum non-excessive price in Canada is limited to a range with a lower bound set by the prices of existing comparable drugs sold in Canada and an upper bound set by the median prices for the same drug sold in a specified set of developed comparator countries. For existing patented products, prices cannot be increased annually by more than a factor based on Statistics Canada's Consumer Price Index. The PMPRB monitors compliance through a review of the average transaction price of each patented drug product as reported by pharmaceutical companies like Knight on a semi-annual basis. The PMPRB may from time to time deem certain of Knight's existing or future patented products to be excessively priced based on the application of its empowering legislation and regulations, including those related to price increases, the comparative assessment of new products and reductions in the highest price in international reference countries. Such determinations by the PMPRB may have a material adverse effect on Knight's financial condition and results of operations or cash flows.

The Canadian federal government has made a commitment to reduce the cost of prescription drug pending in Canada.

On December 2, 2017, Health Canada published the following proposed key changes:

- changes in the comparator countries used to determine price ceilings. The changes include removal of the US (which generally has the highest international drug prices) and Switzerland and addition of seven new countries judged to have similar consumer protection-oriented mandates and relative wealth as Canada;
- new, economics-based price regulatory factors to allow the PMPRB to regulate based on the value of a medicine and its impact on the health care system; and,
- changes to certain reporting requirements, including reporting all discounts and rebates provided to third-party payers, such as provincial drug plans.

The proposed amendments, if enacted, are expected to result in a decrease in the prices of patented drugs in Canada. While the proposed regulations are expected to come into force on January 1, 2019, the precise nature and timing of these changes (including the potential retroactive application of some) will not be known until the full consultation and Canada Gazette publication processes are completed. The final form of regulatory changes to the PMPRB may have a significant adverse effect on the price of patented drugs sold by the Corporation in Canada and may limit the Corporation's ability to in-license and launch products in Canada due to more restrictive pricing regulations.

23. RELATED PARTY TRANSACTIONS

Pharmascience Inc., a company related to the Company's CEO, provided administrative services of approximately $15 to the Company for year ended December 31, 2017.

Furthermore, during 2017, the Company entered into an agreement with its associate resulting in the recognition of a derivative. In conjunction with the agreement, Knight recorded in the statement of income, other income of $772 [ILS2,030] during the year. As at December 31, 2017, the agreement was settled and there is no further asset or liability with the associate.

24. COMMITMENTS

In the normal course of business, the Company secures development, sales, marketing and distribution rights to innovative drug products requiring royalties or product payments considered normal operating commitments and as such not included herein. The Company has entered into various agreements which include contractual obligations extending beyond the current year. These obligations are classified into four major categories: operating lease, fund commitments, milestones and purchase commitments, and equity and loan commitments. The commitments of the Company as at December 31, 2017 are as follows:

[i] Operating Lease

The Company is committed under operating leases for the lease of its premises. Future minimum annual payments are as follows:

	$
2018	273
2019	258
2020	258
2021	258
2022	215
	1,262

[ii] Fund commitments

As at December 31, 2017, under the terms of Company's agreements with life sciences venture capital funds, $84,508 (2016: $103,096), including $26,664 [US$21,254] and $18,252 [EUR 12,126], may be called over the life of the funds (based on the closing foreign exchange rates).

[iii] Milestones and purchase commitments

Under certain agreements, Knight may have to pay additional consideration should the Company achieve certain sales volumes or if certain milestones are met, such as regulatory approval in Canada. The Company may have to pay up to $35,614 including $24,337 [US$19,400] and $527 [EUR 350] upon achieving certain sales volumes, regulatory or other milestones related to specific products.

In addition, Knight has a commitment to purchase up to $2,015 [EUR 738 and US$721], of inventory for pharmaceutical products during the five-year period after their respective commercial launch.

[iv] Equity and loan commitments

Subject to a loan agreement with one of its borrowers, Knight has committed up to a maximum of $3,136 [US$2,500] to participate in the initial public offering of the borrower.

Subject to a loan agreement with one of its borrowers, Knight has committed to loan up to an additional $2,026 [US$1,615] should the borrower meet certain conditions.

25. SUBSEQUENT EVENTS

[i] Crescita rights offering

On January 29, 2018, the Company entered into an agreement with Crescita, whereby it committed to invest $400 for the purchase of common shares under a rights offering conditional upon a raise of at least $2,000. As at March 14, 2018, the Company owns an aggregate of 2,834,689 common shares of Crescita representing approximately 13.5% of its outstanding common shares.

[ii] Repayment of Medimetriks Loan

On March 7, 2018, Knight received an early repayment of $29,463 [US$22,757] from Medimetriks including payment of principal of $25,894 [US$20,000] and interest and fees.

Management Team

Jonathan Ross Goodman

Chief Executive Officer

Mr. Goodman founded Knight in February 2014. Prior to Knight, Mr. Goodman was the co-founder, President and CEO of Paladin which was acquired by Endo Health Solutions Inc. for $3.2 billion. Under his leadership, $1.50 invested in Paladin at its founding was worth $151 nineteen years later. Prior to co-founding Paladin in 1995, Mr. Goodman was a consultant with Bain & Company and also worked in brand management for Procter & Gamble. Mr. Goodman currently serves on the board of directors of Medison Biotech (1995) Ltd. Mr. Goodman holds a B.A. with Great Distinction from McGill University and the London School of Economics with 1st Class Honours. Additionally, Mr. Goodman holds an LL.B. and an M.B.A. from McGill University. In 2016, Mr. Goodman was the co-recipient of Ernst & Young's Quebec Entrepreneur of the Year Award in Health Sciences.

Samira Sakhia

President and Chief Financial Officer

Ms. Sakhia joined Knight as President in August 2016 and assumed the additional responsibility of Chief Financial Officer in October 2017. Prior to Knight, Ms. Sakhia served as the CFO at Paladin from 2001 to 2015. At Paladin, Ms. Sakhia was responsible for the finance, operations, human resources and investor relations functions. During her employment with Paladin, Ms. Sakhia was instrumental in executing in-licensing and acquisition transactions of Canadian and international pharmaceutical products and businesses. In addition, Ms. Sakhia led several M&A and strategic lending transactions as well as equity rounds on the TSX and completed the sale of Paladin to Endo International for over $3 billion. Ms. Sakhia holds an MBA and a Bachelors of Commerce degree from McGill University and is also a Chartered Professional Accountant. Ms. Sakhia serves on the boards of Crescita Therapeutics Inc., Profound Medical Corporation and Antibe Therapeutics. In addition, Ms. Sakhia serves on the board of the Montreal Society for the Prevention of Cruelty to Animals, the International Advisory Board of McGill's Desautels Faculty of Management, and is an independent Board member at the McGill University Health Center.

Amal Khouri

Vice President, Business Development

Prior to Knight, Ms. Khouri worked at Novartis Pharma for over 7 years, where she held multiple positions within the global business development and licensing team in Basel, Switzerland. Before joining Novartis, she worked in business development at Paladin Labs Inc. in roles with increasing responsibilities. Ms. Khouri holds a B.Sc. in Biochemistry from McGill University and an M.B.A. from the University of Ottawa.

Board of Directors

James C. Gale*†

Chairman of the Board of Directors

Mr. Gale is the founding partner of Signet Healthcare Partners (“Signet”). He is currently the Chairman of the Board of Alpex Pharma S.A. and Teligent Inc., and also serves on the board of directors of Spepharm BV, Bionpharma Inc., CoreRx, Inc., Leon Nanodrugs GmbH, Pharmaceutics International, Inc. and Chr. Olesen Synthesis A/S. Prior to Signet, Mr. Gale worked for Gruntal & Co., LLC (“Gruntal”) as head of principal investment activities and investment banking. Prior to joining Gruntal, he worked for Home Insurance Co., Gruntal’s parent. Earlier in his career, Mr. Gale was a senior investment banker at E.F. Hutton & Co. Mr. Gale holds an M.B.A. from the University of Chicago. Mr. Gale was on the board of directors of Paladin from 2008 to 2014.

Jonathan Ross Goodman

Chief Executive Officer and Director

Refer to Management Team section above.

Samira Sakhia

President, Chief Financial Officer, and Director

Refer to Management Team section above.

Robert N. Lande*†

Director

Mr. Lande is the President of FXCM Group LLC, a brokerage firm providing foreign exchange trading services through its electronic platform to clients globally. Formerly, he was Chief Financial Officer of Global Brokerage Inc., a shareholder in FXCM Group LLC. Previously, Mr. Lande was Managing Partner and Chief Operating Officer of Riveredge Capital Partners LLC and prior to that worked for over 16 years within the BCE/Bell Canada group where his last position was Chief Financial Officer of Telecom Américas Ltd., a joint venture between Bell Canada International, AT&T (then SBC Communications) and America Movil. Mr. Lande is a Chartered Financial Analyst and holds an M.B.A. from the John Molson School of Business and a B.A. in Economics from McGill University. Mr. Lande was on the board of directors of Paladin Labs from 1995 to 2014.

** Member of the Audit Committee*
† Member of the Compensation, Corporate Governance and Nominating Committee

Sylvie Tendler*†

Director

Ms. Tendler is a leading pharmaceutical market research specialist. In 2001, she founded The Tendler Group, a custom medical marketing research company, which served 12 of the Top 20 global pharmaceutical companies. In 2007, the company was acquired by IntrinsiQ LLC (owned at the time by Accel-KKR). Ms. Tendler stayed through 2010 to oversee the managerial transition following the acquisition. Ms. Tendler has hands-on experience conducting global primary research in Canada, the U.S., the top 5 EU markets, as well as Brazil and Mexico, and has been involved in the development and launch of blockbuster prescription products across several therapeutic categories. Ms. Tendler holds a Master's degree in International Management from the University of Maryland, and a Financial Management Certificate from Cornell University.

Meir Jakobsohn

Director

Mr. Jakobsohn is the CEO of Israeli-based Medison Pharma Ltd. ("Medison") which he founded in 1996 and spearheaded to becoming a leading international marketing group. Formerly, he served as the Chief Operating Officer of M. Jakobsohn Ltd., a pioneer in opening the Israeli market to global pharmaceutical companies like Ciba-Geigy (Novartis), which it represented between 1937 and 1995. Mr. Jakobsohn holds a B.A. in Economics from Bar-Ilan University and an Executive M.B.A. from Bradford University in the UK.

Dr. Sarit Assouline

Director

Dr. Assouline is the Director of the Chronic Myelogenous Leukemia Clinic of the Jewish General Hospital and, in this capacity, has contributed to epidemiological research into the outcome of patients treated with tyrosine kinase inhibitors. Following her training in hematology and oncology at McGill University, Dr. Assouline completed a Master's program in clinical epidemiology and biostatistics at McGill University, and a CIHR funded drug development fellowship at the National Cancer Institute of Canada Clinical Trials Group. Since 2005, she has been involved in the design and conduct of numerous clinical trials testing novel therapies in patients with leukemia and lymphoma. These therapies include novel targeted monoclonal antibody therapies, proteasome inhibitors, histone deacetylase inhibitors, and drugs targeting protein translation.

** Member of the Audit Committee*
† Member of the Compensation, Corporate Governance and Nominating Committee

Corporate Information

Knight Therapeutics Inc.
3400 De Maisonneuve Blvd. W., Suite 1055
Montreal, Quebec
H3Z 3B8

T: 514-484-4GUD (4483)
F: 514-481-4116

Email: info@gudknight.com
www.gudknight.com

Stock Exchange Listing
Toronto Stock Exchange
Trading Symbol: GUD

Shares Outstanding
142,811,861 Common Shares
(as at December 31, 2017)

Fiscal 2017 Trading Summary
High: $11.00
Low: $7.51
Close: $8.31
Average Daily Volume: 166,713

Transfer Agent
AST Trust Company (Canada)
1-800-387-0825

Auditors
Ernst & Young LLP

Annual General Meeting
May 8, 2018, 5:00 PM

This annual report is also available at www.gudknight.com
Designed and produced by Zenergy Communications, www.zenergycom.com

Ce document est également disponible en français.

Knight Therapeutics Inc.
3400 De Maisonneuve Blvd. West
Suite 1055
Montreal, Quebec H3Z 3B8
T: (514) 484-4483
F: (514) 481-4116
Email: info@gudknight.com
www.gudknight.com