# KNIGHT THERAPEUTICS INC.

## ANNUAL INFORMATION FORM
## FISCAL YEAR ENDED DECEMBER 31, 2017

**March 14, 2018**

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**Cautionary Note Regarding Forward Looking Statements**

Any statements made in this annual information form ("AIF") that are not statements of historical fact or that refer to estimated or anticipated future events are forward-looking statements. The Corporation has based its forward-looking statements on management's beliefs and assumptions based on information available to its management at the time these statements are made. Such forward-looking statements reflect the Corporation's current perspective of our business, future performance, existing trends and information as of the date of this AIF. These include, but are not limited to, the Corporation's beliefs about future revenue and expense levels and growth rates, prospects related to its strategic initiatives and business strategies, including the integration of, and synergies associated with, strategic acquisitions, express or implied assumptions about government regulatory action or inaction, anticipated product approvals and launches, business initiatives and product development activities, assessments related to clinical trial results, product performance and competitive environment, and anticipated financial performance. Without limiting the generality of the foregoing, words such as *"may", "will", "expect", "believe", "anticipate", "intend", "could", "would", "estimate", "continue",* or *"pursue",* or the negative or other variations thereof or comparable terminology, are intended to identify forward-looking statements. The statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. The Corporation cautions the reader that these statements are based on certain assumptions, risks and uncertainties, many of which are beyond the Corporation's control. In addition, certain important factors may affect the Corporation's actual operating results and could cause such results to differ materially from those expressed or implied by forward-looking statements. The Corporation believes the risks and uncertainties discussed under the section entitled "Risks Related to Knight's Business" and other risks and uncertainties detailed herein and from time to time in the Corporation's SEDAR filings, may cause its actual results to vary materially than those anticipated in any forward-looking statement. The Corporation disclaims any obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

All dollar 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.

## GLOSSARY OF ABBREVIATIONS

In this AIF, unless the context otherwise requires, the following terms shall have the meanings set forth below:

| Abbreviation | **Entity** |
|---|---|
| **3DS** | 3D Signatures Inc. |
| **60P** | 60° Pharmaceuticals, LLC |
| **Abir** | Abir Therapeutics Inc. |
| **Advaxis** | Advaxis Pharmaceuticals, Inc. |
| **Akorn** | Akorn Inc**.** |
| **Alimera** | Alimera Sciences, Inc. |
| **Antibe** | Antibe Therapeutics Inc. |
| **Apicore** | Apicore, Inc. |
| **Braeburn** | Braeburn Pharmaceuticals, Inc. |
| **Crescita** | Crescita Therapeutics Inc. |
| **CRH** | CRH Medical Corp. |
| **Domain** | Domain Associates, LLC |
| **Ember** | Ember Therapeutics Inc. |
| **EMPA** | EMPA Healthcare LLC |
| **Extenway** | Extenway Solutions Inc. |
| **Forbion** | Forbion Capital Partners |
| **Genesys** | Genesys Capital Management Inc. |
| **HarbourVest** | HarbourVest Partners LLC |
| **Knight** | Knight Therapeutics Inc. |
| **Knight Barbados** | Knight Therapeutics (Barbados) Inc. |
| **Knight USA** | Knight Therapeutics (USA) Inc. |
| **Long Zone** | Long Zone Holdings Inc. (formerly 3487911 Canada Inc.) |
| **Medimetriks** | Medimetriks Pharmaceuticals, Inc. |
| **Medison** | Medison Biotech (1995) Ltd. |
| **NeurAxon** | NeurAxon Inc. |
| **Origin** | Origin BioMed Inc. |
| **Paladin** | Paladin Labs Inc. |
| **PBB** | Pro Bono Bio PLC |
| **Pediapharm** | Pediapharm Inc. |
| **Profound** | Profound Medical Inc. |
| **Profounda** | Profounda Inc. |
| **Sanderling** | Sanderling Ventures, LLC |
| **Sectoral** | Sectoral Asset Management Inc. |
| **SIFI** | Società Industria Farmaceutica Italiana S.p.A. |
| **Stratigis** | Stratigis Capital Advisors Inc. |
| **Synergy** | Synergy CHC Corp. |
| **Teralys** | Teralys Capital |
| **TVM** | TVM Capital Life Science |

| Abbreviation | **Currency** |
|---|---|
| **CAD** | Canadian Dollars |
| **CHF** | Swiss Franc |
| **EUR** | Euro |
| **ILS** | New Israeli Shekels |
| **USD** | U.S. Dollars |

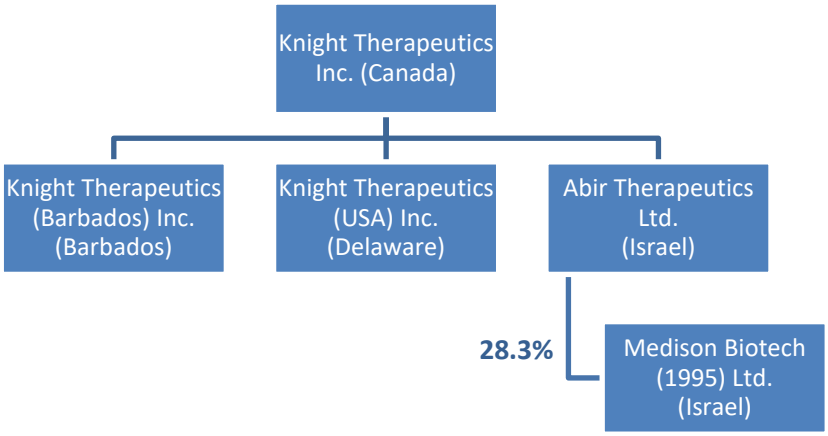
| Abbreviation | **Territory** |
|---|---|
| **CAN** | Canada |
| **CAR** | Select countries in the Caribbean |
| **ISR** | Israel |
| **QUE** | Quebec |
| **ROM** | Romania |
| **RUS** | Russia |
| **ZAF** | Sub-Saharan Africa |

| Abbreviation | **Other** |
|---|---|
| **CBCA** | Canada Business Corporations Act |
| **CEO** | Chief Executive Officer |
| **CHF** | Swiss Franc |
| **DSCSA** | United States *Drug Supply Chain Security Act* |
| **EMA** | European Medicines Agency |
| **FDA** | U.S. Food and Drug Administration |
| **Financial Statements** | Annual audited consolidated financial statements |
| **Formulary** | An official list of drugs established by a provincial government or a private insurance company plan, the cost of which will be reimbursed by them for the benefit of eligible patients |
| **Generic Drug** | A drug that, in comparison with an Innovative Drug, contains identical amounts of the identical medicinal ingredients, in comparable dosage forms, but does not necessarily contain the same non-medicinal ingredients and which is interchangeable with the said Innovative Drug |
| **GMP** | The acronym for Good Manufacturing Practices, which are the standards established by health authorities under which drugs can be developed, manufactured, packaged, analyzed, stored and shipped |
| **IFRS** | International Financial Reporting Standards |
| **IMC** | Innovative Medicines Canada |
| **IQVIA** | IQVIA Holdings, Inc. a leading pharmaceutical market research organization |
| **Innovative Drug** | A drug that usually enjoys proprietary barriers to entry, including regulatory or patent-derived market exclusivity, novelty or brand differentiation |
| **MD&A** | Management Discussion and Analysis |
| **NDS** | New Drug Submission |
| **OIC** | Opioid-Induced Constipation |
| **OTC** | Over-the-counter medicines sold directly to a consumer without a prescription from a healthcare professional |
| **PhRMA** | Pharmaceutical Research and Manufacturers of America association |
| **Pivotal Clinical Trial** | A clinical trial intended to provide evidence for a drug marketing approval |
| **PMPRB** | The acronym for Patented Medicine Prices Review Board, which is an independent quasi-judicial body that oversees pricing of patented pharmaceuticals in Canada |
| **Products** | Prescription pharmaceuticals, OTC pharmaceuticals, consumer health products, medical devices and diagnostics |
| **PRV** | Priority Review Voucher |
| **PSA** | Prostate specific antigen |
| **TPD** | Health Canada's Therapeutic Products Directorate |
| **TSX** | The acronym for the Toronto Stock Exchange, a Canadian senior equities market |
| **TSX-V** | The acronym for the TSX Venture Exchange, a Canadian equities market |

## CORPORATE STRUCTURE

Knight Therapeutics Inc. ("Knight" or the "Corporation") was incorporated under the CBCA on November 1, 2013. On February 28, 2014, the Corporation ceased to be a wholly-owned subsidiary of Paladin immediately following a court approved plan of arrangement under Section 192 of the CBCA, and its common shares were listed on TSX-V the same day. On April 29, 2014, the Corporation's common shares were up-listed from TSX-V to TSX. The articles of the Corporation have been amended several times, and most recently the Corporation amalgamated with NeurAxon on January 1, 2015. The Corporation's registered offices are located at 3400 De Maisonneuve Blvd. W., Suite 1055, Montreal, Québec H3Z 3B8.

Please see below an organizational chart showing the intercorporate relationships of Knight as at December 31, 2017. All subsidiaries are wholly-owned unless otherwise indicated.




Knight Barbados is a company incorporated under the laws of Barbados, Knight USA is a Delaware corporation and both Abir and Medison are organized and existing under the laws of the State of Israel.

Reference hereinafter to "Knight" or the "Corporation" includes Knight Therapeutics Inc. and all its wholly-owned subsidiaries.

All dollar 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.

## GENERAL DEVELOPMENT OF THE BUSINESS

### Overview

Knight is in the early stages of building its business through the acquisition and in-licensing of rights to Products. Since commencing operations in February 2014, the Corporation has grown through the acquisition and in-license of Products for Canada and certain world markets.

During 2017, Knight built its infrastructure in order to strengthen its ability to acquire, in-license and commercialize innovative products for the Canadian and select world markets. Knight achieved a significant commercial milestone in 2017 with the relaunch of Movantik® in Canada with a dedicated national salesforce through a contract sales organization. In addition, Knight has advanced its pipeline with the submission of three products to Health Canada, namely Iluvien®, Probuphine® and Netildex™.

Knight has committed to invest over $126,000 with nine life sciences debt or equity fund managers all of which can leverage their broad life sciences industry experience and existing relationships with key life science companies to help secure Product rights for the Corporation. As at December 31, 2017, Knight has approximately $84,508 of unfunded commitments that may be called over the life of the funds (based on December 31, 2017 closing foreign exchange rates).

Since inception, Knight has also invested over $140,000 through strategic debt financing to over a dozen companies with the objective of deploying capital in low risk, fair return opportunities while helping to secure Canadian and select international product rights. As at December 31, 2017, Knight has a $61,499 nominal loan balance receivable from eight strategic loans outstanding.

Knight began building its global footprint in 2015 through the acquisition of a 28.3% strategic interest in Medison, a leading Israeli specialty pharmaceutical company. The consideration given for the equity interest amounted to $82,001 including a contingent consideration of $1,100. The contingent consideration was settled in 2016 for an additional $1,130. The collaboration between the two companies has strengthened with the out-license of the Israeli rights of Movantik® to Medison. Furthermore, Knight has received total dividends of $11,836 from Medison since the inception of the investment.

Finally, Knight has raised gross proceeds of $685,128 through issuance of 109,298,800 common shares at prices ranging from $3.50 to $10.00 per share since inception.

**Three Year History**

*Fiscal 2015*

On January 1, 2015, Knight acquired NeurAxon for $1,750 and amalgamated the company with Knight. NeurAxon is a clinical stage research company focused on the development of innovative selective inhibitors of nitric oxide synthase as novel therapies for migraine and other conditions. Knight continues to fund the development of NeurAxon's products.

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 included the fair value of 10,330,884 Common Shares issued to Medison and its controlling shareholder, and contingent consideration of $1,100. In addition, the Corporation incurred $217 of transaction costs which were capitalized with the investment. On June 16, 2016, the Corporation issued 250,000 additional 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. There is no further contingent consideration payable related to the acquisition of Medison.

During 2015, Knight committed $12,496 to life sciences funds and entered into nine strategic loans for $41,810. In addition, the Corporation received capital distributions of $19,314 from its strategic fund investments and principal repayments of $40,420 on strategic loans.

In addition, during 2015, the Corporation entered into license agreements for AzaSite™, Iluvien® and the Advaxis portfolio of products for Canada, and acquired the global rights to Neuragen®. Further, Knight entered into an out-license agreement for Impavido® for the U.S.

*Fiscal 2016*

On June 2, 2016, Knight closed a bought deal offering of 28,750,000 Common Shares issued at a price of $8.00 per Common Share for total gross proceeds of approximately $230,000.

On December 22, 2016, Knight closed a bought deal offering of 10,005,000 Common Shares issued at a price of $10.00 per Common Share for total gross proceeds of approximately $100,050.

During 2016, Knight committed $2,000 to life sciences funds and issued $43,274 of strategic loans. In addition, the Corporation received loan principal repayments of $11,324 on loans and capital distributions of $4,610 from strategic investments in life science funds.

During 2016, Knight entered into license agreements for Netildex™ and Probuphine® for Canada, and Movantik® for Canada and Israel. In addition, the Corporation terminated its license agreement with Paladin for Impavido® and reacquired the rights for all international territories. Further, Knight's license partner launched Impavido® in the US.

*Fiscal 2017*

During 2017, Knight began commercializing Movantik®, its first commercial specialty product in Canada with a dedicated national salesforce through a contract sales organization. In addition, Knight filed NDS's for Iluvien® and Probuphine® in Canada.

During 2017, Knight issued $20,112 of strategic loans and invested $21,314 in connection with its strategic investments in life science funds. In addition, the Corporation received loan principal repayments of $38,835 on loans and capital distributions of $8,083 from strategic investments in life science funds.

Subsequent Events

On February 15, 2018, Knight announced the submission of Netildex™ for approval for the treatment of inflammatory ocular conditions of the anterior segment of the eye to Health Canada

On March 8, 2018, Knight announced that it received early repayment of US$20,000 of its US$23,000 strategic loan issued to Medimetriks in 2016.

On March 13, 2018, Knight announced that it acquired an additional 754,716 common shares of Crescita through a rights offering at $0.53 per share.

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.

## DESCRIPTION OF THE BUSINESS

### The Innovative Drug Industry

In developed countries, patent and regulatory legislation offers Innovative Drug developers a period of market exclusivity to provide incentives to pharmaceutical companies to take on the high risks, substantial costs and relatively long timeframes associated with developing Innovative Drugs. Such market exclusivity enables Innovative Drug marketers to focus on the sales and marketing of their approved products.

In the Innovative Drug industry, core competencies are required in science, to successfully develop new drugs, in medical and regulatory affairs, to obtain marketing approval, and in sales and marketing, to drive prescription volumes and receive reimbursement. Fully integrated pharmaceutical companies build all of these core competencies, while others focus on specific areas of the value chain. For example, biotech companies focus on the development of new drugs derived from either biotechnology or chemistry. Specialty pharmaceutical companies focus on understanding the dynamics of end-users, obtaining reimbursement and building distribution networks.

In order for pharmaceutical companies to launch new drugs, a rigorous approval process must be undertaken with the national regulatory authorities in the countries in which the products will be marketed. IMC, a Canadian-based pharmaceutical industry group, estimates that it takes, on average, ten to fifteen years for an experimental drug to advance from the laboratory to the market, that less than five out of five thousand compounds that are screened eventually progress to human testing and that only one of such compound is ultimately approved for sale. Generally, pre-clinical studies may take place over a three to six-year period. Thereafter, and depending on the success rate of the pre-clinical studies, the actual phase I, phase II and phase III clinical trials may take up to seven years. In addition, the regulatory review and approval process by the FDA and the TPD could take an additional one to three years. Finally, there may be post-marketing phase IV clinical studies required by both the FDA and the TPD to strengthen marketing claims of approved products. By focusing on late-stage drugs, the Corporation believes that its risk exposure, costs and time frames for approval may be reduced.


During the past decade, the pharmaceutical industry has continued to consolidate. The Corporation believes that this consolidation is being driven by a desire among pharmaceutical companies to (i) reduce costs through economies of scale and synergies, (ii) add sales and marketing capabilities in other territories, and (iii) gain access to promising product pipelines in key therapeutic categories.

Industry consolidation has increased the level of sales necessary for an individual product to justify active marketing and promotion by large pharmaceutical companies. This has led large pharmaceutical companies to focus their marketing efforts on drugs with high volume sales, new product launches and products which fit within core therapeutic or marketing areas. These pharmaceutical companies may seek to divest small or non-strategic product lines which, the Corporation believes, can be highly profitable for specialty pharmaceutical companies that focus on developing expertise in specialty therapeutic fields.

**The Canadian Pharmaceutical Market**

The Canadian healthcare system operates such that each province functions as a distinct territory with the power to govern provincial Formulary reimbursement. According to IQVIA, total Canadian sales of pharmaceutical products amounted to $25.5 billion for the twelve-month period ending December 31, 2016, an increase of 4% from the previous year. The Corporation believes that the growth is primarily driven by the aging population and technological breakthroughs which have increased the number of ailments that can be treated with drugs, partially offset by pricing and reimbursement pressures.

The Corporation believes that as multinational pharmaceutical companies continue to increase in size, their threshold for desirable products and the target market size of innovative products increases. Many products do not address sufficiently large potential markets and are overlooked by multinational pharmaceutical companies. Thus, the Corporation believes that these dynamics create an opportunity for specialty pharmaceutical companies such as Knight.

## THE CORPORATION'S STRATEGY

Knight intends to continue its growth and become a prominent specialty pharmaceutical company in select therapeutic fields, as well as a distributor of consumer health products and medical devices, in Canada and select international markets. Knight believes that this can be accomplished through targeted promotion of Movantik® and its other Products, and through the acquisition of additional specialty pharmaceutical and other Products in Canada and in select international markets. Knight has demonstrated and continues to believe that there are opportunities to obtain sales and marketing rights to Products in the fields and territories that are of interest to Knight. Knight intends to execute the following strategy to achieve this objective:

**Commercial Strategy**

*Focusing on Specialty Therapeutic Fields*

Knight is focused on those therapeutic fields where a relatively small number of general practitioners or specialist physicians account for the majority of prescriptions written. This will enable Knight to use a relatively small salesforce to target these physicians and to profitably capture market share.

This targeted approach may be used for all of Knight's current innovative pharmaceutical products and is a determinant of whether Knight will enter a new therapeutic area or add a new product. For example, Knight's strategy for the Canadian commercialization of Movantik®, a product for the treatment of opioid induced constipation, is to promote Movantik® to the 3,000 physicians who represent more than 50% of opioid prescriptions. This contrasts with products which are more broadly prescribed, for example, by approximately 43,000 general practitioners in Canada.

*Leveraging Specialized Sales and Marketing Infrastructure*

Knight's strategy is to grow its drug portfolio and to develop sales and marketing expertise within specialty therapeutic fields in which it is active (i.e. commercial or near-commercial products), such as ophthalmics and pain. This will enable Knight to continue to build on the strategic relationships it has with prescribing physicians and industry contacts.

*Outsourcing of Select Functions*

To reduce overhead, control expenses and maintain flexibility, the Corporation contracts with various third parties for a number of business activities, including but not limited to:

- administrative services
- laboratory studies
- logistic services
- pharmacovigilance
- product manufacturing
- select selling services

By using contract manufacturers to produce its current products, which require relatively small and infrequent production runs, Knight controls its investment in capital and avoids the risks involved in manufacturing. Similarly, by contracting with other persons to perform certain research activities, the Corporation reduces expenses and risks associated with maintaining a research facility.

**Growth Strategy**

*Developing and Acquiring Late-Stage Pharmaceuticals*

Knight maintains an active program to identify potential products for development, acquisition or licensing. In addition, the Corporation pursues opportunities to in-license late-stage products from biotech companies. Knight focuses on currently marketable or late-stage development products in order to mitigate clinical, regulatory and commercial risks. Such products generally have passed safety and toxicity testing and have demonstrated at least preliminary efficacy in humans. This allows Knight to concentrate on developing competencies in regulatory affairs, and sales and marketing. Although Knight's focus is on late-stage products, the Corporation may nonetheless acquire the rights to earlier stage products through partnerships derived from its life sciences fund strategy and secured lending.

The Corporation has invested approximately $13,000 in product acquisitions and licensing agreements since inception. At present, the Corporation is actively pursuing product acquisitions that may require substantial capital resources. There are no present agreements or commitments with respect to any such acquisitions. There can be no assurance that any of those product acquisitions will be completed by the Corporation.

Knight uses a number of internal and external sources to identify products for acquisition, to evaluate their scientific and clinical viability, and to estimate their commercial potential. Through its own internal business development efforts and, to a lesser extent, consultants, the Corporation identifies products for potential acquisitions. Once identified, each product undergoes scientific, clinical and commercial screens to further evaluate its fit within Knight's product portfolio and the likelihood of its future success.

The criteria used for screening development, acquisition, or in-licensing product opportunities are as follows:

| Criteria | Description |
|---|---|
| **Financial return** | The expected return must reflect the inherent clinical, regulatory and commercial risks involved, with late-stage development products generally requiring a higher expected return than products with existing sales |
| **Stage of development** | To mitigate the risk of failure, Knight generally considers projects that are in Phase II or later clinical trials having demonstrated safety and efficacy in humans; |
| **Required investment** | Knight will minimize its up-front payments for new product rights and targets projects that, in the event of failure, will not materially affect the results of the Corporation; |
| **Market differentiation** | The product must be differentiated from existing marketed pharmaceuticals by providing superior safety, efficacy, or pharmacoeconomic value; and |
| **Economies of scope** | The product must generally be marketable through Knight's existing or developing sales channels, or fit within select countries identified as growth and value opportunities as part of Knight's geographic expansion and, unless the product will be profitable on its own at the outset or provide the foundation for a new product area with a clear path to profitability, must complement or supplement Knight's existing products. |

While the primary focus of Knight is the innovative or branded pharmaceutical market, the Corporation may also participate, to a lesser extent, in the generic market. The Corporation's position in the generic market will be used as a tactical measure to: (i) generate stable and predictable earnings during the Corporation's early stages of development; and (ii) counter-balance the inherent risk involved in developing the market for innovative products. Knight remains focused on its Innovative Drugs and intends on outsourcing all of its generic sales efforts.

Moreover, Knight's strategy also includes the acquisition and commercialization of consumer health products and medical devices where Knight can leverage its sales and marketing expertise.

*Long-term Licensing Strategy*

Knight invests in life sciences venture capital funds in exchange for well-placed introductions to their network of companies, including the funds' portfolio companies, in an effort to secure product rights. Knight earns a return on substantially the same terms as any other limited partner in the fund, but more importantly, Knight may obtain preferential access to innovative pharmaceutical products from around the world for Canada and select international markets. These investments are designed to provide financial incentives to the life sciences funds to help secure product rights. 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.

Knight invests across a variety of complementary funds to get the broadest access possible to product rights. This includes investing in early to late stage funds; funds with a global, European and North American focus; and both direct investment funds and funds of funds. The long-term expectation is that Knight will build a pipeline of innovative products via this strategy, albeit just for Canada and select international markets, leveraging billions of dollars in research and development. However, there can be no assurance Knight's long-term licensing strategy will be effective in acquiring future Product rights.

*Strategic Lending to Life Sciences Companies*

Knight lends capital on a secured basis to life sciences companies located in various geographic markets. Typically, loans have low double-digit interest rates, are secured and may come with additional consideration to the Corporation such as fees and/or equity consideration. 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. To date, Knight's strategic lending strategy has led to two commercial assets (i.e. Neuragen® and Synergy family of products) as well as a number of early stage pipeline Products.

*Neglected Tropical Diseases and Rare Pediatric Diseases*

Knight's strategy includes investing in treatments and cures for neglected tropical diseases and rare pediatric diseases, which may result in revenue from the sale of pharmaceutical products for neglected tropical diseases and rare pediatric diseases respectively, as well as a beneficial interest in future PRVs.

Knight Barbados acquired the worldwide rights to Impavido® as part of its business separation agreement with Paladin. Impavido® is an oral treatment for leishmaniasis, a tropical disease which affects up to 12 million people globally. Knight Barbados engaged in development activities and submitted Impavido® to the FDA for approval. In March 2014, Impavido® was approved in the U.S. by the FDA for the treatment of cutaneous, mucosal and visceral leishmaniasis. With the approval of Impavido® by the FDA, Knight USA was granted a PRV on behalf of its beneficial owner, Knight Barbados. This PRV was sold by Knight Barbados on November 19, 2014 for US$125,000 to Gilead Sciences, Inc. On September 28, 2015, Knight Barbados appointed Profounda as its commercialization partner for the U.S. Profounda launched Impavido® in the U.S. in March 2016. Knight Barbados is currently looking for commercialization partners in other markets including Latin America and far east.

In addition, Knight Barbados entered into a strategic loan agreement with 60P in December 2015. As part of the agreement, Knight Barbados obtained the commercial rights for all of 60P's products in Canada, Israel and Russia. Knight has advanced a total of US$9,145 to 60P which was used for the development of treatment for the prevention of tropical diseases as well as for the submission of tafenoquine to the FDA.

*Rest of World Strategy*

Knight maintains an active program of identifying potential products and companies that fit within its existing business model, but that are located in select areas such as Israel, Latin America, Middle East, Sub-Saharan Africa, Australia, Romania, Russia 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 significant growth and value opportunities. Through its own internal business development efforts, and, to a lesser extent, external consultants, the Corporation identifies these opportunities with each such target undergoing economic, legal, commercial, scientific and clinical review to further evaluate its fit within Knight's business plan and the likelihood of its future success. Knight's strategic investment in Medison was motivated in part to increase Knight's capacity to evaluate international opportunities. Knight currently owns the worldwide rights to Impavido®, the worldwide (excluding U.S.) rights to Neuragen®, and has the exclusive rights to distribute other products in select international markets, including the rights to Movantik® in Israel, as further described in the "Knight's Product Portfolio" section below. Knight has formed partnerships with Profounda to distribute Impavido® in the U.S. and Paesel & Lorei in Europe and with EMPA to distribute Neuragen® in the Middle East. Knight is continuing to pursue out-licensing opportunities for Impavido® and Neuragen® in other jurisdictions.

Knight manages substantially all of its international operations from Knight Barbados. In addition, Knight's Israeli operations are managed from Abir and its U.S. operations are managed from Knight USA. In order to acquire and in-license products for international markets, Knight Barbados and Abir may develop, acquire or in-license products directly.

## BUSINESS OF THE CORPORATION

Knight is a pharmaceutical company which acquires, in-licenses, out-licenses, develops, markets and sells Products in Canada and in select international markets. Knight's primary business activities include the following:

| | |
|---|---|
| **Products** | • Developing, acquiring or in-licensing the sales and marketing rights to Products<br>• Developing, manufacturing, selling and marketing Products<br>• Launching and marketing innovative pharmaceutical products to prescribing physicians through a direct sales force or a contract sales organization, journal advertisements, continuing medical education materials and sponsorship<br>• Making regulatory submissions to government agencies seeking approval to market clinically-tested therapeutics<br>• Submitting applications to national bodies, provincial and private payers to approve pricing and reimbursement for product<br>• Partnering, co-promoting and/or out-licensing Products<br>• Developing innovative pharmaceuticals to treat neglected tropical diseases and rare pediatric diseases |
| **Strategic Investments** | • Investing in funds which have substantial assets under management in the healthcare sector and have the ability to leverage their existing relationships with key life science companies to help secure Canadian and select international product rights for the Corporation<br>• Financing life science companies in Canada and internationally<br>• Pursuing strategic investment opportunities in Canada and internationally designed to maximize the value of the Corporation's strong balance sheet and cash resources<br>• Pursuing acquisitions of specialty pharmaceutical businesses in Canada and select international markets |

### Sources of Product Opportunities

The Corporation believes that the current industry dynamics have created a number of opportunities for a specialty pharmaceutical company to acquire or license pharmaceutical products to market and distribute profitably. These opportunities can be categorized in the following manner:

*Multinational Pharmaceutical Companies* - The Corporation believes that pharmaceutical companies are increasingly focusing on drugs with high sales potential that can significantly impact their profitability. As a result, many multinational pharmaceutical companies have products that, despite the opportunity for growth, receive little or no promotion. Knight seeks to either acquire these products outright or offer these companies a means of sharing in the financial benefits of Knight's direct sales and marketing.

*Regional Pharmaceutical Companies* - U.S. and European specialty pharmaceutical companies or maturing biotech firms that choose to market proprietary products in their respective territories on their own generally do not have the sales and marketing capability to market their products in Canada. The Corporation believes that Knight offers a good strategic fit for other specialty pharmaceutical companies without a presence in Canada, and seeks to represent such companies in Canada.

*Emerging Biotech Companies* - According to PhRMA, there are more than 7,000 medicines in development globally, all of which have the potential to help patients around the world. According to IQVIA, the Canadian market represented approximately 2% of the world pharmaceutical market in 2016. When negotiating with a multinational pharmaceutical company for North American or global distribution rights, Canadian and certain other select territories distribution rights are generally ascribed little or no defined value. By carving out these territories through a license agreement with a Corporation such as Knight, a biotech company stands to gain additional value as a means of defraying the cost of research and development.

Moreover, many emerging biotech companies wish to control and/or actively participate in the commercialization of their products in the U.S. The Corporation believes that such companies do not have the resources to work internationally, and are more inclined to sign regional distribution deals for smaller markets such as Canada, Israel, Latin America, Middle East, Sub-Saharan Africa, Australia, Romania and Russia. Through its contacts with biotech companies and the venture capital community, the Corporation is made aware of opportunities to acquire the Canadian and other geographical licensing rights to innovative products.

Additionally, the Corporation supports the financing of biotech companies to acquire later stage products. This includes investing in life sciences venture capital funds, lending on a secured basis to life sciences companies and supporting the development of pharmaceutical products for neglected tropical diseases and rare pediatric diseases.

Based upon business conditions, our financial strength and other factors, we regularly re-examine our business strategies and may change them at any time as circumstances warrant.

**Knight's Product Portfolio**

Since commencing operations in February 2014, as a result of executing its strategy, Knight has assembled a diversified product portfolio of drugs in various stages of development for both Canada and select international markets.

***Prescription Pharmaceutical Products***

| Product / Family[3] | 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 regulatory agency
[2] Submission to Health Canada for approval announced on February 15, 2018
[3] Knight has the rights to several other prescription pharmaceutical products in-licensed from Ember and PBB which are in the early stages of clinical testing

Knight's current product portfolio includes products which have an opportunity for growth over the next two to five years. These brands are expected to be actively promoted by Knight once approved and if determined to be commercially viable.

*Movantik®/Moventig®*

In December 2016, Knight entered into an agreement with AstraZeneca for the rights to Movantik® in Canada and Israel. Movantik®, the first once-daily oral peripherally-acting mu-opioid receptor antagonist (PAMORA) approved in Canada for the treatment of OIC in adult patients with non-cancer pain who have had an inadequate response to laxative(s), was launched by AstraZeneca in October 2015. Movantik® will be marketed in Israel under the name Moventig®. 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 2017 calendar year versus $558 for the 2016 calendar year. Under the terms of the exclusive license agreement, Knight is responsible for all commercial, regulatory and certain supply chain activities for Movantik® in Canada and Israel. Knight announced the commercial relaunch of Movantik® in Canada in March 2017.

In addition, Knight obtained regulatory approval for Moventig® in Israel during 2017 and expects to launch in Israel through its partner Medison during 2018.

*Probuphine®*

In February 2016, Knight entered into an agreement with Braeburn for the exclusive rights to distribute Probuphine® in Canada. Probuphine® is a subdermal implant designed to deliver buprenorphine continuously for six months following a single treatment, promoting patient compliance and retention as well as helping to prevent accidental paediatric exposure. Under the terms of the agreement with Braeburn, Knight will handle all regulatory and commercial activities in Canada. Knight submitted Probuphine® for regulatory approval with Health Canada in June 2017 and expects to obtain approval during 2018.

*NeurAxon family*

On January 1, 2015, Knight acquired NeurAxon and amalgamated the company with Knight that same day. NeurAxon is a clinical stage research company focused on the development of innovative selective inhibitors of nitric oxide synthase as novel therapies for migraine and other conditions. Knight continues to fund the development of NeurAxon's products which are in varying stages of clinical development.

*AzaSite™*

In July 2015, Knight entered into an agreement with Akorn for the exclusive rights to distribute AzaSite™ in Canada. Under the terms of the agreement, Knight will handle all regulatory and commercial activities for AzaSite™ in Canada. AzaSite™ is a 1% sterile aqueous topical ophthalmic solution of azithromycin indicated for the treatment of bacterial conjunctivitis. AzaSite™ is formulated in DuraSite (polycarbophil, edetate disodium, sodium chloride), which is a drug delivery vehicle that stabilizes small molecules in a polymeric mucoadhesive matrix. The topical ophthalmic solution can be described as a gel forming drop, which extends the residence time of the drug relative to conventional eye drops. While AzaSite™ was approved in Canada in 2009, the product was never launched. Knight is currently working with Akorn and Health Canada to update the regulatory dossier for certain changes to the manufacturing site that have occurred since the product was approved. However, there is no guarantee that Knight will be able to update the regulatory dossier and launch the product.

*Iluvien®*

In July 2015, Knight entered into an agreement with Alimera for the exclusive rights to distribute Iluvien® in Canada. Under the terms of the agreement, Knight will handle all regulatory and commercial activities in Canada. Iluvien® is an intravitreal implant of fluocinolone acetonide and is the first diabetic macular edema treatment to deliver 36 months of continuous, low-dose corticosteroid therapy with a single injection. In February 2016, Knight announced that it had filed a NDS to Health Canada to obtain regulatory approval of Iluvien® and expects to obtain approval during 2018. On March 13, 2018, Knight was advised by Health Canada that its New Drug Submission (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.

*Netildex™*

In August 2016, Knight entered into an agreement with SIFI for the exclusive rights to commercialize Netildex™ in Canada. Under the terms of the agreement, Knight will handle all ongoing regulatory and commercial activities in Canada. Netildex™ is a fixed combination of netilmicin and dexamethasone for the treatment of ocular inflammation of the anterior segment of the eye, in presence or at risk of bacterial infection. On February 15, 2018, Knight announced that it had filed a NDS to Health Canada to obtain regulatory approval of Netildex™ and expects to obtain approval during 2019.

*Impavido®*

Knight Barbados acquired the worldwide rights to Impavido® as part of its business separation agreement with Paladin. Impavido® is an oral treatment for leishmaniasis, a tropical disease which affects up to 12 million people globally. Leishmaniasis is caused by the bite of a sand-fly in endemic countries and presents in three forms. Prior to March 15, 2016 Paladin distributed Impavido® on Knight Barbados' behalf worldwide, excluding the U.S. Knight terminated the agreement with Paladin on March 15, 2016.

In March 2014, Impavido® was approved in the U.S. by the FDA for the treatment of cutaneous, mucosal and visceral leishmaniasis. On September 28, 2015, Knight Barbados appointed Profounda as its commercialization partner for the U.S. Profounda launched Impavido® in the U.S. in March 2016.

***Consumer Health Products***

| Product[4] | 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 |

[1] Approved and marketed by Knight in Canada only
[2] Select products marketed
[3] Knight has the rights to additional consumer health products in-licensed from Ember and PBB not listed above

*Neuragen®*

In June 2015, Knight obtained the global rights to Neuragen® pursuant to an order of The Supreme Court of Nova Scotia following default by Origin under its secured loan agreement with Knight. Neuragen® is a clinically proven, natural health product designed for the symptomatic treatment of peripheral neuropathy. Unlike most peripheral pain treatments, Neuragen® does not require a prescription making it uniquely accessible to consumers. Neuragen® has been shown to be effective in the treatment of painful diabetic neuropathy, a common form of peripheral neuropathy.

*Synergy family*

In January 2015, Knight obtained the exclusive distribution rights to Synergy's products in Canada and select international markets as part of its licensing agreement with Synergy, signed in conjunction with a secured loan. The Synergy family includes FOCUSFactor™, a dietary supplement for brain health, which received Health Canada approval with the claim that it "supports cognitive health and brain function" in October 2015. In December 2016, Knight appointed Synergy as its exclusive third party direct channel distributor for FOCUSfactor™ in Canada, Israel, Romania, Russia and sub-Saharan Africa; and as its exclusive third-party retail channel distributor in Canada.

*FLEXISEQ™*

In June 2015, Knight obtained the exclusive distribution rights to FLEXSEQ™ in Quebec and Israel as part of its licensing agreement with PBB signed in conjunction with a secured loan. FLEXISEQ™ is a topically applied drug-free gel which has been clinically proven to safely relieve the pain and improve the joint stiffness associated with osteoarthritis in several randomized, double-blind clinical trials. FLEXISEQ™ is registered as a medical device and currently sold in Europe.

***Medical Devices***

| Product / Family[2] | Description | Licensor / Vendor | 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 regulatory agency

[2] In additional to the products listed above, Knight has the rights to an early stage medical device in-licensed from PBB

*TULSA-PRO®*

In June 2015, Knight obtained the exclusive Canadian distribution rights to TULSA-PRO® as part of its licensing agreement with Profound signed in conjunction with a secured loan. The TULSA-PRO procedure is a minimally invasive treatment that uses thermal ablation to heat the prostate from the inside out, under real time MR guidance. In the Phase I trial, TULSA-PRO demonstrated accurate and precise ablation of targeted prostate tissue in patients with localized prostate cancer, while providing a well-tolerated favorable safety profile with minor impact on urinary, erectile and bowel function at 12 months.

On October 26, 2017, Health Canada refused the Medical Device License approval of TULSA-PRO® requiring further clinical evidence beyond the Phase I data. Profound's management is in the process of evaluating the additional requirements, in terms of required effort and time. While Profound continues to review the requirements for approval in Canada, they have announced that the Canadian market is not considered a priority.

**Sales and Marketing**

Knight's sales and marketing strategy is focused on three key activities: creating demand among targeted prescribers, ensuring distribution to appropriate points of sale and securing reimbursement for patients. Knight plans to expand its sales and marketing team and capabilities as it acquires additional products. Knight expects to market its products to general practitioners and specialty physicians in Canada using a contract sales organization and potentially its own specialty salesforce as well as through indirect marketing.

*Creating Demand Among Targeted Prescribers* - Knight will utilize a "pull-through" marketing approach that is typical of pharmaceutical companies. Knight's sales representatives will demonstrate the features and benefits of its products to physicians who may write prescriptions for Knight's products. These physicians write prescriptions for their patients, who, in turn, take the prescriptions to pharmacies to be filled. The pharmacies then place orders with the wholesalers, or, in case of large chain pharmacies, their distribution centers, to which Knight will sell its products.

Knight employs a dedicated national physician salesforce through a contract sales organization. The Corporation believes that it can effectively reach its core prescriber group with a focused sales team because of the concentrated nature of the innovative markets in which it competes and because of the Corporation's use of fact-based physician targeting tools. The Corporation will use fact-based physician targeting in order to obtain the greatest return for its sales effort. The Knight sales team will use the data to focus on this smaller, high potential group while other marketing tactics, such as advertising and direct mail, will be used to reach the balance of the market in a more efficient manner.

Knight will organize and support various continuing education initiatives to ensure that physicians are kept informed of the most current practices in using the Corporation's products. The Corporation believes that participation in medical conferences in Canada and internationally is important in building awareness of the Corporation's products and their benefits among its target groups. Conference participation will be further used to build the supportive relationship between the Corporation and its core physician target groups.

Knight may fund and support phase 4 clinical studies as may be appropriate for its current or future products. These studies benefit the Corporation by generating new data which may subsequently be promoted and/or published, and by positioning Knight as a supporter of new medical research among its core physician target group.

The Corporation will also be active in working to build awareness and encourage the use of its brands by working with and supporting consumer advocacy groups in their areas of interest. The Corporation believes that this activity helps to generate awareness of the brands directly with patients.

*Ensuring Distribution to Appropriate Points of Sale* - Knight will employ a variety of tactics to support its own direct sales efforts to ensure that its products are available for sale at the appropriate distribution points.

*Securing Reimbursement for Patients* - Knight recognizes that gaining reimbursement from public and private payers is a key success factor to marketing pharmaceutical products in Canada. To reach this goal, the Corporation uses specialized external consultants, as necessary, to prepare new submissions to public drug review agencies like the Common Drug Review (CDR) and the pan-Canadian Oncology Review (pCODR), as well as to work with the Corporation on negotiations and submissions to the pan-Canadian Pharmaceutical Alliance (pCPA), private drug plans and public formularies, such as the provincial drug plans. In addition, the Corporation works with external consultants to manage and support the reporting requirements of existing listings. As the need arises, the Corporation employs consultants to prepare certain new presentations to private insurers and the provincial bodies responsible for overseeing Formularies. The Corporation supports these submissions and presentations by commissioning independent pharmacoeconomic studies to illustrate the economic benefits of incorporating their products in treatment regimens.

**Manufacturing and Distribution**

Knight does not manufacture any of its products directly, but rather outsources this function to third parties. Knight has not invested, nor does it intend to invest, in large scale commercial production facilities and expects to continue to outsource all of its manufacturing. Through contractual arrangements and quality control audits, Knight ensures that its products are manufactured in accordance with the current GMP, consistent with regulatory requirements. In addition, under most of the Corporation's product license agreements, the licensor retains the rights and obligation to manufacture the licensed product.

Knight uses third-party manufacturers for the production of its products for development and commercial purposes. Given the availability of excess capacity for manufacturing in the marketplace and the lower cost of outsourcing and Knight's manufacturing needs, Knight intends to continue to outsource its manufacturing for the near term. Knight's products are currently available only from sole or limited suppliers. These third-party manufactured products have accounted for all of Knight's revenues.

Knight depends on third parties for the supply of the raw materials necessary to develop and manufacture its products, including the active and inactive pharmaceutical ingredients used in its products. Knight is required to identify the supplier of all the raw materials for its products in the drug applications that it files with Health Canada, the FDA and the EMA. If raw materials for a particular product become unavailable from an approved supplier specified in a drug application, Knight would be required to qualify a substitute supplier with Health Canada, the FDA or the EMA, which would likely interrupt manufacturing of the affected product. To the extent practicable, Knight attempts to identify more than one supplier in each drug application. However, some raw materials are available only from a single source and, in some of its drug applications, only one supplier of raw materials has been identified, even in instances where multiple sources exist.

Under some of its agreements, Knight may be required to purchase a minimum amount of raw materials and/or order a minimum amount of manufactured products. Generally, Knight must pay a shortfall penalty if it does not meet its minimum requirements. The inability to supply can have a material adverse effect on the Corporation's financial condition and results of operations and cash flows.

**Competition**

The market for drugs is highly competitive with many established manufacturers, suppliers and distributors actively engaged in all phases of the business. Knight believes that competition in the sale of pharmaceutical products is based primarily on efficacy, reimbursement coverage, brand awareness, availability, product safety and price. As Knight acquires brand name pharmaceutical products, they may be subject to competition from alternate therapies during the period of patent protection and thereafter from generic or other competitive products. All of Knight's products compete with generic and/or other competitive products in the marketplace. Competing in the branded product business requires Knight to identify and quickly bring to market new products embodying technological innovations. Successful marketing of branded products depends primarily on the ability to communicate the efficacy, safety and value to healthcare professionals in private practice, group practices and health care organizations. The Corporation anticipates that its branded product offerings will support its existing areas of therapeutic focus.

Many of Knight's competitors are large well-known pharmaceutical companies which have considerably greater financial, sales, marketing and technical resources than those of the Corporation. In addition, many of the Corporation's present and potential competitors have research and development capabilities that may allow such competitors to develop new or improved products that may compete with the Corporation's products.

The pharmaceutical industry is characterized by continued product development and technological change. The Corporation's products could be rendered obsolete or uneconomical by the development of new pharmaceuticals to treat the conditions addressed by the Corporation's products, as a result of technological advances affecting the cost of production, or as a result of marketing or pricing action by one or more of the Corporation's competitors.

Within Canada, Knight competes with Innovative Drug manufacturers, innovative pharmaceutical companies that license and distribute Innovative Drugs, and Generic Drug manufacturers. Within each of Knight's therapeutic fields, other drug companies offer competitive products. For example, Impavido® is approved in Germany, Israel and the U.S., and faces generic competition in some of these markets. The Corporation competes with specialty pharmaceutical companies such as Acerus Pharmaceuticals Corporation and Cipher Pharmaceuticals Inc., and regional affiliates of multinationals, such as Purdue Pharma Canada, Valeant Canada Ltd. and Endo International plc of which Paladin is a subsidiary, in securing the Canadian and international rights to new products. These companies seek to develop distinct specialty niches and from time to time may compete with the Corporation in negotiating Canadian and international sales and marketing rights to certain products.

**Licensing and Intellectual Property**

The pharmaceutical industry places great emphasis on brand differentiation by the use of trademarks. Thus, while some of the Corporation's products do not have patent protection, the Corporation believes that many of the products it intends to sell are differentiated based on their recognizable trademarks.

The Corporation's success depends in part on its ability to obtain patents, protect trade secrets, operate without infringing the proprietary rights of others and prevent others from infringing on its proprietary rights.

**Potential Liability and Insurance**

The drugs distributed by the Corporation contain medicinal ingredients that have been approved for marketing by Health Canada, the FDA and the EMA. The Corporation faces an inherent business risk of exposure to significant product liability and other claims in the event the use of the Corporation's products results, or is alleged to have resulted, in adverse effects. Knight maintains product liability insurance to cover such risks. The Corporation has never been involved in any significant legal proceedings or been the subject of any claim regarding the safety of its Products.

**Knight's Fund Investment Portfolio**

As of the date hereof, Knight has committed to invest with the following life sciences venture capital fund managers for over $126,000 in total commitments based on the exchange rates as of the dates of the commitments. As at December 31, 2017, Knight has approximately $84,508 of unfunded commitments that may be called over the life of the funds (based on December 31, 2017 closing foreign exchange rates). 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.

| | Fund Commitment | |
|---|---|---|
| **Fund Manager** | **In Source Currency (in thousands)** | **In Canadian Dollars[1] (in thousands)** |
| Teralys | C$30,000 | $30,000 |
| Domain | US$25,000 | $29,063 |
| Forbion | €19,500 | $27,550 |
| Sectoral[2] | US$13,000 | $13,919 |
| Sanderling | US$10,000 | $11,625 |
| HarbourVest | C$10,000 | $10,000 |
| TVM | US$1,600 | $1,996 |
| Bloom Burton Healthcare Lending Trust[3] | C$1,500 | C$1,500 |
| Genesys | C$1,000 | $1,000 |

[1] Converted at the Bank of Canada noon exchange rates as of the commitment dates (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

**Knight's Strategic Loans**

Knight finances other life sciences companies in Canada and internationally on a secured basis with the strategic goal of strengthening relationships in the life sciences industry, and securing product distribution rights for Canada and select international markets. The primary factors considered by the Corporation in assessing lending opportunities are as follows: (i) risk profile of the borrower, (ii) the nature and value of security, (iii) the anticipated return on investment, and (iv) the product distribution rights acquired in conjunction with the loan. The table below lists all of Knight's loans issued since inception. As at December 31, 2017, Knight has a $61,499 nominal loan receivable as detailed in the table below.

| Entity | Status | Original Loan Amount[1] | Base Interest Rate | Nominal loan balance as at December 31, 2017 | | Maturity |
|---|---|---|---|---|---|---|
| | | | | In Source Currency | In Canadian Dollars[2] | |
| Medimetriks[2] | Active | USD 23,000 | 13% | USD 22,250 | $27,913 | 2019 |
| Synergy[3] | Active | USD 21,500 | 10.5%-15% | USD 10,063 | $12,624 | 2020 |
| 60P | Active | USD 9,145 | 15% | USD 9,145 | $11,472 | 2020 |
| Crescita | Active | CAD 6,841 | 9% | CAD 3,636 | $3,636 | 2022 |
| Profound | Active | CAD 4,000 | 15% | CAD 3,429 | $3,429 | 2019 |
| Pediapharm[4] | Active | CAD 1,250 | 12% | CAD 1,250 | $1,250 | 2019 |
| Ember[5,6] | Active | USD 1,000 | 12.5% | USD 500 | $627 | 2016 |
| Antibe | Active | CAD 500 | 10% | CAD 548 | $548 | 2018 |
| CRH | Repaid | USD 30,000 | 12% | - | - | N/A |
| PBB | Repaid | USD 15,000 | 12% | - | - | N/A |
| Apicore | Repaid | USD 6,500 | 15% | - | - | N/A |
| Origin | Default[7] | CAD 850 | 15% | - | - | N/A |
| Extenway | Impaired | CAD 800 | 15% | - | - | N/A |

[1] Total amount loaned to partner since inception, converted at the Bank of Canada closing exchange rates on December 31, 2017
[2] In March 2018, Knight received early repayment of US$20,000 from Medimetriks
[3] Includes USD 11,500 loaned in 2015 and USD 10,000 loaned in 2017
[4] Pediapharm debenture is held indirectly through the Bloom Burton Healthcare Lending Trust
[5] 50% of the Ember loan was assigned to the Bloom Burton Healthcare Lending Trust
[6] The original maturity date was in 2016 but the loan remains outstanding
[7] Acquired assets related to Neuragen® pursuant to an order of The Supreme Court of Nova Scotia following default by Origin

**Knight's International Investments**

On September 9, 2015, the Corporation entered into a strategic relationship pursuant to which it acquired a 28.3% equity interest in Medison. Medison's revenues are principally derived from delivering innovative healthcare solutions to the Israeli market, including but not limited to early access programs, government registration and reimbursement, medical affairs, marketing and logistics. Medison is the exclusive Israeli partner for leading global pharma companies such as Amgen®, Biogen®, and Ipsen® and Shire®. Jonathan Ross Goodman, Knight's CEO, is the Corporation's representative on Medison's Board of Directors.

The Corporation 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:

| **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 | **24,597** | 28,138 |

**Facilities**

In late 2016, Knight signed an office lease to expand to 9,982 square foot premises in Montreal, Québec. The lease has an original term of approximately five years, scheduled to end in the second half of 2022. The Corporation expects that the new office location in Montreal, Québec will be sufficient for the foreseeable future.

The Corporation conducts business in Barbados from an office situated in St. Michael's, Barbados and conducts business in Israel from an office situated in Tel Aviv, Israel. The Corporation expanded to a larger location in Barbados in 2015 and took over additional office space in early 2017. The Corporation expects that the expanded location in Barbados will be sufficient for the foreseeable future.

**Personnel and Employees**

As of the date hereof, Knight has 27 permanent full-time employees and 2 permanent part-time employees whose collective responsibilities relate primarily to business development, sales and marketing, operations, scientific affairs and finance. Additionally, Knight engages several consultants for various services. Knight does not have any employees who are members of a union.

## RISKS RELATED TO KNIGHT'S BUSINESS

Investing in the Corporation's securities involves a significant amount of risk. Potential investors should carefully consider the risks described below, together with all of the other information in Knight's publicly filed documents, before making an investment decision. If any of the following risks occurs, Knight's business, financial condition or results of operations and financial condition could be adversely affected. In any such case, the trading price of the Common Shares could decline, and investors could lose all or part of their investment.

**Limited Business History**

Knight has been operating for just over four years and thus has a limited history of operations and earnings. The likelihood of success of Knight must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the establishment of any business in the biotechnological and pharmaceutical markets. To continue to properly operate its business, Knight will need to continue to develop operational, financial and management information systems, and employ many key individuals in management and administrative roles. There can be no assurance that Knight will be able to generate revenues, operate profitably, or provide a return on investment, or that it will successfully implement its current business plans.

**Dependence on Key Person, Ability to Hire and Retain Key Personnel**

The success of Knight is dependent, in part, on the services of its CEO Jonathan Ross Goodman. Mr. Goodman suffered an accident in August 2011 from which he has not yet fully recovered, with energy level and memory retrieval issues remaining outstanding at certain times. The experience of this individual will be a significant contributing factor to Knight's continued success and potential growth. The loss of Mr. Goodman's services on a short, medium, long term or on a temporary basis could have a material adverse effect on Knight's operations and business prospects. In addition, Knight believes that its future success will depend in large part on its ability to attract and retain additional highly skilled technical, management, and sales and marketing personnel. There can be no assurance that Knight will be successful in attracting and retaining such personnel, and the failure to do so could have a material adverse effect on Knight's business, operating results and financial condition.

**Ability to Implement Knight's Strategy to Grow the Business**

Knight's business strategy is largely based on increasing sales and net income through strategic acquisitions, licensing agreements and internal growth initiatives intended to develop marketing opportunities with respect to acquired product lines. Knight's business strategy is focused on enhancing its competitive standing through the promotion and sale of new products through new marketing and distribution channels. Since Knight engages in limited proprietary research activity with respect to product development, it will rely heavily on purchasing product lines from other companies.

Other companies, many of which have substantially greater financial, marketing and sales resources than Knight, compete for the acquisition of products. Knight may not be able to acquire rights to additional products on acceptable terms, if at all, or be able to obtain future financing for acquisition on acceptable terms, if at all. The inability to effect acquisitions of additional branded products could limit the overall growth of the business. Furthermore, even if Knight can obtain rights to pharmaceutical products, Knight may not generate sales sufficient to create a profit or otherwise avoid a loss.

**Knight's business plan and strategy rely, in part, on acquisitions**

Knight's business plan is focused in part on growth by identifying suitable acquisition opportunities, pursuing such opportunities, completing acquisitions and effectively integrating such businesses in Knight's business and operations. The Corporation may be unsuccessful in evaluating material risks involved in completed and future investments which could impact the Corporation's ability to realize the expected benefits from future investments and acquisitions. Further, if Knight is unable to manage its growth effectively, this could adversely impact its financial position and results of operations. There can be no assurance that Knight will be able to identify suitable acquisition candidates or that Knight will be able to acquire assets or companies on an accretive basis.

The successful integration of new operations arising from Knight's acquisition business plan and strategy requires that a substantial amount of management time and attention be focused on integration tasks. Management time that is devoted to integration activities may detract from management's normal operations focus. Integration activities can result in unanticipated operational problems, expenses and liabilities. If Knight is not successful in executing its integration strategies in a timely and cost-effective manner, it will have difficulty achieving its growth and profitability objectives.

**Ability to Integrate New Products and Companies in Canada and Internationally**

The integration of newly acquired products and companies into Knight's business will require significant management attention and expansion of marketing, sales, and general and administrative staff. Knight's strategic direction includes becoming an international specialty pharmaceutical company. In December 2016, Knight entered into a license agreement with Astra Zeneca for Movantik®. Beginning in the first quarter of 2017, the Corporation started investing in commercialization efforts related to Movantik®, including engaging a contract sales organization to have a dedicated national sales force as well as other promotion activities. There is no certainty that the marketing and promotion on Movantik® will increase sales enough to provide a financial return.

Investing and operating in international locations and possibly other emerging markets carry substantial inherent financial, legal and political risks. If Knight cannot integrate its acquisitions successfully, these changes and acquisitions could have a material adverse effect on the business, financial condition, results of operations and cash flows. In addition, potential future acquisitions in international jurisdictions are subject to risks inherent in conducting business abroad, including possible nationalization or expropriation, price and currency exchange controls, fluctuations in the relative values of currencies, political instability and restrictive governmental actions.

**Ability to Acquire License Rights to New Products**

Knight's growth depends on acquisition of rights to products from other companies as the primary source for new products. Risks in acquiring new products include: a) the ability to locate new products that are attractive and complement Knight's business, and b) the price to acquire or obtain the license for these products may be too costly to justify the acquisition. Knight faces ongoing competition from other pharmaceutical companies in acquiring rights to products, which makes it difficult for Knight to find attractive products on acceptable terms.

**Ability to Successfully Develop New Drugs**

Knight intends to invest substantial time, resources and capital in identifying and purchasing new drugs, dosage and delivery systems, either on its own or through possible licensors. Knight's continued growth will depend, in part, on its success in such a process. Knight may not be able to recover its investment in the development of new drugs, given that projects may be interrupted, unsuccessful or not as profitable as initially contemplated.

**Collaborations or other transactions with companies involve and will continue to involve the lending of money to such companies putting Knight's capital at risk in the event of a failure to repay**

Certain of Knight's collaborations or other transactions with pharmaceutical companies, drug developers and other life sciences companies have involved and will continue to involve the financing of such companies including by way of loans and other forms of debt. Such loans take and may continue to take different forms and will have different terms with respect to interest rate, repayment terms, security and other matters. There can be no assurance that any such companies will be able to repay such loans in accordance with their repayment terms or that any security in respect of such loans would be sufficient at the time of realization to cover the debt owed by such companies. Any failure to repay such loans in accordance with applicable terms, failure to realize on security or inadequacy of security upon realization could have a material adverse effect on the capital position and general financial condition of Knight. In addition, even if the Corporation is able to realize certain value for the security, it may distract management from other parts of the business and require substantial time and resources in order to realize the security. For example, during 2015 the Corporation lent $800 to Extenway and shortly thereafter the Corporation determined that Extenway was in default of the loan and wrote off the full loan receivable. As at December 31, 2017, the Corporation has not recovered any amount of the Extenway loan principal.

**Knight invests in funds that may make investments that are not profitable to Knight or that may not help Knight secure product rights**

As part of Knight's growth strategy, it invests in healthcare-specialized funds and fund managers which have substantial assets under management in the healthcare sector and can leverage their existing relationships with key life science companies to help secure Canadian and select international market product rights for Knight. As at the date hereof, the Corporation has committed to invest, or made investments, in funds managed by Sectoral, Forbion, Teralys, Domain, Sanderling, HarbourVest, TVM, Genesys and Stratigis which represent commitments of over $125,000 based on exchange rates in effect as of the commitment dates. Knight does not exercise direction or control over the funds in which it invests and does not have any direct decision making in the investment decisions of such funds. There is no guarantee that such funds will make investments that are profitable for Knight nor that Knight's relationships with such funds will help Knight secure any product rights. Further, Knight's investments in such funds are capital in nature and there is no guarantee that all or any such capital will be recovered.

**Knight's investments in Neglected Tropical Diseases and Rare Pediatric Diseases may not lead to approved products or to the granting of a Priority Review Voucher by the FDA**

One of Knight Barbados' strategies is to source opportunities to license or acquire and develop therapeutics to treat either Neglected Tropical or Rare Pediatric Diseases. Knight Barbados may not be able to source such opportunities or to source them on attractive deal terms. In addition, Knight Barbados may not be successful in securing FDA approval for such therapeutics, or if approved, may nonetheless not be granted a PRV from the FDA, and therefore may not be successful in receiving a beneficial interest in additional PRVs.

Knight Barbados entered into a secured loan agreement with 60P in December 2015, the proceeds of which were used in the development of medicines for treatment and prevention of tropical diseases. As at the date hereof, Knight Barbados has a receivable balance of approximately US$5,900 from 60P, including loan principal and interest. In February 2018, 60P announced that it received a Priority Review Designation from the FDA for tafenoquine for prevention of malaria in adults which indicates that the product potentially fulfils the statutory requirements for a PRV. There can be no assurance that the sales of tafenoquine will be sufficient to repay Knight's loan.

**Ability to Have Access to Additional Financing and Capital, and Dilution**

Knight may consider issuing additional debt or equity securities in the future to fund potential acquisitions or investments, or for general corporate purposes. If Knight issues additional equity or convertible debt securities to raise additional funds, its existing shareholders may experience additional dilution, and the new equity or debt securities may have advantageous rights, preferences and privileges when compared to those of Knight's shareholders as at the date hereof. Such dilution may be significant. In addition, if Knight incurs debt, it may increase its leverage relative to its earnings or to its equity capitalization, requiring Knight to pay interest expenses. Knight may not be able to market such issuances on favourable terms, or at all, in which case, Knight may not be able to develop or enhance its products, execute its business plan, take advantage of future opportunities, or respond to competitive pressures or unanticipated customer requirements.

**The Globalization of Knight's Business**

The globalization of Knight's business, including its strategic investment in Medison, exposes it to increased risks. Select international markets have been identified as one of the Corporation's growth platforms and is a key element of Knight's overall strategy.

There is no guarantee that Knight's efforts to expand sales in select international markets or that Knight's significant investment in Israel will succeed. The expansion of Knight's activities in select international markets may further expose the Corporation to more volatile economic conditions, political instability, competition from companies that are already well established in these markets, the inability to adequately respond to unique characteristics of these markets, particularly with respect to their regulatory frameworks, difficulties in recruiting qualified personnel, potential exchange controls, weaker intellectual property protection, higher crime levels, and corruption and fraud.

The continued globalization of Knight's business may also expose Knight to increased currency risk as Knight may make investments in companies whose operations are primarily conducted in foreign currencies which could directly or indirectly result in a decrease in value in Knight's investment if those currencies devalue. For example, if the ILS is devalued the share of Knight's pick-up of Medison will be negatively impacted. In addition, as Knight invests in foreign jurisdictions its business will be exposed to foreign legal and compliance frameworks including but not limited to tax and drug pricing. For example, Knight's share of net income from Medison was negatively impacted in 2017 due to a decline of the ILS vs. EUR which led to required price reductions on Medison's products based on Israeli reference pricing regulations.

The Corporation's existing policies and procedures, which are designed to help ensure that Knight, its employees and its agents comply with various laws and regulations regarding corrupt practices and anti-bribery, cannot guarantee protection against liability for actions taken by businesses in which Knight has invested. Failure to comply with domestic or international laws could result in various adverse consequences, including possible delay in the approval or refusal to approve a product, recalls, seizures, withdrawal of an approved product from the market, or the imposition of criminal or civil sanctions, including substantial monetary penalties.

The Corporation may invest in countries which have strict, government imposed currency controls. Currency controls may include restrictions on the amount of currency that may be repatriated. As a result, there is a risk that Knight may not be able to recover funds invested or dividends from foreign investments.

In addition, members of Knight's management team based in select international markets may be unfamiliar with, and inexperienced in, Canadian securities law and other legal requirements. From a financial reporting perspective, differences in banking systems and business cultures could have an adverse effect on the efficiency of internal controls over financial reporting matters.

Many jurisdictions require specific permits or business licenses, particularly if the business is considered foreign. These requirements affect Knight's ability to carry out its business operations in international markets.

**Generic Product Risk**

Although Knight's strategy is focused on acquiring the rights to products not subject to competition from generic products, there may be no proprietary protection for many of the branded pharmaceutical products which will eventually form part of Knight's portfolio. The entrance into the market of a generic pharmaceutical product typically completely erodes the branded product's market share within twelve months which may have a material adverse effect on Knight's business, financial condition and results of operations. For example, Impavido®, which is approved in Germany, Israel and the U.S., has no patent life remaining and faces generic competition in some of these markets. Should a generic version of Impavido® be approved in Germany or the U.S., it would likely have a material negative effect on the sales of Impavido®.

**Dependence upon Companies in which Knight Makes Investments**

Economic, governmental, industry and external factors outside Knight's control may affect each of the companies in which Knight invests, whether directly (such as Knight's strategic investment in Medison), or indirectly through its fund investments. If these companies do not succeed, the value of Knight's assets and the market price or value of its Common Shares could decline. Some of the material risks relating to the companies in which Knight may invest include:

- the ability of these companies to successfully develop and obtain governmental approvals for the products which serve as the basis for Knight's investments;
- the ability of competitors to develop similar or more effective products, making the drugs developed by the companies in which Knight invests difficult or impossible to market;
- the ability of the companies in which Knight invests to adequately secure patents for their products and protect their propriety information;
- the ability of the companies in which Knight invests to enter the marketplace without infringing upon competitors' patents;
- the ability of the companies in which Knight invests to remain technologically competitive, and the dependence of these companies upon key scientific and managerial personnel; and
- the ability of the companies in which Knight invests to manage cash flow in order to remain solvent and ensure that Knight's investment remains realizable.

Knight has limited or no control over the resources that any company in which it invests may devote to developing the products for which Knight collaborates with them. Any company in which Knight invests may not perform as expected. Such companies may breach or terminate their agreements with Knight or otherwise fail to conduct product discovery and development activities successfully or in a timely manner. If any of these events occurs, it could have a material adverse effect on Knight's business.

**Product Liability Claims, Insurance and Recalls, and Unexpected Product Safety or Efficacy Concerns**

Knight may face an inherent business risk of exposure to product liability claims in the event that the use of its technologies or products are alleged to have resulted in adverse effects. Side effects, or marketing or manufacturing problems pertaining to any of Knight's current or future products could result in product liability claims or adverse publicity. Unexpected safety or efficacy concerns can also arise with respect to marketed products, whether or not scientifically justified, leading to product recalls, withdrawals or declining sales, as well as product liability, consumer fraud and/or other claims.

These risks will exist for those products in clinical development and with respect to those products that receive regulatory approval for commercial sale. In addition, clinical studies sponsored by Knight may also involve risks of civil liability. Although Knight intends to take what it believes to be appropriate precautions, including obtaining and maintaining product liability coverage (subject to certain deductibles and maximum payouts) and obtaining indemnification from its partners (subject to the terms of each specific agreement), Knight may not be able to avoid significant product liability exposure. Moreover, taking into consideration the present liability insurance market, there is no assurance that Knight will be able to obtain and to continue to maintain adequate insurance coverage in connection with its business or that the insurance coverage will be consistently available, or consistently available on economically feasible terms, to Knight. In addition, not all risks are covered by insurance and no assurance can be given that the insurance coverage obtained and maintained by Knight will be sufficient to cover losses or claims that may occur involving Knight's business.

**Marketing and Competition**

The Innovative Drug and Generic Drug industries are competitive and this competition may increase. Products compete based on efficacy, safety and side effect profiles, price and brand differentiation. Some of Knight's competitors may have greater technical or financial resources than Knight and may use these resources to pursue a competitive position that threatens Knight's current or future products. Knight's current or future products could be rendered obsolete or uneconomical by the development of new pharmaceuticals to treat the conditions addressed by these products, as a result of technological advances affecting the cost of production, or as a result of marketing or pricing action by one or more of Knight's competitors.

**Ability to Obtain Regulatory Approvals**

The manufacture and sale of pharmaceutical products in Canada, the U.S. and other jurisdictions are highly regulated, which significantly increases the difficulty and costs involved in obtaining and maintaining regulatory approval for marketing new and existing products.

The regulatory approval process procedure can be long and may involve significant delays despite Knight's best efforts. Moreover, TPD regulations are rigorous, time consuming and costly, and Knight cannot predict the extent to which it may be affected by changes in regulatory developments and its ability to meet such regulations. There is also a risk that Knight's current or future products may be withdrawn from the market and the required approvals suspended because of non-compliance with regulatory requirements. As part of the FDA's approval of Impavido® in the U.S., Knight has committed to conduct post-approval studies; should these studies yield negative patient outcomes, there can be no assurance that the FDA will not revoke regulatory approval for Impavido®. In August 2015, Knight submitted a NDS to Health Canada for regulatory approval of ATryn®. In April 2016, the Corporation received a Notice of Deficiency advising the Corporation that there were significant omissions that precluded the dossier from being reviewed by Health Canada. In September 2016, the Corporation responded and resubmitted the NDS to Health Canada and subsequently received a Notice of Deficiency Withdrawal in March 2017. Following an evaluation of alternatives, the Corporation does not expect to resubmit ATryn®.

In addition, there can be no assurance that the regulators will not require modification to any other submissions which may result in delays or failure to obtain regulatory approvals. Any delay or failure to obtain regulatory approvals could adversely affect the ability of Knight to utilize its technology, thereby adversely affecting operations. Further, there can be no assurance that Knight's future products will prove to be safe and effective in clinical trials, or receive the requisite regulatory approvals.

**New Legislation or Regulatory Requirements**

New legislative proposals for pharmaceutical product pricing, reimbursement levels, approval criteria and manufacturing requirements may, from time to time, be proposed and adopted both in Canada and in other markets in which Knight will sell its products. New legislation or regulatory requirements may have a material adverse effect on Knight's financial condition, results of operations or cash flows. Any failure to comply with applicable laws, rules and regulations in all jurisdictions in which Knight plans to operate may result in legal proceedings.

In connection with the current opioid crisis in Canada, there is a risk that regulators may require Knight to prepare an Evaluation and Mitigation Strategy (REMS) in connection with the Probuphine®, a subdermal implant designed to deliver buprenorphine continuously for six months following a single treatment. This could result in delays or failure to obtain regulatory approval as well as additional costs that may negatively impact Knight's ability to commercialize Probuphine® in Canada.

The Canadian federal government has made a commitment to reduce the cost of prescription drug pending in Canada. On December 2, 2017, Health Canada released its proposed amendments to the PMPRB, which, if enacted, are expected to result in a significant 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.

Further, on November 27, 2017, the DSCSA came into force in the U.S. The DSCSA require all manufacturers of drug products sold in the U.S. to "serialize" each individual package to enhance drug traceability in the event of an adverse event and to prevent drug counterfeiting. Changes in serialization requirements or failure to comply with serialization requirements may result in an increase in costs, delays in supply or lost sales due to implementation of the changes required under the DSCSA, and may therefore affect the profitability of Impavido® in the U.S. Similarly, new regulations introduced in Europe will require serialization for batches manufactured and released after September 2019. Knight is currently working with its partners to implement the required changes, however the is a risk of an increase in costs, delays in supply or lost sales due to implementation of the changes which could affect the profitability of Impavido® internationally.

**Ability to Obtain Product Reimbursement**

The success of many of Knight's current and future products and, in turn, its future growth and profitability, will depend to a significant extent upon its ability to obtain competitive levels of reimbursement for those drugs from public Formularies (federal, provincial and territories) and other third-party private payers.

In order to reduce drug prices in Canada, the Council of the Federation of Canadian provinces established the pan-Canadian Pharmaceutical Alliance ("pCPA") in 2010 for the purpose of conducting joint provincial/territorial negotiations for prescription drugs in Canada, thereby achieving greater value for all Formularies.

All brand name drugs receiving a favourable review from the Common Drug Review ("CDR") are now subject to a negotiation process managed by the pCPA. Through this negotiation, the pCPA attempts to reach an agreement directly with drug companies like Knight. Once this agreement or Letter of Intent ("LOI") is reached, it becomes the basis upon which individual Formularies determine if they will list – reimburse – the drug in their territory.

As drug costs have increased, public Formularies have become more restrictive in both the number of products they reimburse and the conditions under which they will be reimbursed. The failure to achieve Formulary listings and/or specific conditions attached to restricted listings may affect patients' and physicians' decisions regarding the use of Knight's future products. There can be no assurance that the current conditions and rigor or timing of review related to submissions for public and private Formulary listings will not change or become more onerous in the future. Furthermore, there can be no assurance that the Formularies will list or continue to list Knight's future products. If any of Knight's future products fail to achieve a negotiated LOI with the pCPA or are not listed on the provincial Formularies, this may have a material adverse effect on Knight's financial condition, results of operations or cash flows.

**Product Pricing Regulations 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 subset 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 significant 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.

**Ability to Protect and Maintain its Intellectual Property and Licensing Arrangements**

Knight's success depends in part on its ability to protect and maintain intellectual property rights and licensing arrangements for its current and its future products. Knight does not know whether any of its patent applications will result in the issuance of any patents. Even if issued, these patents may not provide Knight with a competitive advantage against competitors with similar technologies. Furthermore, competitors may design around Knight's patents and develop similar technologies or duplicate any technologies that Knight may have developed. No assurance can be given that licenses or rights to be used by Knight will not be challenged, invalidated, infringed or circumvented. Moreover, laws of many countries may not protect Knight's intellectual property to the same extent as the laws of Canada and the U.S., and those countries may also lack adequate rules and procedures for defending Knight's intellectual property rights. Furthermore, certain countries outside the U.S. and Canada enforce a system of compulsory licenses whereby third parties can be granted license to commercialize patented products if the patent is not commercially exploited by its owner or its licensees in the country within a certain number of years of the patent issuance in that specific country. To the extent that Knight's future employees, consultants or contractors will use intellectual property owned by others in connection with their work for Knight, disputes may also arise as to the rights in related or resulting knowhow and inventions. Any loss of patent protection would likely adversely affect Knight's operating results in those national markets. The commercial success of Knight will also depend in part on Knight not infringing patents or proprietary rights of others and not breaching the licenses to be granted to Knight. There can be no assurance that Knight will be able to obtain a license to any third-party technology that it may require to conduct its business or that such technology can be licensed at a reasonable cost. There is no certainty that Knight will not be challenged by its partners for non-compliance of its future licensing arrangements. Furthermore, there can be no assurance that Knight will be able to remain in compliance with its future licensing arrangements. Consequently, there may be a risk that these licensing arrangements will be withdrawn with no compensation or penalties to Knight.

**Disputes Regarding Ownership or Inventorship of Products and Technologies**

From time to time Knight may become involved in disputes relating to the ownership or inventorship of its existing and future products and technologies. If Knight is unsuccessful in obtaining these assignments of patents or is otherwise unable to establish its ownership of the invention covered by the patents, Knight may face additional expense in perfecting its title to these patents and its business may be adversely affected.

**Reliance on Third Parties for Supply and Manufacture of Products**

Third parties manufacture Knight's current products and will likely manufacture all of Knight's future products. Knight does not have manufacturing facilities, personnel or access to raw materials to independently manufacture its products. Except for any contractual rights and remedies which Knight may have with its manufacturers, Knight has no control over the availability of its products, their quality or cost. If for any reason, Knight is unable to obtain or retain third-party manufacturers on commercially acceptable terms, it may not be able to distribute its products as planned. If Knight encounters delays or difficulties with contract manufacturers in producing or packaging its products, the distribution, marketing and subsequent sales of these products would be adversely affected, and Knight may have to seek alternative sources of supply or abandon or sell product lines on unsatisfactory terms. Knight may not be able to enter into alternative supply arrangements on commercially acceptable rates, if at all. There can be no assurance that the manufacturers that Knight will have engaged will be able to provide sufficient quantities of these products or that the products supplied will meet with Knight's specifications. In addition, production of Knight's future products may require raw materials for which the sources and quantities are limited. An inability to obtain adequate supplies of raw materials could significantly delay the development, regulatory approval and marketing of Knight's existing and future products.

Drug manufacturers are subject to ongoing periodic unannounced inspection by Health Canada, the FDA, and corresponding state and foreign agencies, including European agencies and their designees, to ensure strict compliance with GMPs and other government regulations. While Knight is obligated to audit the performance of third-party contractors, it does not have complete control over its third-party manufacturers' compliance with these regulations and standards. Failure by either Knight's third-party manufacturers or by Knight to comply with applicable regulations could result in sanctions being imposed, including fines, injunctions, civil penalties, failure of the government to grant review of submissions or market approval of drugs, delays, suspension or withdrawal of approvals, product seizures or recalls, operating restrictions, facility closures and criminal prosecutions, any of which could negatively impact the business.

Knight has entered into and intends to continue to enter into licensing and collaboration arrangements pursuant to which Knight will commit itself to supplying third parties with product. If Knight is unable to fulfill such obligations because of a failure of Knight's contract manufacturers, Knight may be in breach of its obligations under those arrangements.

**Global Political and Economic Conditions**

Challenging global market and economic conditions with a tighter credit environment and recession in most major economies began in fiscal 2008 and took many years to recover. It is possible that the world's major economies may face similar structural flaws and challenges going forward that will impact global productivity growth in 2018. Concerns about the systemic impact of ongoing potential long-term and wide-spread recession, energy costs and geopolitical issues have contributed to increased market volatility and may affect expectations for western and emerging economies. These conditions have contributed to volatility at high levels. Any turbulence in Canada and international markets and economies and prolonged declines in business consumer spending may adversely affect Knight's liquidity and financial condition, and the liquidity and financial condition of Knight's future customers.

Knight has no control over changes in inflation and interest rates, foreign currency exchange rates and controls or other economic factors affecting its businesses or over the possibility of political unrest, legal and regulatory changes in jurisdictions in which Knight operates. These factors could negatively affect Knight's results of operations in those markets.

**Agreements Relating to the Development and Distribution of Products**

The Corporation currently has several collaboration or distribution agreements relating to the marketing and distribution of its products in international markets, such as Impavido® in the U.S, Europe and Israel. The Corporation relies on these agreements because it is currently not strategic to market its products directly in these markets. The Corporation intends to secure additional agreements relating to the marketing and distribution of its products for which it may receive regulatory approval. If the Corporation is unable to reach agreements with suitable collaborators and marketing and distribution partners, it may fail to meet certain business objectives. Knight faces significant competition in seeking appropriate development, marketing and distribution partners. Moreover, collaboration and distribution arrangements are complex and time consuming to negotiate, document and implement.

Knight may not be successful in establishing and implementing collaboration or marketing and distribution arrangements upon satisfactory terms or at all. Reliance on these agreements will likely expose Knight to many risks, including the following:

- development, marketing and distribution partners may not devote sufficient resources to Knight's products or product candidates;
- disputes may arise with respect to payments that Knight believes are due under such distribution and collaboration agreements;
- unwillingness on the part of development, marketing and distribution partners to provide updates regarding the progress of its development, commercialization or marketing activities, or to permit public disclosure of these activities;
- development, marketing and distribution partners may terminate the relationship;
- disputes may arise in the future with respect to the ownership of rights to technology developed with partners;
- disagreements with development, marketing and distribution partners could result in litigation or arbitration;
- partners may elect to pursue the development of any additional product candidates and pursue technologies or products either on their own or in collaboration with other parties, including competitors with competing technologies or products;
- collaborators and marketing and distribution partners may pursue higher priority programs or change the focus of their programs, which could affect the collaborator's and distributor's commitment to their respective territories; and
- development, marketing and distribution partners may develop or distribute products that compete with Knight's products.

The occurrence of any of these or other events may impair commercialization of Knight's existing and future products.

**Concentration of Credit Risk: Major Customers and Strategic Relationships**

Credit risk is the risk of loss associated with the inability of a third party to fulfil its payment obligations. Knight's trade credit risk is of significance due to the concentration of its revenues at the onset on a limited number of products and the revenues associated therewith and due to the expected future concentration of sales and receivables in certain major customers. Knight sells its pharmaceutical products primarily to its licensees for products sold outside Canada, and in Canada to drug wholesalers, retailers and distributors, including national, provincial and independent pharmacies, retail drug and food store chains, hospitals, member of buying groups, clinics and other institutions. A significant portion of Knight's revenues is derived from sales and therefore are dependent on the activities and success of a limited number of customers. For the year ended December 31, 2017, two customers represented 64% of the Corporation's revenues, and as at December 31, 2017, two customers represented 82% of the trade and accounts receivable balance. Certain of these customers comprise a significant part of the distribution network for pharmaceutical products in Canada. In recent years, this distribution network has undergone significant consolidation, marked by mergers and acquisitions among wholesale distributors and

large retail drug store chains. Thus, a small number of large, wholesale distributors and large chain drug stores control a significant share of the market. Knight expects that consolidation of drug wholesalers and retailers may adversely impact pricing and create other competitive pressures on drug manufacturers. Any significant reduction or loss of business with one or several of these customers could have a material adverse effect on Knight's business, financial condition, cash flows and results of operations.

Another source of credit risk for Knight arises from its fund investments, strategic investments and loans in and to third parties with whom it has strategic commercial relationships. Knight intends to continuously monitor the risks associated with the amounts invested, however there can be no assurance of the financial stability of these debtors. The insolvency or operational failure of such debtors could both have an impact on the benefits that might otherwise be enjoyed by Knight under these strategic commercial relationships and jeopardize its ability to recover all or a portion of the credit it has extended, both of which could have an adverse impact on the financial position of Knight.

Knight's 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 table below represents the Corporation'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 years ended December 31,** | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| Trade and Accounts Receivable | **2,116** | 2,606 |
| Interest Receivable | **5,587** | 3,107 |
| Loans Receivable | **59,819** | 75,653 |
| Investments in Funds | **54,968** | 34,576 |
| **Total** | **122,490** | 116,020 |

**Policies Regarding Returns, Allowances and Chargebacks May Reduce Revenues in Future Fiscal Periods**

Knight establishes reserves based on its best estimates of the impact that these policies may have in subsequent periods. Knight cannot ensure that such reserves are adequate or that actual product returns, allowances and chargebacks will not exceed the estimates, which could have a material adverse effect on the results of operations, financial condition, cash flows and the market price of Knight's securities.

**Value of Financial Assets**

A significant portion of Knight's total assets relate to financial assets. Selected financial assets relating to strategic loans, equity investments, fund investments and derivatives held by the Corporation are summarized in the table below:

| | Carrying amount | |
|---|---|---|
| **As at December 31,** | **2017** | 2016 |
| | **$** | $ |
| Loans and other receivables | **59,819** | 75,731 |
| Available for sale equity investments | **19,425** | 30,936 |
| Derivatives | **1,624** | 1,189 |
| Available for sale fund investments | **54,968** | 34,576 |
| **Total** | **135,836** | 142,432 |

Knight values a substantial portion of its financial assets at their fair values. 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.

The fair values of Knight's financial assets may fluctuate significantly which could have a material adverse effect on the Corporation's results of operations, financial condition, cash flows and the market price of Knight's securities. In addition, there is no guarantee that the fair values of Knight's financial assets will be realized in full or in part by the Corporation.

For more information regarding the Corporation's financial assets, methodology for measuring fair values of financial assets, refer to Notes 2, 3 and 11 of the Corporation's Financial Statements for the fiscal year ended December 31, 2017.

**Value of Inventory**

Knight values inventory at the lower of cost determined on a first-in, first-out basis, and net realizable value. Knight establishes reserves for inventory to reflect situations in which the cost of the inventory is not expected to be recovered. The reserve for inventory is equal to all or a portion of the inventory which has reached its expiration or is close to expiration and not expected to be sold, based on the specific facts and circumstances. In order to determine whether the inventory is properly stated at the lower of cost or net realizable value, management plans to review the amount of inventory on hand and the remaining shelf life, and estimate the time required to sell such inventory taking into account current and expected market conditions and competition. The write-down of inventory may have a material adverse effect on the results of operations in the period in which the write-down occurs.

**Value of Intangible Assets**

A portion of Knight's total assets is related to acquired Intangible Assets as defined in the Corporation's annual audited consolidated financial statements for fiscal 2017. As of December 31, 2017, the carrying value of Knight's intangible assets was $12,576. Knight is required to review the carrying value of its intangible assets for impairment each reporting period or when there is an indication of impairment. Intangible assets include the net book value of

product rights (including certain milestones paid or payable related to the product rights), trademarks and process know-how covered by certain patented and non-patented information. Management reviews the carrying value based on projected future results. If events such as generic competition or inability to manufacture or obtain supply of product occur that may cause sales of the related products to decline, Knight will adjust the projected results accordingly. Any impairment in the carrying value will result in a write-down of the intangible asset which will be charged to income during the period in which the impairment is determined. The write-down of intangible assets may have a material adverse effect on the results of operations in the period in which the write-down occurs.

**Value of 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 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 Corporation's share of Medison's net income and any dividends issued to the Corporation. The net income is adjusted to reflect the amortization of the fair value adjustments related to the Corporation's share of the net identifiable assets of Medison acquired and their tax impact.

The following table reflects the carrying value of Knight's Investment in Medison:

| **As at December 31,** | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| **Carrying value, beginning of the year** | **80,113** | 81,027 |
| **Change in contingent consideration** | **-** | 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 |

Knight 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 Corporation 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 Corporation'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 Corporation 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 operations, financial condition and the market price of Knight's securities.

**Income Tax**

Knight's income tax reporting is subject to audit by tax authorities. The effective tax rate may change from year to year based on the mix of income, non-deductible expenses, changes in tax law and changes in the estimated values of future income tax assets and liabilities.

Knight bases its tax provision on certain estimates and assumptions made by management. Knight's consolidated income tax rate is affected by the mix and amount of net income earned in each of its subsidiaries. Knight may enter into many transactions and arrangements in the ordinary course of business and in certain of these, the tax treatment may not be entirely certain. Knight therefore makes and will continue to make estimates and judgments in determining its consolidated tax provision and the value of Knight's tax assets and taxes payable. The outcome of any audits by taxation authorities may differ from the estimates and assumptions Knight will use in determining its consolidated tax provisions and accruals. This could result in a material effect on Knight's consolidated income tax provision, financial position, cash flows and the net income for the period in which such determinations are made. 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 Corporation 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 Corporation believes it has sufficient arguments to contest the proposed reassessment. Although the Corporation 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 Corporation's consolidated financial statements. In the event that the Corporation is not successful in its contestation, this could result in additional taxes, interest and penalties payable up to an estimated amount of $45,000.

Knight and its affiliates are subject to taxation in Canada, the U.S., Barbados and Israel, and may in the future be subject to taxation in certain other foreign jurisdictions. Knight's effective tax rate and tax liability is determined by a number of factors, including the amount of taxable income in particular jurisdictions, the tax rates in these jurisdictions, tax treaties between jurisdictions, the extent to which it transfers funds to and repatriates funds from its subsidiaries and future changes in laws. An adverse interpretation or ruling by one of the taxing authorities in a jurisdiction in which Knight operates or a change in law could increase its tax liability or result in the imposition of penalty payments, which could adversely impact its operating results.

**PFIC Rules Related to the Ownership and Disposition of Knight Shares**

Knight may be a PFIC in accordance with the Internal Revenue Code and the U.S. Internal Revenue Service may now or in the future designate it as such. A U.S. holder of shares of a PFIC will generally be required to treat excess distributions or gain from the sale of shares as ordinary income and pay an interest charge to the extent the excess distribution or gain is allocated to prior taxable years for PFIC purposes. If Knight is a PFIC, U.S. holders who make a timely election could, either, (a) mark their Common Shares to market each year and treat the gain or loss (to the extent of previously recognized gain) as ordinary income or (b) include in their income annually their share of net earnings of Knight as income from a qualified electing fund (a "QEF Election"), whether or not Knight distributes cash to the U.S. holder. However, if Knight is not able to provide U.S. holders with the information required by them to make a QEF Election, such U.S. holders may not be able to avail themselves of the QEF Election. A PFIC is any non-U.S. corporation which meets either an asset or income test. The asset test is met if at least 50% of assets of a corporation consist of assets that produce or are held to produce passive income; and the income test is met if at least 75% of its gross income consists of passive income. Knight has raised considerable capital in anticipation of executing its business strategy and it is possible that such capital could be considered a passive asset under the PFIC asset test. Therefore, it cannot be assumed that Knight is not currently a PFIC and it is possible that it will remain or become a PFIC in the future.

**Quarterly Fluctuations**

Knight's results of operations, and in particular, revenues, may vary from quarter to quarter due to many factors including the following: the level of acceptance of Knight's products, which will affect the revenues associated therewith; the ability to sell meaningful amounts of Knight's current product pipeline which may be dependent on approvals for an initial indication or additional indications in Canada and select international markets; the timing and number of future product launches. Each new product launch may require significant promotional investment during the first three to five years from launch. The level of patient and physician acceptance of Knight's existing and future products, as well as the availability of similar therapies, may impact Knight's revenues by driving the level and timing of prescriptions for its products. Other factors include expenditures related to the acquisition, sale and promotion of pharmaceutical products, the availability and cost of raw materials, interruptions in supply by third-party manufacturers, new products introduced by Knight or its competitors, the mix of products that Knight sells, sales and marketing expenditures and general economic and industry conditions that may affect customer demand.

**Compliance with Laws and Regulations Affecting Public Companies**

Any future changes to the laws and regulations affecting public companies, compliance with existing provisions of National Instrument *52-109 – Certification of Disclosure in Issuers' Annual and Interim* Filings of the Canadian Securities Administrators ("NI 52-109") and the other applicable Canadian securities laws and regulation and related rules and policies, may cause Knight to incur increased costs as it evaluates the implications of new rules and responds to new requirements. Delays or a failure to comply with the new laws, rules and regulations could result in enforcement actions, the assessment of other penalties and civil suits.

New laws and regulations may make it more expensive for Knight to provide indemnities to its officers and directors and may make it more difficult to obtain certain types of insurance, including liability insurance for directors and officers; as such, Knight may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for Knight to attract and retain qualified persons to serve on its Board of Directors, or as executive officers. Knight may be required to hire additional personnel and utilize additional outside legal, accounting and advisory services—all of which could cause general and administrative costs to increase beyond what Knight currently has planned. Knight intends to evaluate and monitor developments with respect to these laws, rules and regulations, and cannot predict or estimate the amount of the additional costs it may incur or the timing of such costs. Knight is required to review and report annually on the effectiveness of its internal control over financial reporting in accordance with NI 52-109.

Knight's CEO and CFO are expected to report on the effectiveness of Knight's internal control over financial reporting. Management's review is designed to provide reasonable assurance, not absolute assurance that all material weaknesses existing within Knight's internal controls are identified. Material weaknesses will represent deficiencies existing in Knight's internal controls that may not prevent or detect a misstatement occurring which could have a material adverse effect on the quarterly or annual financial statements of Knight. In addition, management cannot provide assurance that the remedial actions that will be taken by Knight to address any material weaknesses identified will be successful, nor can management provide assurance that no further material weaknesses will be identified within its internal controls over financial reporting in future years. If Knight fails to maintain effective internal controls over its financial reporting, there is the possibility of errors or omissions occurring or misrepresentations in Knight's disclosures which could have a material adverse effect on Knight's business, its financial statements, and the value of the Common Shares.

**Reliance on Information Technology**

Knight is dependent on information technology systems, including internet-based systems, for internal communication as well as communication with customers and suppliers. Any significant disruption of these systems, whether due to computer viruses or other outside incursions, could materially and adversely affect Knight's operations and obligations towards third parties related to confidentiality, privacy and data protection.

**Reliance on Data Obtained from IQVIA**

Knight relies on operational data obtained from IQVIA, an industry accepted data source. IQVIA data may not accurately reflect actual prescriptions. If IQVIA data does turn out to be inaccurate or unreliable and Knight's controls are not effective, there could be an adverse effect on Knight's ability to properly manage inventory and its financial performance.

**Volatility of Share Price**

The market price of the Common Shares is unpredictable and may be volatile, which could cause the value of a shareholder's investment to decline. Publicly-traded securities such as those of the Corporation will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Common Shares will trade cannot be predicted. The market price of the Common Shares could fluctuate significantly for various reasons, many of which are beyond the Corporation's control, including the following:

- changes or perceived changes in the condition (including financial condition), operations, results or prospects of the Corporation's businesses and market assessments of these changes or perceived changes;
- the Corporation's announcements or those of its competitors' regarding new products or services, enhancements, significant contracts, acquisitions or strategic investments;
- changes in the Corporation's capital structure, such as future issuances of securities or sales of large blocks of Common Shares by the Corporation's shareholders;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Corporation or its competitors;
- changes in governmental regulations or proposals, or new government regulations or proposals, affecting the Corporation;
- the addition or departure of the Corporation's executive officers and other key personnel;
- the Corporation's quarterly or annual earnings or those of other companies in the Corporation's industry and anticipated fluctuations in respect thereof;
- operating and stock price performance of companies that investors deem comparable to the Corporation;
- changes in earnings estimates or recommendations by securities analysts who track the Common Shares;
- changes in industry conditions;
- developments related to investigations, regulatory proceedings, or litigation that involve the Corporation;
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Corporation's industry or target markets; and
- changes in general market, economic and political conditions in the United States, Canada, the EU and global economies or financial markets in which the Corporation does business, including those resulting from natural disasters, terrorist attacks, acts of war and responses to such events.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated or disproportionate to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if the Corporation's operating results, underlying asset values or prospects have not changed. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Corporation's operations could be adversely impacted and the trading price of the Common Shares may be materially adversely affected.

**Interest Rate Risk**

Knight is subject to interest rate risk on its cash and cash equivalents and marketable securities. Details regarding maturity dates and effective interest rates are described in Notes 5 and 6 of the Corporation's Financial Statements for the fiscal year ended December 31, 2017. The Corporation 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 relative short-term nature of the marketable securities and currently low market yields.

**Equity Price Risk**

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

| **As at December 31** | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| AFS equity investments | **19,425** | 30,936 |
| AFS fund investments | **54,968** | 34,576 |
| Derivatives | **737** | 1,189 |
| **Net exposure** | **75,130** | 66,701 |

Equity price risk arises from changes in market prices of the available-for-sale equity securities. The Corporation 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 Corporation manages the equity price risk through the use of strict investment policies approved by the Board of Directors. The Corporation's Board of Directors regularly reviews and approves equity investment decisions.

**Foreign Exchange Risk**

The Corporation maintains cash and cash equivalents, marketable securities, trade and other receivables, other financial assets, other balances payable and accounts payable and accrued liabilities in USD, EUR, ILS and CHF and is therefore exposed to foreign exchange risk on these balances. Fluctuations in the value of these foreign currencies relative to the CAD may have a significant effect on Knight's cash position. 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)** |

**Absence of Dividends**

Knight has not paid dividends on its Common Shares and does not anticipate declaring any dividends in the foreseeable future. Thus, the return on an investment in Common Shares will depend upon any future appreciation in value. There is no guarantee that the Corporation will declare dividends in the future or that the Common Shares will appreciate in value or even maintain the price at which they were purchased.

## DIVIDEND RECORD AND POLICY

Knight intends to retain its earnings to finance growth and does not expect to pay dividends on its Common Shares in the foreseeable future. No dividend was declared or paid by the Corporation on its Common Shares since the Corporation came into existence.

## CAPITAL STRUCTURE

The authorized share capital of the Corporation is comprised of an unlimited number of Common Shares of which 142,812,097 Common Shares, 3,447,659 options and 406,126 warrants to purchase Common Shares were issued and outstanding as at March 14, 2018. Each Common Share entitles the holder to one vote per share. The holders of Common Shares are entitled to receive notice of meetings of shareholders of the Corporation and to vote at such meetings. The holders of the Common Shares are entitled to receive, as and when declared by the Board of Directors, dividends in such amounts as shall be determined by the Corporation's Board of Directors. The holders of Common Shares have the right to receive the remaining property of the Corporation in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary.

## MARKET FOR SECURITIES

The Common Shares of the Corporation are posted and listed for trading on the TSX and are traded under the symbol "GUD".

**Price Range and Trading Volume**

The following table sets forth, for the periods indicated, the reported high and low closing prices and the total trading volume of the Common Shares on the TSX on a monthly basis:

| Month | High | Low | Volume |
|---|---|---|---|
| **2017** | | | |
| January | 10.57 | 10.05 | 3,989,731 |
| February | 10.90 | 10.27 | 2,481,680 |
| March | 10.80 | 9.93 | 4,156,513 |
| April | 10.61 | 10.13 | 2,285,189 |
| May | 10.64 | 9.94 | 2,525,579 |
| June | 10.35 | 9.53 | 3,000,482 |
| July | 10.22 | 9.49 | 2,754,331 |
| August | 9.43 | 8.27 | 4,194,725 |
| September | 8.91 | 8.44 | 3,449,530 |
| October | 8.97 | 8.38 | 2,956,361 |
| November | 8.66 | 7.61 | 4,993,919 |
| December | 8.31 | 7.56 | 4,890,251 |
| **2018** | | | |
| January | 8.41 | 7.60 | 4,898,750 |
| February | 7.94 | 7.45 | 3,789,203 |
| Up until March 14, 2018 | 8.05 | 7.62 | 1,322,278 |

## DIRECTORS AND OFFICERS

The following table sets forth the name, province or state, and country of residence of each of the directors of the Corporation as at December 31, 2017, as well as their position with the Corporation, as applicable, or their principal occupation, as well as the year in which they became directors of the Corporation.

| Name, Province/State of Residence | Principal Occupation | Director Since | Other Principal Occupations Held in Last Five Years |
|---|---|---|---|
| James C. Gale[(1)(2)(3)]<br>New York, USA | Managing Partner, Signet Healthcare Partners (healthcare investing) | 2013 | None |
| Jonathan Ross Goodman<br>Québec, Canada | Chief Executive Officer of the Corporation | 2013 | President of the Corporation from 2013-2016 / Chairman of the Board of Paladin from 2012-2014 |
| Samira Sakhia<br>Québec, Canada | President and Chief Financial Officer of the Corporation | 2016 | Chief Financial Officer of Paladin from 2001-2015 |
| Robert N. Lande[(1)(2)]<br>New York, USA | President, FXCM Group LLC (foreign exchange trading services) | 2013 | Chief Financial Officer of Global Brokerage Inc., a shareholder in FXCM Group LLC |
| Sylvie Tendler[(1)(2)]<br>Quebec, Canada | President, Sylvie Tendler & Associates (pharmaceutical market research) | 2014 | None |
| Meir Jakobsohn<br>Israel | Founder and CEO of Medison (pharmaceuticals) | 2015 | None |
| Dr. Sarit Assouline<br>Québec, Canada | Associate Director, Clinical Research Unit, Jewish General Hospital | 2017 | None |

(1) Member of the Audit Committee
(2) Member of the Compensation, Corporate Governance and Nominating Committee
(3) Chairman of the Board of Directors

The following table sets forth the name, province and country of residence and position within the Corporation of each person who is an executive officer as of the date hereof.

| Name, Province of Residence[1] | Position within Knight | Other Principal Occupations Held in Last Five Years |
|---|---|---|
| Jonathan R. Goodman<br>Québec, Canada | Chief Executive Officer | President of the Corporation from 2013-2016 /<br>Chairman of the Board of Paladin from 2012-2014 |
| Samira Sakhia<br>Québec, Canada | President and Chief Financial Officer | Chief Financial Officer of Paladin from 2001-2015 |
| Amal Khouri<br>Québec, Canada | Vice President, Business Development | Global Business Development and Licensing, Novartis Pharmaceuticals Corporation from 2007-2014 |

[1] Jeffrey Kadanoff served as Chief Financial Officer of the Corporation until his resignation on October 13, 2017

As at March 14, 2018, the directors and executive officers of Knight as a group beneficially own or exercise control or direction over, directly or indirectly, 32,621,234 Common Shares, representing approximately 23% of the issued and outstanding Common Shares.

**Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

Cease Trade Orders

To the knowledge of the directors and officers of the Corporation, none of the directors or executive officers is, as at the date of this AIF, or has been, within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company that (i) was subject to an order that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer, or (ii) was subject to an order that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer. For purpose of the foregoing, an "order" means (i) a cease trade order, (ii) an order similar to a cease trade order, or (iii) an order that denied the relevant company access to any exemption under securities legislation.

Bankruptcies

Except as described below, to the knowledge of the directors and officers of the Corporation, none of the directors or executive officers of the Corporation is (i) is, as at the date of this AIF, or has been within 10 years before the date of this AIF, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or (ii) has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets.

On July 16, 2013, Paladin acquired all of the issued and outstanding shares of Allon Therapeutics Inc. ("Allon") (TSX: NPC) in accordance with the Order for Reorganization in Allon's proposal under the Bankruptcy and Insolvency Act (Canada) and under the CBCA, and Paladin become the sole shareholder of Allon. Ms. Sakhia was appointed director of Allon upon closing. Allon ceased to be a reporting issuer subsequent to closing and its shares were delisted from the TSX.

On December 23, 2008, Paladin acquired all of the issued and outstanding shares of Virexx Medical Corp. ("Virexx") (TSX: VIR and AMEX: REX) in accordance with the Order for Reorganization in Virexx's Proposal Proceedings under the Bankruptcy and Insolvency Act (Canada) and under the Alberta Business Corporations Act and Paladin become the sole shareholder of Virexx. Ms. Sakhia was appointed director of Virexx upon closing. Virexx ceased to be a reporting issuer subsequent to closing and its shares were delisted from the TSX and the AMEX.

Prior to his current position as President of FXCM Group LLC, Mr. Lande served as Chief Financial Officer of Global Brokerage Inc. ("GLBR"), a shareholder of FXCM Group. On December 11, 2017, GLBR filed a Prepackaged Chapter 11 Plan of Reorganization (the "Plan") pursuant to the terms of a Restructuring Support Agreement ("RSA") signed with approximately 70% by value of the bondholders of a GLBR bond that was maturing in 2018. The overall purpose of the Plan was to enable GLBR to extend the maturity of the bond for five additional years. The Plan was confirmed on January 22, 2018 and GLBR emerged from bankruptcy on February 8, 2018. The overall purposes of the Plan was successful, and the new secured notes have been distributed in accordance with the Plan.

Penalties or Sanctions

Except as described below, none of the directors or executive officers of the Corporation was subject to (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

In 2009, James Gale was named in a class action law suit in connection with his role as a director of Indevus Pharmaceuticals, Inc. ("Indevus"). The suit alleged that certain misrepresentations were made by Indevus in connection with certain tender offer documents that were publicly filed. Indevus and its directors named in the suit, including Mr. Gale, maintained that there was no such misrepresentation and the suit was later settled for a nominal amount.

**Committees of the Board of Directors and their Responsibilities**

Prior to March 2017, the committees of the Board of the Directors were the Corporate Governance and Compensation Committee, the Nominating Committee and the Audit Committee. In March 2017, the Board approved a merger of its Nominating Committee and Corporate Governance and Compensation Committee to form the Compensation, Corporate Governance and Nominating Committee ("CCGNC"). The principal duties of the CCGNC include all responsibilities of the predecessor committees.

*CCGNC*

The members of the CCGNC are James C. Gale (Chairman), Robert Lande and Sylvie Tendler. The principal functions of the CCGNC are as follows:

a) to address matters of corporate governance and to review and approve the compensation of the senior management of the Corporation, to review management's development of the compensation philosophy and then to independently monitor the Corporation's compensation systems and practices to ensure they

encourage and reward behaviour which supports the achievement of the Corporation's strategic goals. The CCGNC's role is also to make recommendations to the Board as to which directors and fulltime employees should be granted stock options pursuant to the Option Plan.

b) to evaluate the size of the Board; identify the skill sets currently available and skill sets that may be required; assess the performance of the Board, its committees and the contributions of individual directors; and recommend to the Board the director nominees to be put before the shareholders at the annual meetings.

**Audit Committee Disclosure**

*Audit Committee's Charter*

The principal duties of the Audit Committee of the Board (the "Audit Committee") include assisting the Board in its oversight of (i) the integrity of the Corporation's financial statements, financial reporting process, system of internal controls over financial reporting, and audit process, (ii) compliance with, and process for monitoring compliance with, legal and regulatory requirements, (iii) the independent auditors' qualifications and independence, (iv) the performance of the independent auditors, and (v) pre-approval of all audit and non-audit services provided by the independent auditors. The Audit Committee charter is attached hereto as Schedule "B".

The Audit Committee meetings for fiscal year 2017 took place on a quarterly basis.

*Composition of the Audit Committee*

The Audit Committee is composed of Robert N. Lande (Chairman), James C. Gale, and Sylvie Tendler, each of whom is (i) independent and (ii) financially literate. Mr. Schutter was a member of the Audit Committee until his resignation from the Board of Directors on February 14, 2017, following which Ms. Tendler was appointed to the Audit committee. Each member has the ability to read and understand financial statements that present a breadth and complexity of accounting issues comparable to the breadth and complexity of the issues raised by the Knight's financial statements, understand the accounting principles Knight uses to prepare its financial statements and have the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves.

*Relevant Education and Experience*

*Robert N. Lande – Chairman*

Mr. Lande has been a director of Knight since 2013 and was a director of Paladin from 1995 to 2014. He was a member of the Audit Committee of Paladin from 2003 until 2014 and was Chairman of the Audit Committee of Paladin from January 2004 until 2014. Mr. Lande has been the Chairman of Knight's Audit Committee since February 28, 2014. 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.

*James C. Gale, Director*

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 Paladin from 2008 to 2014.

*Sylvie Tendler, Director (appointed in March 2017)*

Sylvie 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.

*Ed Schutter, Former Director (resigned effective February 14, 2017)*

Mr. Schutter is President and CEO of Arbor Pharmaceuticals, LLC. ("Arbor"). Prior to Arbor, he served as President of Sciele Pharmaceuticals which was sold to Shionogi & Co. Ltd. in 2008 for $1.3 billion. Prior to Sciele, Mr. Schutter served as VP of Global Business Development at Solvay Pharmaceuticals based in Basel, Switzerland. He was also a co-founder of North Hampton Pharmaceuticals which later was renamed to Ventrus Biosciences. In addition to his board duties with Arbor, Mr. Schutter is on the Board of Trustees for Mercer University, is the Chairman of the Board of Georgia Bio, is a member of the Emory University New Venture Advisory Board, and a founding member and Executive Director of the Atlanta based Bio/Med Investor Network Inc. He holds a Bachelor degree in Pharmaceutical Sciences from Mercer University, an M.B.A. from Kennesaw State University and has also completed post graduate work in international business at Nyenrode University in the Netherlands.

*Pre-Approval Policies and Procedures*

The Audit Committee has instituted a policy to pre-approve audit and non-audit services. The Chair of the Audit Committee is given limited delegated authority from time to time by the Audit Committee to pre-approve permitted non-audit services. The Audit Committee also considers on a continuing basis whether the provision of non-audit services is compatible with maintaining the independence of the external auditors.

*External Auditor Service Fees*

The table below provides the fees that Ernst & Young LLP billed the Corporation for the fiscal years ended December 31, 2017 and December 31, 2016:

| | **2017** | 2016 |
|---|---|---|
| Category | **$** | $ |
| Audit services | **324,400** | 664,450 |
| Audit-related services | **-** | - |
| Tax services | **155,930** | 146,839 |
| All other services | **11,000** | 12,000 |
| **Total Fees** | **491,330** | **823,289** |

Fees for audit services include fees associated with the annual audit, review of the Corporation's interim financial statements, accounting assistance, involvement with public offerings and fees associated with regulatory filings. Tax fees include tax compliance, tax advice and tax planning, including expatriate tax services. All other fees would principally include translation services.

## LEGAL PROCEEDINGS

To the knowledge of the Corporation there are no material legal proceedings to which the Corporation is a party or to which their property is subject, and no such proceedings are contemplated.

## MATERIAL CONTRACTS

The Corporation has entered into the following material contracts, the particulars of which are described elsewhere in this Annual Information Form:

- Reciprocal Investment Agreement by and between Knight, Medison, Tzalir Holdings Ltd. and Meir Jakobsohn dated August 31, 2015, as amended on September 1, 2015 and December 16, 2015.

- Underwriting agreement by and between Knight and a syndicate of underwriters led by GMP Securities L.P. dated May 16, 2016;

- Underwriting agreement by and between Knight and a syndicate of underwriters led by GMP Securities L.P. dated December 9, 2016.

## TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares is AST Trust Company (Canada) at its principal offices located in Montreal, Quebec.

## INTEREST OF EXPERTS

The Corporation's Annual Audited Consolidated Financial Statements for the year ended December 31, 2017 included in the Corporation's Annual Report filed under *National Instrument 51-102 – Continuous Disclosure Obligations*, portions of which are incorporated by reference in this AIF, have been audited by Ernst & Young LLP. Ernst & Young LLP is independent of the Corporation within the meaning of the Code of Ethics of the Ordre des comptables professionnels agréés du Québec.

## ADDITIONAL INFORMATION

Additional information regarding the Corporation can be found under the Corporation's profile on SEDAR at www.sedar.com.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and the securities authorized for issuance under our equity compensation plan, if applicable, is contained in our management information circular for our annual meeting of shareholders filed on an annual basis. Additional financial information is provided in our Financial Statements and MD&A for the most recent completed financial year.

The foregoing documents may be obtained by contacting our Chief Financial Officer at our head office, 3400 De Maisonneuve Blvd. W., Suite 1055, Montreal, Québec H3Z 3B8, telephone: (514) 678-8930.

**SCHEDULE "B"**
**AUDIT COMMITTEE CHARTER**

**APPROVED BY THE BOARD OF DIRECTORS ON FEBRUARY 22, 2015**

The Audit Committee (the "**Committee**") is created by the Board of Directors of the Corporation (the "**Board**") with the purpose, composition, duties and responsibilities that follow:

**Purpose of the Committee**: The Committee represents and assists the Board in discharging its oversight responsibility relating to: (i) the accounting, reporting, and financial practices of the Corporation and any subsidiaries, including the integrity of the Corporation's financial statements; (ii) the surveillance of administration and financial controls and the Corporation's compliance with legal and regulatory requirements; (iii) the External Auditor's qualifications and independence; (iv) the performance of the Corporation's External Auditor; and (v) prepares the report required to be included in the Corporation's annual information form pursuant to the rules of the governing regulatory bodies including *National Instrument 52-110 – Audit Committees* ("52-110").

**Definitions and Interpretation**:

In this Charter:

"**Board**" means the board of directors of the Corporation;

"**Chairman**" means the chairman of the Committee;

"**Committee**" means the audit committee of the Board;

"**Corporation**" means Knight Therapeutics Inc.

"**Director**" means a member of the Board; and

"**External Auditor**" means the Corporation's independent auditor.

**Composition**: The members of the Committee shall be appointed by the Board. The Committee shall be composed of at least three Directors. The appointment of members of the Committee shall take place annually at the first meeting of the Board after a meeting of the shareholders at which Directors are elected, provided that if the appointment of members of the Committee is not so made, the Directors who are then serving as members of the Committee shall continue as members of the Committee until their successors are appointed. The Board may appoint a member to fill a vacancy which occurs in the Committee between annual elections of Directors. If a vacancy exists on the Committee, the remaining members shall exercise all of their powers so long as a quorum remains in office. Any member of the Committee may be removed from the Committee by a resolution of the Board.

**Independence and Financial Literacy of the Members**: Each member shall be "independent" within the meaning of 52-110. Each member of the Committee must be "financially literate" as defined in 52-110 and at least one member must have accounting or related financial management expertise, as determined by the Board.

**Committee Chairman**: The Chairman of the Committee (the "Chairman") shall be designated by the Board. The designation of the Committee's Chairman shall take place annually at the first meeting of the Board alter a meeting of the members at which Directors are elected, provided that if the designation of Chairman is not so made, the Director who is then serving as Chairman shall continue as Chairman until his or her successor is appointed.

**Meetings**: Any of the Chairman of the Board, any member of the Committee, the Chief Financial Officer, the Secretary of the Corporation or the auditor (either internal or the External Auditor), may, acting alone, require that the Chairman call a meeting of the Committee within a reasonable time. The Committee shall meet at least four times per year, either in person or telephonically, and at such times and places as the Committee shall determine. The External Auditor shall receive notice of each meeting of the Committee and shall be entitled to attend any such meetings at the Corporation's expense. The Committee shall meet separately in executive session, at least once per year, with the External Auditor. The Committee shall report regularly to the full Board with respect to its activities. The majority of the members of the Committee shall constitute a quorum.

**External Advisors**: The Committee shall have the authority to retain such external counsel, accountants, experts and other advisors as it determines appropriate to assist it in the performance of its functions and shall receive appropriate funding, as determined by the Committee, from the Corporation for payment of compensation to any such advisors.

**Remuneration of Committee Members**: Members of the Committee and the Chairman shall receive such remuneration for their service on the Committee as the Board may determine from time to time. No member of the Committee may earn fees from the Corporation or any of its subsidiaries other than directors' fees. For greater certainty, no member of the Committee shall accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Corporation.

**Duties and Responsibilities:**

Among its specific duties and responsibilities, the Committee shall:

i) Recommend to the Board the appointment and compensation of the External Auditor and oversee the External Auditor’s work. The Board shall appoint and retain, subject to ratification by the Corporation’s shareholders, compensate, evaluate, and terminate, when appropriate, the External Auditor, which shall report to the Board.

ii) Obtain and review, at least annually, a report by the External Auditor describing: the External Auditor’s internal quality-control procedures and any material issues raised by the most recent internal quality-control review, or peer review.

iii) Approve in advance all audit services to be provided by the External Auditor. (By approving the audit engagement, the audit services within the scope of the engagement shall be deemed to have been pre-approved.)

iv) Establish policies and procedures for the engagement of the External Auditor to provide audit and permissible non-audit services, which shall include pre-approval of all permissible non-audit services to be provided by the External Auditor.

v) Consider, at least annually, the independence of the External Auditor, including whether the External Auditor’s performance of permissible non-audit services is compatible with the auditor’s independence, and obtain and review a report by the External Auditor describing any relationships between the External Auditor and the Corporation or any other relationships that may adversely affect the independence of the auditor.

vi) Review and discuss with the External Auditor:

a) the scope of the audit, the results of the annual audit examination by the auditor, and any difficulties the auditor encountered in the course of their audit work, including any restrictions on the scope of the External Auditor's activities or on access to requested information and any significant disagreements with management; and

b) the reports of the External Auditor with respect to interim periods.

vii) Review, analyse and discuss with management and the External Auditor the annual audited financial statements of the Corporation, and, in relation thereto, if any:

a) the auditor's judgment as to the quality of the Corporation's accounting principles, setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements;

b) the Corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," including accounting policies that may be regarded as critical;

c) major issues regarding the Corporation's accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles and financial statement presentations;

d) the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented;

e) reports from the External Auditor as required by applicable securities rules; and

f) review earnings press releases.

These reviews must be completed before any of the above items are publicly disclosed.

viii) Recommend to the Board based on the review and discussion described in paragraph vii) above, whether the annual financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" relating thereto should be approved.

ix) Review, analyse and discuss with management and (if and where applicable) the External Auditor the interim financial statements of the Corporation, and, in relation thereto, if any:

a) an analysis of the auditor's judgment as to the quality of the Corporation's accounting principles, setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements;

b) major issues regarding the Corporation's accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles and financial statement presentations;

c) reports from the External Auditor as required by applicable securities rules; and

d) review earnings press releases.

These reviews must be completed before any of the above items are publicly disclosed.

x) Approve, on behalf and in the name of the Board, based on the review and discussion described in paragraph vii) above, the interim financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" relating thereto.

xi) Resolve disagreements, if any, between management and the External Auditor with respect to issues relating to financial reporting.

xii) Review and discuss the adequacy and effectiveness of the Corporation's internal controls, including any significant deficiencies in internal controls and significant changes in such controls reported to the Committee by the External Auditor or management.

xiii) Periodically review and discuss the adequacy and effectiveness of the Corporation's disclosure controls over financial information, procedures, and management reports thereon.

xiv) Review and discuss with the principal internal auditor of the Corporation the scope and results of the internal audit program.

xv) Review and discuss corporate policies with respect to earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies.

xvi) Review and discuss the Corporation's policies with respect to risk assessment and risk management.

xvii) Oversee the Corporation's compliance systems with respect to legal and regulatory requirements.

xviii) Establish procedures for handling complaints regarding accounting, internal accounting controls and auditing matters, including procedures for confidential, anonymous submission of concerns by employees regarding accounting and auditing matters.

xix) Establish policies for the hiring of employees and former employees of the External Auditor and any former external auditor.

xx) Annually evaluate the performance of the Committee and assess the adequacy of the Committee's charter.

**Stock Exchange Listing**
Toronto Stock Exchange
Trading Symbol: GUD

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