# KNIGHT THERAPEUTICS INC.

## UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**March 31, 2018**

The following is Management's Discussion and Analysis of the financial condition and operating results of Knight Therapeutics Inc. ("Knight" or the "Company") for the three months ended March 31, 2018. This document should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto for the three months ended March 31, 2018 and the audited consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in our annual report for the year ended December 31, 2017. Knight's unaudited interim condensed consolidated financial statements as at and for the three months ended March 31, 2018 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". All amounts herein are expressed in thousands of Canadian dollars (unless otherwise indicated) except for share and per share amounts. All other currencies are in thousands.

This discussion and analysis was prepared by management from information available as at May 9, 2018. Further information about Knight Therapeutics Inc., including the Annual Information Form, is available online on SEDAR at www.sedar.com.

**Cautionary note regarding forward-looking statements**

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

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(In thousands of Canadian dollars, except for share and per share amounts)

# GLOSSARY OF ABBREVIATIONS

| Abbreviation | Calendar |
|---|---|
| Q1-18 | First quarter of 2018 |
| Q4-17 | Fourth quarter of 2017 |
| Q3-17 | Third quarter of 2017 |
| Q2-17 | Second quarter of 2017 |
| Q1-17 | First quarter of 2017 |
| Q4-16 | Fourth quarter of 2016 |
| Q3-16 | Third quarter of 2016 |
| Q2-16 | Second quarter of 2016 |

| Abbreviation | Company |
|---|---|
| 3D | 3D Signatures Inc. |
| 60P | 60º Pharmaceuticals LLC |
| Advaxis | Advaxis Pharmaceuticals Inc. |
| Akorn | Akorn Inc. |
| Alimera | Alimera Sciences Inc. |
| Antibe | Antibe Therapeutics Inc. |
| AstraZeneca | AstraZeneca AB |
| Braeburn | Braeburn Pharmaceuticals Inc. |
| Crescita | Crescita Therapeutics Inc. |
| Ember | Ember Therapeutics Inc. |
| Forbion | Forbion Capital Fund III CV |
| Knight or the Company | Knight Therapeutics Inc. |
| Lundbeck | H. Lundbeck A/S |
| Medimetriks | Medimetriks Pharmaceuticals Inc. |
| Medison | Medison Biotech (1995) Ltd. |
| NEMO II | New Emerging Medical Opportunities Fund II Ltd. |
| NEMO III | New Emerging Medical Opportunities Fund III Ltd. |
| NeurAxon | NeurAxon Pharma Inc. |
| PBB | Pro Bono Bio PLC |
| Pediapharm | Pediapharm Inc. |
| Prexton | Prexton Therapeutics SA |
| Profound | Profound Medical Inc. |
| Sectoral | Sectoral Asset Management Inc. |
| SIFI | Società Industria Farmaceutica Italiana S.p.A. |
| Synergy | Synergy CHC Corp. |

| Abbreviation | Financial |
|---|---|
| AOCI | Accumulated other comprehensive income |
| C$ or $ | Canadian Dollar |
| DC&P | Disclosure Controls and Procedures |
| EPS | Earnings per share to common shareholders |
| EUR | Euro |
| FMV | Fair market value |
| ICFR | Internal control over financial reporting |
| IFRS | International Financial Reporting Standards |
| ILS | New Israeli Shekels |
| Interim Financial Statements | Unaudited interim condensed consolidated financial statements |
| OCI | Other comprehensive income |
| US$ | U.S. Dollar |

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

| Abbreviation | Other |
|---|---|
| IBS-C | Irritable Bowel Syndrome with Constipation |
| IQVIA | IQVIA Incorporated, a leading pharmaceutical market research organization |
| NDS | New Drug Submission |
| OIC | Opioid-induced constipation |
| PMPRB | Patented Medicine Prices Review Board |

# OVERVIEW

## Section 1 – About Knight Therapeutics Inc.

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

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

## Section 2 – Q1-18 Highlights

### Financial Results

- Revenues were $3,154, an increase of $1,404 or 80% over prior year.
- Net income was $6,909, an increase of $862 or 14% over prior year.
- Cash flows from operations at $6,864, an increase of $2,628 or 62% over prior year.

### Products

- Submitted Netildex™ for approval for the treatment of inflammatory ocular conditions of the anterior segment of the eye to Health Canada.
- Entered into an exclusive licensing agreement with Ardelyx to commercialize tenapanor in Canada.

### Strategic Lending

- Received $29,463 [US$22,757] from Medimetriks including payment of principal of $25,894 [US$20,000].
- Received $5,613 [US$4,460] as a partial repayment of the 60P loan.

### Strategic Investments

- Received distributions of $4,243 from strategic fund investments.
- Acquired an additional 754,716 common shares of Crescita through a rights offering at $0.53 per share.

### Subsequent Events

- Received regulatory approval from Health Canada for Probuphine™ for the treatment of opioid drug dependence.
- Amended loan with 60P and committed to loan an additional amount of up to $2,694 [US$2,100].

(In thousands of Canadian dollars, except for share and per share amounts)

# FINANCIAL RESULTS

## Section 3 – Results of Operations

| | Q1-18 | Q1-17 | Change $[1] | Change %[2] |
|---|---|---|---|---|
| Revenues | **3,154** | 1,750 | 1,404 | 80% |
| Cost of goods sold | **834** | 288 | (546) | 190% |
| **Gross margin** | **2,320** | 1,462 | 858 | 59% |
| *Gross margin (%)* | ***74%*** | *84%* | *10%* | *12%* |
| **Expenses** | | | | |
| Selling and marketing | **789** | 363 | (426) | 117% |
| General and administrative | **2,095** | 2,468 | 373 | 15% |
| Research and development | **489** | 416 | (73) | 18% |
| | **(1,053)** | (1,785) | 732 | 41% |
| Depreciation of property and equipment | **16** | — | (16) | 100% |
| Amortization of intangible assets | **441** | 326 | (115) | 35% |
| Interest income | **(5,288)** | (5,860) | (572) | 10% |
| Other income | **(1,351)** | (308) | 1,043 | 339% |
| Net gain on financial assets | — | (3,375) | (3,375) | N/A |
| Net gain on financial assets measured at fair value through profit or loss | **(541)** | — | 541 | 100% |
| Share of net income of associate | **(503)** | (319) | 184 | 58% |
| Foreign exchange (gain) loss | **(2,597)** | 243 | 2,840 | N/A |
| **Income before income taxes** | **8,770** | 7,508 | 1,262 | 17% |
| **Income tax expense** | | | | |
| Current | **641** | 480 | (161) | 34% |
| Deferred | **1,220** | 981 | (239) | 24% |
| **Net income for the year** | **6,909** | 6,047 | 862 | 14% |
| **Attributable to shareholders of the Company** | | | | |
| Basic EPS | **0.05** | 0.04 | 0.01 | 25% |
| Diluted EPS | **0.05** | 0.04 | 0.01 | 25% |

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

(In thousands of Canadian dollars, except for share and per share amounts)

| | Q1-18 vs Q1-17 |
|---|---|
| **Revenues** | • Increase in revenues mainly attributable to timing of sales for Impavido® and increase in Movantik® sales. |
| **Gross Margin** | • Increase in gross margin ($) attributable to increase in revenues.<br>• Decrease in gross margin (%) attributable to change in product mix. |
| **Selling and marketing** | • Increase due to commercial activities including sales force promotion of Movantik®and preparation of the launch of new products. |
| **General and administrative** | • Decrease is mainly related to lower stock based compensation expense. |
| **Research and development expenses** | • No significant variance. |
| **Depreciation and Amortization** | • No significant variance. |
| **Interest income** | • Primarily from interest earned on loans, cash and cash equivalents, marketable securities and accretion on loans receivable.<br>***Interest Income***<br>• Interest income (excluding accretion) for Q1-18 was $5,288, an increase of 11% or $506 compared to prior year due to an increase in the average cash, cash equivalents and marketable securities balances and an increase in interest rates, offset by a lower average loan balance.<br>***Interest Accretion***<br>• No significant interest accretion in Q1-18 compared to $1,078 in prior year due to the adoption of IFRS 9. |
| **Other income[1]** | • Amount in Q1-18 driven by the early repayment fees on the Medimetriks loan. |
| **Net gain on financial assets** | • Amount in Q1-17 due to the recognition of derivatives. |
| **Net gain on financial assets measured at fair value through profit or loss** | • As a result of the revaluation of financial assets measured at FVPL.<br>• Net gain mainly attributed to the revaluation of the Antibe Conversion Option of $371. |
| **Share of net income of associate** | • No significant variance. |
| **Foreign exchange (gain) loss** | • Due to relative gains on certain U.S. dollar denominated financial assets as Canadian dollar weakened. |
| **Income tax expense (recovery)** | • Variance due to gains on investments in financial assets and amortization of deferred income taxes related to the Company's financing. |

[1] *Other income includes income earned for advisory and other services, gains from early loan repayments and income from strategic lending deals*

(In thousands of Canadian dollars, except for share and per share amounts)

# FINANCIAL CONDITION

## Section 4 – Balance Sheet

| | March 31, 2018 | December 31, 2017 | Change $ | Change %[1] |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current** | | | | |
| Cash and cash equivalents | **583,408** | 496,460 | 86,948 | 18% |
| Marketable securities | **183,017** | 232,573 | (49,556) | 21% |
| Trade and other receivables | **10,046** | 9,176 | 870 | 9% |
| Inventories | **994** | 1,224 | (230) | 19% |
| Other current financial assets | **25,167** | 58,848 | (33,681) | 57% |
| Income taxes receivable | **819** | 792 | 27 | 3% |
| **Total current assets** | **803,451** | 799,073 | 4,378 | 1% |
| Marketable securities | **36,000** | 36,000 | — | — |
| Property and equipment | **675** | 633 | 42 | 7% |
| Intangible assets | **15,906** | 12,576 | 3,330 | 26% |
| Other financial assets | **79,669** | 76,988 | 2,681 | 3% |
| Investment in associate | **77,697** | 75,983 | 1,714 | 2% |
| Deferred income tax assets | **3,455** | 4,730 | (1,275) | 27% |
| **Total assets** | **1,016,853** | 1,005,983 | 10,870 | 1% |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | **4,592** | 5,025 | (433) | 9% |
| Income taxes payable | **7,962** | 7,599 | 363 | 5% |
| Other balances payable | **1,394** | 1,354 | 40 | 3% |
| Deferred other income | **251** | 282 | (31) | 11% |
| **Total current liabilities** | **14,199** | 14,260 | (61) | 0% |
| Deferred other income | **104** | 167 | (63) | 38% |
| Other balances payable | **1,067** | 348 | 719 | 207% |
| **Total liabilities** | **15,370** | 14,775 | 595 | 4% |
| **Shareholders' equity** | | | | |
| Share capital | **761,546** | 761,490 | 56 | 0% |
| Warrants | **785** | 785 | — | — |
| Contributed surplus | **12,741** | 12,196 | 545 | 4% |
| Accumulated other comprehensive income | **11,459** | 20,907 | (9,448) | 45% |
| Retained earnings | **214,952** | 195,830 | 19,122 | 10% |
| **Total shareholders' equity** | **1,001,483** | 991,208 | 10,275 | 1% |
| **Total liabilities and shareholders' equity** | **1,016,853** | 1,005,983 | 10,870 | 1% |

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

(In thousands of Canadian dollars, except for share and per share amounts)

**March 31, 2018 vs December 31, 2017**

| | |
|---|---|
| **Cash and cash equivalents and marketable securities** | • Refer to Section 5 – Liquidity and Capital Resources for further information. |
| **Trade and other receivables** | • Increase due to a distribution receivable from a fund and growth in revenue, offset by a lower interest receivable amount.<br>• Refer to note 6 in the Interim Financial Statements for further details. |
| **Inventories** | • No significant variance. |
| **Other financial assets (current and long term)** | • Decrease of $31,000 driven by:<br>**Loans and other receivables:** decrease of $31,521 mainly attributable to repayment of a portion of the 60P and Medimetriks loans. Refer to Section 7 for further information on Knight's strategic lending portfolio.<br>**Equities, Warrants and Derivatives:** decrease of $2,159 driven by the revaluation of strategic investments in equities, warrants and derivatives. Refer to note 8 in the Interim Financial Statements for further information.<br>**Funds:** increase of $2,680 due to capital calls of $5,623 offset by distributions and mark-to-market adjustments of $2,943. Refer to Section 8 for further information on Knight's strategic investments. |
| **Income Tax Receivable** | • No significant variance. |
| **Property and Equipment** | • No significant variance. |
| **Intangible assets** | • Increase due to an acquisition in Q1-18, offset by amortization.<br>• Refer to note 7 in the Interim Financial Statements for further details. |
| **Investment in associate** | • Increase related to Knight's share of net income and other comprehensive income.<br>• Refer to Section 9 for further information. |
| **Accounts payable and accrued liabilities** | • Decrease due to timing of purchases and payments. |
| **Income Tax Payable** | • Increase due to gains on investments in financial assets and foreign exchange. |
| **Deferred other income** | • No significant variance. |
| **Other balances payable (current and long term)** | • Increase due to a milestone recorded during Q1-18. |
| **Share capital** | • Refer to note 11 in the Interim Financial Statements for further information. |
| **Contributed surplus** | • Increase related to share-based compensation expense.<br>• Refer to the statement of changes in shareholders' equity in the Interim Financial Statements for further information. |
| **Accumulated other comprehensive income** | • Decrease primarily related to the IFRS 9 transition adjustment of $11,692.<br>• Refer to the statement of changes in shareholders' equity and note 2 in the Interim Financial Statements for further information. |
| **Retained earnings** | • Increase due to net income of $6,909 in Q1-18 and the IFRS 9 transition adjustment of $12,213.<br>• Refer to note 2 in the Interim Financial Statements for further details. |

(In thousands of Canadian dollars, except for share and per share amounts)

## Section 5 – Liquidity and Capital Resources

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

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

| | **Three months ended March 31,** | | **Change** | |
|---|---|---|---|---|
| | **2018** | 2017 | **$** | **%** |
| Net cash from operating activities | **6,864** | 4,236 | 2,628 | 62% |
| Net cash from investing activities | **76,627** | 156 | 76,471 | 49020% |
| Net cash from financing activities | **49** | 388 | (339) | 87% |
| Increase in cash and cash equivalents during the period | **83,540** | 4,780 | 78,760 | 1648% |
| Net foreign exchange difference | **3,408** | (200) | 3,608 | N/A |
| Cash and cash equivalents, beginning of the period | **496,460** | 514,942 | (18,482) | 4% |
| Cash and cash equivalents, end of the period | **583,408** | 519,522 | 63,886 | 12% |
| Marketable securities, end of the period | **219,017** | 244,256 | (25,239) | 10% |
| Cash, cash equivalents, and marketable securities, end of the period | **802,425** | 763,778 | 38,647 | 5% |

| | | |
|---|---|---|
| **Net cash from operating activities** | Primarily relates to cash generated through revenues and interest received, offset by operating expenses including salaries, research and development expenses, professional fees, and office expenses. Cash flows from operating activities exclude revenues and expenses not affecting cash, such as unrealized and realized gains or losses on financial assets, accretion of interest, share based compensation expense, depreciation and amortization, foreign exchange gains or losses, share of net income and dividends from associate, other income, deferred other income, and net changes in non-cash balances relating to operations. | |
| **Net cash from investing activities** | For the three-month period ended March 31, 2018, cash flows were due to;<br>• net proceeds from marketable securities of $50,563,<br>• proceeds from repayments of loan receivables of $33,440, offset by<br>• net investments in life sciences funds of $3,934,<br>• acquisition of intangible, property and equipment of $3,042, and<br>• purchases of equities of $400. | For the three-month period ended March 31, 2017, cash flows were due to;<br>• proceeds from repayments of loan receivables of $28,058, offset by<br>• net investments of marketable securities of $23,805,<br>• net purchase of equities of $2,110, and<br>• net investments in life sciences funds of $1,987. |
| **Net cash from financing activities** | • Cash flows from financing activities were due to the participation of employees and directors in the Company's share purchase and option plans. | |

# PRODUCT ACQUISITION STRATEGY

## Section 6 – Products

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

### *Prescription Pharmaceutical Products*

| Product | Indication/Potential Indication | Licensor | Status in Territory | Territory Rights |
|---|---|---|---|---|
| **Pain** | | | | |
| Movantik® | OIC | AstraZeneca | Marketed in CAN and approved in ISR | CAN, ISR |
| Tenapanor | IBS-C and hyperphosphatemia | Ardelyx | Phase 3 – Pre-Registration[1] | CAN |
| Probuphine™ | Opioid addiction | Braeburn | Approved | 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 | CAN |
| **Other** | | | | |
| Impavido® | Leishmaniasis | N/A | Marketed | Global |
| 60P family | Tropical diseases | 60P | Phase 2 - Pre-Registration[1] | CAN, ISR, RUS, LATAM[2] |
| Advaxis family | HPV-associated cancers and others | Advaxis | Phase 1 – Phase 3 | CAN |

[1] *Not yet submitted for approval to Health Canada or other relevant health regulatory entity*

[2] *Refer to Section 26 – Subsequent Events for further details*

(In thousands of Canadian dollars, except for share and per share amounts)

### *Consumer Health Products*

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

### *Medical Devices*

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

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

## Highlights for the three months ended March 31, 2018

***Movantik®***

In December 2016, Knight entered into an agreement with AstraZeneca for the rights to Movantik® in Canada and Israel under which Knight is responsible for all commercial, regulatory and certain supply chain activities. Movantik® is the first once-daily oral peripherally-acting mu-opioid receptor antagonist for the treatment of OIC in adult patients with non-cancer pain who have had an inadequate response to laxatives. According to the Canadian Family Physician Practice Guideline, it is estimated that at least 26% of chronic opioid users suffer from OIC. According to IQVIA data, Movantik® sales in Canada were $301 (2017: $168) for the three-month period ended March 31, 2018.

***Probuphine™***

On February 1, 2016, Knight entered into an exclusive licensing agreement with Braeburn to commercialize Probuphine™ in Canada. Probuphine™, indicated for the treatment of opioid drug dependence, is a subdermal implant designed to deliver buprenorphine continuously for six months following a single treatment, promoting patient compliance and retention. Health Canada approved Probuphine™ on April 18, 2018. Knight expects to launch Probuphine™ by the end of 2018.

***Tenapanor***

On March 16, 2018, Knight entered into an exclusive licensing agreement to commercialize tenapanor in Canada. Tenapanor is a first-in-class small molecule treatment that has completed Phase 3 development for IBS-C and is being evaluated in a second Phase 3 study for hyperphosphatemia. Knight expects to file a NDS tenapanor for IBS-C in 2019.

(In thousands of Canadian dollars, except for share and per share amounts)

***Iluvien®***

On July 21, 2015, Knight entered into an agreement with Alimera pursuant to which Knight acquired the exclusive Canadian distribution rights to Iluvien®, a sustained release intravitreal implant for the treatment of diabetic macular edema. On February 22, 2017, Iluvien® was accepted for review by Health Canada. On March 13, 2018, Knight was advised by Health Canada that the 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™***

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

## Section 7 – Strategic Lending

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

| | **Nominal loan balance as at March 31, 2018** | |
|---|---|---|
| **Entity** | **In Source Currency** | **In Canadian Dollars[1]** |
| Synergy | US$9,000 | $11,605 |
| 60P | US$4,685 | $6,041 |
| Crescita | C$3,639 | $3,639 |
| Profound | C$3,143 | $3,143 |
| Medimetriks | US$2,000 | $2,579 |
| Pediapharm[2] | C$1,250 | $1,250 |
| Ember | US$500 | $645 |
| **Total** | | **$28,902** |

[1] *Converted at the Bank of Canada closing exchange rates on March 31, 2018*
[2] *Pediapharm debenture is held indirectly through the Bloom Burton Healthcare Lending Trust*

(In thousands of Canadian dollars, except for share and per share amounts)

The following table summarizes the movement in loans and other receivables during the quarter ended March 31, 2018.

| | Carrying value beginning of period $ | Additions $ | Loan repayments $ | Change in fair Value[1] $ | Foreign exchange[2] $ | Carrying value end of period $ | Current other financial assets $ | Non-current other financial assets $ |
|---|---|---|---|---|---|---|---|---|
| Amortized Cost | 3,370 | 320 | (579) | — | 78 | 3,189 | — | 3,189 |
| FVPL | 56,970 | — | (33,440) | 256 | 1,323 | 25,109 | 7,610 | 17,499 |
| **Total** | **60,340** | **320** | **(34,019)** | **256** | **1,401** | **28,298** | **7,610** | **20,688** |

[1] *Net changes related to change in the fair value of loan receivables and recognition of day 1 gains*

[2] *Net changes due to foreign currency translation recorded in the statement of income or statement of other comprehensive income*

During the quarter ended March 31, 2018, as result of changes in fair value and recognition of deferred day 1 gains, the Company recorded $256 (2017: n/a) in the statement of income as net gain on financial assets measured at fair value through profit and loss. In addition, the Company recorded $1,401 (2017: $648) due to foreign currency revaluation of which $875 is recorded in the statement of income as foreign exchange gain and $526 recorded in the statement of other comprehensive income as unrealized gain on translation of foreign operations.

## Highlights for the three months ended March 31, 2018

**Loans and other receivables measured at amortized cost**

***Antibe***

On November 13, 2015, Knight invested $500 in senior secured convertible debentures offered by Antibe. As consideration for the debenture, the Company received a conversion feature whereby up to the maturity date, the debenture can be converted into common shares of Antibe at $0.22 per share ("Antibe Conversion Option"). On March 27, 2018, Knight exercised its Antibe Conversion Option and was issued 2,489,889 common shares. As a result, the loan and derivative were derecognized and an equity investment measured at FVPL of $996 was recorded.

**Loans and other receivables measured at FVPL**

***Medimetriks***

During 2016, Knight issued $31,290 [US$23,000] to Medimetriks in secured loans to support its acquisition of the exclusive U.S. development and commercialization rights of OPA-15406 from Otsuka. On March 7, 2018, Knight received an early repayment of principal of $25,894 [US$20,000] and interest and fees of $3,569 [US$2,757]. As at March 31, 2018, the nominal loan balance was $2,579 [US$2,000]. The loan matures in December 2019, and is at an interest rate of 13%.

***60P***

On December 10, 2015, the Company entered into a loan agreement with 60P for the development of tafenoquine ("Product") for the prevention of malaria in adults. As at December 31, 2017, the total nominal loan balance was $11,472 [US$9,145]. On February 8, 2018, 60P repaid $5,613 [US$4,460] and the remaining balance matures on December 31, 2020.

Additionally, on December 18, 2017, 60P submitted the Product as a new drug application to the U.S. Food Drug and Administration. If approved, the Company will receive a success fee of $774 [US$600] which will be recorded by Knight upon approval.

(In thousands of Canadian dollars, except for share and per share amounts)

## Section 8 – Strategic Investments

### Fund Investments

Knight invests in life sciences venture capital funds in which the Company earns a return similar to any other limited partner in the fund and receives preferential access to innovative healthcare products from around the world for Canada and select international markets. Knight has committed to invest with the following capital fund managers for approximately $126,653 as at March 31, 2018. To date, the investments in venture capital funds have led to the Canadian in-license of Iluvien® from Alimera and a portfolio of products from Advaxis.

The fair value of the funds held by Knight, as at March 31, 2018, is $57,648.

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

[1] *Converted at the Bank of Canada noon exchange rates as of the commitment date (using the March 31, 2018 closing rates total fund commitment would be $135,845)*
[2] *Knight received a full return of capital from its US$13,000 investment in Sectoral's NEMO II and subsequently committed to reinvest US$10,000 into Sectoral's NEMO III*
[3] *Represents investments in debt funds with Bloom Burton Healthcare Lending Trust I and II, managed by Stratigis Capital Advisors Inc.*

The following table summarizes the movement in fund investments during the quarter ended March 31, 2018.

| | **Carrying value beginning of period** | **Additions[1]** | **Distributions[2]** | **Change in fair value** | **Foreign exchange[3]** | **Carrying value end of period** | **Current other financial assets** | **Non-current other financial assets** |
|---|---|---|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| **2018** | **54,968** | **5,623** | **(4,243)** | **(529)** | **1,829** | **57,648** | **—** | **57,648** |

[1] *Investments in equity or debt funds*
[2] *Distributions received from funds generated realized gain of $1,306 (recorded in the current and historical consolidated statements of income through revaluation of the fund investments)*
[3] *Net changes due to foreign currency translation, recorded in the statement of income or statement of other comprehensive income*

During the quarter ended March 31, 2018, Knight invested $5,623 [including US$646 and EUR 848] and received distributions of $4,243 [including EUR 2,458]. The Company recorded a net decrease of $529 in the statement of income due to mark to market adjustments. Furthermore, the Company recorded a net increase of $1,829 due to foreign currency revaluation, of which $793 is recorded in the statement of income as foreign exchange gain, and $1,036 recorded in the statement of other comprehensive income as unrealized gain on translation of foreign operations.

(In thousands of Canadian dollars, except for share and per share amounts)

***Forbion***

In March 2018, it was announced that Lundbeck acquired Prexton, an investment held by Forbion. The transaction closed for an upfront cash payment of $158,670 [EUR 100,000] and up to $1,277,294 [EUR 805,000] in contingent payments. On March 29, 2018, Knight received a distribution of $3,168 [EUR 1,609] from Forbion upon close of the acquisition of Prexton.

### Other investments

***Increased ownership in Crescita***

During the quarter ended March 31, 2018, Knight received 2,079,973 rights (the "Rights") issued under the terms of Crescita's Rights Offering Circular dated February 2, 2018 (the "Rights Offering"). Each two Rights entitled Knight to subscribe for one common share of Crescita at $0.53 per share. The Company exercised its Rights and invested $400 and received 754,716 common shares of Crescita under the Rights Offering. As at March 31, 2018, the Company owns an aggregate of 2,834,689 common shares of Crescita, valued at $1,276 representing approximately 13.5% of its outstanding common shares.

For additional details regarding the movement in equities or derivatives held by Knight throughout the quarter, refer to note 8 "Other Financial Assets" of the Interim Financial Statements.

## Section 9 – Rest of World Strategy

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

### Investment in Medison

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

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

This selected information is derived from our financial statements.

| | **Q1-18** | Q4-17 | Q3-17 | Q2-17 | Q1-17 | Q4-16 | Q3-16 | Q2-16 |
|---|---|---|---|---|---|---|---|---|
| Carrying value of investment | **77,697** | 75,983 | 75,642 | 78,003 | 77,907 | 80,113 | 80,075 | 81,393 |
| Amortization of FMV adjustments | **(1,378)** | (1,529) | (1,572) | (1,503) | (1,503) | (1,749) | (1,207) | (1,208) |
| Share of net income, net of FMV adjustment | **503** | 341 | 98 | 96 | 319 | 38 | 1,096 | 805 |
| Dividends | **—** | — | 2,459 | — | 2,525 | — | 2,414 | — |

(In thousands of Canadian dollars, except for share and per share amounts)

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

| | **Q1-18** | Q4-17 | Q3-17 | Q2-17 | Q1-17 | Q4-16 | Q3-16 | Q2-16 |
|---|---|---|---|---|---|---|---|---|
| Revenues | **60,259** | 57,399 | 56,030 | 51,749 | 51,264 | 52,115 | 53,269 | 49,389 |
| Net income | **6,653** | 6,614 | 5,906 | 5,655 | 6,445 | 6,321 | 8,146 | 7,120 |

# RISK MANAGEMENT

## Section 10

### 10.1 Currency Risk

Knight holds a significant portion of its net financial assets in US$, EUR and ILS which results in financial risk due to fluctuations in the value of the currencies relative to the Canadian dollar. Assuming that all other variables remain constant, a 5% change in the Canadian dollar against the US$, EUR and ILS would have resulted in a change in the statement of income and comprehensive income of $11,858, $982 and $304, respectively.

### 10.2 Equity Price Risk

Equity price risk arises from changes in market prices of the equity and fund investments and derivatives. The carrying values of investments subject to equity price risk are $75,594 as at March 31, 2018 (December 31, 2017: $75,130). The Company monitors its equity investments for impairment on a periodic basis and at least every reporting period. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold. The Company's Board of Directors regularly reviews and approves equity investment decisions.

### 10.3 Interest Rate Risk

The Company is subject to interest rate risk on its cash, cash equivalents and marketable securities. Details regarding maturity dates and effective interest rates are described in notes 4 and 5 of the Interim Financial Statements. The Company does not believe that the results of operations or cash flows would be materially affected to any significant degree by a sudden change in market interest rates relative to interest rates on the investments, owing to the relatively short-term nature of the marketable securities and currently low market yields.

### 10.4 Liquidity Risk

The majority of the Company's financial liabilities are short term in nature. The Company generates sufficient cash from operating activities to fund its operations and fulfil its obligations as they become due. The Company has sufficient funds available through its cash, cash equivalents and marketable securities, should its cash requirements exceed cash generated from operations to cover all financial liability obligations. As at March 31, 2018, there were no restrictions on the flow of these funds nor have any of these funds been committed in any way, except as set out in note 18 of the Interim Financial Statements.

### 10.5 Credit Risk

The Company considers its maximum credit risk to be $92,374 (December 31, 2017: $122,490) which is the total of the following assets: trade and accounts receivable, interest receivable, loans receivable and investment in funds. The marketable securities and cash equivalent balances are subject to minimal risk of changes in value. They are invested within two large Canadian financial institutions, three Canadian credit unions guaranteed by provincial governments, two foreign affiliates of large Canadian financial institutions, and one Canadian insurance company, comprised of thirteen guaranteed investment certificates, one guaranteed investment fund and three term deposits.

(In thousands of Canadian dollars, except for share and per share amounts)

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

**10.6 Risk Factors**

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

# ADDITIONAL INFORMATION

## Section 11 – Selected Quarterly Financial Information

This selected information is derived from our Interim Financial Statements.

| | **Q1-18** | Q4-17 | Q3-17 | Q2-17 | Q1-17 | Q4-16 | Q3-16 | Q2-16 |
|---|---|---|---|---|---|---|---|---|
| Revenues | **3,154** | 2,544 | 1,860 | 2,480 | 1,750 | 1,845 | 1,892 | 1,135 |
| Net income | **6,909** | 7,145 | 3,593 | 459 | 6,047 | 7,939 | 5,698 | 4,446 |
| EPS | | | | | | | | |
| Basic | **0.048** | 0.050 | 0.025 | 0.003 | 0.042 | 0.059 | 0.043 | 0.039 |
| Diluted | **0.048** | 0.050 | 0.025 | 0.003 | 0.042 | 0.059 | 0.043 | 0.039 |
| Cash, cash equivalents and marketable securities | **802,425** | 765,033 | 761,087 | 761,161 | 763,778 | 736,050 | 645,054 | 638,423 |
| Total assets | **1,016,853** | 1,005,983 | 993,467 | 991,980 | 994,293 | 990,770 | 877,904 | 867,999 |
| Total liabilities | **15,370** | 14,775 | 13,019 | 11,800 | 10,998 | 11,052 | 8,305 | 6,034 |

## Section 12 – Outstanding Share Data

The table below summarizes the share data:

| **As at** | **May 9, 2018** |
|---|---|
| Common Shares | 142,818,833 |
| Stock Options | 3,977,596 |
| Warrants | 406,126 |

## Section 13 – Use of Proceeds from Financing

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

As at March 31, 2018, Knight had deployed or invested or committed to deploy or invest over $300,000 for the purposes disclosed in the prospectuses, as described above. Pending the application of the remainder of the net proceeds, Knight has invested part of the net proceeds in short-term investment-grade securities and bank deposits, and holds the remainder in cash. Knight anticipates that it has sufficient funds available to achieve its business objectives and milestones as listed in the prospectuses.

## Section 14 – Payment of Dividends

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

## Section 15 – Product Pricing Regulation on Certain Patented Drug Products

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

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

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

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

(In thousands of Canadian dollars, except for share and per share amounts)

## Section 16 – Financial Instruments

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

Knight has not entered into any currency or other hedging instrument contracts during the year ended December 31, 2017. Refer to notes 8 and 9 of the Interim Financial Statements for the three months ended March 31, 2018 for additional information.

## Section 17 – Off-balance Sheet Arrangements

The Company's off-balance sheet arrangements consist of contractual obligations and agreements for development, sales, marketing and distribution rights to innovative drug products. The effect of terminating these arrangements under normal operating circumstances consists of an effective transition of the remaining responsibilities and obligations to the licensor under agreed upon time frames and conditions. Please refer to note 18 of the Interim Financial Statements for the quarter ended March 31, 2018 for additional information. Other than these contractual obligations and commitments, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

## Section 18 – Commitments

In the normal course of business, the Company secures development, sales, marketing and distribution rights to innovative drug products requiring royalties or product payments considered normal operating commitments and as such not included herein. The Company has entered into various agreements which include contractual obligations extending beyond the current year. These obligations are classified into four major categories: operating lease, fund commitments, milestones and purchase commitments, and equity and loan commitments. The commitments of the Company as at March 31, 2018 are as follows:

### [i] Operating Lease

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

| | $ |
|---|---|
| 2018 | 203 |
| 2019 | 258 |
| 2020 | 258 |
| 2021 | 258 |
| 2022 | 215 |
| | **1,192** |

As at May 9, 2018, the operating lease commitment has decreased by $47.

### [ii] Fund commitments

As at March 31, 2018, under the terms of Company's agreements with life sciences venture capital funds, $81,093 (2017: $98,677), including $26,573 [US$20,608] and $18,081 [EUR 11,395], may be called over the life of the funds (based on the closing foreign exchange rates).

As at May 9, 2018, $78,771 remains to be called by life science venture capital funds.

### [iii] Milestones and purchase commitments

Under certain agreements, Knight may have to pay additional consideration should the Company achieve certain sales volumes or if certain milestones are met, such as regulatory approval in Canada. The Company may have to pay up to $57,008 including $25,014 [US$19,400] and $555 [EUR 350] upon achieving certain sales volumes, regulatory or other milestones related to specific products.

In addition, Knight has a commitment to purchase up to $2,100 [EUR 738 and US$721], of inventory for pharmaceutical products during the five-year period after their respective commercial launch. Furthermore, Knight has committed to certain sales force and marketing spend obligations during the five-year period after the commercial launch of one of its products.

### [iv] Equity and loan commitments

Subject to a loan agreement with one of its borrowers, Knight has committed up to a maximum of $3,224 [US$2,500] to participate in the initial public offering of the borrower.

On April 24, 2018, Knight amended its loan agreement with 60P and committed to lend an additional amount of up to $2,694 [US$2,100]. As at May 9, 2018, the remaining commitment is $2,023 [US$1,577].

## Section 19 – Related Party Transactions

Pharmascience Inc., a company related to the Company's CEO, provided administrative services of approximately $2 to the Company for the three-month period ended March 31, 2018.

## Section 20 – Segment Reporting

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

## Section 21 – Significant Accounting Estimates and Assumptions

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

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

Our significant accounting estimates and assumptions are reported in note 3 of our 2017 Annual Financial Statements, and note 2.2 of our Interim Financial Statements.

(In thousands of Canadian dollars, except for share and per share amounts)

## Section 22 –Accounting Pronouncements Adopted in 2018

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2017 except for IFRS 9 and IFRS 15 adopted on January 1, 2018. Refer to note 2.2 of the Interim Financial Statements for further details on the new accounting standards adopted. The Company has not adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

### Impact of transition to IFRS 9

Upon adoption of IFRS 9, the Company has not restated prior periods and the impact of the transition is as follows:

| | As at December 31, 2017 | | | As at January 1, 2018 | | | |
|---|---|---|---|---|---|---|---|
| | IAS 39 Classification | IAS 39 Measurement | IAS 39 Carrying amount | IFRS 9 Classification & Measurement | IFRS 9 Carrying amount | Impact on Opening RE | Impact on AOCI |
| Cash | FVPL | FVPL | 490,951 | Amortized Cost | 490,951 | — | — |
| Cash Equivalents | FVPL | FVPL | 5,509 | Amortized Cost | 5,509 | — | — |
| Marketable securities | FVPL | FVPL | 268,573 | Amortized Cost | 268,573 | — | — |
| Loans and other receivables | Loans and receivables | Amortized Cost | 59,819 | Amortized Cost[1] | 3,370 | — | — |
| | | FVPL | n/a | FVPL[2] | 56,970 | 521 | — |
| Equity investments | AFS | FVOCI | 19,425 | FVOCI | 13,050 | 1,403 | (1,403) |
| | | FVPL | n/a | FVPL | 6,375 | 670 | (670) |
| Derivatives | FVPL | FVPL | 1,624 | FVPL | 1,624 | — | — |
| Fund investments | AFS | FVOCI | 54,968 | FVPL | 54,968 | 9,619 | (9,619) |
| **Transition impact** | | | | | | **12,213** | **(11,692)** |

*[1] Strategic loans to Antibe and Pediapharm and other long-term receivables classified as amortized cost*
*[2] On transition, a Deferred day 1 gain of $1,125 remains to be recognized over term of loans. Refer to note 9 for additional details.*

The impact on opening retained earnings and accumulated other comprehensive income is summarized below:

| | RE | AOCI |
|---|---|---|
| Closing balance under IAS 39 (December 31, 2017) | 195,830 | 20,907 |
| Transition impact | 12,213 | (11,692) |
| **Opening balance under IFRS 9 (January 1, 2018)** | **208,043** | **9,215** |

### Impact of transition to IFRS 15

The transition to the new standard resulted in no adjustment to opening retained earnings as at January 1, 2018.

## Section 23 – Recent Accounting Pronouncements

### IFRS 16 - Leases

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

## Section 24 – Disclosure Controls and Procedures

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

## Section 25 – Internal Control Over Financial Reporting

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

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

During the first quarter of 2018, there was no significant changes in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect the Company's internal controls over financial reporting.

## Section 26 – Subsequent Events

### [i] Probuphine™ Approval

On April 18, 2018, Health Canada approved Probuphine™ for the treatment of opioid drug dependence.

### [ii] 60P loan amendment

On April 24, 2018 ("Effective Date"), Knight amended its loan agreement with 60P and committed to lend an additional amount of up to $2,694 [US$2,100], at an interest rate of 15%, to support the regulatory approval and commercialization of tafenoquine. As consideration for the amendment, 60P committed to pay Knight an additional $3,848 [US$3,000] plus annual interest of 9% on April 23, 2023 ("60P Commitment"). Under the terms of the 60P Commitment, Knight has the right to convert the 60P Commitment into common shares of 60P at a pre-determined exercise price at any time prior to the maturity date. Furthermore, within 8 weeks of the Effective Date, 60P and Knight will enter into an exclusive license agreement granting Knight the right to commercialize tafenoquine in Latin America.

# UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*KNIGHT THERAPEUTICS INC.*
**March 31, 2018**

# NOTICE TO READER

The interim condensed consolidated financial statements of Knight Therapeutics Inc. ("Knight" or the "Company") which comprise the interim condensed consolidated balance sheet as at March 31, 2018, the interim condensed consolidated statements of income and comprehensive income, the interim condensed consolidated statement of changes in shareholders' equity and the interim consolidated statement of cash flows for the three-month period ended March 31, 2018, are the responsibility of the Company's management. These interim condensed consolidated financial statements have not been audited or reviewed on behalf of the shareholders by the independent external auditors, Ernst & Young LLP.

The interim condensed consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with International Financial Reporting Standards. Management has determined such amounts on a reasonable basis in order to ensure that the interim condensed consolidated financial statements are presented fairly in all material respects. The Company's accounting procedures and related systems of internal controls are designed to provide a reasonable assurance that its assets are safeguarded and its financial records are reliable. Readers are cautioned that these interim condensed consolidated financial statements may not be appropriate for their purposes.

Jonathan Ross Goodman
Chief Executive Officer

Montreal, Canada
May 9, 2018

Samira Sakhia
President and Chief Financial Officer

Montreal, Canada
May 9, 2018

# INTERIM CONSOLIDATED BALANCE SHEETS

[In thousands of Canadian dollars]

[Unaudited]

| As at | Notes | March 31,2018 | December 31, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash and cash equivalents | *4* | **583,408** | 496,460 |
| Marketable securities | *5* | **183,017** | 232,573 |
| Trade and other receivables | *6* | **10,046** | 9,176 |
| Inventories | | **994** | 1,224 |
| Other current financial assets | *8, 9* | **25,167** | 58,848 |
| Income taxes receivable | | **819** | 792 |
| **Total current assets** | | **803,451** | 799,073 |
| Marketable securities | *5* | **36,000** | 36,000 |
| Property and equipment | | **675** | 633 |
| Intangible assets | *7* | **15,906** | 12,576 |
| Other financial assets | *8, 9* | **79,669** | 76,988 |
| Investment in associate | *10* | **77,697** | 75,983 |
| Deferred income tax assets | | **3,455** | 4,730 |
| **Total assets** | | **1,016,853** | 1,005,983 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | | **4,592** | 5,025 |
| Income taxes payable | | **7,962** | 7,599 |
| Other balances payable | | **1,394** | 1,354 |
| Deferred other income | | **251** | 282 |
| **Total current liabilities** | | **14,199** | 14,260 |
| Deferred other income | | **104** | 167 |
| Other balances payable | | **1,067** | 348 |
| **Total liabilities** | | **15,370** | 14,775 |
| **Shareholders' equity** | | | |
| Share capital | *11 [i]* | **761,546** | 761,490 |
| Warrants | | **785** | 785 |
| Contributed surplus | | **12,741** | 12,196 |
| Accumulated other comprehensive income | *12* | **11,459** | 20,907 |
| Retained earnings | | **214,952** | 195,830 |
| **Total shareholders' equity** | | **1,001,483** | 991,208 |
| **Total liabilities and shareholders' equity** | | **1,016,853** | 1,005,983 |

Commitments *[note 18]*

Subsequent event *[note 20]*

*See accompanying notes*

# INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

[Unaudited]

| | *Notes* | **Three months ended March 31, 2018** | 2017 |
|---|---|---|---|
| Revenues | | **3,154** | 1,750 |
| Cost of goods sold | | **834** | 288 |
| **Gross margin** | | **2,320** | 1,462 |
| **Expenses** | | | |
| Selling and marketing | | **789** | 363 |
| General and administrative | | **2,095** | 2,468 |
| Research and development | | **489** | 416 |
| | | **(1,053)** | (1,785) |
| Depreciation of property and equipment | | **16** | — |
| Amortization of intangible assets | | **441** | 326 |
| Interest income | | **(5,288)** | (5,860) |
| Other income | | **(1,351)** | (308) |
| Net gain on financial assets | | **—** | (3,375) |
| Net gain on financial assets measured at fair value through profit or loss | | **(541)** | — |
| Share of net income of associate | *10* | **(503)** | (319) |
| Foreign exchange (gain) loss | | **(2,597)** | 243 |
| **Income before income taxes** | | **8,770** | 7,508 |
| **Income tax expense** | | | |
| Current | | **641** | 480 |
| Deferred | | **1,220** | 981 |
| **Net income for the period** | | **6,909** | 6,047 |
| **Attributable to shareholders of the Company** | | | |
| Basic earnings per share | *13* | **0.05** | 0.04 |
| Diluted earnings per share | *13* | **0.05** | 0.04 |
| **Weighted average number of common shares outstanding** | | | |
| Basic | *13* | **142,813,358** | 142,720,536 |
| Diluted | *13* | **143,220,006** | 143,526,773 |

*See accompanying notes*

# INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[In thousands of Canadian dollars]

[Unaudited]

| | Three months ended March 31, | |
|---|---|---|
| | **2018** | 2017 |
| **Net income for the period** | **6,909** | 6,047 |
| Realized gain reclassified to statement of income net of tax of $64 | **—** | (973) |
| **Other comprehensive income or loss to be reclassified to statement of income in subsequent periods:** | | |
| Net unrealized loss on available-for-sale financial instruments net of tax of $434 | **—** | (1,046) |
| Unrealized gain (loss) on translation of foreign operations | **5,121** | (1,658) |
| **Other comprehensive income or loss not to be reclassified to statement of income in subsequent periods:** | | |
| Net loss on equity investments at fair value through other comprehensive income net of tax of $28 | **(4,088)** | — |
| Share of other comprehensive income of an associate net of tax of $382 | **1,211** | — |
| **Other comprehensive income (loss) for the period** | **2,244** | (3,677) |
| **Total comprehensive income for the period** | **9,153** | 2,370 |

# INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[In thousands of Canadian dollars]

[Unaudited]

| | *Notes* | **Share capital** | **Warrants** | **Contributed surplus** | **Accumulated other comprehensive income** | **Retained earnings** | **Total shareholders' equity** |
|---|---|---|---|---|---|---|---|
| Balance as at January 1, 2017 | | 760,447 | 785 | 9,469 | 30,431 | 178,586 | 979,718 |
| Net income for the period | | — | — | — | — | 6,047 | 6,047 |
| Other comprehensive loss for the period | | — | — | — | (3,677) | — | (3,677) |
| Comprehensive (loss) income | | — | — | — | (3,677) | 6,047 | 2,370 |
| Share-based compensation expense | *11 [ii]* | — | — | 846 | — | — | 846 |
| Issuance under share option plan | *11 [ii]* | 513 | — | (195) | — | — | 318 |
| Issuance under share purchase plan | *11 [iii]* | 43 | — | — | — | — | 43 |
| Balance as at March 31, 2017 | | 761,003 | 785 | 10,120 | 26,754 | 184,633 | 983,295 |
| **Balance as at December 31, 2017** | | **761,490** | **785** | **12,196** | **20,907** | **195,830** | **991,208** |
| Impact of adopting IFRS 9 | *2* | — | — | — | (11,692) | 12,213 | 521 |
| **Restated opening balance under IFRS 9** | | **761,490** | **785** | **12,196** | **9,215** | **208,043** | **991,729** |
| Net income for the period | | — | — | — | — | 6,909 | **6,909** |
| Other comprehensive income for the period | | — | — | — | 2,244 | — | **2,244** |
| Comprehensive income | | — | — | — | **2,244** | **6,909** | **9,153** |
| Share-based compensation expense | *11 [ii]* | — | — | 545 | — | — | **545** |
| Issuance under share purchase plan | *11 [iii]* | 56 | — | — | — | — | **56** |
| **Balance as at March 31, 2018** | | **761,546** | **785** | **12,741** | **11,459** | **214,952** | **1,001,483** |

*See accompanying notes*

# INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

[In thousands of Canadian dollars]

[Unaudited]

| | Notes | Three-months ended March 31, 2018 | 2017 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Net income for the period** | | **6,909** | 6,047 |
| Adjustments reconciling net income to operating cash flows: | | | |
| Deferred tax | | **1,220** | 981 |
| Share-based compensation expense | *11 [ii]* | **545** | 846 |
| Depreciation and amortization | | **457** | 326 |
| Accretion of interest | | **—** | (1,078) |
| Realized gain on financial assets | | **—** | (976) |
| Unrealized gain on financial assets | | **(541)** | (2,399) |
| Foreign exchange (gain) loss | | **(2,597)** | 204 |
| Share of net income of associate | *10* | **(503)** | (319) |
| Other income | | — | (155) |
| Deferred other income | | **(94)** | (146) |
| | | **5,396** | 3,331 |
| Changes in non-cash working capital related to operations | *15* | **1,468** | 905 |
| **Cash inflow from operating activities** | | **6,864** | 4,236 |
| | | | |
| **INVESTING ACTIVITIES** | | | |
| Purchase of marketable securities | | **(50,755)** | (44,291) |
| Purchase of intangible | | **(3,000)** | — |
| Purchase of property and equipment | | **(42)** | — |
| Purchase of equities | | **(400)** | (2,819) |
| Investment in funds | | **(4,277)** | (4,141) |
| Proceeds on maturity of marketable securities | | **101,318** | 20,486 |
| Proceeds from repayments of loans receivable | | **33,440** | 28,058 |
| Proceeds from disposal of equities | | — | 709 |
| Proceeds from distribution of funds | | **343** | 2,154 |
| **Cash outflow from investing activities** | | **76,627** | 156 |
| | | | |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from exercise of stock options | | — | 345 |
| Proceeds from contributions to share purchase plan | *11 [iii]* | **49** | 43 |
| **Cash inflow from financing activities** | | **49** | 388 |
| | | | |
| **Increase in cash during the period** | | **83,540** | 4,780 |
| Cash and cash equivalents, beginning of the period | | **496,460** | 514,942 |
| Net foreign exchange difference | | **3,408** | (200) |
| **Cash and cash equivalents, end of the period** | | **583,408** | 519,522 |
| | | | |
| **Supplemental cash flow information:** | | | |
| Interest received | | **6,878** | 4,018 |
| Net income taxes paid | | **256** | 286 |

*See accompanying notes*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

## GLOSSARY OF ABBREVIATIONS

| Abbreviation | Company |
|---|---|
| 60P | 60º Pharmaceuticals LLC |
| Antibe | Antibe Therapeutics Inc. |
| Crescita | Crescita Therapeutics Inc. |
| Knight or the Company | Knight Therapeutics Inc. |
| Medimetriks | Medimetriks Pharmaceuticals Inc. |
| Medison | Medison Biotech (1995) Ltd. |
| Pediapharm | Pediapharm Inc. |
| Synergy | Synergy CHC Corp. |

| Abbreviation | Financial |
|---|---|
| EUR | Euro |
| US$ | U.S. Dollar |

| Abbreviation | Other |
|---|---|
| AFS | Available-for-sale |
| AOCI | Accumulated other comprehensive income |
| CEO | Chief Executive Officer |
| FV | Fair value |
| FVOCI | Fair value through other comprehensive income |
| FVPL | Fair value through profit or loss |
| LATAM | Latin America |
| n/a | Not applicable (due to adoption of IFRS 9) |
| RE | Retained earnings |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

## 1. NATURE OF OPERATIONS

### Description of business

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of presentation

These interim condensed consolidated financial statements have been prepared in accordance with the accounting policies set out in note 2 “Summary of significant accounting policies”of the Company’s consolidated financial statements for the year ended December 31, 2017, except for changes in accounting policies described in note 2.2. These interim condensed consolidated financial statements have been prepared in accordance with International Financial Accounting Standard 34 “Interim Financial Reporting”. Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed.

### 2.2 New standards adopted

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company’s annual consolidated financial statements for the year ended December 31, 2017 except for IFRS 9 and IFRS 15 adopted on January 1, 2018. The Company has not adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

### Financial Instruments

IFRS 9 replaces IAS 39 and contains a new classification and measurement approach for financial assets. The classification determines how the financial assets are categorized and measured in the financial statements and therefore is the foundation for its accounting. IFRS 9 contains four principal classification categories for financial assets, namely: amortized cost, FVOCI with gains or losses recycled to profit or loss on derecognition, FVOCI with no recycling of gains or losses to profit or loss on derecognition and FVPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and AFS. The following summarizes the accounting policies used by the Company upon adoption of IFRS 9.

### Initial classification

The classification of the Company's financial instruments is as following:

| Classification | Financial instruments | Description |
|---|---|---|
| **Financial assets measured at amortized cost** | Cash | Cash balances with banks. |
| | Cash equivalents | Highly liquid investments that are readily convertible into a known amount of cash. |
| | Marketable securities | Liquid investments that are readily convertible into a known amount of cash. |
| | Trade and other receivables | Amounts receivable from customers and third parties. |
| | Loans and other receivables | Loans receivable, debentures and long-term receivables. |
| **Financial assets measured at FVPL** | Derivatives | Warrants, stock options, conversion features on debentures and other. |
| | Investments in funds | Life sciences venture capital equity funds and debt funds. |
| | Investments in equities | Equities of publicly-traded and private entities. |
| | Loans and receivables | Loans receivable, debentures and long-term receivables. |
| **Financial assets measured at FVOCI (with no recycling)** | Investments in equities | Equities of publicly-traded and private entities. |
| **Financial liabilities** | Accounts payable and accrued liabilities | Amounts payable to suppliers and third parties. |

### Criteria for classification

Under IFRS 9 the Company can classify, measure and account for its loans and other receivables as amortized cost, FVOCI (with recycling) and FVPL while equity investments can be classified as FVOCI (with no recycling) or FVPL. The Company analyzes each loan receivable and equity investment on an individual basis. The analysis and classification is driven by the following criteria:

| Classification | Criteria |
|---|---|
| ***Loans and other receivables and investments in funds*** | |
| **Amortized cost** | • Held within a business model whose objective is to hold assets in order to collect contractual cash flows and;<br>• Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. |
| **FVOCI (with recycling)** | • Held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets and;<br>• Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. |

| Classification | Criteria |
|---|---|
| ***Loans and other receivables and investments in funds*** | |
| **FVPL** | • All loans receivable and investments in funds not measured at amortized cost or at FVOCI must be measured at FVPL. |

| Classification | Criteria |
|---|---|
| ***Investments in equity instruments*** | |
| **FVPL** | • Investment acquired with the purpose of sale or,<br>• Evidence of historical short-term profit making on similar instruments. |
| **FVOCI (with no recycling)** | • Investment made primarily for non-financial benefits such as strategic alliances and strategic investments. |

**Measurement**

After classification as amortized cost, FVPL or FVOCI, the Company uses the following policy for initial measurement and subsequent measurement at each reporting period:

| Classification | Initial measurement | Subsequent measurement | Changes in fair value |
|---|---|---|---|
| ***Financial assets*** | | | |
| **Amortized Cost** | Fair value less expected credit loss | Amortized cost using the effective interest method. | Reported in consolidated statement of income when realized or impaired. Interest accretion on loans is recorded in "Interest income" on the consolidated statement of income. |
| **FVPL** | Fair value | Re-measured at subsequent reporting dates to fair value using quoted market prices, if available.<br><br>Re-measured using the Black-Scholes option pricing valuation model or other techniques if quoted market prices are not available. | Reported in "Net gain on financial assets measured at FVPL" on the consolidated statement of income. |
| **FVOCI (with no recycling)** | Fair value | Re-measured at subsequent reporting dates to fair value using quoted market prices, if available.<br><br>Re-measured using the Black-Scholes option pricing valuation model or other techniques if quoted market prices are not available. | Reported in consolidated statement of other comprehensive income.<br><br>There is no recycling of amounts from the statement of comprehensive income to the statement of income upon the disposal of the financial asset. |

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

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

### Use of Judgment and Estimates

The fair value of each strategic loan is determined using the discounted future cash flow of the principal and interest payments and the discount rate used is the fair value interest rate ("FV Interest Rate") of the loan. The Company estimates the FV Interest Rate through the following steps which involves use of significant judgement and estimates:

*Assignment of credit rating*: There is no reliable third-party credit rating on any of the strategic partners from which the Company has a loan outstanding balance. Therefore, the Company judgmentally assigns a credit rating to each loan based on quantitative and qualitative factors which include but are not limited to review of borrower's business plan, cash flow forecasts and financial standing.

*Interest rate of comparable financial instruments*: The Company reviews the interest rates of publicly-traded debt instruments with similar maturity term and credit rating as the loan being analysed. Based on the review the Company assigns a FV Interest Rate to each of its loan receivable. The Company may judgmentally exclude certain outliers in this analysis.

### Impact of transition to IFRS 9

Upon adoption of IFRS 9, the Company has not restated prior periods and therefore the comparative information for 2017 is reported under IAS 39 and is not comparable to information presented for 2018. The impact of the transition is as follows:

| | As at December 31, 2017 | | | As at January 1, 2018 | | | |
|---|---|---|---|---|---|---|---|
| | **IAS 39 Classification** | **IAS 39 Measurement** | **IAS 39 Carrying amount** | **IFRS 9 Classification & Measurement** | **IFRS 9 Carrying amount** | **Impact on Opening RE** | **Impact on AOCI** |
| Cash | FVPL | FVPL | 490,951 | Amortized Cost | 490,951 | — | — |
| Cash Equivalents | FVPL | FVPL | 5,509 | Amortized Cost | 5,509 | — | — |
| Marketable securities | FVPL | FVPL | 268,573 | Amortized Cost | 268,573 | — | — |
| Loans and other receivables | Loans and receivables | Amortized Cost | 59,819 | Amortized Cost[1] | 3,370 | — | — |
| | | FVPL | n/a | FVPL[2] | 56,970 | 521 | — |
| Equity investments | AFS | FVOCI | 19,425 | FVOCI | 13,050 | 1,403 | (1,403) |
| | | FVPL | n/a | FVPL | 6,375 | 670 | (670) |
| Derivatives | FVPL | FVPL | 1,624 | FVPL | 1,624 | — | — |
| Fund investments | AFS | FVOCI | 54,968 | FVPL | 54,968 | 9,619 | (9,619) |
| **Transition impact** | | | | | | **12,213** | **(11,692)** |

[1] *Strategic loans to Antibe and Pediapharm and other long-term receivables classified as amortized cost*

[2] *On transition, a Deferred day 1 gain of $1,125 remains to be recognized over term of loans. Refer to note 9 for additional details.*

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

The impact on opening retained earnings and accumulated other comprehensive income is summarized below:

| | RE | AOCI |
|---|---|---|
| Closing balance under IAS 39 (December 31, 2017) | 195,830 | 20,907 |
| Transition impact | 12,213 | (11,692) |
| **Opening balance under IFRS 9 (January 1, 2018)** | **208,043** | **9,215** |

### Revenue Recognition

IFRS 15 supersedes IAS 18 Revenue, IAS 11 Construction Contracts, and other revenue related interpretations. The Company adopted IFRS 15 using the modified retrospective method of adoption in its consolidated financial statements for the annual period beginning on January 1, 2018.

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

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

#### Impact of transition to IFRS 15

The transition to the new standard resulted in no adjustment to opening retained earnings as at January 1, 2018.

## 2.3 Statement of compliance

The preparation of the Company’s interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 3 of the Company’s annual audited consolidated financial statements for the year ended December 31, 2017 and in note 2.2 of these interim condensed consolidated financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Company’s annual audited consolidated financial statements for the year ended December 31, 2017.

These interim condensed consolidated financial statements were approved by the Company’s Board of Directors on May 9, 2018.

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

## 3. RECENT ACCOUNTING PRONOUNCEMENTS

### IFRS 16 Leases

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

## 4. CASH AND CASH EQUIVALENTS

| **As at** | **March 31, 2018**<br>**$** | December 31, 2017<br>$ |
|---|---|---|
| Cash in bank | **483,946** | 490,951 |
| Term deposit of US$77,138 earning interest at rates ranging from 1.00% to 1.34% and maturing from April 2018 to June 2018 (December 31, 2017: US$4,391 earning interest at 1.23% and matured February 2018) | **99,462** | 5,509 |
| **Total** | **583,408** | 496,460 |

## 5. MARKETABLE SECURITIES

| **As at** | **March 31, 2018**<br>**$** | December 31, 2017<br>$ |
|---|---|---|
| **Current** | | |
| Guaranteed investments earning interest at rates ranging from 1.25% to 2.35% and maturing from April 2018 to August 2019 (December 31, 2017: earning interest ranging from 1.10% to 2.14% and maturing from April 2018 to August 2019) | **174,755** | 134,696 |
| Term deposits of nil (December 31, 2017: US$68,413 earning interest ranging from 1.23% to 1.48%) | **—** | 85,825 |
| Guaranteed investment certificates of US$6,407 earning interest rates ranging from 1.55% to 1.90% and maturing from May 2018 to November 2018 | **8,262** | 12,052 |
| **Total current** | **183,017** | 232,573 |
| **Non-current** | | |
| Guaranteed investments earning interest at rates ranging from 1.82% to 2.06% and maturing from June 2019 to August 2019 (December 31, 2017: earning interest at rates ranging from 1.82% to 2.06% and maturing from June 2019 to August 2019) | **36,000** | 36,000 |
| **Total non-current** | **36,000** | 36,000 |
| **Total** | **219,017** | 268,573 |

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

## 6. TRADE AND OTHER RECEIVABLES

| As at | **March 31, 2018** | December 31, 2017 |
|---|---|---|
| | **$** | $ |
| Interest receivable[1] | **3,634** | 5,587 |
| Trade and accounts receivable | **2,794** | 2,116 |
| Distribution receivable from a fund investment | **2,554** | — |
| Commodity taxes receivable | **313** | 392 |
| Prepaid expenses and other receivable | **751** | 1,081 |
| **Total** | **10,046** | 9,176 |

*[1] Interest income earned during the period was $5,288, of which $3,488 was earned from financial assets measured at amortized cost and $1,794 from financial assets measured at FVPL.*

## 7. INTANGIBLE ASSETS

| | **$** |
|---|---|
| Cost as at January 1, 2018 | **14,751** |
| Additions | **3,700** |
| Foreign exchange | **105** |
| **Cost as at March 31, 2018** | **18,556** |
| Accumulated amortization as at January 1, 2018 | **2,175** |
| Amortization charge | **441** |
| Foreign exchange | **34** |
| **Accumulated amortization as at March 31, 2018** | **2,650** |
| **Net book value as at March 31, 2018** | **15,906** |

## 8. OTHER FINANCIAL ASSETS

| | **Carrying amount[1]** | |
|---|---|---|
| **As at** | **March 31, 2018** | December 31, 2017 |
| | **$** | $ |
| **Loans and other receivables *[i]*** | | |
| Measured at amortized cost | **3,189** | 59,819 |
| Measured at FVPL | **25,109** | n/a |
| **Equity Investments *[ii]*** | | |
| AFS | **n/a** | 19,425 |
| Measured at FVPL | **7,524** | n/a |
| Measured at FVOCI | **9,493** | n/a |
| **Derivatives *[iii]*** | | |
| Measured at FVPL | **1,873** | 1,624 |
| **Fund Investments *[iv]*** | | |
| AFS | **n/a** | 54,968 |
| Measured at FVPL | **57,648** | n/a |
| **Total** | **104,836** | 135,836 |

[1] Balances as at March 31, 2018 are prepared in accordance with IFRS 9. Prior period comparatives have not been restated.

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

## [i] Loans and other receivables

The following table summarizes the movement in loans and other receivables during the quarter ended March 31, 2018.

| | Carrying value beginning of period | Additions | Loan repayments | Change in fair Value[1] | Foreign exchange[2] | Carrying value end of period | Current other financial assets | Non-current other financial assets |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Amortized Cost | 3,370 | 320 | (579) | — | 78 | 3,189 | — | 3,189 |
| FVPL | 56,970 | — | (33,440) | 256 | 1,323 | 25,109 | 7,610 | 17,499 |
| **Total** | **60,340** | **320** | **(34,019)** | **256** | **1,401** | **28,298** | **7,610** | **20,688** |

*[1] Net changes related to change in the fair value of loan receivables and recognition of day 1 gains*
*[2] Net changes due to foreign currency translation recorded in the statement of income or statement of other comprehensive income*

During the quarter ended March 31, 2018, as result of changes in fair value and recognition of deferred day 1 gains, the Company recorded $256 (2017: n/a) in the statement of income as net gain on financial assets measured at fair value through profit and loss. In addition, the Company recorded $1,401 (2017: $648) due to foreign currency revaluation of which $875 is recorded in the statement of income as foreign exchange gain and $526 recorded in the statement of other comprehensive income as unrealized gain on translation of foreign operations.

**Loans and other receivables measured at amortized cost**

***Antibe***

On November 13, 2015, Knight invested $500 in senior secured convertible debentures offered by Antibe. As consideration for the debenture, the Company received a conversion feature whereby up to the maturity date, the debenture can be converted into common shares of Antibe at $0.22 per share ("Antibe Conversion Option"). On March 27, 2018, Knight exercised its Antibe Conversion Option and was issued 2,489,889 common shares. As a result, the loan and derivative were derecognized and an equity investment measured at FVPL of $996 was recorded.

**Loans and other receivables measured at FVPL**

***Medimetriks***

During 2016, Knight issued $31,290 [US$23,000] to Medimetriks in secured loans to support its acquisition of the exclusive U.S. development and commercialization rights of OPA-15406 from Otsuka. On March 7, 2018, Knight received an early repayment of principal of $25,894 [US$20,000] and interest and fees of $3,569 [US$2,757]. As at March 31, 2018, the nominal loan balance was $2,579 [US$2,000]. The loan matures in December 2019, and is at an interest rate of 13%.

***60P***

On December 10, 2015, the Company entered into a loan agreement with 60P for the development of tafenoquine ("Product") for the prevention of malaria in adults. As at December 31, 2017, the total nominal loan balance was $11,472 [US$9,145]. On February 8, 2018, 60P repaid $5,613 [US$4,460] and the remaining balance matures on December 31, 2020.

Additionally, on December 18, 2017, 60P submitted the Product as a new drug application to the U.S. Food Drug and Administration. If approved, the Company will receive a success fee of $774 [US$600] which will be recorded by Knight upon approval.

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

## [ii] Equity investments

The following table summarizes the movement in equity investments during the quarter ended March 31, 2018.

| | Carrying value beginning of period $ | Additions[1] $ | Disposals[2] $ | Change in Fair value[3] $ | Foreign exchange[4] $ | Carrying value end of period $ | Current other financial assets $ | Non-current other financial assets $ |
|---|---|---|---|---|---|---|---|---|
| FVPL | 6,375 | 996 | — | 153 | — | 7,524 | 7,310 | 214 |
| FVOCI | 13,050 | 400 | — | (4,129) | 172 | 9,493 | 9,493 | — |
| **Total** | **19,425** | **1,396** | **—** | **(3,976)** | **172** | **17,017** | **16,803** | **214** |

[1] *Equities purchased or received as consideration with the strategic lending transactions*
[2] *Cash received upon disposal of equities during the period*
[3] *Net changes due to revaluation to fair market value recorded in the statement of income (FVPL) or statement of other comprehensive income (FVOCI)*
[4] *Net changes due to foreign currency translation recorded in the statement of income (FVPL) or statement of other comprehensive income (FVOCI)*

During the quarter ended March 31, 2018, the Company recorded an unrealized gain of $153 related to changes due to revaluation of equities measured at FVPL in the statement of income. In addition, the Company recorded an unrealized loss of $3,957 related to changes due to revaluation of equities measured at FVOCI in the statement of other comprehensive income, of which $88 is recorded as unrealized gain on translation of foreign operations.

During the quarter ended March 31, 2017, the Company recorded a realized a gain of $324 in the statement of income as net gain on financial assets. In addition, the Company recorded an unrealized loss of $1,903 related to changes due to revaluation of equities to fair value, foreign currency translation, and realized gains or losses reclassified from other comprehensive income to consolidated statement of income upon disposal in the statement of comprehensive income.

**Equity investments measured at FVPL**

***Antibe***

On March 27, 2018, Knight exercised its Antibe Conversion Option and received a total of 2,489,889 common shares of Antibe. The shares were valued at $996, representing the fair value on the date of the conversion.

**Equity investments measured at FVOCI**

The Company has designated the following strategic investments as equity investments measured at FVOCI.

| As at March 31, 2018 | Number of common shares owned | FV $ |
|---|---|---|
| Crescita | 2,834,689 | 1,276 |
| Profound | 3,005,450 | 2,913 |
| Synergy[1] | 17,645,812 | 3,328 |
| Medimetriks[2] | 2,315,007 | 1,976 |
| **Total** | | **9,493** |

[1] *Valued using the quoted market price (closing share price on the OTCXD) less the day 1 gain on initial measurement that the Company deferred. FMV in original currency is US$1,533*
[2] *Valued using the income approach valuation technique less the day 1 gain on initial measurement that the Company deferred. FMV in original currency is US$2,581*

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

***Crescita***

During the quarter ended March 31, 2018, Knight received 2,079,973 rights (the "Rights") issued under the terms of Crescita's Rights Offering Circular dated February 2, 2018 (the "Rights Offering"). Each two Rights entitled Knight to subscribe for one common share of Crescita at $0.53 per share. The Company exercised its Rights and invested $400 and received 754,716 common shares of Crescita under the Rights Offering. As at March 31, 2018, the Company owns an aggregate of 2,834,689 common shares of Crescita, valued at $1,276 representing approximately 13.5% of its outstanding common shares.

## [iii] Derivatives

The following table summarizes the movement in derivatives during the quarter ended March 31, 2018.

| | Carrying value beginning of period | Additions[1] | Disposals[2] | Change in fair value | Foreign exchange[3] | Carrying value end of period | Current other financial assets | Non-current other financial assets |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **2018** | **1,624** | **—** | **(521)** | **731** | **39** | **1,873** | **754** | **1,119** |

*[1] Derivatives recognized during the period*
*[2] Derivatives derecognized or disposed of during the period*
*[3] Net changes due to foreign currency translation, recorded in the statement of income or statement of other comprehensive income*

During the quarter ended March 31, 2018, the Company recorded a change in fair value of $731 in the statement of income as net gain on financial assets measured at FVPL. In addition, the Company recorded $39 due to foreign currency revaluation, of which $14 is recorded in the statement of income as foreign exchange gain, and $25 recorded in the statement of other comprehensive income as unrealized gain on translation of foreign operations.

During the quarter ended March 31, 2017, the Company recorded an unrealized loss of $30 (2016: $783) related to revaluation to fair value and foreign currency translation in the statement of income as net gain on financial assets.

***Medimetriks***

During 2017, pursuant to its loan agreement with Medimetriks, the Company recorded $496 [US$395] as a derivative for the right to obtain a cash payment subject to a future event. The cash payment fluctuates with the value of the common shares of Medimetriks which was determined using an income approach valuation technique. As at March 31, 2018, the derivative was recorded at a fair value of $509 [US$395].

***Synergy***

During 2017, as consideration for a $12,705 [US$10,000] loan issued to Synergy, the Company received a success fee payable at maturity. The success fee is a derivative as its value fluctuates with the changes in market price of Synergy's common shares. The initial fair value of the success fee of $870 [US$685] was determined based on the present value of the expected payment. As at March 31, 2018, the derivative was recorded at a fair value of $944 [US$732].

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

***Antibe***

The Antibe warrants held by Knight were revalued as at March 31, 2018 using the Black-Scholes model based on the following inputs and assumptions.

| Inputs | March 31, 2018 | December 31, 2017 | November 13, 2015[1] |
|---|---|---|---|
| Number of warrants | 1,000,000 | 1,000,000 | 1,000,000 |
| Value per common share | $0.44 | $0.15 | $0.17 |
| Exercise price | $0.31 | $0.31 | $0.31 |
| **Assumptions** | | | |
| Risk-free interest rate | 1.44% | 1.53% | 0.69% |
| Expected remaining term | 0.6 years | 0.9 years | 3 years |
| Expected volatility | 124% | 99.9% | 180% |
| **Black-Scholes value** | $0.21 | $0.02 | $0.14 |

*[1] Transaction date*

| Inputs | March 31, 2018 | December 31, 2017 | March 27, 2017[1] |
|---|---|---|---|
| Number of warrants | 120,000 | 120,000 | 120,000 |
| Value per common share | $0.44 | $0.15 | $0.19 |
| Exercise price | $0.22 | $0.22 | $0.22 |
| **Assumptions** | | | |
| Risk-free interest rate | 1.6% | 1.53% | 0.75% |
| Expected remaining term | 1 year | 1.2 years | 2 years |
| Expected volatility | 124% | 99.9% | 121% |
| **Black-Scholes value** | $0.28 | $0.05 | $0.12 |

*[1] Transaction date*

## [iv] Fund investments measured at FVPL

The following table summarizes the movement in fund investments during the quarter ended March 31, 2018.

| | Carrying value beginning of period | Additions[1] | Distributions[2] | Change in fair value | Foreign exchange[3] | Carrying value end of period | Current other financial assets | Non-current other financial assets |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **2018** | **54,968** | **5,623** | **(4,243)** | **(529)** | **1,829** | **57,648** | **—** | **57,648** |

*[1] Investments in equity or debt funds*
*[2] Distributions received from funds generated realized gain of $1,306 (recorded in the current and historical consolidated statements of income through revaluation of the fund investments)*
*[3] Net changes due to foreign currency translation, recorded in the statement of income or statement of other comprehensive income*

During the quarter ended March 31, 2018, Knight invested $5,623 [including US$646 and EUR 848] and received distributions of $4,243 [including EUR 2,458]. The Company recorded a net decrease of $529 in the statement of income due to mark to market adjustments. Furthermore, the Company recorded a net increase of $1,829 due to foreign currency revaluation, of which $793 is recorded in the statement of income as foreign exchange gain, and $1,036 recorded in the statement of other comprehensive income as unrealized gain on translation of foreign operations.

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

During the quarter ended March 31, 2017, Knight invested $4,141 [including US$500 and EUR 2,234] and received distributions of $2,154 [including US$925]. The Company recorded a net gain of $652 on financial assets related to the realized gain on distributions in the statement of income. Furthermore, the Company recorded a net decrease of $878 in other comprehensive income due to foreign currency revaluation and mark-to-market adjustments.

## 9. MEASURMENT OF FINANCIAL ASSETS

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

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

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

### [i] Fair value hierarchy

| As at | March 31, 2018 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Recurring fair value measurements** | | | | |
| Loans measured at FVPL | 25,109 | — | — | 25,109 |
| Equity investments measured at FVPL | 7,524 | 7,524 | — | — |
| Equity investments measured at FVOCI | 9,493 | 4,189 | 1,976 | 3,328 |
| Derivatives | 1,873 | — | — | 1,873 |
| Fund investments measured at FVPL | 57,648 | — | — | 57,648 |
| **Total** | **101,647** | **11,713** | **1,976** | **87,958** |

There were no transfers between levels of the fair value hierarchy for the period ended March 31, 2018.

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

### [ii] Day 1 Gains

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

- in the income statement on a straight-line basis over the term for financial assets classified as FVPL;
- in the statement of comprehensive income for equity investments when there is a change in a factor that market participants would consider when pricing the asset.

The Company has the following deferred day 1 gains:

| **As at** | **March 31, 2018** | December 31, 2017 |
|---|---|---|
| | **$** | $ |
| **Loans measured at FVPL** | | |
| Medimetriks[1] | **772** | n/a |
| Profound | **200** | n/a |
| **Equity investments measured at FVOCI** | | |
| Medimetriks[2] | **941** | 915 |
| Synergy[3] | **4,853** | 4,721 |
| **Total** | **6,766** | 5,636 |

[1] *Day 1 gain in original currency is US$599*
[2] *Day 1 gain in original currency is US$730*
[3] *Day 1 gain in original currency is US$3,764*

## 10. INVESTMENT IN ASSOCIATE

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

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

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

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

| As at | *Notes* | March 31, 2018 $ |
|---|---|---|
| **Carrying value, beginning of the period** | | **75,983** |
| Share of net income for the period before adjustments | | 1,881 |
| Amortization of fair value adjustments | | (1,378) |
| **Share of net income for the period** | | **503** |
| **Share of other comprehensive income** | | **1,211** |
| **Carrying value, end of the period** | | **77,697** |

## 11. SHAREHOLDERS' EQUITY

### [i] Share Capital

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

| | *Notes* | Number of common shares | $ |
|---|---|---|---|
| **Balance as at January 1, 2018** | | **142,811,861** | **761,490** |
| Issuance under share purchase plan | *[iii]* | **7,022** | **56** |
| **Balance as at March 31, 2018** | | **142,818,883** | **761,546** |

### [ii] Share option plan

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

The Company recorded compensation expense of $545 (2017: $846) for the three-month period ended March 31, 2018 with corresponding credits to contributed surplus related to the issuance of stock options. The weighted average fair value of the options granted during the period, estimated by using the Black-Scholes option pricing model, was $3.11 (2017: $4.73). The fair value of the options was estimated on the date of grant based on the following weighted average assumptions:

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

| | Three months ended March 31, | |
|---|---|---|
| | **2018** | 2017 |
| Weighted average risk-free interest rate | **2.11%** | 1.45% |
| Dividend yield | **Nil** | Nil |
| Weighted average volatility factor *[i]* | **40%** | 40% |
| Unvested forfeiture rate | **2%** | 2% |
| Weighted average expected life | **6.4 years** | 7.7 years |

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

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | **Number of share options #** | **Weighted average exercise price $** | Number of share options # | Weighted average exercise price $ |
| **Balance beginning of the period** | **3,447,659** | **7.50** | 3,147,111 | 7.14 |
| Options granted | **533,916** | **8.51** | 419,352 | 10.10 |
| Options exercised | **—** | **—** | (41,667) | 8.27 |
| Options expired/forfeited | **(3,979)** | **10.25** | (4,815) | 8.45 |
| **Balance at end of the period** | **3,977,596** | **7.63** | 3,519,981 | 7.48 |
| **Options exercisable at the end of the period** | **2,774,912** | **7.06** | 1,749,773 | 6.79 |

## [iii] Share purchase plan

The Company has a Share Purchase Plan ("Purchase Plan") allowing employees and directors of the Company to purchase common shares at listed market prices from treasury. The plan allows for employees to contribute up to a maximum of 10% of their salary and directors to contribute up to $10 per year. During the three-month period ended March 31, 2018, 6,159 shares (2017: 3,923 shares) were issued from treasury at fair market value under the Purchase Plan for total proceeds of $49 (2017: $40). As at March 31, 2018, a total of 1,428,188 common shares (2017: 1,427,593 common shares) reserved for share purchase arrangements can be issued under the Purchase Plan.

Under the Purchase Plan, the Company will contribute 25% of employees' or directors' contributions in the form of common shares if the employee remains employed by the Company or director remains on the Board, and has held the original shares for two years from the original purchase date. The Company's contribution in common shares is calculated using the lesser of the original common share value at the original purchase date and at the date of the Company's contribution. During the three-month period ended March 31, 2018, the Company issued 863 shares (2017: 247) representing its 25% contribution.

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

## 12. ACCUMULATED OTHER COMPREHENSIVE INCOME

| | **March 31, 2018** | December 31, 2017 |
|---|---|---|
| | **$** | $ |
| Net realized gains reclassified to statement of income, net of tax of $1,913 as at December 31, 2017 | **—** | (14,160) |
| Impairment reclassified to statement of income net of tax of $218 | **—** | 1,403 |
| Net unrealized gains on AFS financial instruments net of tax of $1,323 | **—** | 19,856 |
| Net unrealized losses on equities at FVOCI net of tax of $920 | **(8,681)** | — |
| Share of other comprehensive income of an associate net of tax of $382 | **1,211** | — |
| Unrealized gain on translation of foreign operations | **18,929** | 13,808 |
| **Total** | **11,459** | 20,907 |

## 13. EARNINGS PER SHARE

### Basic

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

| | **Three months ended March 31,** | |
|---|---|---|
| | **2018** | 2017 |
| | **$** | $ |
| Net income | **6,909** | 6,047 |
| Weighted average of common shares outstanding | **142,813,358** | 142,720,536 |
| **Basic earnings per share** | **$0.05** | $0.04 |

### Diluted

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

| | **Three months ended March 31,** | |
|---|---|---|
| | **2018** | 2017 |
| | **$** | $ |
| Net income | **6,909** | 6,047 |
| Weighted average of common shares outstanding | **142,813,358** | 142,720,536 |
| Adjustment for warrants and share options | **406,648** | 806,237 |
| Diluted weighted average shares outstanding | **143,220,006** | 143,526,773 |
| **Diluted earnings per share** | **$0.05** | $0.04 |

## 14. SEGMENT REPORTING

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

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

## 15. STATEMENT OF CASH FLOWS

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

| | Three months ended March 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **$** | $ |
| **Decrease (increase) in** | | |
| Trade and other receivables[2] | **1,684** | 987 |
| Inventories | **230** | 101 |
| Income taxes receivable | **(27)** | (103) |
| Long term interest receivable[1] | **(349)** | (154) |
| **Increase (decrease) in** | | |
| Accounts payable and accrued liabilities | **(433)** | (274) |
| Income taxes payable | **363** | 348 |
| **Total** | **1,468** | 905 |

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

[2]*Exclude distribution receivable from a fund investment. Refer to Note 6 for further details.*

## 16. PRODUCT PRICING REGULATION ON CERTAIN PATENTED DRUG PRODUCTS

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

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

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

The proposed amendments, if enacted, are expected to result in a decrease in the prices of patented drugs in Canada. While the proposed regulations are expected to come into force on January 1, 2019, the precise nature and timing of these changes (including the potential retroactive application of some) will not be known until the full consultation and Canada

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

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.

## 17. RELATED PARTY TRANSACTIONS

Pharmascience Inc., a company related to the Company's CEO, provided administrative services of approximately $2 to the Company for the three-month period ended March 31, 2018.

## 18. COMMITMENTS

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

### [i] Operating Lease

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

| | $ |
|---|---|
| 2018 | 203 |
| 2019 | 258 |
| 2020 | 258 |
| 2021 | 258 |
| 2022 | 215 |
| **Total** | **1,192** |

### [ii] Fund commitments

As at March 31, 2018, under the terms of Company's agreements with life sciences venture capital funds, $81,093 (2017: $98,677), including $26,573 [US$20,608] and $18,081 [EUR 11,395], may be called over the life of the funds (based on the closing foreign exchange rates).

### [iii] Milestones and purchase commitments

Under certain agreements, Knight may have to pay additional consideration should the Company achieve certain sales volumes or if certain milestones are met, such as regulatory approval in Canada. The Company may have to pay up to $57,008 including $25,014 [US$19,400] and $555 [EUR 350] upon achieving certain sales volumes, regulatory or other milestones related to specific products.

In addition, Knight has a commitment to purchase up to $2,100 [EUR 738 and US$721], of inventory for pharmaceutical products during the five-year period after their respective commercial launch. Furthermore, Knight has committed to certain sales force and marketing spend obligations during the five-year period after the commercial launch of one of its products.

### [iv] Equity commitment

Subject to a loan agreement with one of its borrowers, Knight has committed up to a maximum of $3,224 [US$2,500] to participate in the initial public offering of the borrower.

## 19. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative amounts in the condensed interim consolidated statements of cash flows have been reclassified to conform to the presentation adopted in the current period.

## 20. SUBSEQUENT EVENT

**60P loan amendment**

On April 24, 2018 (“Effective Date”), Knight amended its loan agreement with 60P and committed to lend an additional amount of up to $2,694 [US$2,100], at an interest rate of 15%, to support the regulatory approval and commercialization of tafenoquine. As consideration for the amendment, 60P committed to pay Knight an additional $3,848 [US$3,000] plus annual interest of 9% on April 23, 2023 (“60P Commitment”). Under the terms of the 60P Commitment, Knight has the right to convert the 60P Commitment into common shares of 60P at a pre-determined exercise price at any time prior to the maturity date. Furthermore, within 8 weeks of the Effective Date, 60P and Knight will enter into an exclusive license agreement granting Knight the right to commercialize tafenoquine in Latin America.

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

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