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Knight Therapeutics Inc.

Knight

2018 Annual Report

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Message to our Shareholders

We are pleased with our progress made this past year at building a specialty pharmaceutical company in Canada and select international markets that both helps patients and our shareholders.

Building our Portfolio of Innovative Products

Knight has tirelessly worked on expanding its pipeline with the in-licensing of multiple products from four new partners. During 2018, Knight expanded its gastrointestinal portfolio with the in-licensing of Mytesi® and tenapanor, also being evaluated for the treatment of hyperphosphatemia. We also expanded into women's health with the Canadian and Israeli commercial rights of TX-004HR and TX-001HR, for the treatment of symptoms of menopause. Finally, in 2019, we continued to grow our near and long term pipeline with our license agreement with Puma for the Canadian rights to NERLYNX®, a novel treatment for breast cancer which is currently under Health Canada review, as well as our agreement with Triumvira under which Knight has a license to its early stage oncology pipeline using its novel T cell technology, in select countries.

Expanding our Commercial Presence

During 2018, Knight received the Canadian regulatory approval for Probuphine® and Iluvien®, two innovative products. The launch of Probuphine® offers a new alternative in the fight against the public health crisis of opioid dependence. Iluvien®, a single implant that treats diabetic macular edema that delivers a continuous microdose for three years, is expected to be launched in 2019.

Knight currently has Netildex™ and NERLYNX® pending Canadian regulatory approval. If approved, the launch of these two products will substantially increase our commercial presence and more importantly, will make a difference in the lives of patients.

Building our Rest of World Strategy

We continued expanding our global footprint with the out-licensing of Impavido® to PCG (Biopas) for Colombia, Peru, Ecuador and Paraguay, and in 2019 with our strategic loan to Moksha8, we are building a relationship with a specialty pharmaceutical company in Brazil and Mexico, the two largest pharmaceutical markets in Latin America.

Contributing to our Community

In 2018, Knight participated in the Ride to Conquer Cancer for the fifth year in a row, raising over $78,000 in support of cancer research. We are also proud to report we achieved 100% of our objectives in our Centraide campaign for the second consecutive year. To truly be a GUD Knight, one must protect our Community's most vulnerable.

Looking Ahead

In early 2019, we proudly celebrated our 5th anniversary and during this time, we have built a portfolio of over 20 products in various stages of development, generated over $219 million of net income and closed 2018 with $787 million of cash, cash equivalents and marketable securities.

We are confident that the competitive advantage of our balance sheet and our disciplined investment approach will provide healthy returns in the future.

(signed) Jonathan Ross Goodman

Jonathan Ross Goodman BA, LLB, MBA

Chief Executive Officer

(signed) Samira Sakhia

Samira Sakhia CPA, CA, MBA

President and Chief Financial Officer

Management's Discussion and Analysis for the year ended December 31, 2018
(In thousands of Canadian dollars, except for share and per share amounts)

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

This discussion and analysis was prepared by management from information available as at March 13, 2019. 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, 2018 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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GLOSSARY OF ABBREVIATIONS

Abbreviation	Calendar
YTD	Year to date
Q4-18	Fourth quarter of 2018
Q3-18	Third quarter of 2018
Q2-18	Second quarter of 2018
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

Abbreviation	Company
60P	60° Pharmaceuticals LLC
Advaxis	Advaxis Pharmaceuticals Inc.
Akorn	Akorn Inc.
Alimera	Alimera Sciences Inc.
Antibe	Antibe Therapeutics Inc.
Ardelyx	Ardelyx, Inc.
AstraZeneca	AstraZeneca AB
Braeburn	Braeburn Pharmaceuticals Inc.
Crescita	Crescita Therapeutics Inc.
Ember	Ember Therapeutics Inc.
Forbion	Forbion Capital Fund III CV
Jaguar	Jaguar Health Inc.
Knight or the Company	Knight Therapeutics Inc.
Lundbeck	H. Lundbeck A/S
Medimetriks	Medimetriks Pharmaceuticals Inc.
Medison	Medison Biotech (1995) Ltd.
Moksha8	Moksha8, Inc.
NEMO II	New Emerging Medical Opportunities Fund II Ltd.
NEMO III	New Emerging Medical Opportunities Fund III Ltd.
NeurAxon	NeurAxon Pharma Inc.
PBB	Pro Bono Bio PLC
Pediapharm	Pediapharm Inc.
Prexton	Prexton Therapeutics SA
Profound	Profound Medical Inc.
Puma	Puma Biotechnology, Inc.
Replimune	Replimune Group Inc
Sectoral	Sectoral Asset Management Inc.
SIFI	Società Industria Farmaceutica Italiana S.p.A.
Synergy	Synergy CHC Corp.
Triumvira	Triumvira Immunologics Inc.
TXMD	TherapeuticsMD, Inc.

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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
FVOCI	Fair market value though other comprehensive income
ICFR	Internal control over financial reporting
IFRS	International Financial Reporting Standards
ILS	New Israeli Shekels
Annual Financial Statements	Audited annual consolidated financial statements
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
AIDS	Acquired immune deficiency syndrome
ART	Antiretroviral Therapy
HIV	Human immunodeficiency virus infection
IBS-C	Irritable Bowel Syndrome with Constipation
IPO	Initial Public Offering
IQVIA	IQVIA Incorporated, a leading pharmaceutical market research organization
NDS	New Drug Submission
NON	Notice of Non-Compliance
OIC	Opioid-induced constipation
PCG	Pharma Consulting Group S.A.
PMPRB	Patented Medicine Prices Review Board
PRV	Priority Review Voucher

Management's Discussion and Analysis for the year ended December 31, 2018
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OVERVIEW

Section 1 – About Knight Therapeutics Inc.

Knight Therapeutics Inc. is a specialty pharmaceutical company, headquartered in Montreal, Canada, and listed on the 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 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 for Canada and select international markets.
- Develops innovative pharmaceutical products including those to treat neglected tropical and rare pediatric diseases.

Section 2 – 2018 Highlights

Financial Results

- Revenues were $12,500, an increase of $3,866 or 45% over prior year.
- Realized gain on financial assets measured at fair value through profit or loss of $6,444.
- Net income was $24,079, an increase of $6,835 or 40% over prior year.

Corporate Developments

- Received notices of reassessment from CRA and QRA of $23,340 and $18,242 respectively related to the sale of the PRV.
- Accepted the resignation of Dr. Sarit Assouline and appointed Nancy Harrison on the Board of Directors.

Products

- Submitted Netildex™ for approval and received a NON from Health Canada and will be submitting a response in 2019.
- Entered into an exclusive licensing agreement with Ardelyx to commercialize tenapanor in Canada.
- Received regulatory approval and launched Probuphine® for the treatment of opioid drug dependence in Canada.
- Entered into a licensing agreement with TXMD to commercialize TX-004HR and TX-001HR in Canada and Israel.
- Entered into a distribution, license and supply agreement with Jaguar to commercialize Mytesi® in Canada and Israel.
- Entered into an out-licensing agreement with PCG for the commercial rights of Impavido® in Colombia, Peru, Ecuador and Paraguay.
- Received regulatory approval from Health Canada for Iluvien® for the treatment of diabetic macular edema.

Strategic Lending

- Received an early repayment of $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 and amended the agreement and loaned an additional $2,777 [US$2,100] to 60P.
- Converted $500 Antibe debenture into 2,489,899 common shares and subsequently sold them for proceeds of $1,011.
- Received $3,188 representing full loan repayment and early payment fee from Profound.
- Received $1,305 representing full loan repayment and early payment fee from Pediapharm.

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Strategic Investments

- Acquired an additional 754,716 common shares of Crescita through a rights offering at $0.53 per share.
- Invested $26,028 [USD$20,000] in common shares of TXMD at a price of US$5.10 per share.
- Invested $1,161 [USD$900] in common shares of Jaguar at a price of US$0.60 per share.
- Received distributions of $6,769 from strategic fund investments and realized a gain of $1,879.

Subsequent to year-end

- Entered into a licensing agreement with Puma to commercialize NERLYNX® in Canada.
- Entered into a strategic financing agreement with Moksha8, a specialty pharmaceutical company operating in Brazil and Mexico, for a loan of up to $34,105 [US$25,000] of which $13,134 [US$10,000] was issued.
- Entered into a secured loan agreement with Triumvira for $6,585 [US$5,000] for the development of its novelty T cell therapies and obtained the exclusive rights to commercialize Triumvira's future products in select countries.
- Medison's board of directors declared and approved dividends of $4,153 [ILS 11,308] payable to Knight.

Management's Discussion and Analysis for the year ended December 31, 2018
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FINANCIAL RESULTS

Section 3 – Results of Operations

	Q4-18	Q4-17	Change $[1]	Change %[2]	2018	2017	Change $[1]	Change %[2]
Revenues	**3,888**	2,544	1,344	53%	**12,500**	8,634	3,866	45%
Cost of goods sold	**524**	488	(36)	7%	**2,305**	1,585	(720)	45%
Gross margin	**3,364**	2,056	1,308	64%	**10,195**	7,049	3,146	45%
Gross margin (%)	***87%***	*81%*			***82%***	*82%*		
Expenses								
Selling and marketing	**907**	1,131	224	20%	**3,588**	3,378	(210)	6%
General and administrative	**2,602**	1,254	(1,348)	107%	**8,467**	8,198	(269)	3%
Research and development	**492**	881	389	44%	**1,991**	2,750	759	28%
	(637)	(1,210)	573	47%	**(3,851)**	(7,277)	3,426	47%
Depreciation of property and equipment	**24**	8	(16)	200%	**87**	8	(79)	988%
Amortization of intangible assets	**478**	436	(42)	10%	**1,845**	1,621	(224)	14%
Interest income on financial instruments measured at amortized cost	**(4,960)**	(7,783)	(2,823)	36%	**(16,114)**	(26,300)	(10,186)	39%
Other interest income	**(984)**	—	984	100%	**(4,820)**	—	4,820	100%
Other income	**(206)**	(14)	192	1371%	**(1,979)**	(1,527)	452	30%
Net gain on financial assets	**—**	(3,098)	(3,098)	N/A	**—**	(6,734)	(6,734)	N/A
Net loss (gain) on financial instruments measured at fair value through profit or loss	**6,717**	—	(6,717)	100%	**(7,632)**	—	7,632	100%
Impairment on financial assets	**—**	1,621	1,621	N/A	**—**	1,621	1,621	N/A
Share of net income of associate	**(114)**	(341)	(227)	67%	**(555)**	(854)	(299)	35%
Foreign exchange (gain) loss	**(2,716)**	(555)	2,161	389%	**(4,147)**	3,689	7,836	212%
Income before income taxes	**1,124**	8,516	(7,392)	87%	**29,464**	21,199	8,265	39%
Income tax expense								
Current	**92**	299	207	69%	**3,535**	1,897	(1,638)	86%
Deferred	**811**	1,072	261	24%	**1,850**	2,058	208	10%
Net income	**221**	7,145	(6,924)	97%	**24,079**	17,244	6,835	40%
Attributable to shareholders of the Company								
Basic EPS	**0.002**	0.050	(0.048)	96%	**0.169**	0.121	0.048	40%
Diluted EPS	**0.002**	0.050	(0.048)	96%	**0.168**	0.120	0.048	40%

[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*

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<table>
<tr><th></th><th>Q4-18 vs Q4-17</th><th>2018 vs 2017</th></tr>
<tr><td>Revenues</td><td colspan="2">• Increase in revenues mainly attributable to timing and growth of Impavido® sales and growth in Movantik® sales.</td></tr>
<tr><td>Gross margin</td><td>• Increase in gross margin ($) attributable to increase in revenues.
• Increase in gross margin (%) attributable to change in product mix.</td><td>• Increase in gross margin ($) attributable to increase in revenues.
• No significant change in gross margin (%).</td></tr>
<tr><td>Selling and marketing</td><td>• Decrease due to timing of commercial activities and product launches.</td><td>• Increase due to commercial activities including sales force promotion of Movantik® and preparation of the launch of new products.</td></tr>
<tr><td>General and administrative</td><td colspan="2">• Increase due to higher transactional professional fees and no executive bonus paid for 2017.</td></tr>
<tr><td>Research and development expenses</td><td colspan="2">• Decrease due to timing of product submissions to Health Canada.</td></tr>
<tr><td>Depreciation and amortization</td><td colspan="2">• No significant variance.</td></tr>
<tr><td rowspan="2">Interest income</td><td colspan="2">• Includes "Interest income on financial instruments measured and amortized costs" and "Other interest income".
• Primarily from interest earned on loans, cash and cash equivalents, marketable securities and accretion on loans receivable.</td></tr>
<tr><td>Interest Income
• Interest income (excluding accretion) for Q4-18 was $5,944, an increase of 3% or $162 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.
Interest Accretion
• No significant interest accretion in Q4-18 compared to $2,001 in prior year due to the adoption of IFRS 9.</td><td>Interest Income
• Interest income (excluding accretion) for YTD-18 was $20,934, an increase of $16 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.
Interest Accretion
• No significant interest accretion in YTD-18 compared to $5,382 in prior year due to the adoption of IFRS 9.</td></tr>
<tr><td>Other income[1]</td><td>• Driven by fees earned on loans.</td><td>• Driven by the early repayment fees on the Medimetriks, Profound and Pediapharm loans.</td></tr>
<tr><td>Net gain on financial assets</td><td colspan="2">• Due to realized gains on the sale of equities, gains on distributions of strategic funds and the revaluation of derivatives.</td></tr>
<tr><td>Net loss (gain) on financial assets measured at fair value through profit or loss</td><td>• Loss of $6,717 driven by;
Loans and other receivables: Loss of $1,591 composed of an unrealized loss of $2,517 due to changes in fair value and increased credit risk on certain loans, partially offset by the recognition of day 1 gains of $926.
Equity Investments: Loss of $2,867 composed of an unrealized loss of $3,597 due to fair value revaluations, offset by a realized gain on disposals of $730.
Derivatives: Unrealized gain of $9 due to fair value revaluations.</td><td>• Gain of $7,632 driven by;
Loans and other receivables: Loss of $800 composed of an unrealized loss of $2,523 due to changes in fair value and increased credit risk on certain loans, partially offset by the recognition of day 1 gains and changes due to early repayment of $1,723.
Equity Investments: Gain of $806 composed of an unrealized loss of $2,172 due to fair value revaluations, offset by a realized gain on disposals of $2,978.
Derivatives: Gain of $689 composed of an unrealized gain of $825 due to fair value revaluations, partially offset by a realized loss of $136.</td></tr>
</table>

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	Q4-18 vs Q4-17	2018 vs 2017
Net loss (gain) on financial assets measured at fair value through profit or loss *(continued)*	**Fund Investments:** Loss of $2,268 composed of an unrealized loss of $2,348 due to mark-to-market adjustments, and a realized gain on distributions of $80.	**Fund Investments:** Gain of $6,937 composed of an unrealized gain of $5,058 due to mark-to-market adjustments, and a realized gain on distributions of $1,879.
Share of net income of associate	• No significant variance.	
Foreign exchange (gain) loss	• Gain due to relative gains on certain U.S. dollar denominated financial assets as Canadian dollar weakened.	
Income tax expense	• 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*

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FINANCIAL CONDITION

Section 4 – Balance Sheets

	12-31-18	12-31-17	Change $	Change %[1]
ASSETS				
Current				
Cash and cash equivalents	**244,785**	496,460	(251,675)	51%
Marketable securities	**445,003**	232,573	212,430	91%
Trade and other receivables	**11,756**	9,176	2,580	28%
Inventories	**1,136**	1,224	(88)	7%
Other current financial assets	**14,030**	58,848	(44,818)	76%
Income taxes receivable	**821**	792	29	4%
Total current assets	**717,531**	799,073	(81,542)	10%
Marketable securities	**97,274**	36,000	61,274	170%
Property and equipment	**794**	633	161	25%
Intangible assets	**17,475**	12,576	4,899	39%
Other financial assets	**113,314**	76,988	36,326	47%
Investment in associate	**79,145**	75,983	3,162	4%
Deferred income tax assets	**2,959**	4,730	(1,771)	37%
Other receivable	**23,340**	—	23,340	100%
Total assets	**1,051,832**	1,005,983	45,849	5%
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	**6,100**	5,025	1,075	21%
Income taxes payable	**10,705**	7,599	3,106	41%
Other balances payable	**197**	1,354	(1,157)	85%
Deferred other income	**183**	282	(99)	35%
Total current liabilities	**17,185**	14,260	2,925	21%
Deferred other income	**—**	167	(167)	N/A
Other balances payable	**4,615**	348	4,267	1226%
Total liabilities	**21,800**	14,775	7,025	48%
Shareholders' equity				
Share capital	**761,844**	761,490	354	0%
Warrants	**785**	785	—	—
Contributed surplus	**14,326**	12,196	2,130	17%
Accumulated other comprehensive income	**20,955**	20,907	48	0%
Retained earnings	**232,122**	195,830	36,292	19%
Total shareholders' equity	**1,030,032**	991,208	38,824	4%
Total liabilities and shareholders' equity	**1,051,832**	1,005,983	45,849	5%

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

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	12-31-18 vs 12-31-2017
Cash and cash equivalents and marketable securities (current and long term)	• Refer to Section 6 – Liquidity and Capital Resources for further information.
Trade and other receivables	• Increase due to growth in revenues and timing of collection of interest.
Inventories	• No significant variance.
Other financial assets (current and long term)	• Decrease of $8,492 driven by: **Loans and other receivables:** decrease of $32,144 mainly attributable to early repayments of $25,894 [US$20,000] of the Medimetriks loan, $5,613 [US$4,460] of the 60P loan, $2,857 of the Profound loan, and the Pediapharm debenture of $1,250, offset by additional loans provided of $5,375 [US$4,100]. Refer to Section 7 for further information on Knight's strategic lending portfolio. **Equities, Warrants and Derivatives:** decrease of $8,434 driven by disposals of investments and the revaluation of equities, warrants and derivatives, offset by additional equity investments during the year. Refer to note 11 in the Annual Financial Statements for further information. **Funds:** increase of $32,086 due to capital calls of $27,169, mark-to-market adjustments of $6,937 and foreign exchange gains of $4,749 offset by distributions of $6,769. Refer to Section 9 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 the in-licensing of products, offset by amortization. • Refer to note 10 in the Annual Financial Statements for further details.
Investment in associate	• Increase related to Knight's share of net income and other comprehensive income. • Refer to Section 10 for further information.
Other receivable	• Increase due to deposit of $23,340 made to the CRA related to a notice of reassessment. Refer to Section 5 for further information.
Accounts payable and accrued liabilities	• Increase due to timing of purchases and payments.
Income tax payable	• Increase due to gains on investments in financial assets and foreign exchange gains.
Deferred other income	• No significant variance.
Other balances payable (current and long term)	• Increase due to additional regulatory and sales milestones on in-licensed products.
Share capital	• Refer to note 16 in the Annual Financial Statements for further information.
Contributed surplus	• Increase related to share-based compensation expense. • Refer to the statement of changes in shareholders' equity in the Annual Financial Statements for further information.
Accumulated other comprehensive income	• Increase related to other comprehensive income of $11,740 for the period, offset by the IFRS 9 transition adjustment of $11,692. • Refer to the statement of changes in shareholders' equity and note 4 in the Annual Financial Statements for further information.
Retained earnings	• Increase due to net income of $24,079 in YTD-2018 and the IFRS 9 transition adjustment of $12,213. • Refer to note 4 in the Annual Financial Statements for further details.

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Section 5 – Notices of Reassessment

Knight received notices of reassessment from the CRA and the QRA in July 2018 and January 2019 respectively. The notices relate to the disposition in 2014 of a PRV held by Knight's wholly-owned subsidiary, Knight Therapeutics (Barbados) Inc. A PRV is a transferrable asset that entitles the holder to a priority review for a drug of its choice.

The Company's PRV was granted on March 19, 2014 upon the FDA approval of Impavido® and was disposed of to a third party in November 2014 for gross proceeds of US$125,000. The notices of reassessment provide that Knight is liable to pay an aggregate of $23,340 and $18,242 to the CRA and QRA respectively in additional taxes and interest. Knight has made a deposit for the full amount to the CRA in July 2018 and to the QRA in February 2019.

Knight believes that the reassessments are unfounded and filed a notice of objection with CRA in September 2018 to start the appeals process. Based on the Company's view of the likely outcome of the appeals process, Knight expects to recover the total of $41,582 deposited and has not recorded any tax provision related to the disposal of the PRV in its financial statements. However, there can be no assurance regarding the outcome or when a resolution may be reached.

Although Knight 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.

Section 6 – 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.

			Change		**YTD**		**Change**	
	Q4-18	Q4-17	**$**	**%[1]**	**2018**	2017	**$**	**%[1]**
Net cash from operating activities	**3,253**	5,114	(1,861)	36%	**(5,739)**	23,457	(29,196)	124%
Net cash from investing activities	**(64,105)**	(15,814)	(48,291)	305%	**(252,314)**	(39,992)	(212,322)	531%
Net cash from financing activities	**51**	247	(196)	79%	**290**	746	(456)	61%
Decrease in cash and cash equivalents during the period	**(60,801)**	(10,453)	(50,348)	482%	**(257,763)**	(15,789)	(241,974)	1533%
Net foreign exchange difference	**2,364**	74	2,290	3095%	**6,088**	(2,693)	8,781	N/A
Cash and cash equivalents, beginning of the period	**303,222**	506,839	(203,617)	40%	**496,460**	514,942	(18,482)	4%
Cash and cash equivalents, end of the year	**244,785**	496,460	(251,675)	51%	**244,785**	496,460	(251,675)	51%
Marketable securities, end of the year	**542,277**	268,573	273,704	102%	**542,277**	268,573	273,704	102%
Cash, cash equivalents, and marketable securities, end of the year	**787,062**	765,033	22,029	3%	**787,062**	765,033	22,029	3%

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

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<table>
<tr><th></th><th>Q4-18 vs Q4-17</th><th>2018 vs 2017</th></tr>
<tr><td>Net cash from operating activities</td><td colspan="2">Primarily relates to cash generated through revenues and interest received, offset by operating expenses including salaries, research and development expenses, advertising and promotion costs, and other corporate expenses. In addition, Knight deposited $23,340 to the CRA related to the sale of the PRV in 2014. 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.</td></tr>
<tr><td>Net cash from investing activities</td><td>For the three-month period ended December 31, 2018, cash flows were due to:
• net purchases of marketable securities of $64,440;
• net investments in life sciences funds of $6,267;
• net issuance of loan receivables of $1,789.
• acquisition of intangibles and property and equipment of $777, partially offset by;
• net proceeds from disposal of equities of $9,168.</td><td>For the year ended December 31, 2018, cash flows were due to:
• net purchases of marketable securities of $267,067;
• net investments in life sciences funds of $20,400;
• acquisition of intangibles and property and equipment of $3,872, partially offset by;
• net proceeds from repayments of loan receivables of $35,737;
• net proceed from disposals of equity investments of $3,288.</td></tr>
<tr><td>Net cash from financing activities</td><td colspan="2">Cash flows from financing activities were due to the participation of employees and directors in the Company's share purchase plan and cash received from the exercise of stock options.</td></tr>
</table>

PRODUCT ACQUISITION STRATEGY

Section 7 – 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/Gastrointestinal				
Movantik®	OIC	AstraZeneca	Marketed in CAN and approved in ISR	CAN, ISR
Probuphine®	Opioid addiction	Braeburn	Marketed	CAN
Ibsrela™	IBS-C	Ardelyx	Pending submission	CAN
Mytesi®	Symptomatic relief of non-infectious diarrhea in adult patients with HIV or AIDS on ART	Jaguar	Pending submission	CAN, ISR
	Other diarrhea disorders		Pre-clinical – Phase 2	
NeurAxon family	Acute migraine, pain and neurological disorders	N/A	Pre-Clinical – Phase 2	CAN, ISR, RUS, ZAF

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Prescription Pharmaceutical Products (continued)

Product	Indication/Potential Indication	Licensor	Status in Territory	Territory Rights
Pain/Gastrointestinal				
Antibe family	Chronic pain and inflammation	Antibe	Pre-clinical – Phase 2	CAN, ISR, RUS, ZAF
Oncology				
NERLYNX®	HER2-positive breast cancer	Puma	Submitted	CAN
Advaxis family	HPV-associated cancers and others	Advaxis	Phase 1 – Phase 3	CAN
Triumvira family	Novel T-cell therapies for cancer	Triumvira	Pre-clinical	CAN[2], ISR, MEX, BRA, COL
Ophthalmic				
AzaSite™	Bacterial conjunctivitis	Akorn	Approved	CAN
Iluvien®	Diabetic macular edema	Alimera	Approved	CAN
Netildex™	Ocular inflammation	SIFI	Submitted	CAN
Women's Health				
TX-004HR	Moderate-to-severe dyspareunia	TXMD	Pending submission	CAN, ISR
TX-001HR	Moderate-to-severe vasomotor symptoms due to menopause	TXMD	Pending submission	CAN, ISR
Other				
Impavido®	Leishmaniasis	N/A	Marketed	Global
Arakoda™ 60P family	Prevention of malaria Other tropical diseases	60P	Pending submission Phase 2	CAN, ISR, RUS, LATAM[1]
Tenapanor	Hyperphosphatemia	Ardelyx	Phase 3	CAN

[1] Select products only for LATAM
[2] Excludes TAC01-CD19

Consumer Health Products and Medical Devices

Product	Description	Licensor	Status in Territory	Territory Rights
Neuragen®	Pain associated with diabetic and peripheral neuropathy	N/A	Marketed[1]	Global (Ex. U.S)
Synergy Family	Various consumer health products	Synergy	Marketed[2]	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
TULSA-PRO®	Prostate ablation	Profound	Pending submission	CAN

[1] Approved and marketed in Canada and the UAE
[2] Select products marketed

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2018 Highlights

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 $1,359 for the year ended December 31, 2018 (2017: $936).

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 for the management of opioid dependence in patients clinically stabilized on no more than 8 mg of sublingual buprenorphine in combination with counselling and psychosocial support. On October 29, 2018, Knight announced the commercial launch of Probuphine® in Canada.

Tenapanor

On March 16, 2018, Knight entered into an exclusive licensing agreement with Ardelyx to commercialize tenapanor in Canada. Tenapenor is a first-in-class small molecule treatment that has completed Phase 3 development for IBS-C (marketed as Ibsrela™) and is in an ongoing Phase 3 study for hyperphosphatemia. Ardelyx submitted Ibsrela™ to the US FDA in September 2018 and is expecting approval in September 2019. Knight expects to submit a NDS for Ibsrela™ for IBS-C in 2019.

Jaguar

On September 24, 2018, Knight entered into a distribution, license and supply agreement with Jaguar that grants Knight the exclusive right to commercialize Mytesi® (crofelemer 125 mg delayed-release tablets) and related products in Canada and Israel and a right of first negotiation to commercialize Mytesi® and related products in specified Latin American countries. Mytesi® is a FDA-approved product in the U.S. indicated for the symptomatic relief of non-infectious diarrhea in adult patients with HIV or AIDS on ART.

Antibe family

On November 13, 2015, Knight entered into an exclusive long-term license and distribution agreement with Antibe to commercialize its anti-inflammatory and pain product pipeline, along with certain future Antibe products, in Canada and select countries. On March 20, 2018, Antibe announced that its lead drug, ATB-346, met its primary endpoint in the Phase 2B gastrointestinal safety study. On January 21, 2019, Antibe announced that it has received approval from Health Canada to initiate the second part of its Phase 2B dose-ranging, efficacy study for its lead drug, ATB-346. The primary objective of the study is to evaluate the efficacy of ATB-346 in reducing osteoarthritis pain over a 14-day treatment period.

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. Iluvien® was approved by Health Canada on November 26, 2018 for the treatment of diabetic macular edema. Knight plans to launch the product in 2019.

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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. On December 4, 2018, Knight was advised by Health Canada that the NDS for Netildex™ will not be approved at this time, and Knight will respond to the NON during 2019.

NERLYNX®

On January 9, 2019, Knight entered into an exclusive license agreement with Puma for the exclusive right to commercialize NERLYNX® (neratinib) in Canada. Puma filed a NDS for NERLYNX® with Health Canada in July 2018 for the extended adjuvant treatment of adult patients with early stage HER2-overexpressed/amplified breast cancer following adjuvant trastuzumab-based therapy.

Triumvira family

On February 20, 2019 Knight entered into a secured loan and exclusive license agreement with Triumvira to commercialize its future approved products for Canada, Israel, Mexico, Colombia and for TAC01-CD19 for Israel, Mexico, Brazil and Colombia. Triumvira is developing novel T cell therapies that are safer and more efficacious than current gene therapy cancer treatments, including chimeric antigen receptor (CAR) and engineered T cell receptor (TCR) therapies.

TXMD

On July 31, 2018, Knight entered into an exclusive licensing agreement for the commercial rights of TX-004HR and TX-001HR in Canada and Israel. TX-004HR is a TXMD FDA-approved product, marketed as Imvexxy™ (estradiol vaginal inserts) in the U.S., for the treatment of moderate-to-severe dyspareunia (vaginal pain associated with sexual activity), a symptom of vulvar and vaginal atrophy (VVA), due to menopause. TX-001HR, marketed as Bijuva™, was approved by the U.S. FDA on October 18, 2018, is a bio-identical hormone therapy combination of estradiol and progesterone in a single, oral softgel for the treatment of moderate-to-severe vasomotor symptoms due to menopause. Knight expects to submit the NDS in Canada for TX-004HR and TX-001HR in 2019.

Impavido®

On February 27, 2014, Knight acquired the worldwide rights to Impavido® as part of its business separation agreement with Paladin Labs Inc. Impavido® is an oral drug treatment based on miltefosine for the visceral, cutaneous and mucocutaneous leishmaniasis which is caused by a protozoa parasite from over 20 Leishmania species and is approved for sale in the U.S, Germany and Israel. Impavido® was launched in the U.S in March 2016 by Knight's commercialization partner, Profounda. On August 1, 2018, Knight out-licensed the commercial rights of Impavido® for the territories of Colombia, Peru, Ecuador and Paraguay to PCG.

Arakoda™

On December 10, 2015, the Company entered into a loan agreement with 60P for the development of tafenoquine for the prevention of malaria in adults. As consideration for the loan, Knight received the commercial rights of the Product for Canada, Israel, Russia and LATAM. The Product was approved by the FDA on August 9, 2018.

Section 8 – 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

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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 six 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 7), the Antibe family, the 60P family and TULSA-PRO®.

	Nominal loan balance as at December 31, 2018	
Entity	**In Source Currency**	**In Canadian Dollars[1]**
Synergy	US$7,500	$10,232
60P[2]	US$6,810	$9,290
Crescita	C$3,639	$3,639
Moksha8[3]	US$2,000	$2,728
Medimetriks	US$1,000	$1,364
Ember	US$500	$682
Total		**$27,935**

[1] Converted at the Bank of Canada closing exchange rates on December 31, 2018
[2] Excludes 60P Convertible Debenture received as consideration for loans issued to 60P
[3] Additional US$8,000 funded to Moksha8 subsequent to year end

The following table summarizes the movement in loans and other receivables during the year ended December 31, 2018, accounted for under IFRS 9.

	Carrying value beginning of year	**Additions**	**Loan repayments**	**Net loss on FA[1]**	**Foreign exchange[2]**	**Carrying value end of year**	**Current other financial assets**	**Non-current other financial assets**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Amortized Cost[3]	2,034	2,659	(1,878)	—	149	2,964	2,728	236
FVTPL[4]	58,330	4,376	(39,863)	(800)	2,668	24,711	4,937	19,774
Total	**60,364**	**7,035**	**(41,741)**	**(800)**	**2,817**	**27,675**	**7,665**	**20,010**

[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
[3]Loans and other receivables recorded at amortized cost include; Antibe, Pediapharm, Moksha8 and a long-term receivable
[4]Loans and other receivables recorded at FVTPL include; Medimetriks, 60P, Profound, Crescita and Synergy

During the year ended December 31, 2018, the Company issued $5,375 of strategic loans and received principal repayments of $41,112. As a result of changes in fair value and recognition of deferred day 1 gains, the Company recorded a loss of $800 in the statement of income in "Net gain on financial instruments measured at fair value through profit and loss". In addition, the Company recorded $2,817 due to foreign currency revaluation of which $1,149 is recorded in the statement of income in "Foreign exchange (gain) loss" and $1,668 recorded in the statement of comprehensive income in "Unrealized gain (loss) on translation of foreign operations". As at December 31, 2018, the nominal loan balance outstanding was $27,935, including $24,296 [US$17,810]. Subsequent to year end, the Company closed two additional strategic loan deals and the nominal loan balance outstanding as at March 13, 2019 was $44,988, including $41,349 [US$30,310] (converted using the December 31, 2018 exchange rate).

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The following table summarizes the movement in loans and other receivables during the year ended December 31, 2017, accounted for under IAS 39.

	Carrying value beginning of year	Additions[1]	Accretion[2]	Loan repayments[3]	Other[4]	Carrying value end of year	Current other financial assets	Non-current other financial assets
	$	$	$	$	$	$	$	$
Amortized Cost	75,731	20,311	5,520	(38,835)	(2,908)	59,819	39,057	20,762

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

During the year ended December 31, 2017, the Company issued $20,112 of strategic loans and received principal repayments of $38,835. In addition, the Company recorded interest accretion of $5,520 in the statement of income in "Interest income on financial instruments measured at amortized cost" and a foreign exchange loss of $2,908 in the statement of income. As at December 31, 2017, the nominal loan balance outstanding was $61,499, including $52,636 [US$41,958].

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 December 31, 2018, the nominal loan balance outstanding was $1,364 [US$1,000].

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, Knight derecognized the loan and derivative and recognized an equity investment measured at FVPL of $996.

60P

On December 10, 2015, the Company started a strategic loan relationship loan agreement with 60P ("60P Loan") for the development of tafenoquine ("Arakoda™") for the prevention of malaria in adults. The loan bears interest at 15% per annum and matures on December 31, 2020. As consideration for the 60P Loan, Knight received the commercial rights of the Product for Canada, Israel and Russia. As at December 31, 2016, the nominal loan balance outstanding was $3,815 [US$2,842].

During the year ended December 31, 2017, Knight issued an additional $8,051 [US$6,303] to 60P bearing interest at 15% per annum and obtained the right to receive as cash payment a success fee of $753 [US$600]. In addition, on December 18, 2017, 60P submitted a NDA to the U.S. FDA for the Product. As at December 31, 2017, the nominal loan balance was $11,472 [US$9,145].

On February 8, 2018, 60P repaid $5,613 [US$4,460] reducing the nominal loan balance to $5,859 [US$4,685]. On April 24, 2018, Knight amended its loan agreement with 60P and committed to lend up to an additional $2,777 [US$2,100] at an interest rate of 15% ("Additional 60P Loan"), to support the regulatory approval and commercialization of Arakoda™ ("60P Amendment"). As consideration for the 60P Amendment, 60P committed to pay Knight an additional $3,848 [US$3,000] plus annual interest of 9% on April 23, 2023 ("60P Debenture"). Under the terms of the 60P Debenture, Knight has the right to convert the 60P Debenture into common shares of 60P at a pre-determined exercise price at any time prior to the maturity

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date ("60P Conversion Feature"). Furthermore, 60P and Knight entered into an exclusive license agreement granting Knight the right to commercialize Arakoda™ in Latin America.

As a result of the 60P Amendment, the Company recorded the Additional 60P Loan and a hybrid financial instrument representing the 60P Debenture and the 60P Conversion Feature ("60P Hybrid Instrument") at their respective relative fair values of $1,554 [US$1,139] and $1,312 [US$961]. At the date of the transaction, the fair value of the Additional 60P Loan was $2,321 [US$1,809] determined using the discounted cash flow approach with a discount rate of 20.01%. The fair value of the 60P Hybrid Instrument was $1,958 [US$1,526] determined by the sum of the fair values of the 60P Debenture and 60P Conversion Feature derived respectively using the discounted cash flow approach and the Black-Scholes model.

The Product was approved by the FDA on August 9, 2018, for the prevention of malaria in adults traveling to areas where malaria is prevalent. As at December 31, 2018, the nominal loan balance was $9,290 [US$6,810].

Profound

On April 30, 2015, the Company entered into a secured debt agreement with Profound, whereby it issued $4,000 bearing interest at 15% per annum and maturing on June 3, 2019. On July 26, 2018, Knight received an early repayment of $3,188 from Profound, including full repayment of the outstanding principal, interest and fees.

Moksha8

On October 17, 2018 the Company entered into a $2,599 [US$2,000] short term promissory note with Moksha8 to fund its working capital requirements. The promissory note bears interest at 15% and was fully repaid on February 20, 2019, upon the execution of a strategic financing deal of up to $34,105 [US$25,000]. The promissory note is recorded at amortized cost which represents its fair value as at December 31, 2018.

Pediapharm

On March 30, 2015, the Company purchased $1,250 of convertible debentures of Pediapharm. On December 27, 2018, Knight received an early repayment of $1,305 from Pediapharm, including full repayment of the outstanding principal, interest and fees.

Intega and Crescita

On January 22, 2016, Knight entered into a secured loan agreement whereby it issued an aggregate amount of $9,000 to Intega to support a business acquisition ("Intega Loan"). On September 1, 2016, Crescita acquired Intega and the Intega Loan was amended and restated. As a result of the amendment and a partial repayment, the outstanding loan balance was $6,841 which was secured against a letter of credit.

On August 14, 2017, Knight amended its loan with Crescita. The amendment resulted in an early repayment of $2,488 reducing the principal balance to $4,100. Furthermore, the collateral on the loan was amended with the release of a letter of credit in exchange for a general security interest over Crescita's assets. The interest rate of 9% per annum and maturity date of January 22, 2022 remain unchanged.

Synergy

During 2015, the Company entered into secured debt agreements with Synergy, whereby it issued secured loans of $14,742 [US$11,500] bearing interest at 15% per annum. As at January 31, 2018, this amount has been fully repaid.

On August 9, 2017, Knight issued an additional three-year secured loan of $12,705 [US$10,000] with an annual interest rate of 10.5% to Synergy ("Additional Synergy Loan"). Additionally, Knight provided an ongoing credit facility of up to $25,090 [US$20,000] to be disbursed at Knight's sole discretion. Under IAS 39, the loan was recorded at a relative fair value of $11,454

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[US$9,015] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 16.1%. Upon the adoption of IFRS 9, the loan was recorded at FVTPL.

PBB

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

Apicore

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

Section 9 – 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 may receive preferential access to innovative healthcare products from around the world for Canada and select international markets. Since inception of the fund strategy, Knight has committed to invest with the following capital fund managers for approximately $126,653 of which $61,973 remains committed as at December 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 December 31, 2018, is $87,054.

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

[1] *Converted at the Bank of Canada noon exchange rates as of the commitment date (using the December 31, 2018 closing rates total fund commitment would be $137,714)*
[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 an investment in a debt fund*

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The following table summarizes the movement in fund investments during the year ended December 31, 2018, accounted for under IFRS 9.

	Carrying value beginning of year	Additions[1]	Distributions[2]	Net gain on FA	Foreign exchange[3]	Carrying value end of year	Current other financial assets	Non-current other financial assets
	$	$	$	$	$	$	$	$
FVTPL	**54,968**	**27,169**	**(6,769)**	**6,937**	**4,749**	**87,054**	**—**	**87,054**

[1] Investments in equity or debt funds
[2] Distributions received from funds in the year ended December 31, 2018 generated realized gain of $1,879 (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 year ended December 31, 2018, Knight invested $27,169 [including US$8,568 and EUR 3,772] and received distributions of $6,769 [including US$1,275 and EUR 2,586]. The Company recorded a net increase of $6,937 in the statement of income due to mark to market adjustments. Furthermore, the Company recorded a net increase of $4,749 due to foreign currency revaluation, of which $900 is recorded in the statement of income in "Foreign exchange (gain) loss", and $3,849 is recorded in the statement of comprehensive income as "Unrealized gain (loss) on translation of foreign operations".

The following table summarizes the movement in fund investments during the year ended December 31, 2017, accounted for under IAS 39.

	Carrying value beginning of year	Additions[1]	Distributions[2]	Realized gain/(loss)[3]	Other[4]	Carrying value end of year	Current other financial assets	Non-current other financial assets
	$	$	$	$	$	$	$	$
FVOCI	34,576	21,314	(8,083)	2,077	5,084	54,968	—	54,968

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

During the year ended December 31, 2017, Knight invested $21,314 [including US$9,752 and EUR 4,774] during the year and received distributions of $8,083 [including US$1,837 and EUR 2,867]. The Company recorded a net gain of $2,077 on financial assets related to the realized gain on distributions in the statement of income. Furthermore, the Company recorded a net increase of $5,084 in other comprehensive income due to foreign currency revaluation, mark-to-market adjustments and realized gains or losses reclassified from other comprehensive income to consolidated statement of income upon disposal in the statement of comprehensive income.

Forbion

During the year ended December 31, 2018, Knight recorded a mark to market adjustment on its investment in Forbion of $5,392 [EUR 3,582], of which $1,362 [EUR 860] is realized, as net gain on financial instruments measured at FVTPL. The mark to market adjustment is driven by the following significant activities that occurred in Forbion during 2018:

- 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 $3,899 [EUR 2,458] from Forbion upon close of the

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acquisition of Prexton. Knight has not recorded any potential payments that are contingent on future events in the fair value of the asset.

- In July 2018, Replimune, an investment held by Forbion, completed an IPO on NASDAQ, raising over US$100 million at a valuation of US$15 per common share. On December 31, 2018, the price per share was US$10.
- In December 2018, it was announced that Staten Biotechnology signed a collaboration and option agreement with Novo Nordisk A/S for a total value of up to EUR 430,000. Knight has not recorded any potential payments that are contingent on future events in the fair value of the asset.

Other investments

Increased ownership in Crescita

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

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. On March 9, 2018, the Company exercised its Rights and invested $400 and received 754,716 common shares of Crescita under the Rights Offering. As at December 31, 2018, Knight owned an aggregate of 2,834,689 common shares of Crescita representing approximately 13.5% of its outstanding common shares, at a carrying amount of $1,260 which were valued using the quoted market price.

Antibe

On March 27, 2018, Knight exercised its Antibe Conversion Option and converted its $500 debenture into 2,489,889 common shares, which were all sold during 2018 for $1,011.

TXMD

On July 31, 2018, Knight entered into an exclusive licensing agreement for the commercial rights of TX-004HR and TX-001HR in Canada and Israel. In conjunction with the agreement, Knight invested $26,028 [USD$20,000] in the public offering of common shares of TXMD at a price of $6.64 [US$5.10] per share. As at December 31, 2018, the Company owned a nominal quantity of common shares of TXMD.

Jaguar

On September 24, 2018, Knight entered into a distribution, license and supply agreement with Jaguar that grants Knight the exclusive right to commercialize Mytesi® (crofelemer 125 mg delayed-release tablets) and related products in Canada and Israel and a right of first negotiation to commercialize Mytesi® and related products in specified Latin American countries. On October 2, 2018, Jaguar announced an underwritten public offering of 15,000,001 total shares of its common stock, at a public offering price of US$0.60 per share, for gross proceeds of approximately US$9.0 million. On October 4, 2018, Knight invested $1,161 [USD$900] in common shares of Jaguar at a price of $0.77 [US$0.60] per share and received 1,500,000 common shares. As at December 31, 2018, the Company owned 291,389 shares of Jaguar.

Pediapharm/Medexus

In October 2018, Pediapharm acquired two specialty pharmaceutical companies, Medexus Inc. and Medac Pharma Inc, and subsequently changed its name to Medexus Pharmaceuticals Inc. Prior to merger, Knight held 10,367,920 shares, or approximately 11.9%, of Pediapharm which converted to 691,194 shares, or approximately 4.7%, of Medexus Pharmaceuticals Inc. As at December 31, 2018, there was no further change in the number or percentage of shares owned.

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For additional details regarding the movement in equities or derivatives held by Knight throughout the quarter, refer to note 11 "Other Financial Assets" of the Annual Financial Statements.

Section 10 – 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, Latin America, Middle East, Australia, Romania, Russia, Sub-Saharan Africa, 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 Annual Financial Statements.

	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17
Carrying value of investment	**79,145**	79,031	78,990	77,697	75,983	75,642	78,003	77,907
Amortization of FMV adjustments	**(1,377)**	(1,378)	(1,378)	(1,378)	(1,529)	(1,572)	(1,503)	(1,503)
Share of net income (loss), net of FMV adjustment	**114**	89	(151)	503	341	98	96	319
Dividends	**—**	—	—	—	—	2,459	—	2,525

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:

	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17
Revenues	**72,650**	63,482	64,260	60,259	57,399	56,030	51,749	51,264
Net income	**5,262**	5,189	4,352	6,653	6,614	5,906	5,655	6,445

For the year ended December 31,	**2018**	2017
	$	$
Revenue	**260,651**	216,442
Net income	**21,456**	24,597

Management's Discussion and Analysis for the year ended December 31, 2018
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RISK MANAGEMENT

Section 11

10.1 Currency Risk

Knight holds a significant portion of its net financial assets in US$ and EUR 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$ and EUR would have resulted in a change in the statement of income and comprehensive income of $12,111 and $1,117, 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 $98,553 as at December 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 6 and 7 of the Annual Financial Statements. The Company does not believe that the results of operations or cash flows would be materially affected to any significant degree by a sudden change in market interest rates relative to interest rates on the investments, owing to the relatively short-term nature of the marketable securities and currently low market yields.

10.4 Liquidity Risk

The majority of the Company's financial liabilities are short term in nature. The Company generates sufficient cash from operating activities to fund its operations and fulfil its obligations as they become due. The Company has sufficient funds available through its cash, cash equivalents and marketable securities, should its cash requirements exceed cash generated from operations to cover all financial liability obligations. As at December 31, 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 26 of the Annual Financial Statements.

10.5 Credit Risk

The Company considers its maximum credit risk to be $125,270 (2017: $122,490) which is the total of the following assets; trade and accounts receivable, interest receivable, loans receivable and investment in funds.

Management's Discussion and Analysis for the year ended December 31, 2018
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The marketable securities and cash equivalent balances are subject to minimal risk of changes in value and are invested in institutions with a S&P or DBRS credit rating of A or R1(low) or better which are invested in the following:

- three Canadian financial institutions & three foreign affiliates of Canadian financial institutions
- one Canadian insurance company & one Canadian corporation
- five Canadian credit unions

The Company is exposed to credit risk from its customers and continually monitors its customers' credit. It establishes the ECL based upon days past due and the likelihood of collection for 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 has assessed that loans measured at FVTPL have S&P credit ratings between CCC+ and CC. 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, 2018 on SEDAR at www.sedar.com.

ADDITIONAL INFORMATION

Section 12 – Selected Annual Financial Information

This selected information is derived from our Annual Financial Statements.

	2018	2017	2016
Revenues	**12,500**	8,634	5,940
Net income	**24,079**	17,244	18,560
Basic earnings per share	**0.17**	0.12	0.15
Diluted earnings per share	**0.17**	0.12	0.15
Total assets	**1,051,832**	1,005,983	990,770
Total non-current liabilities	**4,615**	515	1,294

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

Section 13 – Selected Quarterly Financial Information

This selected information is derived from our Annual Financial Statements.

	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17
Revenues	**3,888**	3,220	2,238	3,154	2,544	1,860	2,480	1,750
Net income	**221**	12,930	4,019	6,909	7,145	3,593	459	6,047
EPS								
Basic	**0.002**	0.091	0.028	0.048	0.050	0.025	0.003	0.042
Diluted	**0.002**	0.090	0.028	0.048	0.050	0.025	0.003	0.042
Cash, cash equivalents and marketable securities	**787,062**	775,046	806,746	802,425	765,033	761,087	761,161	763,778
Total assets	**1,051,832**	1,041,506	1,029,133	1,016,853	1,005,983	993,467	991,980	994,293
Total non-current liabilities	**4,615**	3,261	1,127	1,171	515	1,028	1,200	1,263

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

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Section 14 – Outstanding Share Data

The table below summarizes the share data:

As at	March 13, 2019
Common Shares	142,850,512
Stock Options	4,125,157
Warrants	406,126

Section 15 – Use of Proceeds from Financing

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

As at December 31, 2018, Knight had deployed or invested or committed to deploy or invest over $350,000 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 16 – 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 17 – 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.

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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.

On June 25, 2018, the PMPRB presented a draft guidelines implementation framework which is intended to give effect of the proposed changes. The proposed amendments, if enacted, are expected to result in a decrease in the prices of patented drugs in Canada. The proposed regulations initially expected to come into force on January 1, 2019 has been delayed due to government reviews feedback and the precise nature and timing of these changes (including the potential retroactive application of some) will not be known until the full consultation and Canada Gazette publication processes are completed.

The final form of regulatory changes to the PMPRB may have a significant adverse effect on the price of patented drugs sold by the Corporation in Canada and may limit the Corporation's ability to in-license and launch products in Canada due to more restrictive pricing regulations.

Section 18 – 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 period ended December 31, 2018. Refer to notes 11 and 12 of the Annual Financial Statements for the year ended December 31, 2018 for additional information.

Section 19 – 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 26 of the Annual Financial Statements for the year ended December 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 20 – 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 commitments.

Management's Discussion and Analysis for the year ended December 31, 2018
(In thousands of Canadian dollars, except for share and per share amounts)

[i] Operating Lease

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

	$
2019	301
2020	301
2021	293
2022	230
2023	—
Total	**1,125**

As at March 13, 2019, the operating lease commitment has decreased by $75.

[ii] Fund commitments

As at December 31, 2018, under the terms of Company's agreements with life sciences venture capital funds, $61,973 (2017: $84,508), including $17,714 [US$12,985] and $13,650 [EUR 8,743], may be called over the life of the funds (based on the closing foreign exchange rates).

As at March 13, 2019, $56,294 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 $99,277 including $31,793 [US$23,305] and $547 [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 $2,135 [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.

As at March 13, 2019, the additional consideration related to sales and regulatory milestones has increased by $7,682 [including US$500].

[iv] Equity commitment

Subject to a loan agreement with a borrower, Knight has committed to up to a maximum equity investment of $3,411 [US$2,500] to participate in the initial public offering of the borrower.

Section 21 – Related Party Transactions

Pharmascience Inc., a company related to the Company's CEO, provided administrative services of approximately $10 to the Company for the year ended December 31, 2018.

Section 22 – 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.

Management's Discussion and Analysis for the year ended December 31, 2018
(In thousands of Canadian dollars, except for share and per share amounts)

Section 23 – 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. Our significant accounting estimates and assumptions are reported in note 3 of our 2018 Annual Financial Statements.

Section 24 – Accounting Pronouncements Adopted in 2018

The Company applied IFRS 9 and IFRS 15 for the first time effective January 1, 2018. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. Refer to note 4 of the Annual Financial Statements for further details on the new accounting standards adopted. The Company has not early adopted any standards, interpretations or amendments that have been issued but are 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]	2,034	—	—
		FVPL	n/a	FVPL[2]	58,330	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 12 for additional details.*

The transition to the new standard resulted in no adjustments to financial liabilities.

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.

Management's Discussion and Analysis for the year ended December 31, 2018
(In thousands of Canadian dollars, except for share and per share amounts)

Section 25 – Recent Accounting Pronouncements

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases ("IFRS 16") which is effective on January 1, 2019 and 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 less than 12 months 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 Company will adopt IFRS 16 effective January 1, 2019, using the modified retrospective approach and will elect to use the exemptions proposed by the standard on lease contracts for which lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company expects to recognize $1,121 of right-of-use assets and $1,139 of lease liabilities with no material net impact on opening retained earnings.

IFRIC 23 Uncertainty over Income Tax Treatment

In June 2017, the IASB released IFRIC 23 Uncertainty over income tax treatments ("IFRIC 23"), which is effective on January 1, 2019. IFRIC 23 clarifies accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes and does not apply to taxes outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. The Company is currently assessing the impact of this IFRIC on its consolidated financial statements.

Section 26 – 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 27 – Internal Control Over Financial Reporting

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

Management has evaluated the design and operating effectiveness of its ICFR as defined in NI 52-109. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the COSO. This evaluation was performed internally by the Company. Based on this evaluation, management concluded that the ICFR were appropriately designed and operating effectively, as at December 31, 2018.

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.

Management's Discussion and Analysis for the year ended December 31, 2018
(In thousands of Canadian dollars, except for share and per share amounts)

During the year, 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 28 – Subsequent Events

[i] Puma

In January 2019, the Company entered into an exclusive license agreement with Puma for the exclusive right to commercialize NERLYNX® (neratinib) in Canada. Puma filed an NDS for NERLYNX® with Health Canada in July 2018 for the extended adjuvant treatment of adult patients with early stage HER2-overexpressed/amplified breast cancer following adjuvant trastuzumab-based therapy. Knight will pay up to $9,728, including $2,728 [US$2,000] for upfront and milestone payments.

[ii] Moksha8

On February 15, 2019, the Company entered into a strategic financing agreement with Moksha8, a specialty pharmaceutical company operating in Brazil and Mexico, for up to $170,525 [US$125,000]. Under the terms of the agreement, Knight may loan up to $34,105 [US$25,000] in working capital funding, from which $13,134 [US$10,000] was issued on the closing of the agreement. The loan bears interest at 15% per annum and matures five years from the issuance date. The Company may issue up to an additional $136,420 [US$100,000] at Knight's sole discretion for corporate development and the acquisition of product licenses. In conjunction with the strategic financing agreement, Knight received warrants at an exercise price of US$0.01 per warrant representing 5% of the fully diluted shares of Moksha8.

[iii] Triumvira

On February 20, 2019, the Company entered into a secured loan agreement with Triumvira for $6,585 [US$5,000] for the development of its novelty T cell therapies. The loan bears interest at 15% per annum and matures on February 20, 2020. In addition, Knight received warrants to purchase 3.5% of Triumvira's fully diluted common shares and the exclusive right to commercialize Triumvira's future approved products in Canada, Israel, Mexico, Colombia and for TAC01-CD19 for Israel, Mexico, Brazil and Colombia.

[iv] Medison Dividend

On March 4, 2019, Medison's board of directors declared and approved dividends of $4,153 [ILS 11,308] payable to Knight.

Audited Annual Consolidated Financial Statements

Knight Therapeutics Inc.
December 31, 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of **Knight Therapeutics Inc.**

Opinion

We have audited the consolidated financial statements of Knight Therapeutics Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. The engagement partner on the audit resulting in this independent auditor's report is Lara Iob.

Ernst & Young LLP [1]

Montreal, Canada
March 13, 2019

[1] CPA auditor, CA, public accountancy permit no. A120254

CONSOLIDATED BALANCE SHEETS

[In thousands of Canadian dollars]

As at December 31,	*Notes*	2018	2017
ASSETS			
Current			
Cash and cash equivalents	*6*	**244,785**	496,460
Marketable securities	*7*	**445,003**	232,573
Trade and other receivables	*8*	**11,756**	9,176
Inventories	*9*	**1,136**	1,224
Other current financial assets	*11, 12*	**14,030**	58,848
Income taxes receivable		**821**	792
Total current assets		**717,531**	799,073
Marketable securities	*7*	**97,274**	36,000
Property and equipment		**794**	633
Intangible assets	*10*	**17,475**	12,576
Other financial assets	*11, 12*	**113,314**	76,988
Investment in associate	*13*	**79,145**	75,983
Deferred income tax assets	*20*	**2,959**	4,730
Other receivable	*14*	**23,340**	—
Total assets		**1,051,832**	1,005,983
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	*15*	**6,100**	5,025
Income taxes payable		**10,705**	7,599
Other balances payable		**197**	1,354
Deferred other income		**183**	282
Total current liabilities		**17,185**	14,260
Deferred other income		**—**	167
Other balances payable		**4,615**	348
Total liabilities		**21,800**	14,775
Shareholders' equity			
Share capital	*16 [i]*	**761,844**	761,490
Warrants	*16 [iv]*	**785**	785
Contributed surplus		**14,326**	12,196
Accumulated other comprehensive income	*17*	**20,955**	20,907
Retained earnings		**232,122**	195,830
Total shareholders' equity		**1,030,032**	991,208
Total liabilities and shareholders' equity		**1,051,832**	1,005,983

Commitments *[note 26]*
Subsequent events *[note 28]*
See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME

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

	Notes	**2018**	2017
Revenues		**12,500**	8,634
Cost of goods sold		**2,305**	1,585
Gross margin		**10,195**	7,049
Expenses			
Selling and marketing		**3,588**	3,378
General and administrative		**8,467**	8,198
Research and development		**1,991**	2,750
		(3,851)	(7,277)
Depreciation of property and equipment		**87**	8
Amortization of intangible assets	*10*	**1,845**	1,621
Interest income on financial instruments measured at amortized cost		**(16,114)**	(26,300)
Other interest income		**(4,820)**	—
Other income		**(1,979)**	(1,527)
Net gain on financial assets		**—**	(6,734)
Impairment on financial assets		**—**	1,621
Net gain on financial instruments measured at fair value through profit or loss	*11*	**(7,632)**	—
Share of net income of associate	*13*	**(555)**	(854)
Foreign exchange (gain) loss		**(4,147)**	3,689
Income before income taxes		**29,464**	21,199
Income tax expense			
Current	*20*	**3,535**	1,897
Deferred	*20*	**1,850**	2,058
Net income for the year		**24,079**	17,244
Attributable to shareholders of the Company			
Basic earnings per share	*19*	**0.17**	0.12
Diluted earnings per share	*19*	**0.17**	0.12
Weighted average number of common shares outstanding			
Basic	*19*	**142,827,616**	142,763,730
Diluted	*19*	**143,275,010**	143,416,666

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[In thousands of Canadian dollars]

	2018	2017
Net income for the year	**24,079**	17,244
Realized gain reclassified to statement of income net of tax of $321	—	(3,914)
Impairment reclassified to statement of income net of tax of $218	—	1,403
Other comprehensive income (loss), net of taxes		
Items that may be reclassified subsequently to net income:		
Net unrealized gain on available-for-sale financial instruments net of tax of $685	—	4,859
Unrealized gain (loss) on translation of foreign operations	**16,772**	(11,872)
Items permanently in other comprehensive income or loss:		
Net loss on equity investments at fair value through other comprehensive income net of tax of $113	**(7,639)**	—
Share of other comprehensive income of associate net of tax of $823	**2,607**	—
Other comprehensive income (loss) for the year	**11,740**	(9,524)
Total comprehensive income for the year	**35,819**	7,720

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[In thousands of Canadian dollars]

	Notes	**Share capital**	**Warrants**	**Contributed surplus**	**Accumulated other comprehensive income**	**Retained earnings**	**Total shareholders' equity**
Balance as at January 1, 2017		760,447	785	9,469	30,431	178,586	979,718
Net income for the year		—	—	—	—	17,244	17,244
Other comprehensive loss for the year		—	—	—	(9,524)	—	(9,524)
Comprehensive (loss) income		—	—	—	(9,524)	17,244	7,720
Share-based compensation expense	*16 [ii]*	—	—	3,038	—	—	3,038
Issuance under share option plan	*16 [ii]*	832	—	(311)	—	—	521
Issuance under share purchase plan	*16 [iii]*	211	—	—	—	—	211
Balance as at December 31, 2017		761,490	785	12,196	20,907	195,830	991,208
Balance as at December 31, 2017		**761,490**	**785**	**12,196**	**20,907**	**195,830**	**991,208**
Impact of adopting IFRS 9	*4*	—	—	—	(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 year		—	—	—	—	24,079	**24,079**
Other comprehensive income for the year		—	—	—	11,740	—	**11,740**
Comprehensive income		—	—	—	11,740	24,079	**35,819**
Share-based compensation expense	*16 [ii]*	—	—	2,170	—	—	**2,170**
Issuance under share option plan	*16 [ii]*	130	—	(40)	—	—	**90**
Issuance under share purchase plan	*16 [iii]*	224	—	—	—	—	**224**
Balance as at December 31, 2018		**761,844**	**785**	**14,326**	**20,955**	**232,122**	**1,030,032**

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

[In thousands of Canadian dollars]

	Notes	**2018**	2017
OPERATING ACTIVITIES			
Net income for the year		**24,079**	17,244
Adjustments reconciling net income to operating cash flows:			
Deferred income tax		**1,850**	2,058
Share-based compensation expense	*16 [ii]*	**2,170**	3,038
Depreciation and amortization		**1,932**	1,629
Accretion of interest		**—**	(5,382)
Net gain on financial instruments	*11*	**(7,632)**	(6,734)
Impairment on financial assets		**—**	1,621
Foreign exchange (gain) loss		**(4,147)**	3,689
Share of net income of associate	*13*	**(555)**	(854)
Other income		**168**	(563)
Deferred other income		**(266)**	(323)
		17,599	15,423
Changes in non-cash working capital and other items	*23*	**2**	3,050
Other receivable		**(23,340)**	—
Dividends from associate		**—**	4,984
Cash (outflow) inflow from operating activities		**(5,739)**	23,457
INVESTING ACTIVITIES			
Purchase of marketable securities		**(531,401)**	(314,358)
Purchase of intangibles		**(3,670)**	—
Purchase of property and equipment		**(202)**	(126)
Issuance of loans receivables		**(5,375)**	(20,112)
Purchase of equities		**(27,919)**	(2,939)
Investment in funds		**(27,169)**	(21,314)
Proceeds on maturity of marketable securities		**264,334**	259,067
Proceeds from repayments of loans receivable		**41,112**	38,835
Proceeds from disposal of equities		**31,207**	12,872
Proceeds from distribution of funds		**6,769**	8,083
Cash outflow from investing activities		**(252,314)**	(39,992)
FINANCING ACTIVITIES			
Proceeds from exercise of stock options		**90**	551
Proceeds from contributions to share purchase plan		**200**	195
Cash inflow from financing activities		**290**	746
Decrease in cash and cash equivalents during the year		**(257,763)**	(15,789)
Cash and cash equivalents, beginning of the year		**496,460**	514,942
Net foreign exchange difference		**6,088**	(2,693)
Cash and cash equivalents, end of the year		**244,785**	496,460
Supplemental cash flow information:			
Interest received		**20,020**	17,354
Net income taxes (paid) recovered		**(409)**	3,223

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

GLOSSARY OF ABBREVIATIONS

Abbreviation	Company
60P	60^{o} Pharmaceuticals LLC
Antibe	Antibe Therapeutics Inc.
Crescita	Crescita Therapeutics Inc.
Jaguar	Jaguar Health Inc.
Knight or the Company	Knight Therapeutics Inc.
Medexus	Medexus Inc.
Medimetriks	Medimetriks Pharmaceuticals Inc.
Medison	Medison Biotech (1995) Ltd.
Moksha8	Moksha8, Inc.
Pediapharm	Pediapharm Inc.
Puma	Puma Biotechnology, Inc.
Synergy	Synergy CHC Corp.
Triumvira	Triumvira Immunologics Inc.
TXMD	TherapeuticsMD, Inc

Abbreviation	Financial
EUR	Euro
US$	U.S. Dollar

Abbreviation	Other
AFS	Available-for-sale
AOCI	Accumulated other comprehensive income
CEO	Chief Executive Officer
CRA	Canada Revenue Agency
DBRS	Dominion Bond Rating Service
ECL	Expected credit loss
FA	Financial Assets
FDA	Food and Drug Administration (United States)
FV	Fair value
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
G&A	General and administrative
IPO	Initial Public Offering
n/a	Not applicable (due to adoption of IFRS 9)
NAV	Net asset value
NDA	New Drug Application
NDS	New Drug Submission
PRV	Priority Review Voucher
R&D	Research and development expenses
RE	Retained earnings
S&M	Selling and marketing
S&P	Standard and Poor's

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. NATURE OF OPERATIONS

Description of business

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of presentation and statement of compliance

These consolidated financial statements of the Company for the year ended December 31, 2018, have been prepared in accordance with International Financial Reporting Standards (IFRS). The policies set out below have been consistently applied to all the periods presented except for IFRS 9 and 15 applied using the modified retrospective approach.

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

These consolidated financial statements were approved by the Company’s Board of Directors on March 13, 2019.

2.2 Basis of consolidation

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

2.3 Summary of significant accounting policies

Business combinations

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Foreign currency translation

[a] Functional and presentation currency

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

[b] Transactions and balances

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

[c] Foreign operations

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

Cash and cash equivalents

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

Marketable securities

Marketable securities consist of securities that are liquid and subject to an insignificant risk of change in value. Marketable securities are initially measured at fair value. Fair values for marketable securities are obtained using techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly. Marketable securities will be subsequently measured at their amortized cost, based on the accretion schedules determined at initiation. Marketable securities are classified as current if they mature within the year or if it is expected to be realized within a year.

Inventory

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Financial Instruments *(IFRS 9 - effective for periods as of January 1, 2018)*

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 interest receivables	Amounts receivable from customers and third parties.
	Loans and other receivables	Loans receivable, debentures and long-term receivables.
Financial assets measured at FVTPL	Derivatives	Warrants, stock options and other.
	Investments in funds	Life sciences venture capital equity funds and debt funds.
	Investments in equities	Equities of publicly-traded and private entities acquired with the purpose of sale.
	Loans and other receivables	Loans receivable, debentures, hybrid instruments and long-term receivables.
Financial assets measured at FVOCI (with no recycling)	Investments in equities	Equities of publicly-traded and private entities acquired for strategic purposes.
Financial liabilities measured at amortized cost	Accounts payable and accrued liabilities	Amounts payable to suppliers and third parties.
Financial liabilities measured at FVPL	Other balances payable	Obligations to pay out certain future contractually pre-defined amounts upon meeting specific criteria recorded when the likelihood of attainment is deemed probable.

Criteria for classification of financial assets

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; • 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Classification	Criteria
Loans and other receivables and investments in funds (continued)	
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; • 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.
FVTPL	• All loans receivable and investments in funds not measured at amortized cost or at FVOCI must be measured at FVTPL.
Investments in equity instruments	
FVTPL	• Investment acquired with the purpose of sale or; • 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, FVTPL 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 on the trade date 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 financial instruments measured at amortized cost" on the consolidated statement of income.
FVTPL	Fair value on the trade date	Re-measured at subsequent reporting dates to fair value using quoted market prices, if available. 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 instruments measured at FVTPL" on the consolidated statement of income.
FVOCI (with no recycling)	Fair value on the trade date	Re-measured at subsequent reporting dates to fair value using quoted market prices, if available. 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 comprehensive income. There is no recycling of amounts from the statement of comprehensive income to the statement of income upon the disposal of the financial asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Classification	Initial measurement	Subsequent measurement	Changes in fair value
Financial liabilities			
Amortized Cost	Fair value	Amortized cost using the effective interest method.	The interest accretion is recorded in "Interest income on financial instruments measured at amortized cost" on the consolidated statement of income.
FVTPL	Fair value	Re-measured at subsequent reporting dates to fair value.	Reported in "Net gain on financial instruments measured at FVTPL" on the consolidated statement of income.

Day 1 Gain on Initial Measurement

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

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

Impairment of financial assets

The Company recognizes a loss allowance for ECLs on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime ECL except for the following which are measured at a 12-month ECL:

- Investments in marketable securities determined to have low credit risk at the reporting date with a credit risk rating equivalent to investment grade; and
- Other financial assets for which credit risk has not increased significantly since initial recognition.

The Company applies the simplified approach on trade receivables, which allows for the use of a lifetime ECL provision considering the probability of default over the expected life of the financial asset. The 12-month ECL only considers default events that are possible within the year following the reporting date.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and is related to an event occurring after the impairment was recognized. Financial assets measured at FVTPL and FVOCI (with no recycling) are not subject to impairment testing.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Derecognition

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

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

Fair value hierarchy

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

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

[1] *Publicly-traded equities in active markets*
[2] *Publicly-traded equities in inactive markets*
[3] *Privately-held equities*

Financial Instruments *(IAS 39 - for periods prior to January 1, 2018)*

Initial recognition and subsequent measurement

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Impairment of financial assets

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Objective evidence of impairment may include the following:

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

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

Property and equipment

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

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

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

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

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

Intangible assets

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

The Company assesses at each reporting period whether there is an indication of impairment of any intangible asset. An impairment loss is recognized when the carrying amount of an intangible asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the

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estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the intangible asset. In determining fair value less costs to sell, an appropriate valuation model is used.

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

Investments in associates

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

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

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

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

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investment in its associates. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as impairment in the consolidated statement of income.

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

Accruals and provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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Other balances payable

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

Share-based compensation plans

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

Share purchase plan

The Company offers a share purchase plan to its employees and directors. Under this plan, the Company contributes, in the form of shares, a percentage of the employees' or directors' contribution that have been purchased and held for two years by the individual. The Company's contributions to the plan are recognized as compensation costs in S&M, G&A, and R&D expenses.

Equity instrument share issue costs

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

Operating lease

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

Revenue Recognition (*IFRS 15 - effective for periods as of January 1, 2018)*

Revenue related to the sale of goods is recognized at the point in time when the Company has satisfied its performance obligations and control is transferred to the customer which is on shipment or delivery of the product. The Company generally has a right to payment at the time of delivery, as such a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due. Revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The normal credit term is 30 to 45 days from the invoice date. In certain circumstances, returns or exchange of products are allowed under the Company's policy or the Company may provide discounts or allowances, which gives rise to variable consideration. The variable consideration is estimated using the expected value method as this best predicts the amount of variable consideration to which the company is entitled. Amounts are recognized as a reduction of revenue at the time the control of the products purchased is transferred to the customer. In certain situations, such as initial product launches for which the Company has limited comparable information or where the market or client acceptance has not been clearly

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established, the Company may determine that it has not met the requirements for recognition of revenue, such as the ability to reasonably determine provisions for product returns, as a result revenue will be constrained.

Revenue Recognition (*IAS 18- effective for periods prior to January 1, 2018)*

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

Research and development

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

Interest income/expense

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

Other income

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

Government assistance

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

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Income taxes

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

Current income tax

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

Deferred tax

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

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

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

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

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

Commodity tax

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

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

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

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Earnings per share

Earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated giving effect to the exercise of all dilutive instruments and assumes that any proceeds that could be obtained upon the exercise of options would be used to purchase common shares at the average market price during the period.

3. USE OF JUDGMENTS AND ESTIMATES

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

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

Fair value measurement of financial assets

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

Investments in Funds

The Company records investments in funds at its NAV and judgment is used to determine if the NAV provided by the fund approximates fair value. If it is determined that the NAV represents fair value, the investment in fund is adjusted to reflect the NAV and unrealized gains or losses are recorded in the statement of income. Upon the sale of the funds' underlying assets, the Company does not record any potential milestone gains in its NAV, which are related to contingent events such as clinical, regulatory or commercial successes, until they are realized.

Loans receivable

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

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assigns a FV Interest Rate to each of its loan receivable. The Company may judgmentally exclude certain outliers in this analysis.

Equities classified as "Level 3" in the fair value hierarchy

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

Equities classified as "Level 2" in the fair value hierarchy

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

Derivatives

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

Impairment

Investment in associate

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

Intangibles

Significant judgment is required in determining the useful lives and recoverable amounts of the Company's intangible assets and assessing whether certain events or circumstances represent objective evidence of impairment. Estimates of the recoverable amounts of the intangible assets rely on certain factors such as future cash flows and discount rates. Future cash flows are based on sales projections and allocated costs which are estimated based on forecast results and business initiatives. Discount rates are based on the Company's cost of capital, adjusted for asset-specific risks. Future events could cause the assumptions used in the impairment review to change with a consequential adverse effect on the results of the Company.

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Other balances payable

Other balances payable are recorded when the likelihood of payment based on a certain criteria is deemed probable. The Company exercises significant judgement in determining the probability related to meeting specific timelines or specific regulatory or sales related milestones. This assessment involves, but is not limited to, a regulatory assessment of the product and sales projections which are estimated based on forecast results and business initiatives.

Share-based compensation

The Company measures the cost of equity-settled transactions with employees and others by reference to the fair value of the related instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant, which is dependent on the terms and conditions of the grant. This also requires making assumptions and determining the most appropriate inputs to the valuation model including volatility and term (see note 16 for further disclosures).

Income taxes

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

From time to time, the Company is subject to tax audits. While the Company believes that its filing positions are appropriate and supportable, periodically, certain matters are challenged by tax authorities. Knight received a notice of reassessment from the CRA and the QRA in July 2018 and January 2019 respectively related to the disposition of its PRV in 2014. The notices of reassessment provide that Knight is liable to pay an aggregate of $41,582 in additional taxes and interest. Knight made a deposit of $23,340 in 2018 and $18,242 in February 2019, and expects to recover the deposits and therefore has not recorded any tax provision in its financial statements. However, there can be no assurance regarding the outcome or when a resolution may be reached. 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.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the tax assets can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on income taxes are disclosed in note 20.

Functional currency

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

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4. ADOPTION OF NEW ACCOUNTING STANDARDS

The Company applied IFRS 9 and IFRS 15 for the first time effective January 1, 2018. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 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 FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and AFS.

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	FVTPL	FVTPL	490,951	Amortized Cost	490,951	—	—
Cash Equivalents	FVTPL	FVTPL	5,509	Amortized Cost	5,509	—	—
Marketable securities	FVTPL	FVTPL	268,573	Amortized Cost	268,573	—	—
Loans and other receivables	Loans and receivables	Amortized Cost	59,819	Amortized Cost[1]	2,034	—	—
		FVTPL	n/a	FVTPL[2]	58,330	521	—
Equity investments	AFS	FVOCI	19,425	FVOCI	13,050	1,403	(1,403)
		FVTPL	n/a	FVTPL	6,375	670	(670)
Derivatives	FVTPL	FVTPL	1,624	FVTPL	1,624	—	—
Fund investments	AFS	FVOCI	54,968	FVTPL	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 12 for additional details.*

The transition to the new standard resulted in no adjustments to financial liabilities.
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**

IFRS 15 Revenue from Contracts with Customers

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.

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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.

5. RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases (“IFRS 16”) which is effective on January 1, 2019 and 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 less than 12 months 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 Company will adopt IFRS 16 effective January 1, 2019, using the modified retrospective approach and will elect to use the exemptions proposed by the standard on lease contracts for which lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company expects to recognize $1,121 of right-of-use assets and $1,139 of lease liabilities with no material net impact on opening retained earnings.

IFRIC 23 Uncertainty over Income Tax Treatment

In June 2017, the IASB released IFRIC 23 Uncertainty over income tax treatments (“IFRIC 23”), which is effective on January 1, 2019. IFRIC 23 clarifies accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes and does not apply to taxes outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. The Company is currently assessing the impact of this IFRIC on its consolidated financial statements.

6. CASH AND CASH EQUIVALENTS

As at December 31,	**2018** **$**	**2017** **$**
Cash in bank	**244,785**	490,951
Term deposits of US$4,391 earned interest at 1.23% and matured February 2018	**—**	5,509
Total	**244,785**	496,460

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7. MARKETABLE SECURITIES

As at December 31,	2018 $	2017 $
Current		
Guaranteed investment certificates earning interest at rates ranging from 1.82% to 2.98% and maturing from January 2019 to May 2020 (December 31, 2017: 1.10% to 2.14%, April 2018 to August 2019)	**319,095**	134,696
Bearer deposit notes of US$45,355 earning interest rates ranging from 2.53% to 2.80% and maturing from March 2019 to September 2019	**61,874**	—
Term deposits of US$26,699 earning interest at rates ranging from 2.28% to 2.56% and maturing from January 2019 to July 2019 (December 31, 2017: US$68,413; 1.23% to 1.48%, February 2018 to March 2018)	**36,423**	85,825
Guaranteed investment certificates of US$20,240 earning interest rates ranging from 2.65% to 3.04% and maturing from January 2019 to August 2019 (December 31, 2017: US$9,607; 1.50% to 1.90%; February 2018 to November 2018)	**27,611**	12,052
Total current	**445,003**	232,573
Non-current		
Guaranteed investment certificates earning interest at rates ranging from 2.80% to 3.25% and maturing from January 2020 to June 2020 (December 31, 2017: 1.82% to 2.06%; June 2019 to August 2019)	**76,000**	36,000
Term deposit of US$5,000 earning interest at a rate of 3.00% and maturing July 2020	**6,821**	—
Guaranteed investment certificates of US$7,000 earning interest rates ranging from 3.14% to 3.24% and maturing from January 2020 to February 2020	**9,549**	—
Bond investment with a coupon rate of 1.57% and maturing May 2020	**4,904**	—
Total non-current	**97,274**	36,000
Total	**542,277**	268,573

8. TRADE AND OTHER RECEIVABLES

As at December 31,	2018 $	2017 $
Interest receivable	**7,645**	5,587
Trade and accounts receivable	**2,896**	2,116
Prepaid expenses and other receivable	**1,042**	1,081
Commodity taxes receivable	**173**	392
Total	**11,756**	9,176

9. INVENTORIES

As at December 31,	2018 $	2017 $
Raw materials	**491**	824
Finished goods	**645**	400
Total	**1,136**	1,224

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During the year ended December 31, 2018, total inventory in the amount of $1,375 (2017: $794) was recognized as cost of goods sold including an increase in inventory provision of $240 (2017: $311).

10. INTANGIBLE ASSETS

	2018	2017
	$	$
Cost as at January 1	**14,751**	14,754
Additions	**6,938**	373
Disposals and write-offs	**(372)**	(111)
Foreign exchange	**325**	(265)
Cost as at December 31	**21,642**	14,751
Accumulated amortization as at January 1	**2,175**	601
Amortization charge	**1,845**	1,621
Foreign exchange	**147**	(47)
Accumulated amortization as at December 31	**4,167**	2,175
Net book value as at December 31	**17,475**	12,576

During the year ended December 31, 2018, the Company recorded additions of $6,938 (2017: $373), related to an upfront payment and certain milestones payable under product license agreements.

11. OTHER FINANCIAL ASSETS

	Carrying amount[1]	
As at December 31,	**2018**	2017
	$	$
Loans and other receivables *[i]*		
Measured at amortized cost	**2,964**	59,819
Measured at FVTPL	**24,711**	n/a
Equity Investments *[ii]*		
AFS	**n/a**	19,425
Measured at FVTPL	**4,736**	n/a
Measured at FVOCI	**6,074**	n/a
Derivatives *[iii]*		
Measured at FVTPL	**1,805**	1,624
Fund Investments *[iv]*		
AFS	**n/a**	54,968
Measured at FVTPL	**87,054**	n/a
Total	**127,344**	135,836

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

As a result of changes in fair value and the disposal of financial assets during the year ended December 31, 2018, the Company has recorded the following net gains on financial assets in the consolidated statement of income as "Net gain on financial instruments measured at fair value through profit or loss".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	Unrealized (gain) loss on financial assets measured at FVTPL	Realized (gain) loss on financial assets measured at FVTPL	Total
	$	$	$
Loans and other receivables *[i]*[1]	2,523	(1,723)	**800**
Equity Investments *[ii]*	2,172	(2,978)	**(806)**
Derivatives *[iii]*	(825)	136	**(689)**
Fund Investments *[iv]*	(5,058)	(1,879)	**(6,937)**
Total	**(1,188)**	**(6,444)**	**(7,632)**

[1]Realized (gain) loss on financial assets measured at FVTPL includes recognition of deferred day 1 gains and change in FMV related to early repayment.

[i] Loans and other receivables

The following table summarizes the movement in loans and other receivables during the year ended December 31, 2018, accounted for under IFRS 9.

	Carrying value beginning of year	Additions	Loan repayments	Net loss on FA[1]	Foreign exchange[2]	Carrying value end of year	Current other financial assets	Non-current other financial assets
	$	$	$	$	$	$	$	$
Amortized Cost[3]	2,034	2,659	(1,878)	—	149	2,964	2,728	236
FVTPL[4]	58,330	4,376	(39,863)	(800)	2,668	24,711	4,937	19,774
Total	**60,364**	**7,035**	**(41,741)**	**(800)**	**2,817**	**27,675**	**7,665**	**20,010**

[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 comprehensive income
[3]Loans and other receivables recorded at amortized cost include; Antibe, Pediapharm, Moksha8 and a long-term receivable
[4]Loans and other receivables recorded at FVTPL include; Medimetriks, 60P, Profound, Crescita and Synergy

During the year ended December 31, 2018, the Company issued $5,375 of strategic loans and received principal repayments of $41,112. As a result of changes in fair value and recognition of deferred day 1 gains, the Company recorded a loss of $800 in the statement of income in "Net gain on financial instruments measured at fair value through profit and loss". In addition, the Company recorded $2,817 due to foreign currency revaluation of which $1,149 is recorded in the statement of income in "Foreign exchange (gain) loss" and $1,668 recorded in the statement of comprehensive income in "Unrealized gain (loss) on translation of foreign operations". As at December 31, 2018, the nominal loan balance outstanding was $27,935, including $24,296 [US$17,810].

The following table summarizes the movement in loans and other receivables during the year ended December 31, 2017, accounted for under IAS 39.

	Carrying value beginning of year	Additions[1]	Accretion[2]	Loan repayments[3]	Other[4]	Carrying value end of year	Current other financial assets	Non-current other financial assets
	$	$	$	$	$	$	$	$
Amortized Cost	75,731	20,311	5,520	(38,835)	(2,908)	59,819	39,057	20,762

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

During the year ended December 31, 2017, the Company issued $20,112 of strategic loans and received principal repayments of $38,835. In addition, the Company recorded interest accretion of $5,520 in the statement of income in "Interest income on financial instruments measured at amortized cost" and a foreign exchange loss of $2,908 in the statement of income. As at December 31, 2017, the nominal loan balance outstanding was $61,499, including $52,636 [US$41,958].

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 December 31, 2018, the nominal loan balance outstanding was $1,364 [US$1,000].

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, Knight derecognized the loan and derivative and recognized an equity investment measured at FVPL of $996.

60P

On December 10, 2015, the Company started a strategic loan relationship loan agreement with 60P ("60P Loan") for the development of tafenoquine ("Arakoda™") for the prevention of malaria in adults. The loan bears interest at 15% per annum and matures on December 31, 2020. As consideration for the 60P Loan, Knight received the commercial rights of the Product for Canada, Israel and Russia. As at December 31, 2016, the nominal loan balance outstanding was $3,815 [US$2,842].

During the year ended December 31, 2017, Knight issued an additional $8,051 [US$6,303] to 60P bearing interest at 15% per annum and obtained the right to receive as cash payment a success fee of $753 [US$600]. In addition, on December 18, 2017, 60P submitted an NDA to the U.S. FDA for the Product. As at December 31, 2017, the nominal loan balance was $11,472 [US$9,145].

On February 8, 2018, 60P repaid $5,613 [US$4,460] reducing the nominal loan balance to $5,859 [US$4,685]. On April 24, 2018, Knight amended its loan agreement with 60P and committed to lend up to an additional $2,777 [US$2,100] at an interest rate of 15% ("Additional 60P Loan"), to support the regulatory approval and commercialization of Arakoda™ ("60P Amendment"). As consideration for the 60P Amendment, 60P committed to pay Knight an additional $3,848 [US$3,000] plus annual interest of 9% on April 23, 2023 ("60P Debenture"). Under the terms of the 60P Debenture, Knight has the right to convert the 60P Debenture into common shares of 60P at a pre-determined exercise price at any time prior to the maturity date ("60P Conversion Feature"). Furthermore, 60P and Knight entered into an exclusive license agreement granting Knight the right to commercialize Arakoda™ in Latin America.

As a result of the 60P Amendment, the Company recorded the Additional 60P Loan and a hybrid financial instrument representing the 60P Debenture and the 60P Conversion Feature ("60P Hybrid Instrument") at their respective relative fair values of $1,554 [US$1,139] and $1,312 [US$961]. At the date of the transaction, the fair value of the Additional 60P Loan was $2,321 [US$1,809] determined using the discounted cash flow approach with a discount rate of 20.01%. The fair value of the 60P Hybrid Instrument was $1,958 [US$1,526] determined by the sum of the fair values of the 60P Debenture and 60P Conversion Feature derived respectively using the discounted cash flow approach and the Black-Scholes model.

As at December 31, 2018, the nominal loan balance was $9,290 [US$6,810].

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Profound

On April 30, 2015, the Company entered into a secured debt agreement with Profound, whereby it issued $4,000 bearing interest at 15% per annum and maturing on June 3, 2019. On July 26, 2018, Knight received an early repayment of $3,188 from Profound, including full repayment of the outstanding principal, interest and fees.

Moksha8

On October 17, 2018 the Company entered into a $2,599 [US$2,000] short term promissory note with Moksha8 to fund its working capital requirements. The promissory note bears interest at 15% and was fully repaid on February 20, 2019, upon the execution of a strategic financing deal of up to $34,105 [US$25,000]. The promissory note is recorded at amortized cost which represents its fair value as at December 31, 2018.

Pediapharm

On March 30, 2015, the Company purchased $1,250 of convertible debentures of Pediapharm. On December 27, 2018, Knight received an early repayment of $1,305 from Pediapharm, including full repayment of the outstanding principal, interest and fees.

Intega and Crescita

On January 22, 2016, Knight entered into a secured loan agreement whereby it issued an aggregate amount of $9,000 to Intega to support a business acquisition (“Intega Loan”). On September 1, 2016, Crescita acquired Intega and the Intega Loan was amended and restated. As a result of the amendment and a partial repayment, the outstanding loan balance was $6,841 which was secured against a letter of credit.

On August 14, 2017, Knight amended its loan with Crescita. The amendment resulted in an early repayment of $2,488 reducing the principal balance to $4,100. Furthermore, the collateral on the loan was amended with the release of a letter of credit in exchange for a general security interest over Crescita's assets. The interest rate of 9% per annum and maturity date of January 22, 2022 remain unchanged.

Synergy

During 2015, the Company entered into secured debt agreements with Synergy, whereby it issued secured loans of $14,742 [US$11,500] bearing interest at 15% per annum. As at January 31, 2018, this amount has been fully repaid.

On August 9, 2017, Knight issued an additional three-year secured loan of $12,705 [US$10,000] with an annual interest rate of 10.5% to Synergy (“Additional Synergy Loan”). Additionally, Knight provided an ongoing credit facility of up to $25,090 [US$20,000] to be disbursed at Knight’s sole discretion. Under IAS 39, the loan was recorded at a relative fair value of $11,454 [US$9,015] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 16.1%. Upon the adoption of IFRS 9, the loan was recorded at FVTPL.

PBB

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

Apicore

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

[ii] Equity investments

2018

The following table summarizes the movement in equity investments during the year ended December 31, 2018, accounted for under IFRS 9.

	Carrying value beginning of year $	Additions[1] $	Disposals[2] $	Net gain (loss) on FA[3] $	Foreign exchange[4] $	Carrying value end of year $	Current other financial assets $	Non-current other financial assets $
FVTPL	6,375	28,617	(31,163)	806	101	4,736	4,736	—
FVOCI	13,050	400	(44)	(7,749)	417	6,074	1,629	4,445
Total	**19,425**	**29,017**	**(31,207)**	**(6,943)**	**518**	**10,810**	**6,365**	**4,445**

[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 (FVTPL) or statement of comprehensive income (FVOCI). Includes realized gains on disposals of $2,978 for the twelve-month period ending on December 31, 2018 (recorded in the current and historical consolidated statements of income through revaluation of equities)
[4] Net changes due to foreign currency translation recorded in the statement of income (FVTPL) or statement of comprehensive income (FVOCI)

During the year ended December 31, 2018, the Company recorded a net gain on financial assets of $907 related to changes due to revaluation and disposal of equities measured at FVTPL in the statement of income. In addition, the Company recorded an unrealized loss of $7,332 related to changes due to revaluation of equities measured at FVOCI in the statement of comprehensive income, of which $140 is recorded in "Unrealized gain (loss) on translation of foreign operations".

Under IFRS 9, the Company has designated the following strategic investments as equity investments measured at FVOCI.

As at December 31, 2018	Number of common shares owned	FV $
Crescita	2,834,689	**1,260**
Profound	2,965,550	**1,631**
Synergy[1]	17,645,812	**—**
Medimetriks[2]	2,315,007	**3,183**
Total		**6,074**

[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 before considering the deferred day 1 gain is $4,093 [US$3,000].
[2] Valued using the income approach valuation technique less the day 1 gain on initial measurement that the Company deferred. FMV, net of the day 1 gain, in original currency is US$2,333.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following table summarizes the movement in equity investments during the year ended December 31, 2017, accounted for under IAS 39.

	Carrying value beginning of year $	Additions[1] $	Disposals[2] $	Realized gain[3] $	Impairment[4] $	Other[5] $	Carrying value end of year $	Current other financial assets $	Non-current other financial assets $
FVOCI	30,936	6,499	(12,872)	2,342	(1,621)	(5,859)	19,425	19,194	231

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

During the year ended December 31, 2017, the Company recorded a net realized gain on financial assets of $2,342 in the statement of income. In addition, the Company recorded an impairment loss of $1,621 due to a significant decline in the fair value of a certain AFS equity instrument compared to its weighted average cost. Furthermore, the Company recorded an unrealized loss of $5,859 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.

Crescita

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

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. On March 9, 2018, the Company exercised its Rights and invested $400 and received 754,716 common shares of Crescita under the Rights Offering. As at December 31, 2018, Knight owned an aggregate of 2,834,689 common shares of Crescita representing approximately 13.5% of its outstanding common shares, at a carrying amount of $1,260 which were valued using the quoted market price.

Antibe

On March 27, 2018, Knight exercised its Antibe Conversion Option and converted its $500 debenture into 2,489,889 common shares, which were all sold during 2018 for $1,011.

TXMD

On July 31, 2018, Knight entered into an exclusive licensing agreement for the commercial rights of TX-004HR and TX-001HR in Canada and Israel. In conjunction with the agreement, Knight invested $26,028 [USD$20,000] in the public offering of common shares of TXMD at a price of $6.64 [US$5.10] per share. As at December 31, 2018, the Company owned a nominal quantity of common shares of TXMD.

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

Jaguar

On September 24, 2018, Knight entered into a distribution, license and supply agreement with Jaguar that grants Knight the exclusive right to commercialize Mytesi® (crofelemer 125 mg delayed-release tablets) and related products in Canada and Israel and a right of first negotiation to commercialize Mytesi® and related products in specified Latin American countries. On October 2, 2018, Jaguar announced an underwritten public offering of 15,000,001 total shares of its common stock, at a public offering price of US$0.60 per share, for gross proceeds of approximately US$9.0 million. On October 4, 2018, Knight invested $1,161 [USD$900] in common shares of Jaguar at a price of $0.77 [US$0.60] per share and received 1,500,000 common shares. As at December 31, 2018, the Company owned 291,389 shares of Jaguar.

Medimetriks

During 2016, in conjunction with the loans issued to Medimetriks, Knight received 737,644 common shares of Medimetriks. Furthermore, as consideration, Knight received a derivative in the form of an equity kicker for an additional 2.7%, or 365,492 common shares, of Medimetriks ("Additional Common Shares"). The Additional Common Shares were issued to Knight on May 31, 2017 and were recorded at fair value of $2.56 [US$1.97] per common share derived using the income approach valuation technique.

During 2017, pursuant to its loan agreements with Medimetriks, Knight received an additional 1,577,363 common shares increasing its ownership to 15.6% on a fully diluted basis, and 19.0% on a non-diluted basis. The additional common shares were recorded at a fair value of $1.79 [US$1.43] per common share derived using the income approach valuation technique. As a result of the additional common shares issued to Knight, the Company recorded a total of $3,108 [US$2,453] in other income and unrealized gain on financial assets in the statement of income.

As at December 31, 2018, the Company held 2,315,007 (2017: 2,315,007) common shares of Medimetriks, at a carrying amount of $3,183 [US$2,333] (2017: $3,237 [US$2,581]). The fair value of the common shares was derived using the income approach valuation technique less the day 1 gain on initial measurement that the Company deferred.

Merus

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

[iii] Derivatives

The following table summarizes the movement in derivatives during the year ended December 31, 2018, accounted for under IFRS 9.

	Carrying value beginning of year $	Additions[1] $	Disposals[2] $	Net gain on FA $	Foreign exchange[3] $	Carrying value end of year $	Current other financial assets $	Non-current other financial assets $
FVTPL	**1,624**	**—**	**(622)**	**689**	**114**	**1,805**	**—**	**1,805**

[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 comprehensive income*

During the year ended December 31, 2018, the Company recorded a change in fair value of $689 in the statement of income as "Net gain on financial instruments measured at FVTPL". In addition, the Company recorded $114 due to foreign currency

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

revaluation, of which $42 is recorded in the statement of income in "Foreign exchange (gain) loss", and $72 is recorded in the statement of comprehensive income in "Unrealized gain (loss) on translation of foreign operations".

The following table summarizes the movement in derivatives during the year ended December 31, 2017, accounted for under IAS 39.

	Carrying value beginning of year	Additions[1]	Disposals[2]	Realized gain/(loss)[3]	Other[4]	Carrying value end of year	Current other financial assets	Non-current other financial assets
	$	$	$	$	$	$	$	$
FVTPL	1,189	3,610	(3,226)	—	51	1,624	597	1,027

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

During the year ended December 31, 2017, the Company recorded an unrealized net gain on financial assets of $51 related to revaluation to fair value and foreign currency translation in the statement of income.

Medimetriks

During the year ended December 31, 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 December 31, 2018, the derivative was recorded at a fair value of $539 [US$395] (2017: $496 [US$395]).

Synergy

During the year ended December 31, 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 December 31, 2018, the derivative was recorded at a fair value of $1,116 [US$818] (2017: $886 [US$706]).

Other

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

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

[iv] Fund investments

The following table summarizes the movement in fund investments during the year ended December 31, 2018, accounted for under IFRS 9.

	Carrying value beginning of year	Additions[1]	Distributions[2]	Net gain on FA	Foreign exchange[3]	Carrying value end of year	Current other financial assets	Non-current other financial assets
	$	$	$	$	$	$	$	$
FVTPL	**54,968**	**27,169**	**(6,769)**	**6,937**	**4,749**	**87,054**	**—**	**87,054**

[1] Investments in equity or debt funds

[2] Distributions received from funds in the year ended December 31, 2018 generated realized gain of $1,879 (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 comprehensive income

During the year ended December 31, 2018, Knight invested $27,169 [including US$8,568 and EUR 3,772] and received distributions of $6,769 [including US$1,275 and EUR 2,586]. The Company recorded a net increase of $6,937 in the statement of income due to mark to market adjustments. Furthermore, the Company recorded a net increase of $4,749 due to foreign currency revaluation, of which $900 is recorded in the statement of income in "Foreign exchange (gain) loss", and $3,849 is recorded in the statement of comprehensive income as "Unrealized gain (loss) on translation of foreign operations".

The following table summarizes the movement in fund investments during the year ended December 31, 2017, accounted for under IAS 39.

	Carrying value beginning of year	Additions[1]	Distributions[2]	Realized gain/(loss)[3]	Other[4]	Carrying value end of year	Current other financial assets	Non-current other financial assets
	$	$	$	$	$	$	$	$
FVOCI	34,576	21,314	(8,083)	2,077	5,084	54,968	—	54,968

[1] Investments in equity or debt funds

[2] Distributions received from funds

[3] Realized gains on return of capital

[4] Net changes due to revaluation to fair market value, foreign currency revaluations, and realized gains reclassified from other comprehensive income to consolidated statement of income upon distribution or disposal

During the year ended December 31, 2017, Knight invested $21,314 [including US$9,752 and EUR 4,774] during the year and received distributions of $8,083 [including US$1,837 and EUR 2,867]. The Company recorded a net gain of $2,077 on financial assets related to the realized gain on distributions in the statement of income. Furthermore, the Company recorded a net increase of $5,084 in other comprehensive income due to foreign currency revaluation, mark-to-market adjustments and realized gains or losses reclassified from other comprehensive income to consolidated statement of income upon disposal in the statement of comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

12. 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] • Investments in funds • Loans and receivables measured at FVTPL • Loans and receivables measured at Amortized Cost • Derivatives

[1] *Publicly-traded equities in active markets*
[2] *Publicly-traded equities in inactive markets*
[3] *Privately-held equities*

[i] Fair value hierarchy

As at December 31,	**2018** **$**	**Level 1** **$**	**Level 2** **$**	**Level 3** **$**
Recurring fair value measurements				
Loans measured at FVTPL	24,711	—	—	24,711
Equity investments measured at FVTPL	4,736	4,736	—	—
Equity investments measured at FVOCI	6,074	2,891	—	3,183
Derivatives	1,805	—	—	1,805
Fund investments measured at FVTPL	87,054	—	—	87,054
Total	**124,380**	**7,627**	—	**116,753**

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

There were no transfers between levels of the fair value hierarchy for the years ended December 31, 2018 or 2017.

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[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. The Company has the following deferred day 1 gains:

As at December 31,	**2018**	2017
	$	$
Loans measured at FVTPL		
Medimetriks[1]	**467**	n/a
60P Additional Loan[2]	**685**	n/a
60P Hybrid Instrument[3]	**566**	n/a
Equity investments measured at FVOCI		
Medimetriks[4]	**996**	915
Synergy[5]	**5,135**	4,721
Total	**7,849**	5,636

[1] *Day 1 gain in original currency is US$342*
[2] *Day 1 gain in original currency is US$502*
[3] *Day 1 gain in original currency is US$415*
[4] *Day 1 gain in original currency is US$730 (2017: US$730)*
[5] *Day 1 gain in original currency is US$3,764 (2017: US$3,764)*

13. INVESTMENT IN ASSOCIATE

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

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

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

As at December 31,	**2018**	2017
	$	$
Carrying value, beginning of the year	**75,983**	80,113
Share of net income for the year before fair value adjustments	**6,066**	6,961
Amortization of fair value adjustments	**(5,511)**	(6,107)
Share of net income for the year	**555**	854
Share of other comprehensive income	**2,607**	—
Dividends[1]	**—**	(4,984)
Carrying value, end of the year	**79,145**	75,983

[1] *Refer to note 28 [iv] for further information*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Medison's statement of income and comprehensive income data	**For the year ended December 31, 2018** **$**	For the year ended December 31, 2017 $
Revenue	**260,651**	216,442
Net income	**1,963**	3,020
Other comprehensive income for the year	**9,222**	—
Total comprehensive income for the year	**11,185**	3,020

Medison's balance sheet data	**As at December 31, 2018** **$**	As at December 31, 2017 $
Current assets	**202,889**	141,175
Non-current assets	**276,390**	282,479
Total assets	**479,279**	423,654
Current liabilities	**121,091**	81,476
Non-current liabilities	**82,243**	77,418
Total liabilities	**203,334**	158,894
Total equity	**275,945**	264,760
Knight's carrying amount of investment before reconciling item	**78,015**	74,853
Change in contingent consideration	**1,130**	1,130
Knight's carrying amount of investment	**79,145**	75,983

14. OTHER RECEIVABLE

Notices of reassessment

Knight received notices of reassessment from the CRA and the QRA in July 2018 and January 2019 respectively. The notices relate to the disposition in 2014 of a PRV held by Knight's wholly-owned subsidiary, Knight Therapeutics (Barbados) Inc. A PRV is a transferrable asset that entitles the holder to a priority review for a drug of its choice.

The Company's PRV was granted on March 19, 2014 upon the FDA approval of Impavido® and was disposed of to a third party in November 2014 for gross proceeds of US$125,000. The notices of reassessment provide that Knight is liable to pay an aggregate of $23,340 and $18,242 to the CRA and QRA respectively in additional taxes and interest. Knight has made a deposit for the full amount to the CRA in July 2018 and to the QRA in February 2019.

Knight believes that the reassessments are unfounded and filed a notice of objection with CRA in September 2018 to start the appeals process. Based on the Company's view of the likely outcome of the appeals process, Knight expects to recover the total of $41,582 deposited and has not recorded any tax provision related to the disposal of the PRV in its financial statements. However, there can be no assurance regarding the outcome or when a resolution may be reached.

Although Knight 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.

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

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31,	**2018**	2017
	$	$
Trade payables	**752**	541
Accrued liabilities	**5,348**	4,484
Total	**6,100**	5,025

16. 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, 2017		**142,713,489**	**760,447**
Issuance under share option plan	*[ii]*	75,000	832
Issuance under share purchase plan	*[iii]*	23,372	211
Balance as at December 31, 2017		**142,811,861**	**761,490**
Issuance under share option plan	*[ii]*	11,289	130
Issuance under share purchase plan	*[iii]*	27,362	224
Balance as at December 31, 2018		**142,850,512**	**761,844**

[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 $2,170 (2017: $3,038) for the year ended December 31, 2018 with corresponding credits to contributed surplus related to the issuance of stock options net of forfeitures. The weighted average fair value of the options granted during the period, estimated by using the Black-Scholes option pricing model, was $3.20 (2017: $4.65). The fair value of the options was estimated on the date of grant based on the following weighted average assumptions:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Year ended December 31,	
	2018	2017
Weighted average risk-free interest rate	**2.15%**	1.46%
Dividend yield	**Nil**	Nil
Weighted average volatility factor *[i]*	**40%**	40%
Unvested forfeiture rate	**2%**	2%
Weighted average expected life	**6.3 years**	7.65 years

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

	Year ended December 31,			
	2018		2017	
	Number of share options #	**Weighted average exercise price $**	Number of share options #	Weighted average exercise price $
Balance beginning of the year	**3,447,659**	**7.50**	3,147,112	7.14
Options granted	**759,991**	**8.41**	545,391	10.01
Options exercised	**(11,289)**	**8.02**	(75,000)	7.34
Options expired/forfeited	**(66,518)**	**8.81**	(169,844)	8.99
Balance at end of the year	**4,129,843**	**7.64**	3,447,659	7.50
Options exercisable at the end of the year	**2,936,413**	**7.18**	2,405,262	6.81

The following table summarizes information about outstanding stock options granted by the Company as at December 31, 2018:

	Options outstanding			**Options exercisable**		
Range of exercise $	**Number of share options #**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price $**	**Number of share options #**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price $**
5.20 to 5.71	1,397,220	2.37	5.62	1,397,220	2.37	5.62
5.72 to 8.02	992,120	4.58	7.65	504,174	3.30	7.56
8.03 to 9.18	874,745	3.82	8.60	693,696	3.87	8.70
9.19 to 10.25	865,758	7.51	9.94	341,323	2.91	9.87
	4,129,843	**4.29**	**7.64**	**2,936,413**	**3.36**	**7.18**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

[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. Under the Purchase Plan, the Company will contribute 25% of employees' or directors' contributions in the form of common shares if the employee remains employed by the Company or director remains on the Board, and has held the original shares for two years from the original purchase date. The Company's contribution in common shares is calculated using the lesser of the original common share value at the original purchase date and at the date of the Company's contribution. During the year ended December 31, 2018, 27,362 shares (2017: 23,372 shares) were issued under the Purchase Plan for a total of $224 (2017: $211).

[iv] Warrants

Pediapharm

On July 15, 2016, the Company acquired 11,470,920 common shares of Pediapharm in exchange of 221,126 common shares and 221,126 warrants of Knight expiring on July 15, 2020. The fair value of each Knight warrant issued in the Pediapharm Transaction was valued at $2.82 [$624 in aggregate], determined using the Black-Scholes model with the following assumptions and inputs:

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

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

Origin

On June 24, 2015, Knight acquired the assets related to Neuragen® pursuant to a default by Origin under its secured loan agreement with Knight. The Company issued 185,000 warrants on June 30, 2015 to several Origin stakeholders which are exercisable, in some instances subject to the achievement of certain prescribed financial benchmarks, at an exercise price of $10.00 per share expiring on June 30, 2025. The Company determined the value of the warrants issued based on the likelihood of certain financial benchmarks being achieved. Warrants that are unlikely to achieve their prescribed financial benchmark were assigned a value of zero. The remaining warrants were assigned a value of $4.14 per option ($161 in aggregate) using the Black-Scholes option pricing model and the following assumptions:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Number of warrants outstanding

As at December 31,	**2018**	2017
Pediapharm	**221,126**	221,126
Origin	**185,000**	185,000
Total	**406,126**	406,126

17. ACCUMULATED OTHER COMPREHENSIVE INCOME

As at December 31,	**2018**	2017
	$	$
Net realized gains reclassified to statement of income, net of tax of $1,913	**n/a**	(14,160)
Impairment reclassified to statement of income net of tax of $218	**n/a**	1,403
Net unrealized gains on AFS financial instruments net of tax of $1,323	**n/a**	19,856
Net unrealized losses on equities at FVOCI net of tax of $1,156	**(12,232)**	—
Share of other comprehensive income of an associate net of tax of $823	**2,607**	—
Unrealized gain on translation of foreign operations	**30,580**	13,808
Total	**20,955**	20,907

18. EMPLOYEE BENEFIT EXPENSES

For the year ended December 31,	**2018**	2017
	$	$
Salaries	**3,880**	3,229
Bonuses	**787**	216
Shared-based incentive plans	**2,223**	3,056
Total	**6,890**	6,501

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

For the year ended December 31,	2018 $	2017 $
Salaries	849	1,053
Bonuses	379	—
Board fees	73	70
Shared-based incentive plans	1,663	2,652
Total	2,964	3,775

19. 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.

As at December 31,	2018 $	2017 $
Net income	24,079	17,244
Weighted average shares outstanding	142,827,616	142,763,730
Basic earnings per share	$0.17	$0.12

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.

	2018 $	2017 $
Net income	24,079	17,244
Weighted average shares outstanding	142,827,616	142,763,730
Adjustment for share options	447,394	652,936
Weighted average shares outstanding	143,275,010	143,416,666
Diluted earnings per share	$0.17	$0.12

20. INCOME TAX

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2018 **$**	2017 $
Earnings before income taxes	**29,464**	21,199
Applicable tax rate	**26.7%**	26.8%
Income taxes at applicable statutory rate	**7,867**	5,681
Increase (decrease) resulting from:		
Rate differential between jurisdictions	**(3,224)**	(2,745)
Variation in tax rate	**(73)**	11
Adjustment for prior years	**(51)**	110
Non-recognition of tax benefits related to tax losses and temporary differences	**822**	693
Effect of non-deductible expenses and other	**44**	205
Total income tax expense	**5,385**	3,955
Average effective tax rate	**18.3%**	18.7%

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

The details of income tax expense are as follows:

	2018 **$**	2017 $
Current income tax		
Current income tax charge	**3,485**	1,985
Adjustments in respect of current tax of previous year	**50**	(88)
	3,535	1,897
Deferred tax		
Relating to the origination and reversal of temporary differences	**2,024**	1,849
Variation in tax rate	**(73)**	11
Adjustment for prior years	**(101)**	198
	1,850	2,058
Income tax expense reported in statement of income	**5,385**	3,955

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

	Balance December 31, 2017 $	**Recognized in statement of income $**	**Recognized in statement of comprehensive income $**	**Exchange rate variation $**	**Other $**	**Balance December 31, 2018 $**
Property and equipment	**141**	**(4)**	**—**	**—**	**—**	**137**
Intangible assets	**(298)**	**(45)**	**—**	**—**	**—**	**(343)**
Financial assets	**785**	**(579)**	**118**	**—**	**(38)**	**286**
Financing fees	**3,640**	**(1,690)**	**—**	**—**	**—**	**1,950**
Tax losses	**557**	**—**	**—**	**—**	**—**	**557**
Other	**(95)**	**468**	**(3)**	**2**	**—**	**372**
Net deferred tax assets	**4,730**	**(1,850)**	**115**	**2**	**(38)**	**2,959**

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

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

	2018 $	2017 $
Tax losses	**5,413**	6,224
Investment tax credit	**1,249**	1,230
Scientific research and experimental development expenses	**5,789**	5,837
Financial assets	—	1,183
Unrecognized deferred tax assets	**12,451**	14,474

21. 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.

For the year ended December 31, 2018, revenues from products sold in Canada and internationally were $2,399 and $10,101 respectively. Furthermore, non-current operating assets consisting of property and equipment, intangible assets, investment in associate and other receivables held in Canada and internationally were $118,114 and $2,610 respectively.

22. FINANCIAL RISK

Management of capital

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

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

The Company's investment policy regulates the investment activities relating to cash resources. An Investment Committee composed of representatives from management and the Board of Directors monitors compliance with said policy. The Company invests in strategic investments in the form of equity funds, equity or liquid investment securities with varying

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terms to maturity, selected with regard to the expected timing of investments and expenditures for continuing operations and prevailing interest rates.

Market risk

Currency risk

The Company maintains cash and cash equivalents, marketable securities, trade and other receivables, other financial assets, other balances payable and accounts payable and accrued liabilities in U.S. dollars, Euros, ILS, and CHF and is therefore exposed to foreign exchange risk on these balances. The following table presents the net currency exposure on foreign-denominated balances.

2018	**USD**	**EUR**	**ILS**
Cash and cash equivalents	**15,502**	**213**	**7,287**
Marketable securities	**104,294**	**—**	**—**
Trade and other receivables	**2,774**	**376**	**—**
Other financial assets	**58,148**	**13,954**	**—**
Other balances payable	**(1,950)**	**(65)**	**—**
Accounts payable and accrued liabilities	**(1,215)**	**(174)**	**(101)**
Net exposure	**177,553**	**14,304**	**7,186**

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

Equity price risk

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

2018	**$**
Equity investments	**10,810**
Fund investments	**87,054**
Derivatives	**689**
Net exposure	**98,553**

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

The Company monitors its equity investments for impairment on a periodic basis and at least at every reporting period. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the

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relative quantity of the security being sold. The Company manages the equity price risk through the use of strict investment policies approved by the Board of Directors. The Company's Board of Directors regularly reviews and approves equity investment decisions.

Interest rate risk

The Company does not believe that the results of operations or cash flows would be materially affected to any significant degree by a sudden change in market interest rates relative to interest rates on the investments, owing to the relatively short-term nature of the marketable securities and currently low market yields.

Credit risk

The Company considers its maximum credit risk to be $125,270 (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 and are invested in institutions with a S&P or DBRS credit rating of A or R1(low) or better which are invested in the following:

- three Canadian financial institutions & three foreign affiliates of Canadian financial institutions
- one Canadian insurance company & one Canadian corporation
- five Canadian credit unions

The Company is exposed to credit risk from its customers and continually monitors its customers' credit. It establishes the ECL based upon days past due and the likelihood of collection for 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 has assessed that loans measured at FVTPL have S&P credit ratings between CCC+ and CC. The Company also has a credit risk on its investment in funds and derivatives which are held through venture funds or issued by a counterparty.

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

For the year ended December 31,	**2018** **$**	2017 $
Trade and accounts receivable	**2,896**	2,116
Interest receivable	**7,645**	5,587
Loans receivable	**27,675**	59,819
Investments in funds	**87,054**	54,968
Total	**125,270**	122,490

For trade and accounts receivable, management determines credit risk based on customers who account for more than 10% of accounts receivable. As at December 31, 2018, three customers represented 78% (2017: two customers represented 82%) of the trade and accounts receivable balance. For the year ended December 31, 2018, three customers represented 50%, 13% and 15%, respectively, (2017: two customers represented 64%) of revenues.

Liquidity risk

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

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Sensitivity Analysis

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

For the year ended December 31,	2018 $	2017 $
Foreign Exchange Risk (5% change)[2]		
USD	**12,111**	12,030
EUR	**1,117**	880
ILS	**130**	522
CHF	**—**	40
Equity Price Risk (5% change)[1, 3]		
Equity investments	**541**	971
Fund investments	**4,353**	2,748
Derivatives	**34**	37

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

[2] Change in the statement of comprehensive income of $159 included in amount

[3] Change in the statement of comprehensive income of $302 included in amount

23. STATEMENT OF CASH FLOWS

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

For the year ended December 31,	2018 $	2017 $
Changes in non-cash working capital:		
Decrease (increase) in		
Trade and other receivables	**(2,580)**	(3,201)
Inventories	**88**	(434)
Income taxes receivable	**(29)**	3,891
Increase in		
Accounts payable and accrued liabilities	**1,075**	1,818
Income tax payable	**3,106**	1,940
Other		
Other Financial Assets	**(1,658)**	(964)
Other operating items	**2**	3,050

24. 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

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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.

On June 25, 2018, the PMPRB presented a draft guidelines implementation framework which is intended to give effect of the proposed changes. The proposed amendments, if enacted, are expected to result in a decrease in the prices of patented drugs in Canada. The proposed regulations initially expected to come into force on January 1, 2019 has been delayed due to government reviews feedback and 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.

25. RELATED PARTY TRANSACTIONS

Pharmascience Inc., a company related to the Company's CEO, provided administrative services of approximately $10 to the Company for year ended December 31, 2018.

26. 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 commitments. The commitments of the Company as at December 31, 2018 are as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

[i] Operating Lease

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

	$
2019	**301**
2020	**301**
2021	**293**
2022	**230**
2023	**—**
Total	**1,125**

[ii] Fund commitments

As at December 31, 2018, under the terms of Company's agreements with life sciences venture capital funds, $61,973 (2017: $84,508), including $17,714 [US$12,985] and $13,650 [EUR 8,743], 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 $99,277 including $31,793 [US$23,305] and $547 [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 $2,135 [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 a borrower, Knight has committed to up to a maximum equity investment of $3,411 [US$2,500] to participate in the initial public offering of the borrower.

27. RECLASSIFICATION OF COMPARATIVE FIGURES

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

28. SUBSEQUENT EVENTS

[i] Puma

In January 2019, the Company entered into an exclusive license agreement with Puma for the exclusive right to commercialize NERLYNX® (neratinib) in Canada. Puma filed an NDS for NERLYNX® with Health Canada in July 2018 for the extended adjuvant treatment of adult patients with early stage HER2-overexpressed/amplified breast cancer following adjuvant trastuzumab-based therapy. Knight will pay up to $9,728, including $2,728 [US$2,000] for upfront and milestone payments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

[ii] Moksha8

On February 15, 2019, the Company entered into a strategic financing agreement with Moksha8, a specialty pharmaceutical company operating in Brazil and Mexico, for up to $170,525 [US$125,000]. Under the terms of the agreement, Knight may loan up to $34,105 [US$25,000] in working capital funding, from which $13,134 [US$10,000] was issued on the closing of the agreement. The loan bears interest at 15% per annum and matures five years from the issuance date. The Company may issue up to an additional $136,420 [US$100,000] at Knight's sole discretion for corporate development and the acquisition of product licenses. In conjunction with the strategic financing agreement, Knight received warrants at an exercise price of US$0.01 per warrant representing 5% of the fully diluted shares of Moksha8.

[iii] Triumvira

On February 20, 2019, the Company entered into a secured loan agreement with Triumvira for $6,585 [US$5,000] for the development of its novelty T cell therapies. The loan bears interest at 15% per annum and matures on February 20, 2020. In addition, Knight received warrants to purchase 3.5% of Triumvira's fully diluted common shares and the exclusive right to commercialize Triumvira's future approved products in Canada, Israel, Mexico, Colombia and for TAC01-CD19 for Israel, Mexico, Brazil and Colombia.

[iv] Medison Dividend

On March 4, 2019, Medison's board of directors declared and approved dividends of $4,153 [ILS 11,308] payable to Knight.

Management Team

Jonathan Ross Goodman

Chief Executive Officer and Director

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

Samira Sakhia

President and Chief Financial Officer

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

Amal Khouri

Vice President and Business Development

Ms. Khouri joined Knight as Vice-President of Business Development in August 2014. Prior to Knight, Ms. Khouri worked at Novartis Pharma for over 7 years, where she held multiple positions within the global business development and licensing team in Basel, Switzerland. Before joining Novartis, she worked in business development at Paladin Labs Inc. in roles with increasing responsibilities. In addition, Ms. Khouri serves on the board of Antibe Therapeutics Inc. Ms. Khouri holds a B.Sc. in Biochemistry from McGill University and an M.B.A. from the University of Ottawa.

Board of Directors

James C. Gale*†

Chairman of the Board of Directors

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

Jonathan Ross Goodman

Chief Executive Officer and Director

Refer to Management Team section.

Samira Sakhia

President, Chief Financial Officer, and Director

Refer to Management Team section.

Robert N. Lande*†

Director

Mr. Lande is the President of FXCM Group LLC, an online brokerage firm offering trading in foreign exchange, equity indices and commodities. Formerly, he was Chief Financial Officer of FXCM and prior to that was a managing partner and Chief Operating Officer of Riveredge Capital Partners LLC ("Riveredge"), an investment management firm. Prior to Riveredge, Mr. Lande worked for over 16 years within the BCE/Bell Canada group where his last position was Chief Financial Officer of Telecom Américas Ltd., a joint venture between Bell Canada International, AT&T (then SBC Communications) and America Movil. Mr. Lande is a chartered financial analyst and holds an M.B.A. from the John Molson School of Business and a B.A. in Economics from McGill University. Mr. Lande was on the board of directors of Paladin Labs Inc. from 1995 to 2014.

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

Sylvie Tendler*†

Director

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

Meir Jakobsohn

Director

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

Nancy Harrison

Director

Ms. Harrison is Co-founder and former President of MSI Methylation Sciences, a private venture backed development company with a novel treatment for depression in a Phase II clinical trial. She is a former Partner and Senior Vice President of Ventures West Management Inc. Ms. Harrison spent 13 years with Ventures West leading its life sciences practice in Canada and the U.S. She is one of the most experienced life sciences investors in the Canadian venture capital industry and was instrumental in Ventures West's involvement in the sector and with companies such as Angiotech Pharmaceuticals Inc., AnorMed Inc., Salmedix Inc., Oncogenix Pharmaceuticals Inc., Celator Pharmaceuticals Inc., and Caprion BioSciences. During her time with Ventures West, the firm grew from approximately $80 million to over $750 million. Ms. Harrison has an undergraduate degree in Engineering from Queen's University and an M.B.A. from McGill University.

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

Corporate Information

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www.gud-knight.com

Stock Exchange Listing
Toronto Stock Exchange
Trading Symbol: GUD

Shares Outstanding
142,850,512 Common Shares
(as at December 31, 2018)

Fiscal 2018 Trading Summary
High: $8.81
Low: $7.38
Close: $7.69
Average Daily Volume: 141,566

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

Auditors
Ernst & Young LLP

Annual General Meeting
May 7, 2019, 5:00pm EST

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