



**KNIGHT THERAPEUTICS INC.**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2017**

## NOTICE TO READER

The interim condensed consolidated financial statements of Knight Therapeutics Inc. (“Knight” or the “Company”) which comprise the interim condensed consolidated balance sheet as at September 30, 2017, the interim condensed consolidated statements of income and comprehensive income, and the cash flows for the three and nine-month periods ended September 30, 2017 and the interim condensed consolidated statement of changes in shareholders’ equity for the nine-month period ended September 30, 2017, are the responsibility of the Company’s management. These interim condensed consolidated financial statements have not been audited or reviewed on behalf of the shareholders by the independent external auditors, Ernst & Young LLP.

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



---

Jonathan Ross Goodman  
Chief Executive Officer



---

Samira Sakhia  
President and Chief Financial Officer

Montreal, Canada  
November 8, 2017

Montreal, Canada  
November 8, 2017

## INTERIM CONSOLIDATED BALANCE SHEETS

[In thousands of Canadian dollars]

[Unaudited]

As at	Notes	September 30, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	4	506,839	514,942
Marketable securities	5	218,248	221,108
Trade and other receivables	6	8,123	6,440
Inventories		653	790
Other current financial assets	8, 9	30,960	51,789
Income taxes receivable		2,448	4,683
<b>Total current assets</b>		<b>767,271</b>	<b>799,752</b>
Marketable securities	5	36,000	—
Property and equipment		60	32
Intangible assets	7	12,713	14,153
Other financial assets	8, 9	95,725	90,643
Investment in associate	10	75,642	80,113
Deferred income tax assets		6,056	6,077
<b>Total assets</b>		<b>993,467</b>	<b>990,770</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		4,146	3,207
Income taxes payable		7,008	5,659
Other balances payable		587	537
Deferred other income		250	355
<b>Total current liabilities</b>		<b>11,991</b>	<b>9,758</b>
Deferred other income		229	417
Other balances payable		799	877
<b>Total liabilities</b>		<b>13,019</b>	<b>11,052</b>
<b>Shareholders' equity</b>			
Share capital	11 [i]	761,127	760,447
Warrants		785	785
Contributed surplus		11,900	9,469
Accumulated other comprehensive income	12	17,951	30,431
Retained earnings		188,685	178,586
<b>Total shareholders' equity</b>		<b>980,448</b>	<b>979,718</b>
<b>Total liabilities and shareholders' equity</b>		<b>993,467</b>	<b>990,770</b>

Commitments [note 15]

Subsequent events [note 18]

See accompanying notes

## INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

[Unaudited]

	<i>Notes</i>	Three months ended September 30		Nine months ended September 30	
		2017	2016	2017	2016
Revenues		1,860	1,892	6,090	4,095
Cost of goods sold		337	296	1,097	1,077
<b>Gross margin</b>		<b>1,523</b>	1,596	<b>4,993</b>	3,018
<b>Expenses</b>					
Selling and marketing		834	94	2,247	262
General and administrative		2,147	2,358	6,944	6,592
Research and development		586	436	1,869	1,243
		<b>(2,044)</b>	(1,292)	<b>(6,067)</b>	(5,079)
Depreciation of property and equipment		—	—	—	18
Amortization of intangible assets		539	100	1,185	263
Interest income		(6,959)	(7,375)	(18,517)	(18,315)
Other income		(871)	(2,081)	(1,513)	(3,534)
Net (gain) loss on financial assets		(1,317)	2,914	(3,636)	402
Share of net income of associate	10	(98)	(1,096)	(513)	(2,755)
Foreign exchange loss (gain)		2,695	(1,132)	4,244	2,995
<b>Income before income taxes</b>		<b>3,967</b>	7,378	<b>12,683</b>	15,847
<b>Income tax expense (recovery)</b>					
Current		490	1,288	1,598	4,407
Deferred		(116)	392	986	819
<b>Net income for the period</b>		<b>3,593</b>	5,698	<b>10,099</b>	10,621
<b>Attributable to shareholders of the Company</b>					
Basic earnings per share	13	0.03	0.04	0.07	0.09
Diluted earnings per share	13	0.03	0.04	0.07	0.09
<b>Weighted average number of common shares outstanding</b>					
Basic		142,766,634	132,668,637	142,749,348	116,334,998
Diluted		143,350,059	133,198,829	143,469,168	116,746,093

See accompanying notes

## INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[In thousands of Canadian dollars]

[Unaudited]

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
<b>Net income for the period</b>	<b>3,593</b>	5,698	<b>10,099</b>	10,621
Realized gain reclassified to statement of income net of tax of \$198 and \$320 (\$32 and \$97 for the three and nine-month periods ended September 30, 2016)	<b>(1,524)</b>	(207)	<b>(2,949)</b>	(623)
<b>Other comprehensive income (loss) to be reclassified to statement of income in subsequent periods:</b>				
Unrealized gain (loss) on available-for-sale financial assets net of tax of \$250 and \$684 (\$140 and \$287 for the three and nine-month periods ended September 30, 2016)	<b>4,064</b>	(3,683)	<b>3,177</b>	(1,135)
Unrealized (loss) gain on translation of foreign operations	<b>(6,691)</b>	2,563	<b>(12,708)</b>	(9,068)
<b>Other comprehensive loss for the period</b>	<b>(4,151)</b>	(1,327)	<b>(12,480)</b>	(10,826)
<b>Total comprehensive (loss) income for the period</b>	<b>(558)</b>	4,371	<b>(2,381)</b>	(205)

*See accompanying notes*

## INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[In thousands of Canadian dollars]

[Unaudited]

	<i>Notes</i>	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
Balance as at January 1, 2016		439,148	161	6,772	35,955	160,026	642,062
Net income for the period		—	—	—	—	10,621	10,621
Other comprehensive loss for the period		—	—	—	(10,826)	—	(10,826)
Comprehensive (loss) income		—	—	—	(10,826)	10,621	(205)
Share-based compensation expense	<i>11 [ii]</i>	—	—	2,648	—	—	2,648
Issuance upon bought deal, net of costs and includes deferred tax of \$3,083		221,620	—	—	—	—	221,620
Issuance of shares to associate	<i>10</i>	2,073	—	(943)	—	—	1,130
Issuance upon investment		1,846	624	—	—	—	2,470
Share purchase loans		(200)	—	—	—	—	(200)
Issuance under share purchase plan		74	—	—	—	—	74
<b>Balance as at September 30, 2016</b>		<b>664,561</b>	<b>785</b>	<b>8,477</b>	<b>25,129</b>	<b>170,647</b>	<b>869,599</b>
<b>Balance as at January 1, 2017</b>		<b>760,447</b>	<b>785</b>	<b>9,469</b>	<b>30,431</b>	<b>178,586</b>	<b>979,718</b>
Net income for the period		—	—	—	—	10,099	10,099
Other comprehensive loss for the period		—	—	—	(12,480)	—	(12,480)
Comprehensive (loss) income		—	—	—	(12,480)	10,099	(2,381)
Share-based compensation expense	<i>11 [ii]</i>	—	—	2,626	—	—	2,626
Issuance under share option plan	<i>11</i>	513	—	(195)	—	—	318
Issuance under share purchase plan	<i>11</i>	167	—	—	—	—	167
<b>Balance as at September 30, 2017</b>		<b>761,127</b>	<b>785</b>	<b>11,900</b>	<b>17,951</b>	<b>188,685</b>	<b>980,448</b>

See accompanying notes

# INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

[In thousands of Canadian dollars]

[Unaudited]

	Notes	Three months ended September 30		Nine months ended September 30	
		2017	2016	2017	2016
<b>OPERATING ACTIVITIES</b>					
<b>Net income for the period</b>		<b>3,593</b>	5,698	<b>10,099</b>	10,621
Adjustments reconciling net income to operating cash flows:					
Deferred tax		(116)	392	986	819
Share-based compensation expense	11 [ii]	762	765	2,626	2,648
Depreciation and amortization		539	100	1,185	281
Accretion of interest	8 [i]	(1,197)	(2,129)	(3,381)	(4,975)
Realized gain on financial assets		(1,761)	(367)	(3,402)	(509)
Unrealized loss (gain) on financial assets		444	3,281	(234)	911
Foreign exchange loss (gain)		2,695	(1,132)	4,244	2,995
Share of net income from associate	10	(98)	(1,096)	(513)	(2,755)
Other income		(871)	(1,271)	(872)	(1,271)
Deferred other income		(63)	848	(293)	555
		<b>3,927</b>	5,089	<b>10,445</b>	9,320
Changes in non-cash working capital related to operations	16	4,350	(3,115)	2,914	(2,152)
Dividends from associate	10	2,459	2,414	4,984	4,837
<b>Cash inflow from operating activities</b>		<b>10,736</b>	4,388	<b>18,343</b>	12,005
<b>INVESTING ACTIVITIES</b>					
Purchase of marketable securities		(103,273)	(161,913)	(245,746)	(445,038)
Purchase of intangibles		—	(367)	—	(3,291)
Issuance of loans receivables		(15,164)	(1,027)	(16,971)	(38,476)
Purchase of equities		—	(5,073)	(2,939)	(10,496)
Investment in funds		(4,987)	(4,917)	(15,318)	(14,142)
Proceeds from sale of marketable securities		77,170	182,896	203,729	417,000
Proceeds from repayments of loans receivable		5,985	5,916	36,309	7,939
Proceeds from disposal of equities		9,357	3,337	12,872	7,363
Proceeds from distribution of funds		510	1,974	3,886	1,974
<b>Cash (outflow) inflow from investing activities</b>		<b>(30,402)</b>	20,826	<b>(24,178)</b>	(77,167)
<b>FINANCING ACTIVITIES</b>					
Proceeds from share issuance, net of costs		—	(16)	—	218,536
Proceeds from exercise of stock options		—	—	345	—
Proceeds from contributions to share purchase plan		61	24	154	74
Issuance of share purchase loans		—	—	—	(200)
<b>Cash inflow from financing activities</b>		<b>61</b>	8	<b>499</b>	218,410
<b>(Decrease) increase in cash during the period</b>		<b>(19,605)</b>	25,222	<b>(5,336)</b>	153,248
Cash and cash equivalents, beginning of the period		527,879	363,713	514,942	237,481
Net foreign exchange difference		(1,435)	467	(2,767)	(1,327)
<b>Cash and cash equivalents, end of the period</b>		<b>506,839</b>	389,402	<b>506,839</b>	389,402
<b>Supplemental cash flow information:</b>					
Interest received		5,305	3,671	15,311	10,492
Income taxes (refunded) paid		(2,891)	3,531	(1,861)	5,865

See accompanying notes

# NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

## GLOSSARY OF ABBREVIATIONS

Abbreviation	Company
3D	3D Signatures Inc.
60P	60 <sup>o</sup> Pharmaceuticals LLC
AFS	Available-for-sale
Antibe	Antibe Therapeutics Inc.
Apicore	Apicore Inc. and Apigen Investments Limited
Crescita	Crescita Therapeutics Inc.
CFO	Chief Financial Officer
Forbion	Forbion Capital Fund III CV
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
Knight or the Company	Knight Therapeutics Inc.
Medimetriks	Medimetriks Pharmaceuticals Inc.
Medison	Medison Biotech (1995) Ltd.
Merck	Merck & Co., Inc.
Merus	Merus Labs International Inc.
Otsuka	Otsuka Pharmaceutical Co., Ltd.
PBB	Pro Bono Bio PLC
Pediapharm	Pediapharm Inc.
Synergy	Synergy CHC Corp.

Abbreviation	Calendar
Q3-17	Third quarter of 2017

## 1. NATURE OF OPERATIONS

### Description of business

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation and statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with the accounting policies set out in note 2 "Summary of significant accounting policies", of the Company's consolidated financial statements for the year ended December 31, 2016. These interim condensed consolidated financial statements have been prepared in accordance with International Financial Accounting Standard 34 "Interim Financial Reporting". Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed.

The preparation of the Company's interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, and

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 3 of the Company's annual audited consolidated financial statements for the year ended December 31, 2016. These interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2016.

These interim condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on November 8, 2017.

### 3. RECENT ACCOUNTING PRONOUNCEMENTS

#### IFRS 9 – Financial Instruments

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

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

#### Financial Assets

##### Strategic Loans

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

##### 1. Amortized cost

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

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

##### 2. FVOCI

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

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

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

### 3. FVPL

All loans receivable not measured at amortized cost or at FVOCI must be measured at FVPL. Furthermore, the Company may irrevocably designate a loan receivable as FVTPL at initial recognition.

The Company has completed the following preliminary assessment:

- The loans receivable will be measured and classified as either amortized cost or FVPL.
- Under the amortized cost classification, IFRS 9 requires the application of an expected credit loss model. Based on the past, current and expected future conditions as at November 8, 2017, the credit loss provision is not expected to be significant.
- Under the FVPL policy, the changes to fair value of the loans receivable will be recorded as a gain or loss in the statement of income therefore increasing volatility in net income.

### Investments in equity instruments

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

#### 1. FVPL

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

#### 2. FVOCI

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

The Company has completed the following preliminary assessment:

- The equity investments acquired in strategic transactions will be recorded at FVOCI. The fair value gains and losses will be recognized in the statement of comprehensive income and realized gains or losses will not be reclassified to statement of income on disposal.
- The equity investments acquired for sale will be mandatorily classified and measured FVPL. The fair value gains and losses on those equities will be recognized in the statement of income.

### Investment in Funds

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

### Derivatives

The Company does not expect any material measurement or classification change under IFRS 9.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

### **Financial Liabilities**

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

### **Transition**

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

### **IFRS 15 – Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers, to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. The standard supersedes IAS 18 – Revenue, IAS 11 – Construction Contracts, and other revenue related interpretations. The standard will be effective on January 1, 2018 for the Company, with earlier application permitted. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

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

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

The Company has preliminarily concluded that the sale of products in most contracts is generally expected to be consistent with current revenue recognition practice. Furthermore, IFRS 15 provides presentation and disclosure requirements which are more detailed than under the current standard. The Company is currently assessing the impact of the disclosure requirements on its financial statements.

### **IFRS 16 - Leases**

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

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

### 4. CASH AND CASH EQUIVALENTS

As at	September 30, 2017 \$	December 31, 2016 \$
Cash in bank	501,375	490,435
Term deposit of US\$4,378 earning interest at 1.23% and maturing November 2017 (December 31, 2016: US\$18,252 earning interest at 0.80% and matured January 2017)	5,464	24,507
	<b>506,839</b>	<b>514,942</b>

### 5. MARKETABLE SECURITIES

As at	September 30, 2017 \$	December 31, 2016 \$
<b>Current</b>		
Guaranteed investments earning interest rates ranging from 1.10% to 1.91% and maturing from December 2017 to August 2019 (December 31, 2016: earning interest ranging from 0.95% to 1.90% and maturing from January 2017 to April 2018)	114,697	110,890
Term deposits of US\$68,073 earning interest rates ranging from 1.23% to 1.70% and maturing from December 2017 to February 2018 (December 31, 2016: US\$67,470 earning interest ranging from 1.29% to 1.70% and maturing from May 2017 to December 2017)	84,956	90,592
Guaranteed investment certificates of US\$9,607 earning interest rates ranging from 1.50% to 1.55% and maturing from November 2017 to May 2018 (December 31, 2016: US\$9,607 earning interest rates ranging from 1.34% to 1.51% and maturing from May 2017 to November 2017)	11,990	12,900
Term deposit of ILS18,750 earning interest at 0.08% and maturing November 2017 (December 31, 2016: ILS19,250 earning interest at 0.08% and maturing November 2017)	6,605	6,726
<b>Total Current</b>	<b>218,248</b>	<b>221,108</b>
<b>Long-Term</b>		
Guaranteed investments earning interest rates ranging from 1.82% to 2.06% and maturing from June 2019 to August 2019	36,000	—
<b>Total Long-Term</b>	<b>36,000</b>	<b>—</b>
<b>Total Marketable Securities</b>	<b>254,248</b>	<b>221,108</b>

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

### 6. TRADE AND OTHER RECEIVABLES

As at	September 30, 2017	December 31, 2016
	\$	\$
Trade and accounts receivable	3,117	2,606
Interest receivable	2,943	3,107
Advance to associate	733	—
Commodity taxes receivable	110	102
Prepaid expenses and other receivable	1,220	625
	<b>8,123</b>	<b>6,440</b>

### 7. INTANGIBLE ASSETS

	\$
Cost as at January 1, 2017	14,754
Additions	91
Disposals and write-offs	(111)
Foreign exchange translation	(290)
<b>Cost as at September 30, 2017</b>	<b>14,444</b>
Accumulated amortization as at January 1, 2017	601
Amortization charge	1,185
Foreign exchange translation	(55)
<b>Accumulated amortization as at September 30, 2017</b>	<b>1,731</b>
<b>Net book value as at September 30, 2017</b>	<b>12,713</b>

### 8. OTHER FINANCIAL ASSETS

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.

	Carrying amount	
As at	September 30, 2017	December 31, 2016
	\$	\$
<b>Other Financial assets</b>		
Loans and other receivables [i]	56,684	75,731
AFS equity investments [ii]	19,758	30,936
AFS fund investments [iii]	48,645	34,576
Derivatives [iv]	1,598	1,189
<b>Total</b>	<b>126,685</b>	<b>142,432</b>

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

### [i] Loans and other receivables

The following table summarizes the movement in loans and other receivables for the nine-month period ended September 30, 2017.

Carrying value beginning of year <sup>1</sup>	Additions	Accretion <sup>2</sup>	Loan repayments	Other <sup>3</sup>	Carrying value end of period	Current other financial assets	Non-current other financial assets
\$	\$	\$	\$	\$	\$	\$	\$
75,731	16,898	3,381	(36,309)	(3,017)	56,684	10,888	45,796

<sup>1</sup> Refer to the 2016 audited annual consolidated financial statements for additional information

<sup>2</sup> Accretion of interest income based on the effective interest rate method

<sup>3</sup> Net changes related to foreign currency revaluations

During the nine-month period ended September 30, 2017, the Company recorded interest accretion of \$3,381 (2016: \$4,975) in the statement of income as interest income and a foreign exchange loss of \$3,017 (2016: \$4,889) in the statement of income.

During the three-month period ended September 30, 2017, the Company recorded interest accretion of \$1,197 (2016: \$2,129) in the statement of income as interest income and a foreign exchange loss of \$1,480 (2016: \$448) in the statement of income.

#### **Apicore**

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

#### **PBB**

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

#### **60P**

During the nine-month period ended September 30, 2017, Knight issued an additional \$4,945 [US\$3,860] to 60P. The loan bears interest at 15% per annum and matures on December 31, 2020.

#### **Synergy**

On August 9, 2017, Knight issued an additional secured loan of \$12,705 [US\$10,000] with an annual interest rate of 10.5% for a three-year term to Synergy ("Additional Synergy Loan"). The proceeds of the loan will be used to fund acquisitions and general working capital purposes. The loan was recorded at relative fair value of \$11,835 [US\$9,315] upon initial measurement and subsequently accounted for at amortized cost using effective interest rate of 16.12%. Additionally, Knight provided an ongoing credit facility of up to \$24,960 [US\$20,000] to be disbursed at Knight's sole discretion.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

### **Crescita**

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

### **[ii] AFS equity investments**

The following table summarizes the movement in AFS equity investments during the nine-month period ended September 30, 2017.

Carrying value beginning of year <sup>1</sup>	Additions <sup>2</sup>	Disposals <sup>3</sup>	Realized gain <sup>4</sup>	Other <sup>5</sup>	Carrying value end of period	Current other financial assets	Non-current other financial assets
\$	\$	\$	\$	\$	\$	\$	\$
30,936	4,643	(12,872)	2,342	(5,291)	19,758	19,561	197

<sup>1</sup> Refer to the 2016 audited annual consolidated financial statements for additional information

<sup>2</sup> Equities purchased or received as consideration with the strategic lending transactions

<sup>3</sup> Cash received upon disposal of equities during the period

<sup>4</sup> Realized gain on the disposals of equities

<sup>5</sup> Net changes due to revaluation of equities to fair 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 nine-month period ended September 30, 2017, the Company recorded a net realized gain on financial assets of \$2,342 (2016: \$2,765) in the statement of income. In addition, the Company recorded an unrealized loss of \$5,291 (2016: unrealized gain of \$195) 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.

During the three-month period ended September 30, 2017, the Company recorded a net realized gain on financial assets of \$1,526 (2016: \$2,043) in the statement of income. In addition, the Company recorded an unrealized loss of \$1,910 (2016: unrealized gain of \$897) related to changes due to revaluation of equities to fair value, foreign currency translation and realized gains or losses reclassified from other comprehensive income to consolidated statement of income upon disposal in the statement of comprehensive income.

### **Merus**

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

### **Medimetrics**

During Q3-17, pursuant to its loan agreements with Medimetrics, Knight received 286,955 common shares increasing its ownership to 10% on a fully diluted basis. As a result, the Company recorded \$686 [US\$565] in other income in the statement of income. The additional common shares were recorded at fair value of \$2.46 [US\$1.97] per common share derived using the income approach valuation technique.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

### [iii] AFS fund investments

The following table summarizes the movement in AFS fund investments during the nine-month period ended September 30, 2017.

Carrying value beginning of year <sup>1</sup> \$	Additions \$	Distributions \$	Realized gain \$	Other <sup>2</sup> \$	Carrying value end of period \$	Current other financial assets \$	Non-current other financial assets \$
34,576	15,620	(4,710)	1,104	2,055	48,645	—	48,645

<sup>1</sup> Refer to the 2016 audited annual consolidated financial statements for additional information

<sup>2</sup> 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 nine-month period ended September 30, 2017, the Company recorded a net gain of \$1,104 on financial assets (2016: \$513) related to the realized gain on distributions in the statement of income. Furthermore, the Company recorded a net increase of \$2,055 (2016: increase of \$1,109) 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.

During the three-month period ended September 30, 2017, the Company recorded a net gain of \$276 on financial assets (2016: \$513) related to the realized gain on distributions in the statement of income. Furthermore, the Company recorded a net increase of \$2,541 (2016: decrease of \$786) in other comprehensive income due to foreign currency revaluation, mark-to-market adjustments and realized gains or losses reclassified from other comprehensive income to consolidated statement of income upon disposal in the statement of comprehensive income.

### Forbion

In September 2017, Merck announced that it will acquire Rigontec, an investment held by Forbion. The transaction closed in October 2017 for an upfront cash payment of \$169,533 [€115,000] and up to \$514,496 [€349,000] in contingent payments. As a result, Knight recorded an unrealized gain of \$3,049 [€2,070], related to its investment in Forbion, in the statement of comprehensive income.

### [iv] Derivatives

The following table summarizes the movement in derivatives during the nine-month period ended September 30, 2017.

Carrying value beginning of year <sup>1</sup> \$	Additions \$	Disposals \$	Realized gain \$	Other <sup>2</sup> \$	Carrying value end of period \$	Current other financial assets \$	Non-current other financial assets \$
1,189	3,610	(1,009)	—	(2,192)	1,598	511	1,087

<sup>1</sup> Refer to the 2016 audited annual consolidated financial statements for additional information

<sup>2</sup> Changes due to revaluation to fair market value and foreign currency revaluations on derivatives held throughout the period

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

During the nine-month period ended September 30, 2017, the Company recorded an unrealized net loss on financial assets of \$2,192 (2016: realized loss of \$2,740 and unrealized loss of \$1,483) related to revaluation to fair value and foreign currency translation in the statement of income.

For the three-month period ended September 30, 2017, the Company recorded an unrealized net loss on financial assets of \$458 (2016: realized loss of \$2,740 and unrealized loss of \$3,547) related to revaluation to fair value and foreign currency translation in the statement of income.

### **Medimetriks**

On February 17, 2016, Knight issued a secured loan of up to \$27,368 [US\$20,000] to Medimetriks, a private company, to support its acquisition of the exclusive U.S. development and commercialization rights for OPA-15406 from Otsuka. On December 23, 2016, Knight amended its initial loan and issued an additional \$4,061 [US\$3,000] ("Second Loan") to Medimetriks.

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

### **Synergy**

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

### **Crescita**

Concurrent with the closing of the Amended Crescita Loan, Knight surrendered its 293,163 warrants of Crescita exercisable at \$2.44 per share and was issued 396,000 new warrants for a term of six years.

<b>Inputs</b>	<b>September 30, 2017</b>	<b>August 14, 2017<sup>1</sup></b>
Number of warrants	180,000	180,000
Value per common share	\$0.62	\$0.79
Exercise price	\$1.00	\$1.00

  

<b>Assumptions</b>		
Risk-free interest rate	1.75%	1.48%
Expected remaining term	5 years	5 years
Expected volatility	55%	55%

<sup>1</sup> Transaction date

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

<b>Inputs</b>	<b>September 30, 2017</b>	August 14, 2017 <sup>1</sup>
Number of warrants	216,000	216,000
Value per common share	\$0.62	\$0.79
Exercise price	\$0.75	\$0.75
<b>Assumptions</b>		
Risk-free interest rate	1.75%	1.48%
Expected remaining term	5 years	5 years
Expected volatility	55%	55%

<sup>1</sup> Transaction date

The remaining derivatives held by Knight were revalued as at September 30, 2017 using the Black-Scholes model based on the following inputs and assumptions.

### 3D

<b>Inputs</b>	<b>September 30, 2017</b>	December 31, 2016	December 16, 2016 <sup>1</sup>
Number of warrants	240,000	240,000	240,000
Value per common share	\$0.23	\$0.91	\$0.83
Exercise price	\$0.92	\$0.92	\$0.92
<b>Assumptions</b>			
Risk-free interest rate	1.40%	0.74%	0.63%
Expected remaining term	1.2 years	1 year	1 year
Expected volatility	80%	80%	80%

<sup>1</sup> Transaction date

### Pediapharm

<b>Inputs</b>	<b>September 30, 2017</b>	December 31, 2016	March 30, 2015 <sup>1</sup>
Number of warrants	757,500	757,500	757,500
Value per common share	\$0.31	\$0.30	\$0.23
Exercise price	\$0.33	\$0.33	\$0.33
<b>Assumptions</b>			
Risk-free interest rate	1.46%	0.79%	0.64%
Expected remaining term	1.5 years	2.2 years	4 years
Expected volatility	72%	72%	100%

<sup>1</sup> Transaction date

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

### **Antibe**

<b>Inputs</b>	<b>September 30, 2017</b>	December 31, 2016	November 13, 2015 <sup>1</sup>
Number of warrants	1,000,000	1,000,000	1,000,000
Value per common share	\$0.08	\$0.17	\$0.17
Exercise price	\$0.31	\$0.31	\$0.31
<b>Assumptions</b>			
Risk-free interest rate	1.40%	0.74%	0.69%
Expected remaining term	1.1 years	1.9 years	3 years
Expected volatility	100%	120%	180%

<sup>1</sup> Transaction date

<b>Inputs</b>	<b>September 30, 2017</b>	March 27, 2017 <sup>1</sup>
Number of warrants	120,000	120,000
Value per common share	\$0.08	\$0.19
Exercise price	\$0.22	\$0.22
<b>Assumptions</b>		
Risk-free interest rate	1.46%	0.75%
Expected remaining term	1.5 years	2 years
Expected volatility	100%	121%

<sup>1</sup> Transaction date

## **9. MEASUREMENT OF FINANCIAL ASSETS**

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

<b>Levels</b>	<b>Description</b>	<b>Type of financial instruments normally classified as such</b>
<b>Level 1</b>	Quoted (unadjusted) prices in active markets for identical assets or liabilities.	<ul style="list-style-type: none"> <li>• Investments in equities<sup>1</sup></li> </ul>
<b>Level 2</b>	Other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.	<ul style="list-style-type: none"> <li>• Cash equivalents</li> <li>• Marketable securities</li> <li>• Investments in equities<sup>2</sup></li> </ul>
<b>Level 3</b>	Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.	<ul style="list-style-type: none"> <li>• Investments in equities<sup>3</sup></li> <li>• Investments in funds</li> <li>• Loans and receivables<sup>4</sup></li> <li>• Derivatives</li> </ul>

<sup>1</sup> Publicly-traded equities in active markets

<sup>2</sup> Publicly-traded equities in inactive markets

<sup>3</sup> Privately-held equities

<sup>4</sup> Initially measured at fair value and subsequently measured at amortized cost using the effective interest method

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

### Fair value hierarchy

As at	September 30, 2017	Level 1	Level 2	Level 3
	\$	\$	\$	\$
<b>Recurring fair value measurements</b>				
Marketable securities	254,248	—	254,248	—
AFS equity investments	19,758	10,273	6,978	2,507
AFS fund investments	48,645	—	—	48,645
Derivatives	1,598	—	—	1,598
<b>Total</b>	<b>324,249</b>	<b>10,273</b>	<b>261,226</b>	<b>52,750</b>

There were no transfers between levels of the fair value hierarchy for the three and nine-month periods ended September 30, 2017.

### 10. INVESTMENT IN ASSOCIATE

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

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

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

As at	September 30, 2017
	\$
<b>Carrying value, beginning of the year</b>	<b>80,113</b>
Share of net income for the period before adjustments	5,091
Amortization of fair value adjustments	(4,578)
<b>Share of net income for the nine-month period</b>	<b>513</b>
<b>Dividends [i]</b>	<b>(4,984)</b>
<b>Carrying value, end of the period</b>	<b>75,642</b>

[i] Medison's board of directors declared and approved dividends of \$2,525 [ILS7,068] in February 2017 and \$2,459 [ILS7,068] in August 2017.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

### 11. SHAREHOLDERS' EQUITY

#### [i] Share Capital

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

	Number of common shares	\$
<b>Balance as at January 1, 2017</b>	<b>142,713,489</b>	<b>760,447</b>
Issuance under share option plan	41,667	513
Issuance under share purchase plan	17,649	167
<b>Balance at September 30, 2017</b>	<b>142,772,805</b>	<b>761,127</b>

#### [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 \$762 and \$2,626 (2016: \$765 and \$12,648) for the three and nine-month periods ended September 30, 2017 with corresponding credits to contributed surplus related to the issuance of stock options. The Company determined the weighted average fair value of the options to be \$4.07 (2016: \$4.01) under the Black-Scholes option pricing model using the following assumptions:

	Nine months ended September 30	
	2017	2016
Weighted average risk-free interest rate	1.45%	1.43%
Dividend yield	Nil	Nil
Weighted average volatility factor [i]	52.9%	54.8%
Annualized forfeiture rate	2.6%	2.3%
Weighted average expected life	7.3 years	7.3 years

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

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

	Nine months ended September 30			
	2017		2016	
	Number of share options #	Weighted average exercise price \$	Number of share options #	Weighted average exercise price \$
<b>Balance beginning of the period</b>	<b>3,147,111</b>	<b>7.14</b>	2,815,483	6.89
Options granted	<b>530,554</b>	<b>10.08</b>	323,043	9.23
Options exercised	<b>(41,667)</b>	<b>8.27</b>	—	—
Options expired/forfeited	<b>(7,793)</b>	<b>9.08</b>	(5,000)	5.65
<b>Balance at end of the period</b>	<b>3,628,205</b>	<b>7.55</b>	3,133,526	7.13
<b>Options exercisable at end of period</b>	<b>2,343,066</b>	<b>6.73</b>	1,319,053	6.34

### 12. ACCUMULATED OTHER COMPREHENSIVE INCOME

As at	September 30, 2017	December 31, 2016
	\$	\$
Net realized gains reclassified to statement of income, net of tax of \$1,912 (\$1,592 as at December 31, 2016)	<b>(13,195)</b>	(10,246)
Net unrealized gains in available-for-sale investments, net of tax of \$1,200 (\$1,879 as at December 31, 2016)	<b>18,174</b>	14,997
Unrealized gain on translation of foreign operations	<b>12,972</b>	25,680
	<b>17,951</b>	30,431

### 13. EARNINGS PER SHARE

#### Basic

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

As at	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Net income	<b>3,593</b>	5,698	<b>10,099</b>	10,621
Weighted average shares outstanding	<b>142,766,634</b>	132,668,637	<b>142,749,348</b>	116,334,998
<b>Basic earnings per share</b>	<b>\$0.03</b>	\$0.04	<b>\$0.07</b>	\$0.09

#### 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.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

As at	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Net income	3,593	5,698	10,099	10,621
Weighted average shares outstanding	142,766,634	132,668,637	142,749,348	116,334,998
Adjustment for warrants and share options	583,425	530,192	719,820	411,095
Weighted average shares outstanding	143,350,059	133,198,829	143,469,168	116,746,093
<b>Diluted earnings per share</b>	<b>\$0.03</b>	<b>\$0.04</b>	<b>\$0.07</b>	<b>\$0.09</b>

### 14. SEGMENT REPORTING

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

### 15. 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 five major categories: operating lease, fund commitments, milestones and purchase commitments, equity and loan commitments and other commitments. The commitments of the Company as at September 30, 2017 are as follows:

#### [i] Operating Lease

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

	\$
2017	9
2018	191
2019	175
2020	175
2021	175
Thereafter	117
	<b>842</b>

#### [ii] Fund commitments

As at September 30, 2017, under the terms of Company's agreements with life sciences venture capital funds, \$89,325 (2016: \$103,096), including \$30,346 [US\$24,316] and \$18,918 [€12,833], may be called over the life of the funds (based on the closing foreign exchange rates).

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

### [iii] Milestones and purchase commitments

Under certain agreements, Knight may have to pay additional consideration should the Company achieve certain sales volumes or if certain milestones are met, such as regulatory approval in Canada. The Company may have to pay up to \$35,625 including \$24,211 [US\$19,400] and \$663 [€450] upon achieving certain sales volumes, regulatory or other milestones related to specific products.

In addition, Knight has a commitment to purchase up to \$1,088 [€738] of inventory for a pharmaceutical product during the five-year period after its commercial launch.

### [iv] Equity and loan commitments

Subject to a loan agreement with one of its borrowers, Knight has committed up to a maximum of \$3,120 [US\$2,500] to participate in the initial public offering of the borrower. In addition, Knight committed to invest up to \$2,496 [US\$2,000] towards the purchase of common shares of Synergy if it meets certain fundraising targets in 2017.

Subject to a loan agreement with one of its borrowers, Knight has committed to loan up to an additional \$794 [US\$636] should the borrower meet certain conditions.

### [v] Other commitments

As at September 30, 2017 the Company is committed to pay \$107 [US\$86] within the year towards a real property.

## 16. STATEMENT OF CASH FLOWS

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

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>Decrease (increase) in</b>				
Trade and other receivables	(2)	(1,253)	(1,160)	(2,764)
Inventories	186	48	137	675
Other financial assets	(256)	(227)	(586)	375
Income taxes receivable	3,008	(3,091)	2,235	(3,006)
<b>Increase in</b>				
Accounts payable and accrued liabilities	1,023	565	939	1,012
Income taxes payable	391	843	1,349	1,556
	<b>4,350</b>	<b>(3,115)</b>	<b>2,914</b>	<b>(2,152)</b>

## 17. RELATED PARTY TRANSACTIONS

Pharmascience Inc., a company related to the Company's CEO, provided administrative services of approximately \$12 to the Company for the nine-month period ended September 30, 2017.

Furthermore, in January 2017, the Company entered into an agreement with its associate resulting in the recognition of a derivative. As at September 30, 2017, the derivative was valued at \$11 [US\$9]. The Company recorded a loss of \$284 [US\$227] and a net gain of \$11 [US\$9] on this derivative in the statement of income in net (gain) loss on financial

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

assets for the three and nine-month periods ended September 30, 2017. As part of this transaction, the Company has advanced \$733 [ILS1,968] to its associate, recorded in trade and other receivables.

### 18. SUBSEQUENT EVENTS

#### **[i] 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. As at November 8, 2017, Knight owns an aggregate of 2,079,973 common shares of Crescita representing approximately 14.9% of its outstanding common shares.

#### **[ii] Resignation of CFO**

Jeffrey Kadanoff resigned as CFO of the Company effective October 13, 2017 and Knight's Board of Directors approved the following resignation agreement.

##### ***Long term incentive plan: stock options***

Effective October 13, 2017, the Board of Directors approved the accelerated vesting of 105,168 stock options and modified the expiry date of all stock options held by Mr. Kadanoff to June 1, 2020. As at October 13, 2017, Mr. Kadanoff holds 321,835 vested stock options with exercise prices ranging from \$5.65 to \$10.10.

##### ***Short term incentive plan: annual bonus***

A bonus of up to \$45, calculated based on the number of days Mr. Kadanoff was employed with the Company in 2017, is payable subject to the approval by the Board of Directors in 2018.

##### ***Employee share purchase plan***

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

##### ***Share purchase loans***

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

#### **[iii] Forbion distribution**

On November 8, 2017, Knight received a distribution of \$3,168 [EUR2,144] from Forbion upon close of the acquisition of Rigontec.

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

**Transfer Agent**  
AST Trust Company  
2001, boul. Robert-Bourassa, Bureau 1600  
Montreal, Quebec H3A 2A6  
T: 1 (800) 387-0825

**Investor Relations**  
Samira Sakhia  
President and Chief Financial Officer  
T: (514) 484-4483  
E-mail: [info@gudknight.com](mailto:info@gudknight.com)

**Head Office and Registered Office**  
Knight Therapeutics Inc.  
3400 De Maisonneuve W., Suite 1055  
Montreal, Quebec H3Z 3B8  
T: (514) 484-4483  
F. (514) 481-4116

