



**KNIGHT THERAPEUTICS INC.**

**Management's Discussion and Analysis  
For the quarter ended September 30, 2017**

## **KNIGHT THERAPEUTICS INC.**

### **Management's Discussion and Analysis for the quarter ended September 30, 2017**

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

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The following is Management's Discussion and Analysis of the financial condition and operating results of Knight Therapeutics Inc. ("Knight" or the "Company") for the three and nine months ended September 30, 2017. This document should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto for the three and nine months ended September 30, 2017 and the audited consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in our annual report for the year ended December 31, 2016. Knight's unaudited interim condensed consolidated financial statements as at and for the three and nine months ended September 30, 2017 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". All amounts herein are expressed in thousands of Canadian dollars (unless otherwise indicated) except for share and per share amounts. All other currencies are in thousands.

This discussion and analysis was prepared by management from information available as at November 8, 2017. Further information about Knight Therapeutics Inc., including the Annual Information Form, is available online on SEDAR at [www.sedar.com](http://www.sedar.com).

## KNIGHT THERAPEUTICS INC.

### Management's Discussion and Analysis for the quarter ended September 30, 2017

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**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, 2016 found on SEDAR at [www.sedar.com](http://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**

<b>Calendar</b>	
<b>Abbreviation</b>	<b>Description</b>
YTD	Year to date
Q3-17	Third quarter of 2017
Q2-17	Second quarter of 2017
Q1-17	First quarter of 2017
Q4-16	Fourth quarter of 2016
Q3-16	Third quarter of 2016
Q2-16	Second quarter of 2016
Q1-16	First quarter of 2016
Q4-15	Fourth quarter of 2015

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

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<b>Financial</b>	
<b>Abbreviation</b>	<b>Description</b>
AFS	Available for sale
C\$	Canadian Dollar
COGS	Cost of goods sold
DC&P	Disclosure Controls and Procedures
EPS	Earnings per share to common shareholders
EUR	Euro
FMV	Fair market value
ICFR	Internal control over financial reporting
IFRS	International Financial Reporting Standards
ILS	New Israeli Shekels
US\$	U.S. Dollar

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

<b>Other</b>	
<b>Abbreviation</b>	<b>Description</b>
Interim financial statements	Unaudited interim condensed consolidated financial statements
NDS	New Drug Submission
OIC	Opioid-induced constipation
PMPRB	Patented Medicine Prices Review Board

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## **OVERVIEW**

### **Section 1 – About Knight Therapeutics**

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

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

### **Section 2 – Q3-17 Highlights**

#### **Financial Results**

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- Revenues were \$1,860, a decrease of \$32 or 2% over the same period in prior year.
- Net income was \$3,593, a decrease of \$2,105 or 37% over the same period in prior year.
- Cash flows from operations at \$10,736, an increase of \$6,348 or 145% over the same period in prior year.

#### **Strategic Lending**

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- Issued an additional loan of \$12,705 [US\$10,000] to Synergy.
- Issued additional loans of \$3,138 [US\$2,504] to 60P.
- Amended loan with Crescita resulting in an early repayment of \$2,488.
- Received additional 286,955 common shares of Medimetriks valued at \$686 [US\$565].

#### **Strategic Investments**

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- Realized gain of \$1,457 on disposal of common shares of Merus upon the close of its acquisition by Norgine B.V.
- Received dividends of \$2,459 [ILS7,068] from Medison.
- Received distributions of \$1,063 [EUR723] from a strategic fund investment and realized a gain of \$276 [EUR187].
- Recorded an unrealized gain of \$3,049 [EUR2,070] on Forbion upon announcement of Merck to acquire Rigontec.

#### **Subsequent Events**

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- Received 566,471 common shares of Crescita pursuant to a share transfer agreement.
- Accepted the resignation of Jeffrey Kadanoff and appointed Samira Sakhia as CFO.
- Received a distribution of \$3,168 [EUR2,144] from Forbion upon close of the acquisition of Rigontec.

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**FINANCIAL RESULTS**

**Section 3 – Results of Operations**

	Q3-17	Q3-16	Change		YTD-17	YTD-16	Change	
			\$ <sup>1</sup>	% <sup>2</sup>			\$ <sup>1</sup>	% <sup>2</sup>
Revenues	1,860	1,892	(32)	2%	6,090	4,095	1,995	49%
Cost of goods sold	337	296	(41)	14%	1,097	1,077	(20)	2%
<b>Gross margin</b>	<b>1,523</b>	<b>1,596</b>	<b>(73)</b>	<b>5%</b>	<b>4,993</b>	<b>3,018</b>	<b>1,975</b>	<b>65%</b>
<i>Gross margin (%)</i>	<i>82%</i>	<i>84%</i>	<i>(2%)</i>	<i>2%</i>	<i>82%</i>	<i>74%</i>	<i>8%</i>	<i>11%</i>
<b>Expenses</b>								
Selling and marketing	834	94	(740)	787%	2,247	262	(1,985)	758%
General and administrative	2,147	2,358	211	9%	6,944	6,592	(352)	5%
Research and development	586	436	(150)	34%	1,869	1,243	(626)	50%
	<b>(2,044)</b>	<b>(1,292)</b>	<b>(752)</b>	<b>58%</b>	<b>(6,067)</b>	<b>(5,079)</b>	<b>(988)</b>	<b>19%</b>
Depreciation of property and equipment	—	—	—	0%	—	18	18	100%
Amortization of intangible assets	539	100	(439)	439%	1,185	263	(922)	351%
Interest income	(6,959)	(7,375)	(416)	6%	(18,517)	(18,315)	202	1%
Other income	(871)	(2,081)	(1,210)	58%	(1,513)	(3,534)	(2,021)	57%
Net (gain) loss on financial assets	(1,317)	2,914	4,231	145%	(3,636)	402	4,038	1004%
Share of net income of associate	(98)	(1,096)	(998)	91%	(513)	(2,755)	(2,242)	81%
Foreign exchange loss (gain)	2,695	(1,132)	(3,827)	338%	4,244	2,995	(1,249)	42%
<b>Income before income taxes</b>	<b>3,967</b>	<b>7,378</b>	<b>(3,411)</b>	<b>46%</b>	<b>12,683</b>	<b>15,847</b>	<b>(3,164)</b>	<b>20%</b>
<b>Income tax expense (recovery)</b>								
Current	490	1,288	798	62%	1,598	4,407	2,809	64%
Deferred	(116)	392	508	130%	986	819	(167)	20%
<b>Net income for the period</b>	<b>3,593</b>	<b>5,698</b>	<b>(2,105)</b>	<b>37%</b>	<b>10,099</b>	<b>10,621</b>	<b>(522)</b>	<b>5%</b>
<b>Attributable to shareholders of the Company</b>								
Basic EPS	0.03	0.04	(0.01)	25%	0.07	0.09	(0.02)	22%
Diluted EPS	0.03	0.04	(0.01)	25%	0.07	0.09	(0.02)	22%

<sup>1</sup> A positive variance represents a positive impact to net income and a negative variance represents a negative impact to net income

<sup>2</sup> Percentage change is presented in absolute values

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	Q3-17 vs Q3-16	YTD-17 vs YTD-16
<b>Revenues</b>	<ul style="list-style-type: none"> <li>No significant variance.</li> </ul>	<p>Increase is mainly attributable to:</p> <ul style="list-style-type: none"> <li>Full recognition of Impavido® revenues post termination of the distribution and sale agreement with Paladin, and the U.S. commercial launch, both in March 2016.</li> <li>Recognition of Movantik® revenues as of December 15<sup>th</sup>, 2016, upon in-license from AstraZeneca.</li> </ul>
<b>Gross Margin</b>	<ul style="list-style-type: none"> <li>No significant variance.</li> </ul>	<ul style="list-style-type: none"> <li>Increase in gross margin (\$) mainly attributable to increase in revenues.</li> <li>Increase in gross margin (%) mainly attributable to higher COGS in YTD-16 due to inventory provisions recorded.</li> </ul>
<b>Selling and marketing</b>	<ul style="list-style-type: none"> <li>Increase due to commercial activities including sales force promotion of Movantik®.</li> </ul>	
<b>General and administrative</b>	<ul style="list-style-type: none"> <li>No significant variance.</li> </ul>	<ul style="list-style-type: none"> <li>Increase explained by growth in the number of employees as the Company prepares to launch additional products in Canada.</li> </ul>
<b>Research and development expenses</b>	<ul style="list-style-type: none"> <li>Increase due to growth of the Company's scientific affairs department and the submission of Probuphine™ for regulatory approval by Health Canada.</li> </ul>	
<b>Interest income</b>	<ul style="list-style-type: none"> <li>Derived primarily from interest earned on loans, cash and cash equivalents, marketable securities and accretion on loans receivable.</li> <li>Total interest income of \$6,959 includes accretion of \$1,197 (2016: \$2,129).</li> </ul> <p><b>Interest Income</b></p> <ul style="list-style-type: none"> <li>Interest income (excluding accretion) for Q3-17 was \$5,762, a decrease of 2% or \$126 compared to prior year.</li> </ul>	<ul style="list-style-type: none"> <li>Total interest income of \$18,517 includes accretion of \$3,381 (2016: \$4,975).</li> </ul> <p><b>Interest Income</b></p> <ul style="list-style-type: none"> <li>Interest income (excluding accretion) for YTD-17 was \$15,136, a decrease of 2% or \$333 compared to prior year.</li> </ul>
<b>Other income<sup>1</sup></b>	<ul style="list-style-type: none"> <li>In 2017, other income was primarily driven by the value of additional shares of Medimetriks received. Refer to Section 9 for further information.</li> <li>In 2016, other income was primarily driven by the value of additional shares of Intega received prior to the close of the acquisition of Intega by Crescita.</li> </ul>	
<b>Net (gain) loss on financial assets<sup>2</sup></b>	<ul style="list-style-type: none"> <li>Net gain driven by realized gain of \$1,457 upon the disposal of common shares of Merus and a realized gain of \$276 on distributions of a strategic fund, offset by fair value revaluation of derivatives.</li> </ul>	<ul style="list-style-type: none"> <li>Net gain due to realized gains on the sale of equities, gains on distributions of strategic funds and recognition of derivatives.</li> </ul>
<b>Share of income of associate</b>	<ul style="list-style-type: none"> <li>Decrease due to decline in Medison's net income as a result of increased promotion expenses related to new product launches and an increase in the amortization expense related to fair value adjustments on intangibles recorded by Knight.</li> </ul>	
<b>Foreign exchange loss (gain)</b>	<ul style="list-style-type: none"> <li>Explained by relative losses on certain U.S. dollar denominated financial assets as Canadian dollar strengthened.</li> </ul>	
<b>Income tax expense</b>	<ul style="list-style-type: none"> <li>Decrease due to lower activity in 2017.</li> </ul>	

<sup>1</sup> Other income includes income earned for advisory and other services, gains from early loan repayments and income from strategic lending deals

<sup>2</sup> Net gain or loss on financial assets includes unrealized gains and losses on revaluation of derivatives and realized gains and losses on equities, derivatives and distributions from funds

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**FINANCIAL CONDITION**

**Section 4 – Balance Sheet**

	September 30, 2017	December 31, 2016	Change	
			\$	% <sup>1</sup>
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents	506,839	514,942	(8,103)	2%
Marketable securities	218,248	221,108	(2,860)	1%
Trade and other receivables	8,123	6,440	1,683	26%
Inventories	653	790	(137)	17%
Other current financial assets	30,960	51,789	(20,829)	40%
Income taxes receivable	2,448	4,683	(2,235)	48%
<b>Total current assets</b>	<b>767,271</b>	<b>799,752</b>	<b>(32,481)</b>	<b>4%</b>
Marketable securities	36,000	—	36,000	100%
Property and equipment	60	32	28	88%
Intangible assets	12,713	14,153	(1,440)	10%
Other financial assets	95,725	90,643	5,082	6%
Investment in associate	75,642	80,113	(4,471)	6%
Deferred income tax assets	6,056	6,077	(21)	0%
<b>Total assets</b>	<b>993,467</b>	<b>990,770</b>	<b>2,697</b>	<b>0%</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current</b>				
Accounts payable and accrued liabilities	4,146	3,207	939	29%
Income taxes payable	7,008	5,659	1,349	24%
Other balances payable	587	537	50	9%
Deferred other income	250	355	(105)	30%
<b>Total current liabilities</b>	<b>11,991</b>	<b>9,758</b>	<b>2,233</b>	<b>23%</b>
Deferred other income	229	417	(188)	45%
Other balances payable	799	877	(78)	9%
<b>Total liabilities</b>	<b>13,019</b>	<b>11,052</b>	<b>1,967</b>	<b>18%</b>
<b>Shareholders' equity</b>				
Share capital	761,127	760,447	680	0%
Warrants	785	785	—	—
Contributed surplus	11,900	9,469	2,431	26%
Accumulated other comprehensive income	17,951	30,431	(12,480)	41%
Retained earnings	188,685	178,586	10,099	6%
<b>Total shareholders' equity</b>	<b>980,448</b>	<b>979,718</b>	<b>730</b>	<b>0%</b>
<b>Total liabilities and shareholders' equity</b>	<b>993,467</b>	<b>990,770</b>	<b>2,697</b>	<b>0%</b>

<sup>1</sup> Percentage change is presented in absolute values

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September 30, 2017 vs December 31, 2016	
<b>Cash and cash equivalents and marketable securities</b>	<ul style="list-style-type: none"> <li>• Refer to Section 5 – Liquidity and Capital Resources for further information.</li> </ul>
<b>Trade and other receivables</b>	<ul style="list-style-type: none"> <li>• Increase primarily due to an advance made to associate and a distribution receivable from a strategic fund.</li> <li>• Refer to notes 6 and 17 in the Interim financial statements for additional information.</li> </ul>
<b>Inventories</b>	<ul style="list-style-type: none"> <li>• No significant variance.</li> </ul>
<b>Other financial assets (current and long term)</b>	<ul style="list-style-type: none"> <li>• Decrease of \$15,747 driven by: <ul style="list-style-type: none"> <li><b>Funds:</b> increase of \$14,069 due to capital calls of \$15,620 offset by distributions and mark-to-market adjustments of \$1,551. Refer to Section 8 for further information on Knight's strategic investments.</li> <li><b>Loans and other receivables:</b> decrease of \$19,047 mainly due to full repayment of the Apicore and PBB loans, partial repayment of the Crescita loan offset by additional loans to Synergy and 60P. Refer to Section 7 for further information on Knight's strategic lending portfolio.</li> <li><b>Equities, Warrants and Derivatives:</b> decrease of \$10,769 driven by the sale of equities and revaluation of strategic investments in equities, warrants and derivatives. Refer to note 8 in the Interim financial statements for further information.</li> </ul> </li> </ul>
<b>Intangible assets</b>	<ul style="list-style-type: none"> <li>• Decrease due to amortization of intangible assets.</li> </ul>
<b>Investment in associate</b>	<ul style="list-style-type: none"> <li>• Decrease due to dividends paid by Medison offset by Knight's share of net income.</li> <li>• Refer to Section 9 for further information.</li> </ul>
<b>Accounts payable and accrued liabilities</b>	<ul style="list-style-type: none"> <li>• Increase due to timing of purchases and payments.</li> </ul>
<b>Share capital</b>	<ul style="list-style-type: none"> <li>• Refer to note 11 in the Interim financial statements for information.</li> </ul>
<b>Contributed surplus</b>	<ul style="list-style-type: none"> <li>• Increase related to share-based compensation expense offset by exercise of stock options.</li> <li>• Refer to the statement of changes in shareholders' equity in the Interim financial statements for further information.</li> </ul>
<b>Accumulated other comprehensive income</b>	<ul style="list-style-type: none"> <li>• Decrease primarily related to an unrealized loss on translation of foreign operations as the Canadian dollar strengthened.</li> <li>• Refer to the statement of changes in shareholders' equity in the Interim financial statements for further information.</li> </ul>
<b>Retained earnings</b>	<ul style="list-style-type: none"> <li>• Refer to the statement of changes in shareholders' equity in the Interim financial statements for further information.</li> </ul>

## KNIGHT THERAPEUTICS INC.

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#### Section 5 – Liquidity and Capital Resources

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

The Company believes that its existing cash, cash equivalents and marketable securities as well as cash generated from operations are sufficient to finance its current operations, working capital requirements and future product 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.

	Nine months ended September 30	
	2017	2016
Net cash generated by operating activities	18,343	12,005
Net cash used in investing activities	(24,178)	(77,167)
Net cash generated by financing activities	499	218,410
Increase in cash and cash equivalents during the period	(5,336)	153,428
Net foreign exchange difference	(2,767)	(1,327)
Cash and cash equivalents, beginning of the period	514,942	237,481
Cash and cash equivalents, end of the period	506,839	389,402
Marketable securities, end of the period	254,248	255,652
Cash, cash equivalents, and marketable securities, end of the period	761,087	645,054

The company's cash, cash equivalents and marketable securities increased by \$116,033 or 18% to \$761,087 as at September 30, 2017 from \$645,054 as at September 30, 2016.

Cash flows generated by operating activities for the nine-month period ended September 30, 2017 were \$18,343 compared to cash generated in operating activities of \$12,005 for the comparative period last year. Cash flows for operating activities primarily relate to cash generated through revenues and interest received, offset by operating expenses including salaries, research and development expenses, professional fees, and office expenses. Cash flows provided by operating activities exclude revenues and expenses not affecting cash, such as unrealized and realized gains or losses on financial assets, accretion of interest, share based compensation expense, depreciation and amortization, foreign exchange gains or losses, share of net income and dividends from associate, other income, deferred other income, and net changes in non-cash balances relating to operations.

Cash flows used in investing activities were \$24,178 for the nine-month period ended September 30, 2017 due to net investments of marketable securities of \$42,017, net investments in life sciences funds of \$11,432, offset by proceeds from repayments of loan receivables net of loan issuances of \$19,338 and net disposals of equities of \$9,933. For the same period in 2016, cash flows used in investing activities were \$77,167 due to net investments in marketable securities of \$28,038, issuance of loans receivable net of principal repayments of \$30,537, investments in life science funds of \$12,168, purchases of intangibles of \$3,291 and net purchases of equities of \$3,133.

Cash flows generated by financing activities of \$499 for the nine-month period ended September 30, 2017 were due to the participation of employees and directors in the Company's share purchase and option plans. For the same period on 2016, cash flows generated by financing activities of \$218,410 were mainly due to the completion of a bought deal.

## PRODUCT ACQUISITION STRATEGY

### Section 6 – Products

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

#### Prescription Pharmaceutical Products

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

<sup>1</sup> Not yet submitted for approval to Health Canada or other relevant health regulatory entity

## KNIGHT THERAPEUTICS INC.

### Management's Discussion and Analysis for the quarter ended September 30, 2017

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

#### Consumer Health Products

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

#### Medical Devices

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

<sup>1</sup> Not yet submitted for approval to Health Canada or other relevant health regulatory entity

<sup>2</sup> Approved and marketed in Canada only

<sup>3</sup> Select products marketed

### Highlights for the nine months ended September 30, 2017

#### ILUVIEN®

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

#### Movantik®

In December 2016, Knight entered into an agreement with AstraZeneca for the rights to Movantik® in Canada and Israel under which Knight is responsible for all commercial, regulatory and certain supply chain activities. Movantik® is the first once-daily oral peripherally-acting mu-opioid receptor antagonist for the treatment of OIC in adult patients with non-cancer pain who have had an inadequate response to laxatives. According to the Canadian Family Physician Practice Guideline, it is estimated that at least 26% of chronic opioid users suffer from OIC. According to IMS data, Movantik® sales in Canada were \$255 and \$634 for the three and nine-month periods ended September 30, 2017 (2016: \$156 and \$389).

#### Probuphine™

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

## KNIGHT THERAPEUTICS INC.

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## Section 7 – Strategic Lending

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

Entity	Nominal loan balance as at September 30, 2017	
	In Source Currency	In Canadian Dollars <sup>1</sup>
Medimetriks	US\$22,250	\$27,768
Synergy	US\$11,813	\$14,743
60P	US\$6,700	\$8,362
Profound	C\$3,714	\$3,714
Crescita	C\$3,636	\$3,636
Pediapharm <sup>2</sup>	C\$1,250	\$1,250
Ember	US\$500	\$624
Antibe	C\$548	\$548
<b>Total</b>		<b>\$60,645</b>

<sup>1</sup> Converted at the Bank of Canada closing exchange rates on September 30, 2017

<sup>2</sup> Pediapharm debenture is held indirectly through the Bloom Burton Healthcare Lending Trust

The following table summarizes the activities of the strategic lending portfolio during 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.

## **KNIGHT THERAPEUTICS INC.**

### **Management's Discussion and Analysis for the quarter ended September 30, 2017**

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

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#### **Highlights for the nine months ended September 30, 2017**

##### ***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 June 30, 2017, Knight issued an additional \$4,945 [US\$3,860] to 60P. Since December 10, 2015, Knight has issued a total of \$8,730 [US\$6,700] to 60P as part of a secured loan agreement. The loan bears interest at 15% per annum and matures on December 31, 2020. As part of the agreement, Knight entered into an exclusive license agreement with an option to develop and commercialize all of 60P's products in Canada, Israel and Russia.

##### ***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 at December 31, 2016, Knight owned 5.4% of the fully diluted common shares of Medimetriks, received as consideration for the loans.

As consideration for the Second Loan, Knight also received a derivative in the form of an equity kicker for an additional 2.7% 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.

During Q3-17, pursuant to its loan agreements with Medimetriks, 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.

##### ***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 funds of the loan will be used for acquisitions and general working capital purposes. Additionally, Knight provided an ongoing credit facility of up to \$24,960 [US\$20,000] to be granted at Knight's sole discretion. As part of the transaction, 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***

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

## KNIGHT THERAPEUTICS INC.

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exercisable at \$2.44 per share and was issued 216,000 warrants exercisable at a price of \$0.75 per share and 180,000 warrants exercisable at a price of \$1.00 per share, in each case for a term of six years.

## Section 8 – Strategic Investments

### Fund Investments

Knight invests in life sciences venture capital funds in which the Company earns a return similar to any other limited partner in the fund and receives preferential access to innovative healthcare products from around the world for Canada and select international markets. Knight has committed to invest with the following capital fund managers for approximately \$125,153 as at September 30, 2017. To date, the investments in venture capital funds have led to the Canadian in-license of Iluvien® from Alimera and a portfolio of products from Advaxis.

The fair value of the AFS funds held by Knight, as at September 30, 2017, is \$48,645.

Entity	Fund Commitments	
	In Source Currency	In Canadian Dollars <sup>1</sup>
Teralys Capital	C\$30,000	\$30,000
Domain Associates LLC	US\$25,000	\$29,063
Forbion Capital Partners	€19,500	\$27,550
Sectoral Asset Management <sup>2</sup>	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
Genesys Capital Management (Fund III) Inc.	C\$1,000	\$1,000
<b>Total</b>		<b>\$125,153</b>

<sup>1</sup> Converted at the Bank of Canada noon exchange rates as of the commitment date (using the September 30, 2017 closing rates total fund commitment would be \$131,648)

<sup>2</sup> 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

In addition to the above equity funds, Knight has invested an aggregate of \$1,500 in debt funds with Bloom Burton Healthcare Lending Trust I and II, managed by Stratigis Capital Advisors Inc.

The following table summarizes the activities of the strategic 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

## **KNIGHT THERAPEUTICS INC.**

### **Management's Discussion and Analysis for the quarter ended September 30, 2017**

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

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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.

#### **Other investments**

##### ***Merus***

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

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

### **Section 9 – Rest of World Strategy**

Knight's international strategy is focused on identifying potential products and companies that fit within its existing business model, but that are located in select areas such as Israel, Australia, Latin America, Romania, Russia, Sub-Saharan Africa, the Caribbean and other countries excluding the U.S. and Western Europe. 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

## KNIGHT THERAPEUTICS INC.

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Company. The net income is adjusted to reflect the amortization of the fair value adjustments related to the Company's share of the net identifiable assets of Medison acquired and their tax impact.

This selected information is derived from our financial statements.

	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15
Carrying value of investment	75,642	78,003	77,907	80,113	80,075	81,393	79,458	81,027
Amortization of FMV adjustments	(1,572)	(1,503)	(1,503)	(1,749)	(1,207)	(1,208)	(1,006)	(1,260)
Share of net income, net of FMV adjustment	98	96	319	38	1,096	805	854	946
Dividends	2,459 <sup>2</sup>	—	2,525 <sup>1</sup>	—	2,414	—	2,423	2,015

<sup>1</sup>Medison's board of directors declared and approved dividends of \$2,525 [ILS7,068] in February 2017

<sup>2</sup>Medison's board of directors declared and approved dividends of \$2,459 [ILS7,068] in August 2017

## RISK MANAGEMENT

### Section 10

#### 10.1 Currency Risk

Knight holds a significant portion of its net financial assets in US\$, EUR and ILS which results in financial risk due to fluctuations in the value of the currencies relative to the Canadian dollar. Assuming that all other variables remain constant, a 5% change in the Canadian dollar against the US\$, EUR and ILS would have resulted in a change in the statement of income and comprehensive income of \$11,451, \$746 and \$670, respectively.

#### 10.2 Equity Price Risk

Equity price risk arises from changes in market prices of the AFS investments and derivatives. The carrying values of investments subject to equity price risk are \$70,001 as at September 30, 2017 (December 31, 2016: \$66,701). The Company monitors its equity investments for impairment on a periodic basis and at least every reporting period. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold. The Company's Board of Directors regularly reviews and approves equity investment decisions.

#### 10.3 Interest Rate Risk

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

#### 10.4 Liquidity Risk

The majority of the Company's financial liabilities are short term in nature. The Company generates sufficient cash from operating activities to fund its operations and fulfil its obligations as they become due. The Company has sufficient funds available through its cash, cash equivalents and marketable securities, should its cash requirements exceed cash generated from operations to cover all financial liability obligations. As at September 30, 2017, there were no restrictions on the flow of these funds nor have any of these funds been committed in any way, except as set out in note 15 of the Interim financial statements.

## KNIGHT THERAPEUTICS INC.

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#### 10.5 Credit Risk

The Company considers its maximum credit risk to be \$111,389 (December 31, 2016: \$116,020) which is the total of the following assets: trade and accounts receivable, interest receivable, loans receivable and investment in funds. The marketable securities and cash equivalent balances are subject to minimal risk of changes in value. They are invested within two large Canadian financial institutions, two Canadian credit unions guaranteed by provincial governments, two foreign affiliates of large Canadian financial institutions and one Israeli financial institution, comprised of thirteen guaranteed investment certificate investments and five term deposits.

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

#### 10.6 Risk Factors

For a detailed discussion of additional risk factors, please refer to the Company's Annual Information Form for the year ended December 31, 2016 on SEDAR at [www.sedar.com](http://www.sedar.com).

## ADDITIONAL INFORMATION

### Section 11 – Selected Quarterly Financial Information

This selected information is derived from our financial statements.

	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15
Revenues	1,860	2,480	1,750	1,845	1,892	1,135	1,068	343
Net income	3,593	459	6,047	7,939	5,698	4,446	477	5,554
EPS								
Basic	0.025	0.003	0.042	0.059	0.043	0.039	0.005	0.054
Diluted	0.025	0.003	0.042	0.059	0.043	0.039	0.005	0.054
Cash, cash equivalents and marketable securities	761,087	761,161	763,778	736,050	645,054	638,423	426,235	471,207
Total assets	993,467	991,980	994,293	990,770	877,904	867,999	638,336	648,988
Total liabilities	13,019	11,800	10,998	11,052	8,305	6,034	5,663	6,926

### Section 12 – Outstanding Share Data

The table below summarizes the share data:

As at	November 8, 2017
Common Shares	142,806,138
Stock Options	3,446,030
Warrants	406,126

**Management's Discussion and Analysis for the quarter ended September 30, 2017**

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

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### **Section 13 – Use of Proceeds from Financing**

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

As at September 30, 2017 Knight had deployed or invested or committed to deploy or invest over \$300,000 for the purposes disclosed in the prospectuses, as described above. Pending the application of the remainder of the net proceeds, Knight has invested part of the net proceeds in short-term investment-grade securities and bank deposits, and holds the remainder in cash. Knight anticipates that it has sufficient funds available to achieve its business objectives and milestones as listed in the prospectuses.

### **Section 14 – Payment of Dividends**

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

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

Certain patented drug products within the Company's portfolio of products are subject to product pricing regulation by the PMPRB. The PMPRB's objective is to ensure that prices of patented products in Canada are not excessive. For new patented products, the price in Canada is limited to either the cost of existing drugs sold in Canada or the median of prices for the same drug sold in other specified industrial countries. Prices for existing patented products cannot increase by more than the Consumer Price Index. The PMPRB monitors compliance through a review of the average transaction price of each patented drug product as reported by the Company over a recurring six-month reporting period.

### **Section 16 – Financial Instruments**

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

Knight has not entered into any currency or other hedging instrument contracts during the period ended September 30, 2017. Refer to note 8 of the Interim financial statements for the quarter ended September 30, 2017 for additional information.

### **Section 17 – Off-balance Sheet Arrangements**

The Company's off-balance sheet arrangements consist of contractual obligations and agreements for development, sales, marketing and distribution rights to innovative drug products. The effect of terminating these arrangements under normal operating circumstances consists of an effective transition of the remaining responsibilities and obligations to the licensor under agreed upon time frames and conditions. Please refer to note 15 of the Interim financial statements for the quarter ended September 30, 2017 for additional information. Other than these contractual obligations and commitments, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future

## KNIGHT THERAPEUTICS INC.

### Management's Discussion and Analysis for the quarter ended September 30, 2017

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

effect on the Company's financial condition, changes in revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

#### Section 18 – Commitments

In the normal course of business, the Company secures development, sales, marketing and distribution rights to innovative drug products requiring royalties or product payments considered normal operating commitments and as such not included herein. The Company has entered into various agreements which include contractual obligations extending beyond the current year. These obligations are classified into 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 November 8, 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	3
2018	191
2019	175
2020	175
2021	175
Thereafter	117
	<b>836</b>

##### [ii] Fund commitments

As at November 8, 2017, under the terms of Company's agreements with life sciences venture capital funds, \$88,021, including \$30,321 [US\$24,296] and \$17,876 [€12,126], may be called over the life of the funds (based on the September 30, 2017 closing foreign exchange rates).

##### [iii] Milestones and purchase commitments

Under certain agreements, Knight may have to pay additional consideration should the Company achieve certain sales volumes or if certain milestones are met, such as regulatory approval in Canada. The Company may have to pay up to \$35,625 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.

## **KNIGHT THERAPEUTICS INC.**

### **Management's Discussion and Analysis for the quarter ended September 30, 2017**

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

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#### **[v] Other commitments**

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

#### **Section 19 – 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 loss (gain) on financial 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.

#### **Section 20 – Segment Reporting**

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

#### **Section 21 – Significant Accounting Estimates and Assumptions**

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

Our significant accounting estimates and assumptions are reported in note 3 of our 2016 audited annual consolidated financial statements.

#### **Section 22 – 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.

**Management's Discussion and Analysis for the quarter ended September 30, 2017**

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

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**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.

**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.

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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.

#### **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 preliminary 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.

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**IFRS 16 - Leases**

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

**Section 23 – 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 24 – Internal Control Over Financial Reporting**

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

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

No significant changes were made to our ongoing ICFR during the third quarter of 2017 that have materially affected, or are reasonably likely to materially affect the Company's ICFR.

**Section 25 – 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.

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#### ***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.