



KNIGHT THERAPEUTICS INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2023

INTERIM CONSOLIDATED BALANCE SHEETS

[In thousands of Canadian dollars]

[Unaudited]

As at	Notes	September 30, 2023	December 31, 2022
ASSETS			
Current			
Cash and cash equivalents	3	77,418	71,679
Marketable securities	4	65,040	85,826
Trade receivables	5	82,222	94,890
Other receivables	6	17,788	12,930
Inventories	7	112,447	92,489
Prepays and deposits		2,567	1,704
Other current financial assets	8, 9	40,487	33,716
Income taxes receivable		3,327	2,385
Total current assets		401,296	395,619
Marketable securities	4	11,357	15,169
Prepays and deposits		1,069	4,355
Right-of-use assets		5,650	5,827
Property, plant and equipment		14,805	16,806
Intangible assets		311,201	338,780
Goodwill		85,883	82,274
Other financial assets	8, 9	117,983	142,847
Deferred income tax assets		17,074	9,310
Other long-term receivables	11	44,831	43,849
		609,853	659,217
Total assets		1,011,149	1,054,836

INTERIM CONSOLIDATED BALANCE SHEETS (continued)

[In thousands of Canadian dollars]

[Unaudited]

As at	Notes	September 30, 2023	December 31, 2022
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		82,782	106,061
Lease liabilities		1,840	2,578
Other liabilities		1,515	5,793
Bank loans	10	25,684	17,674
Income taxes payable		1,882	2,274
Other balances payable		1,374	6,941
Total current liabilities		115,077	141,321
Accounts payable and accrued liabilities		220	2,669
Lease liabilities		4,813	5,050
Bank loans	10	49,680	52,398
Other balances payable		21,721	23,176
Deferred income tax liabilities		4,973	4,365
Total liabilities		196,484	228,979
Shareholders' equity			
Share capital	12 [i]	560,500	599,055
Warrants		117	117
Contributed surplus		25,624	23,664
Accumulated other comprehensive income	13	54,689	41,266
Retained earnings		173,735	161,755
Total shareholders' equity		814,665	825,857
Total liabilities and shareholders' equity		1,011,149	1,054,836

Commitments [note 18]

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS)

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

[Unaudited]		Three months ended September 30,		Nine months ended September 30,	
	Notes	2023	2022	2023	2022
Revenues	15	81,500	72,281	254,002	211,908
Cost of goods sold		41,318	41,880	135,565	110,735
Gross margin		40,182	30,401	118,437	101,173
Expenses					
Selling and marketing		11,924	13,456	35,463	34,072
General and administrative		11,080	10,416	29,305	29,814
Research and development		4,768	4,220	13,291	10,615
Amortization of intangible assets		11,480	12,243	33,925	34,586
Impairment of intangible assets		—	2,080	—	2,080
Operating income (loss)		930	(12,014)	6,453	(9,994)
Interest income on financial instruments measured at amortized cost		(2,024)	(1,096)	(6,218)	(2,150)
Other interest income		(1,031)	(1,366)	(3,276)	(4,219)
Interest expense		2,603	1,479	8,398	4,307
Other income		(1,907)	(5,860)	(2,123)	(5,989)
Net (gain) loss on financial instruments measured at fair value through profit or loss	8	(5,562)	5,446	2,346	29,501
Foreign exchange (gain) loss		1,317	(10,787)	6,162	(9,105)
Gain on hyperinflation		(1,364)	(681)	(3,000)	(1,514)
Income (loss) before income taxes		8,898	851	4,164	(20,825)
Income tax					
Current		1,112	1,204	3,251	2,175
Deferred		(1,802)	(1,944)	(6,578)	(8,296)
Income tax recovery		(690)	(740)	(3,327)	(6,121)
Net income (loss) for the period		9,588	1,591	7,491	(14,704)
Basic and diluted net income (loss) per share	14	0.09	0.01	0.07	(0.13)
Weighted average number of common shares outstanding	14				
Basic		106,250,793	114,466,484	108,728,924	115,569,933
Diluted		106,511,761	114,597,655	108,958,045	115,569,933

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,	
	2023	2022	2023	2022
Net income (loss) for the period	9,588	1,591	7,491	(14,704)
Other comprehensive income, net of taxes				
Items that may be reclassified subsequently to net income or loss:				
Unrealized gain on translation of foreign operations	7,293	27,462	13,474	47,222
Items permanently in other comprehensive income or loss:				
Net loss on equity investments at fair value through other comprehensive income net of tax of (\$5) and (\$7) (2022: \$3 and (\$25))	(34)	(99)	(51)	(317)
Other comprehensive income for the period	7,259	27,363	13,423	46,905
Total comprehensive income for the period	16,847	28,954	20,914	32,201

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 (loss)	Retained earnings	Total Shareholders' equity
Balance as at January 1, 2022		628,854	117	21,776	(376)	191,647	842,018
Net loss		—	—	—	—	(14,704)	(14,704)
Other comprehensive income for the period		—	—	—	46,905	—	46,905
Comprehensive income (loss)		—	—	—	46,905	(14,704)	32,201
Share-based compensation expense	12 [ii]	—	—	1,420	—	—	1,420
Issuance under share purchase plan	12 [ii]	262	—	—	—	—	262
Shares purchased under Normal Course Issuer Bid	12 [iii]	(21,351)	—	—	—	(34)	(21,385)
Balance as at September 30, 2022		607,765	117	23,196	46,529	176,909	854,516
Balance as at January 1, 2023		599,055	117	23,664	41,266	161,755	825,857
Net income		—	—	—	—	7,491	7,491
Other comprehensive income for the period		—	—	—	13,423	—	13,423
Comprehensive income		—	—	—	13,423	7,491	20,914
Share-based compensation expense	12 [ii]	—	—	1,960	—	—	1,960
Issuance under share purchase plan	12 [ii]	330	—	—	—	—	330
Shares purchased under Normal Course Issuer Bid	12 [iii]	(38,885)	—	—	—	4,489	(34,396)
Balance as at September 30, 2023		560,500	117	25,624	54,689	173,735	814,665

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,	
		2023	2022	2023	2022
OPERATING ACTIVITIES					
Net income (loss) for the period		9,588	1,591	7,491	(14,704)
Adjustments reconciling net income (loss) to operating cash flows:					
Deferred income tax recovery		(1,802)	(1,944)	(6,578)	(8,296)
Share-based compensation expense	12 [ii]	349	274	1,960	1,492
Depreciation and amortization		13,698	15,268	38,939	42,427
Impairment of intangible assets		—	2,080	—	2,080
Net (gain) loss on financial instruments	8	(5,562)	5,446	2,346	29,501
Interest expense		2,603	1,479	8,398	4,307
Accrued interest income		1,272	(1,083)	186	(1,047)
Unrealized foreign exchange (gain) loss		3,619	(8,104)	1,557	(7,435)
Gain on hyperinflation		(1,364)	(681)	(3,000)	(1,514)
		22,401	14,326	51,299	46,811
Changes in non-cash working capital and other items	16	(7,235)	(2,534)	(33,303)	(8,449)
Cash inflow from operating activities		15,166	11,792	17,996	38,362
INVESTING ACTIVITIES					
Purchase of marketable securities		(52,118)	(21,412)	(237,668)	(80,647)
Purchase of intangible assets		(60)	(74)	(7,727)	(18,524)
Purchase of property and equipment		(227)	(563)	(509)	(639)
Investment in funds	8 [iv]	(1,006)	(2,847)	(1,176)	(3,300)
Proceeds on maturity of marketable securities		81,204	21,370	262,372	101,240
Proceeds from repayments of loans receivable	8 [i]	7,417	—	12,774	407
Proceeds from disposal of equity investments	8 [iii]	—	—	2,347	—
Proceeds from distribution of funds	8 [iv]	546	230	829	3,408
Cash inflow (outflow) from investing activities		35,756	(3,296)	31,242	1,945
FINANCING ACTIVITIES					
Proceeds from contributions to share purchase plan	12	88	65	285	228
Proceeds from bank loans		2,706	—	4,796	422
Repurchase of common shares through Normal Course Issuer Bid	12 [iii]	(9,833)	(4,463)	(34,396)	(21,385)
Principal repayment of lease liabilities		(779)	(625)	(2,146)	(1,914)
Principal repayments on bank loans		(2,571)	(56)	(8,580)	(5,447)
Interest paid on bank loans		(850)	(510)	(5,263)	(2,633)
Cash outflow from financing activities		(11,239)	(5,589)	(45,304)	(30,729)
Increase in cash and cash equivalents during the period		39,683	2,907	3,934	9,578
Cash and cash equivalents, beginning of the period		37,844	93,119	71,679	85,963
Net foreign exchange difference		(109)	5,796	1,805	6,281
Cash and cash equivalents, end of the period		77,418	101,822	77,418	101,822
Supplemental cash flow information:					
Interest received		4,327	1,379	9,680	5,322
Interest paid		(850)	(510)	(5,263)	(2,633)
Net income taxes paid		(934)	(1,104)	(4,034)	(6,327)

See accompanying notes

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

GLOSSARY OF ABBREVIATIONS

Abbreviation	Company
Crescita	Crescita Therapeutics Inc.
Knight or the Company	Knight Therapeutics Inc.
Moksha8	Moksha8, Inc.
Synergy	Synergy CHC Corp.

Abbreviation	Currency
ARS	Argentine Peso
BRL	Brazilian Real
C\$ or \$ or CAD	Canadian Dollar
CHF	Swiss Franc
CLP	Chilean Peso
COP	Colombian Peso
EUR	Euro
MXN	Mexican Peso
US\$/USD	U.S. Dollar

Abbreviation	Other
Annual Financial Statements	Audited annual consolidated financial statements
AOCI	Accumulated other comprehensive income
CDI	Certificados de Depósitos Interfinanceiros (Brazil interbank lending rate)
CEO	Chief Executive Officer
CGU	Cash Generating Unit
CRA	Canada Revenue Agency
DSU	Deferred share units
ECL	Expected credit loss
FA	Financial Assets
FDA	Food and Drug Administration (United States)
FV	Fair value
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
G&A	General and administrative
GIC	Guaranteed Investment Certificate
IBR	Incremental borrowing rate
IFC Loan	Five-year secured loan denominated in select LATAM currencies received from International Finance
IFRS	International Financial Reporting Standards
LATAM	Latin America
NCIB	Normal Course Issuer Bid
PRV	Priority Review Voucher
PSU	Performance share units
RE	Retained earnings
RSU	Restricted share units
WAFV	Weighted average fair value

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. NATURE OF OPERATIONS

Description of business

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of presentation

These interim condensed consolidated financial statements for the three and nine-month periods ended September 30, 2023 have been prepared in accordance with International 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 accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those set out in note 2 "Summary of significant accounting policies" of the Company's annual consolidated financial statements for the year ended December 31, 2022.

These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2022.

The Company's interim condensed consolidated financial statements for the three and nine-month periods ended September 30, 2023 and 2022 were authorized for issue by the Board of Directors on November 8, 2023.

External Environment and Inflation Risk

The current global macroeconomic environment is characterized by elevated levels of inflation due to several external factors including global supply chain constrains, ongoing conflicts between Ukraine and Russia, as well as in the Middle East and volatile global financial and economic conditions. Despite the reduction in inflation in the most recent months in response to aggressive monetary tightening policies implemented by central banks around the world, the Company continues to experience increased inflationary pressures, across all Knight's geographies, on operating expenses including but not limited to compensation costs, raw material and product costs driven by rising costs of our partners and suppliers in both developed and developing markets. Such increase in costs cannot be matched to the same extent by increase in our product prices due to local pricing regulations and competitive pressure for certain of our products. There is no assurance that continued inflation pressures will not have similar impacts on Knight's future operations.

3. CASH AND CASH EQUIVALENTS

As at	September 30, 2023 \$	December 31, 2022 \$
Cash in bank	61,149	71,377
Cash equivalents	16,269	302
Total	77,418	71,679

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

4. MARKETABLE SECURITIES

As at	September 30, 2023 \$	December 31, 2022 \$
Current		
GICs earning interest rates ranging from 5.50% to 5.60% and maturing from February 2024 to July 2024 (December 31, 2022: 4.20% to 5.72%, January 2023 to November 2023)	15,128	45,900
GICs of US\$36,917 earning interest rates ranging from 5.68% to 6.06% and maturing from October 2023 to May 2024 (December 31, 2022: US\$29,478 earning interest rates from 4.56% to 4.80% and maturing from January 2023 to November 2023)	49,912	39,926
Total current	65,040	85,826
Non-current		
GICs of US\$8,400 earning interest rates ranging from 5.55% to 5.65% and maturing from November 2024 to November 2025 (December 31, 2022: GICs earning interest rates ranging from 5.55% to 5.68% maturing from May 2024 to November 2025)	11,357	15,169
Total non-current	11,357	15,169
Total	76,397	100,995

Current marketable securities of \$7,571 [US\$5,600] and non-current marketable securities of \$11,357 [US\$8,400] (December 31, 2022: \$3,792 [US\$2,800] and \$15,169 [US\$11,200], respectively) are pledged as restricted cash collateral under the IFC Loan. Refer to Note 10 for further details.

5. TRADE RECEIVABLES

The Company maintains an allowance for ECL that represents its estimate of uncollectible amounts based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the customers and the economic environment. During the three and nine-month periods ended September 30, 2023, the Company has recorded an additional ECL of \$96 and \$722, respectively (2022: additional ECL of \$164 and \$609, respectively), in the consolidated statement of income (loss) in "Selling and marketing".

6. OTHER RECEIVABLES

As at	September 30, 2023 \$	December 31, 2022 \$
Interest receivable	4,323	4,510
Other receivables ¹	10,378	5,605
Sales and other taxes receivable	3,087	2,815
Total	17,788	12,930

¹ Includes distribution receivable from strategic funds investments of \$3,541 (2022: \$2,500).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

7. INVENTORIES

As at	September 30, 2023	December 31, 2022
	\$	\$
Raw materials	11,601	10,789
Work in progress	3,030	2,478
Finished goods	97,816	79,222
Total	112,447	92,489

During the three and nine-month periods ended September 30, 2023, the Company recorded inventory write-down of \$864 and \$1,692, respectively (2022: \$236 and \$1,098, respectively), in the consolidated statement of income (loss) in “Cost of goods sold”.

8. OTHER FINANCIAL ASSETS

As at	September 30, 2023	December 31, 2022
	\$	\$
Loans and other receivables [i]		
Measured at amortized cost	7,083	9,187
Measured at FVTPL	18,555	28,904
Equity Investments [ii]		
Measured at FVTPL	5,270	2,680
Measured at FVOCI	1,219	1,277
Derivatives [iii]		
Measured at FVTPL	12,110	2,111
Fund Investments [iv]		
Measured at FVTPL	114,233	132,404
Total	158,470	176,563

As a result of changes in fair value and the disposal of financial assets, the Company recorded the following net (gain) loss on financial instruments in the consolidated statement of income (loss) as “Net (gain) loss on financial instruments measured at fair value through profit or loss”:

2023	Three months ended September 30			Nine months ended September 30		
	Unrealized (gain) loss on FA measured at FVTPL	Realized (gain) loss on FA measured at FVTPL	Total	Unrealized (gain) loss on FA measured at FVTPL	Realized (gain) loss on FA measured at FVTPL	Total
	\$	\$	\$	\$	\$	\$
For the period ended September 30, 2023						
Loans and other receivables [i]	(188)	—	(188)	(415)	—	(415)
Equity Investments [ii]	(2,817)	—	(2,817)	(2,598)	—	(2,598)
Derivatives [iii]	(9,889)	—	(9,889)	(10,002)	—	(10,002)
Fund Investments [iv]	8,689	(1,357)	7,332	16,718	(1,357)	15,361
Total	(4,205)	(1,357)	(5,562)	3,703	(1,357)	2,346

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

2022	Three months ended September 30			Nine months ended September 30		
	Unrealized (gain) loss on FA measured at FVTPL	Realized (gain) loss on FA measured at FVTPL	Total	Unrealized (gain) loss on FA measured at FVTPL	Realized (gain) loss on FA measured at FVTPL	Total
For the period ended September 30, 2022	\$	\$	\$	\$	\$	\$
Loans and other receivables [i]	(473)	—	(473)	(58)	—	(58)
Equity Investments [ii]	(151)	—	(151)	(147)	—	(147)
Derivatives [iii]	(98)	—	(98)	(64)	82	18
Fund Investments [iv]	6,168	—	6,168	32,213	(2,525)	29,688
Total	5,446	—	5,446	31,944	(2,443)	29,501

[i] Loans and other receivables

As at September 30, 2023, the nominal loan balance outstanding was \$20,924 [US\$15,477] (December 31, 2022: \$38,701 [US\$28,574]). The following table summarizes the movement in loans and other receivables during the nine-month period ended September 30.

	Carrying value as at January 1 \$	Additions ² \$	Loan repayments \$	Net gain (loss) on FA \$	Foreign exchange ¹ \$	Carrying value end of period \$	Current other financial assets \$	Non- current other financial assets \$
2023								
Amortized Cost	9,187	—	(2,086)	—	(18)	7,083	3,333	3,750
FVTPL	28,904	—	(10,688)	415	(76)	18,555	18,555	—
Total	38,091	—	(12,774)	415	(94)	25,638	21,888	3,750
2022								
Amortized Cost	6,272	3,130	(407)	—	304	9,299	5,497	3,802
FVTPL	26,796	—	—	58	1,984	28,838	8,122	20,716
Total	33,068	3,130	(407)	58	2,288	38,137	13,619	24,518

¹ During the three and nine-month periods ended September 30, 2023, the Company recorded a gain of \$414 and a loss of \$54, respectively, in the consolidated statement of income (loss) in "Foreign exchange (gain) loss" (2022: gain of \$1,329 and \$1,624, respectively) and a gain of \$214 and loss of \$40, respectively, in the consolidated statement of comprehensive income in "Unrealized gain on translation of foreign operations" (2022: gain of \$530 and \$664, respectively).

² Includes a reclassification of \$1,348 to "Other Receivables"

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

[ii] Equity investments

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

	Carrying value as at January 1	Additions	Disposals	Net gain (loss) on FA	Foreign exchange	Carrying value end of period	Current other financial assets	Non- current other financial assets
	\$	\$	\$	\$	\$	\$	\$	\$
2023								
FVTPL	2,680	—	—	2,598	(8)	5,270	5,270	—
FVOCI	1,277	—	—	(58)	—	1,219	1,219	—
Total	3,957	—	—	2,540	(8)	6,489	6,489	—
2022								
FVTPL	1,824	—	—	147	1	1,972	1,972	—
FVOCI	4,876	—	(1,550)	(343)	153	3,136	1,180	1,956
Total	6,700	—	(1,550)	(196)	154	5,108	3,152	1,956

Equity investments measured at FVOCI

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

As at	September 30, 2023		December 31, 2022	
	Number of common shares owned	FV \$	Number of common shares owned	FV \$
Crescita	1,935,489	1,219	1,935,489	1,277
Synergy ¹	17,645,812	—	17,645,812	—
Total		1,219		1,277

¹ Valued using the quoted market price (closing share price on the OTCXD) less the day 1 gain on initial measurement that the Company deferred. FV before considering the deferred day 1 gain is \$239 [US\$176] (December 31, 2022: \$112 [US\$83])

[iii] Derivatives

The following table summarizes the movement in derivatives recorded at FVTPL during the nine-month period ended September 30.

	Carrying value as at January 1	Additions	Disposals	Net gain (loss) on FA	Foreign exchange	Carrying value end of period	Current other financial assets	Non-current other financial assets
	\$	\$	\$	\$	\$	\$	\$	\$
2023	2,111	—	—	10,002	(3)	12,110	12,110	—
2022	1,286	—	(187)	(18)	56	1,137	401	736

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

[iv] Fund investments

The following table summarizes the movement in fund investments recorded at FVTPL during the nine-month period ended September 30:

	Carrying value as at January 1	Additions ¹	Distributions ^{2,3}	Net gain (loss) on FA	Foreign exchange ⁴	Carrying value end of period	Current other financial assets	Non-current other financial assets
	\$	\$	\$	\$	\$	\$	\$	\$
2023	132,404	1,397	(3,969)	(15,361)	(238)	114,233	—	114,233
2022	151,389	3,300	(5,520)	(29,688)	3,048	122,529	—	122,529

¹ Investments in equity or debt funds including US\$50 and EUR 638 (2022: including US\$870 and EUR 1,552). Includes capital call payables of \$221 (EUR 155)

² Distribution received or receivable from funds including US\$46 (2022: including EUR 2,221)

³ Includes distribution receivable of \$1,997 and EUR 798 (2022: including \$2,500)

⁴ During the three and nine-month periods ended September 30, 2023, recorded a loss of \$973 and \$175, respectively, in the consolidated statement of income (loss) in "Foreign exchange (gain) loss" (2022: loss of \$1,902 and \$3,781, respectively), and a gain of \$1,906 and a loss of \$63, respectively, in the statement of comprehensive income in "Unrealized gain (loss) on translation of foreign operations" (2022: gain of \$5,627 and \$6,830, respectively).

9. MEASUREMENT OF FINANCIAL ASSETS

[i] Fair value hierarchy

As at September 30,	2023	Level 1	Level 2	Level 3
	\$	\$	\$	\$
Recurring fair value measurements				
Loans measured at FVTPL	18,555	—	—	18,555
Equity investments measured at FVTPL	5,270	5,270	—	—
Equity investments measured at FVOCI	1,219	1,219	—	—
Derivatives	12,110	—	—	12,110
Fund investments measured at FVTPL	114,233	—	—	114,233
Total	151,387	6,489	—	144,898

As at December 31,	2022	Level 1	Level 2	Level 3
	\$	\$	\$	\$
Recurring fair value measurements				
Loans measured at FVTPL	28,904	—	—	28,904
Equity investments measured at FVTPL	2,680	2,680	—	—
Equity investments measured at FVOCI	1,277	1,277	—	—
Derivatives	2,111	—	—	2,111
Fund investments measured at FVTPL	132,404	—	—	132,404
Total	167,376	3,957	—	163,419

There were no transfers between levels of the fair value hierarchy for the nine-month period ended September 30, 2023 or year ended December 31, 2022.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

[ii] Day 1 Gains

Upon acquisition of a financial instrument, the Company measures its fair value and compares it to the acquisition price. The difference is recognized as a gain or loss only if fair value is based on a quoted price in an active market or based on a valuation technique that uses only data from observable markets. The Company has the following deferred day 1 gains:

As at	September 30, 2023		December 31, 2022	
	US\$	\$	US\$	\$
Equity investments measured at FVOCI				
Synergy	3,764	5,089	3,764	5,098
Total	3,764	5,089	3,764	5,098

10. BANK LOANS

The Company had the following indebtedness, including accrued interest expense, as at the end of the following periods:

As at September 30, 2023

	Currency	Interest rate ²	Effective interest rate	Maturity	Current \$	Non-current \$	Total \$
Banks							
Itaú Unibanco Brasil	BRL	1.65% + CDI	15.56%	Dec 8, 2023	4,666	—	4,666
Bancolombia	COP	2.28% + IBR	15.26%	Oct 12, 2026	3,053	6,154	9,207
Banco ICBC Argentina ¹	ARS	100%	N/A	N/A	264	—	264
Banco Itaú Argentina ¹	ARS	117%	N/A	N/A	1,681	—	1,681
IFC	BRL	1.6% + CDI	15.61%	Oct 15, 2027	8,922	23,048	31,970
IFC	CLP	7.71%	7.86%	Oct 15, 2027	2,574	7,553	10,127
IFC	COP	1.6% + IBR	14.80%	Oct 15, 2027	3,583	10,160	13,743
IFC	MXN	1.6% + TIIE	13.92%	Oct 15, 2027	941	2,765	3,706
Total Bank Loans					25,684	49,680	75,364

¹ Overdraft balances

² The interest rate is calculated and compounded on a monthly basis.

As at December 31, 2022

	Currency	Interest rate ²	Effective interest rate	Maturity	Current \$	Non-current \$	Total \$
Banks							
Itaú Unibanco Brasil	BRL	1.65% + CDI	13.36%	Dec 8, 2023	8,487	—	8,487
Bancolombia	COP	2.28% + IBR	8.07%	Oct 12, 2026	2,299	6,194	8,493
Banco ICBC Argentina ¹	ARS	77% ²	N/A	N/A	344	—	344
Banco Itaú Argentina ¹	ARS	76% ²	N/A	N/A	1,270	—	1,270
IFC	BRL	1.6% + CDI	15.83%	Oct 15, 2027	3,121	23,309	26,430
IFC	CLP	7.71%	7.86%	Oct 15, 2027	1,202	9,198	10,400
IFC	COP	1.6% + IBR	13.29%	Oct 15, 2027	735	10,613	11,348
IFC	MXN	1.6% + TIIE	13.07%	Oct 15, 2027	216	3,084	3,300
Total Bank Loans					17,674	52,398	70,072

¹ Overdraft balances

² The interest rate is calculated and compounded on a monthly basis.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

11. OTHER LONG-TERM RECEIVABLES

As at	September 30, 2023	December 31, 2022
	\$	\$
Tax deposit – notices of reassessment	41,582	41,582
Other	3,249	2,267
Total	44,831	43,849

Notices of reassessment

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

The Company's PRV was granted on March 19, 2014 upon the FDA approval of Impavido® and was disposed of to a third party in November 2014 for gross proceeds of US\$125,000. The notices of reassessment provide that Knight is liable to pay an aggregate of \$23,340 and \$18,242 to the CRA and QRA, respectively, in additional taxes and interest. Knight has made a deposit for the full amount to the CRA in July 2018 and to the QRA in February 2019. In addition, interest income on the deposit is payable to Knight by the CRA and QRA if the Company wins the process. The amount, as at September 30, 2023 is estimated at \$4,312 and has not been recorded by the Company.

Knight believes that the reassessments are unfounded and filed a notice of objection with the CRA in September 2018 to start the appeals process. In October 2021, the CRA responded to Knight's notice of objection with a confirmation of their initial tax reassessments. Knight filed a notice of appeal to the Tax Court of Canada in December 2021.

Based on the Company's view of the likely outcome of the appeals process, Knight expects to recover the total of \$41,582 deposited with the taxation authorities and has not recorded any tax provision related to the disposal of the PRV in its financial statements. However, there can be no assurance regarding the outcome or when a resolution may be reached.

Although Knight believes its tax provisions are adequate, the final determination of tax audits and any related disputes could be materially different from historical income tax provisions and accrual.

12. SHAREHOLDERS' EQUITY

[i] Share capital

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

	Notes	Number of common shares	\$
Balance as at January 1, 2023		112,205,939	599,055
Issuance under share purchase plan	[ii]	68,889	330
Shares purchased under NCIB	[iii]	(7,277,016)	(38,885)
Shares purchased under NCIB not yet cancelled	[iii]	47,000	— ¹
Balance as at September 30, 2023		105,044,812	560,500

¹ 47,000 shares purchased under NCIB for \$211 were cancelled subsequent to the quarter ended September 30, 2023.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

[ii] Stock-based compensation plans

The Company has three stock-based compensation plans: the Share Option Plan (“the Option Plan”), the Share Purchase Plan and the Omnibus Equity Incentive Plan (“the Omnibus Plan”).

Stock options

The weighted average fair value of the options granted during the nine-month period ended September 30, 2023, estimated by using the Black-Scholes option pricing model, was \$1.38 (2022: \$1.53). The fair value of the options was estimated on the date of grant based on the following weighted average assumptions:

	Nine-month period ended September 30,	
	2023	2022
Weighted average risk-free interest rate	2.95%	2.28%
Dividend yield	Nil	Nil
Weighted average volatility factor [i]	24%	24%
Forfeiture rate	2%	2%
Weighted average expected life	6.3 years	6.2 years

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

	Nine-month period ended September 30,			
	2023		2022	
	Number of share options #	Weighted average exercise price \$	Number of share options #	Weighted average exercise price \$
Balance beginning of the year	4,873,546	7.15	5,166,130	7.40
Granted	267,189	4.44	261,783	5.21
Expired/forfeited	(553,928)	7.59	(554,367)	8.56
Balance at end of the year	4,586,807	6.95	4,873,546	7.15
Options exercisable at the end of the year	4,055,909	7.23	3,941,942	7.34

Deferred share units

The Company may grant DSUs to any non-employee director of Knight under the Omnibus Plan. The number of DSUs granted at any particular time pursuant to the Omnibus Plan is calculated by dividing the value of the grant over the market price of a share of Knight on the award date. The DSUs vest when the holder ceases to be a director of Knight for any reason. During the nine-month period ended September 30, 2023, the Company granted 56,279 DSUs (\$270) to independent board members (2022: 51,588 DSUs). As at September 30, 2023, the number of outstanding DSUs was 140,451 (2022: 80,793 DSUs).

Restricted share units and performance share units

The Company may grant RSUs and PSUs to any employee under the Omnibus Plan. The RSUs vest on a time-based condition and the PSUs vest subject to the achievement of future performance targets. The PSU awards do not vest when the minimum performance thresholds are not achieved. Both RSUs and PSUs are settled by no later than December 31st of the third calendar year commencing after the date of award by the issuance of Knight’s shares or cash at the option of the Company.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

The following table shows the RSUs and PSUs granted and outstanding at the beginning and end of the reporting period and the weighted average fair value at grant date per unit (“WAFV”):

	Nine-month period ended September 30, 2023			
	RSUs		PSUs	
	Number of units #	WAFV \$	Number of units #	WAFV \$
Balance beginning of the period	212,515	5.40	470,737	5.40
Granted	165,334	4.47	328,781	4.45
Forfeited/cancelled	(59,178)	5.13	(73,394)	5.18
Balance at end of the period	318,671	4.97	726,124	4.99
Weighted average remaining contractual life of the share units outstanding at end of period	2.03 years		1.98 years	

The Company recorded an expense of \$366 and \$2,035 (2022: \$189 and \$1,420) for the three and nine-month periods ended September 30, 2023, related to the share-based compensation for stock options, DSUs, PSUs and RSUs, with corresponding credits to contributed surplus net of forfeitures and accrued liabilities for social security contributions and employer taxes.

Share Purchase Plan

The Company has a Share Purchase Plan (“Purchase Plan”) which allows employees and directors of the Company to purchase common shares at listed market prices from treasury. The Purchase Plan was re-approved by the Board of Directors and the shareholders on May 11, 2022. The plan allows for employees to contribute up to a maximum of 10% of their salary and directors to contribute up to \$10 per year. Under the Purchase Plan, the Company will contribute 25% of employees’ or directors’ contributions in the form of common shares if the employee remains employed by the Company or director remains on the Board and has held the original shares for two years from the original purchase date. The Company’s contribution in common shares is calculated using the lesser of the original common share value at the original purchase date and at the date of the Company’s contribution. During the nine-month period ended September 30, 2023, the Company issued 68,889 shares (2022: 48,564 shares) under the Purchase Plan for a total of \$330 (2022: \$262).

[iii] NCIB

On July 12, 2023, the Company announced that the Toronto Stock Exchange approved its notice of intention to launch a NCIB (“2023 NCIB”). Under the terms of the 2023 NCIB, Knight may purchase for cancellation up to 5,999,524 common shares of the Company which represented 10% of its public float as at June 30, 2023. The 2023 NCIB commenced on July 14, 2023 and will end on the earlier of July 13, 2024 or when the Company completes its maximum purchases under the NCIB. Furthermore, Knight entered into an agreement with a broker to facilitate purchases of its common shares under the NCIB.

During the three and nine-month periods ended September 30, 2023, the Company purchased 2,158,091 and 7,277,016 (2022: 800,700 and 3,995,689) common shares, respectively, at an average price of \$4.55 and \$4.73, respectively (2022: \$5.57 and 5.35, respectively) for aggregate cash consideration of \$9,833 and \$34,396, respectively (2022: \$4,463 and \$21,385, respectively), of which \$211 remains to be settled as at September 30, 2023. Subsequent to quarter up to October 31, 2023, the Company purchased an additional 676,775 common shares at an average purchase price of \$4.53 for an aggregate cash consideration of \$3,069.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

As at	September 30, 2023	December 31, 2022
	\$	\$
Net loss on equities at FVOCI net of tax of \$643 (2022: \$650)	(8,176)	(8,125)
Unrealized gain on translation of foreign operations	62,865	49,391
Total	54,689	41,266

14. EARNINGS PER SHARE

Basic

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Net income (loss)	9,588	1,591	7,491	(14,704)
Weighted average shares outstanding	106,250,793	114,466,484	108,728,924	115,569,933
Basic net income (loss) per share	0.09	0.01	0.07	(0.13)

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.

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Net income (loss)	9,588	1,591	7,491	(14,704)
Weighted average shares outstanding	106,250,793	114,466,484	108,728,924	115,569,933
Adjustment for share options, RSUs and DSUs	260,968	131,171	229,121	— ¹
Weighted average shares outstanding	106,511,761	114,597,655	108,958,045	115,569,933
Diluted net earnings (loss) per share	0.09	0.01	0.07	(0.13)

¹Adjustments for diluted earnings per share have not been included as all of the share options, RSUs and DSUs are anti-dilutive for the nine-month period ended September 30, 2022.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

15. SEGMENT REPORTING

The Company had one reportable segment, namely the development, acquisition, in-licensing, out-licensing, marketing and distribution of innovative pharmaceutical products, consumer health products and medical devices. This reflects the revised management structure and the way that the chief operating decision-maker evaluates the business.

Geographic Information

The following table represents the revenues per country, based on where the customer is located.

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Revenues				
Brazil	31,538	29,398	122,879	92,708
Colombia	12,843	11,643	32,501	34,612
Argentina	9,404	15,417	27,825	39,208
Rest of LATAM	13,993	10,994	38,271	28,937
Canada	5,108	2,697	13,943	7,338
Other ¹	8,614	2,132	18,583	9,105
Total	81,500	72,281	254,002	211,908

¹Includes Europe, US and other countries.

As at September 30, 2023 and December 31, 2022, non-current operating assets consisting of property, plant and equipment, intangible assets, goodwill, right-of-use assets and other long-term receivables were held in the following geographic areas:

As at	September 30, 2023	December 31, 2022
	\$	\$
Non-current operating assets		
Canada	63,053	63,217
Brazil	57,063	56,581
Argentina	42,095	34,562
Colombia	15,879	15,723
Uruguay	188,915	201,889
Luxembourg	39,982	44,909
Rest of LATAM	55,383	70,655
Total	462,370	487,536

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

16. STATEMENT OF CASH FLOWS

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Changes in non-cash working capital:				
Decrease (increase) in				
Trade and other receivables	17,114	1,147	8,214	(21,256)
Prepays and deposits	(1,045)	(842)	2,143	(356)
Inventories	(12,956)	(3,956)	(17,656)	(1,994)
Income taxes receivable	55	253	(833)	1,453
Increase (decrease) in				
Accounts payable and accrued liabilities	(6,693)	(246)	(21,039)	13,204
Other liabilities	(4,307)	1,425	(3,785)	1,255
Income tax payable	597	(315)	(347)	(755)
	(7,235)	(2,534)	(33,303)	(8,449)

17. RELATED PARTY TRANSACTIONS

Pharmascience Inc., a company related to the Company's Executive Chairman of the Board of Directors, provided administrative services of approximately \$9 and \$26 (2022: \$10 and \$24) to the Company for the three and nine-month periods ended September 30, 2023.

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 commitments extending beyond the current year. These commitments are classified into three major categories: Fund commitments, milestones and purchase commitments. The commitments of the Company as at September 30, 2023 are as follows:

[i] Fund commitments

As at September 30, 2023, under the terms of Company's agreements with life sciences venture capital funds, \$11,281 (December 31, 2022: \$11,787), including \$834 [US\$617] and \$497 [EUR 347] (December 31, 2022: \$865 [US\$639] and \$1,078 [EUR 745]), may be called over the life of the funds (based on the closing foreign exchange rates).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

[ii] 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. The Company may have to pay up to \$357,168 including \$79,045 [US\$58,465], \$146,086 [CHF 98,800] and \$1,778 [EUR 1,243] (December 31, 2022: up to \$359,567 including \$74,776 [US\$55,210], \$144,851 [CHF 98,800] and \$1,436 [EUR 993]) upon achieving certain sales volumes, regulatory or other milestones related to specific products.

In addition, Knight has a commitment to purchase up to \$10,078 [CHF 4,987, US\$2,000] (December 31, 2022: \$11,710 [EUR 738, CHF 5,412, US\$2,000]), of inventory for pharmaceutical products during the five-year period after their respective commercial launch. For products that are currently launched, the Company has committed to inventory purchases of \$165,737 [BRL 285,200, US\$55,660 and CHF 9,176] (December 31, 2022: \$212,744 [BRL 427,800, US\$64,182 and CHF 11,059]), which will be purchased over the next 8 years.

	\$
2023	6,171
2024	57,319
2025	54,779
2026	12,747
2027	12,747
2028 and beyond	21,974
Total	165,737

Furthermore, Knight has committed to certain sales force and marketing spend obligations during the five-year period after the commercial launch of one of its products.

19. RECLASSIFICATION OF COMPARATIVE FIGURES

The comparative amounts for interest paid on bank loans in the condensed consolidated financial statements of cash flows have been reclassified from operating activities to financing activities.

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Toronto Stock Exchange
Trading Symbol: GUD

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