



Annual Report 2016  
**Knight Therapeutics Inc.**





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# Message to our Shareholders

Since founding Knight in 2014, we have been focused on building a leading global specialty pharmaceutical company. During 2016, we made significant advances towards commercializing pharmaceutical products that improve the lives of Canadians while building a strong organization based on a proven formula for success.

## Building our Portfolio of Innovative Products

During 2016, our business development team continued to build our portfolio of innovative products. We in-licensed the rights to Probuphine™, a novel buprenorphine 6-month implant for the treatment of opioid addiction. We further expanded our opioid support portfolio, with the addition of Movantik®, a product for the treatment of opioid induced constipation. We also expanded our ophthalmic portfolio with the addition of Netildex™, a treatment of ocular inflammation of the anterior segment of the eye. Finally, we terminated our license agreement with Paladin Labs Inc. for Impavido® for Paladin's territories (world – excluding USA). As a result, Knight is now distributing Impavido® globally through several international distribution partners. In the first quarter of 2017, we submitted Iluvien®, a product for the treatment of diabetic macular edema, for regulatory approval to Health Canada.

## Building our Relationships with Life Science Companies

In 2016, we deployed or committed to deploy over \$40 million in the life sciences industry which helps us to secure product rights for Canada and select world markets. To that end, we issued secured loans of US\$23 million to Medimetriks Pharmaceuticals Inc., \$6.8 million to Crescita Therapeutics Inc. and US\$2.3 million to 60° Pharmaceuticals LLC. In addition, we committed to invest \$1 million each to funds managed by Genesys Capital Management and Stratigis Capital Advisors.

## Building our Global Footprint

In 2015, Knight had acquired 28.3% of Medison Biotech (1995) Limited, a leading Israeli specialty pharmaceutical company. During 2016, Medison expanded its relationship with Amgen and entered into a relationship with Servier for the Israeli market. Further, Knight obtained the Israeli rights to Movantik® as part of its Canadian license agreement. Our relationship with Medison has been both strategically and financially beneficial as we also earned dividends of \$4.8M during 2016.

## Building our Financial Strength

During 2016, we continued to strengthen our balance sheet and raised \$330 million in two separate rounds of financing. In addition, we reported revenues of \$5.9 million, an increase of 473% over 2015 and reported net income of \$18.6 million or \$0.15 per diluted share.

## Building our Commercial Presence

In 2016, we expanded our team of Knights and added bench strength in our ability to commercialize innovative pharmaceutical products in Canada. In the coming year, this team will be focused on building a national salesforce through a contract sales organization and commercializing Movantik® in Canada. In addition, we will continue to build our infrastructure in order to strengthen our ability to acquire and in-license innovative products for the Canadian and select world markets.

In conclusion, during 2016, we continued to build Knight into a leading specialty pharmaceutical company. With over \$700 million of cash, we are well equipped to capitalize on GUD opportunities in Canada and select international markets. We look forward to reporting to you on our progress at developing Knight into a company we can all be proud of supporting.



*Jonathan Ross Goodman BA, LLB, MBA*

**CEO**



*Samira Sakhia CPA, CA, MBA*

**President**

# Management's Discussion and Analysis

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*For the year ended December 31, 2016  
[In thousands, 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. (the "Company") for the year ended December 31, 2016. This document should be read in conjunction with the audited annual consolidated financial statements and notes thereto for the year ended December 31, 2016. Knight's audited annual consolidated financial statements as at and for the year ended December 31, 2016 have been prepared in accordance with International Financial Reporting Standards. All amounts herein are expressed in thousands of Canadian dollars (unless otherwise indicated) except for share and per share amounts. All other currencies are in thousands.

This discussion and analysis was prepared by management from information available as at March 15, 2017. Further information about Knight Therapeutics Inc., including the Annual Information Form, may be found online on SEDAR at [www.sedar.com](http://www.sedar.com).

## Cautionary note regarding forward-looking statements

This Management's Discussion and Analysis may contain certain "forward-looking statements" and certain "forward-looking information" as defined under applicable Canadian securities laws. Forward-looking statements and information can generally be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue", "plans" or similar terminology. Forward-looking statements and information are subject to various known and unknown risks and uncertainties, many of which are beyond the ability of the Company to control or predict, that may cause the Company's actual results, performance or achievements to be materially different from those expressed or implied thereby, and are developed based on assumptions about such risks, uncertainties and other factors set out herein. Factors and risks which could cause actual results to differ materially from current expectations are discussed in the Company's Annual Report and in the Company's Annual Information Form for the year ended December 31, 2016. 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.

## Glossary of Abbreviations

Calendar	
Abbreviation	Description
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
Q3-15	Third quarter of 2015
Q2-15	Second quarter of 2015
Q1-15	First quarter of 2015

Company	
Abbreviation	Description
3D	3D Signatures Inc.
60P	60 <sup>o</sup> Pharmaceuticals LLC
Advaxis	Advaxis Pharmaceuticals Inc.
Akorn	Akorn Inc.
Alimera	Alimera Sciences Inc.
Antibe	Antibe Therapeutics Inc.
Apicore	Apicore Inc. and Apigen Investments Ltd.
Braeburn	Braeburn Pharmaceuticals Inc.
Crescita	Crescita Therapeutics Inc.
Ember	Ember Therapeutics Inc.
EMPA	EMPA Healthcare LLC
Extenway	Extenway Solutions Inc.
Intega	INTEGA Skin Sciences Inc.
Knight	Knight Therapeutics Inc.
Medimetriks	Medimetriks Pharmaceuticals Inc.
Medison	Medison Biotech (1995) Ltd.
NEMO II	New Emerging Medical Opportunities Fund II Ltd.
NEMO III	New Emerging Medical Opportunities Funds III Ltd.
NeurAxon	NeurAxon Pharma Inc.
Otsuka	Otsuka Pharmaceutical Co. Ltd
Origin	Origin Biomed Inc.
Paladin	Paladin Labs (Barbados) Inc. (an affiliate of Endo International plc)
PBB	Pro Bono Bio PLC
Pediapharm	Pediapharm Inc.
Profound	Profound Medical Inc.
Profounda	Profounda Inc.
Protalix	Protalix Bio Therapeutics Inc.
Sectoral	Sectoral Asset Management Inc.
SIFI	Società Industria Farmaceutica Italiana S.p.A.
Synergy	Synergy CHC Corp.

## Financial

Abbreviation	Description
AFS	Available for sale
CAD or C\$	Canadian Dollar
COSO	Committee of Sponsoring Organizations of the Treadway Commission
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
OCI	Other comprehensive income
USD or US\$	U.S. Dollar

## Territory

Abbreviation	Description
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

## Other

Abbreviation	Description
BMP-7	Bone Morphogenetic Protein-7
IMS	QuintilesIMS
NDA	New Drug Application
NDS	New Drug Submission
OIC	Opioid-induced constipation
PMPRB	Patented Medicine Prices Review Board
Rx	Prescription pharmaceutical product

# Overview

## About Knight Therapeutics Inc.

- Specialty pharmaceutical company, headquartered in Montreal, Canada, and listed on Toronto Stock Exchange under the ticker symbol “GUD”.
- Principal business activity is developing, acquiring, in-licensing, out-licensing, marketing and distributing innovative pharmaceutical products, consumer health products and medical devices in Canada and select international markets.
- Finances other life sciences companies in Canada and internationally with the goal of earning interest income, strengthening relationships in the life sciences industry, and securing product distribution rights for Canada and select international markets.
- Invests in life sciences venture capital funds whereby 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.
- Develops innovative pharmaceuticals including those to treat neglected tropical diseases and rare pediatric diseases.

## 2016 Highlights

### Financial Results

- Revenues reached \$5,940 an increase of \$4,903 or 473% over prior year.
- Net income was \$18,560, a decrease of \$15,607 or 46% over prior year.

### Corporate Development

- Samira Sakhia, former CFO of Paladin Labs Inc., joined Knight as President and member of the Board of Directors.
- Completed two bought deals at \$8 and \$10 per common share for gross proceeds of \$230,000 and \$100,050, respectively, including over-allotment exercise.

### Products

#### Q1-16

- Entered into an exclusive licensing agreement with Braeburn to commercialize Probuphine™ in Canada.
- Reacquired rights upon termination of agreement with Paladin related to the distribution and sale of Impavido®.
- Knight’s commercialization partner, Profounda, launched Impavido® (miltefosine) in the U.S.

#### Q2-16

- Entered into a distribution agreement with EMPA to commercialize Neuragen® in the United Arab Emirates and Kuwait.

#### Q3-16

- Expanded distribution agreement with Ember to include additional territories (ROM and CAR) and acquired distribution rights to Migralex™ and RHY/Vavelta®.
- Entered into a licensing and distribution agreement with 3D for its diagnostic and prognostic products in Canada and select international territories.

#### Q4-16

- Entered into an exclusive license agreement with AstraZeneca for Movantik®, indicated for OIC, in Canada and Israel.
- Appointed Synergy as the exclusive third party direct channel distributor of FOCUSfactor™ and Hand MD™, and amended direct channel distribution agreement for Flat Tummy Tea™ in Canada.



## Strategic Lending

### Q1-16

- Issued \$2,096 [US\$1,500] to 60P as a second tranche of a secured loan.
- Issued secured loans in the aggregate amount of \$9,000 to Intega.
- Issued secured loan of up to \$27,368 [US\$20,000] to Medimetriks to support its acquisition of the exclusive U.S. development and commercialization rights for OPA-15406 from Otsuka.

### Q3-16

- Strategic partner, Intega, was acquired by Crescita. As a result, \$3,000 of the Intega loan was repaid, while the remaining Intega loan of \$6,000 was amended with Crescita.

### Q4-16

- Issued an additional \$4,061 [US\$3,000] to Medimetriks.

## Strategic Investments

### Q1-16

- Received dividends of \$2,423 [ILS7,068] from strategic partner Medison.

### Q3-16

- Acquired 11,470,920 common shares of Pediapharm in exchange for 221,126 common shares and 221,126 four-year warrants of Knight with an exercise price of \$10.
- Received distributions of \$1,982 [US\$561 and EUR851] from strategic fund investments.
- Committed \$1,000 in the Genesys Ventures III LP, a Canadian-based life sciences venture capital fund.
- Invested \$1,000 in the Bloom Burton Healthcare Lending Trust II.
- Invested \$1,000 of equity in 3D pursuant to a business combination and public listing transaction between 3D and Plicit Capital Corp.
- Received dividends of \$2,414 [ILS7,068] from strategic partner Medison.

### Q4-16

- Received distributions of \$2,628 [US\$1,718] from strategic fund investments.
- Invested \$180 in 3D in exchange for 240,000 common shares and warrants to purchase an additional 240,000 shares at an exercise price of \$0.92.

- Received proceeds of \$2,157 [US\$1,625] in exchange for warrants of Apicore.
- Entered into an agreement with Synergy to exchange warrants and stock options Knight received for 7,500,000 common shares of Synergy.

## Subsequent to year-end

- Received \$8,137 [US\$6,157] on repayment of the Apicore loan.
- Disposed of 839,000 Pediapharm shares and realized a gain of \$58.
- Acquired approximately 5%, of Protalix at an average price of US\$0.57 per share.
- Submitted ILUVIEN™, indicated for the treatment of diabetic macular edema, for regulatory approval by Health Canada.
- Accepted the resignation of Ed Schutter and appointed Dr. Sarit Assouline to the Board of Directors.
- Received Notice of Deficiency Withdrawal from Health Canada with respect to regulatory submission of ATryn®.
- Announced the commercialization of Movantik® in Canada.

# Financial Results

## Results of operations

[In thousands of Canadian dollars, except for share and per share amounts]	Q4-16	Q4-15	Change		YTD-16	YTD-15	Change	
			% <sup>1</sup>	% <sup>2</sup>			% <sup>1</sup>	% <sup>2</sup>
Revenues	1,845	343	1,502	438	5,940	1,037	4,903	473
Cost of goods sold	473	52	(421)	810	1,550	428	(1,122)	262
<b>Gross margin</b>	<b>1,372</b>	291	1,081	371	<b>4,390</b>	609	3,781	621
<b>Expenses</b>								
Selling and marketing	270	—	(270)	100	532	—	(532)	—
General and administrative	2,710	1,839	(871)	47	9,302	9,086	(216)	2
Research and development	712	254	(458)	180	1,955	2,707	752	28
	<b>(2,320)</b>	(1,802)	(518)	29	<b>(7,399)</b>	(11,184)	3,785	34
Depreciation of property and equipment	—	8	8	100	18	30	12	40
Amortization of intangible assets	156	30	(126)	420	419	94	(325)	346
Interest income	(6,099)	(6,774)	(675)	10	(24,414)	(18,632)	5,782	31
Other income	(360)	(1,517)	(1,157)	76	(3,894)	(2,860)	1,034	36
Net gain on financial assets	(2,061)	(1,358)	703	52	(1,659)	(17,347)	(15,688)	90
Purchase loss (gain) on business combination	—	35	35	100	—	(515)	(515)	100
Net loss on settlement of loans receivable	—	1,008	1,008	100	—	650	650	100
Share of net income of associate	(38)	(946)	(908)	96	(2,793)	(1,041)	1,752	168
Foreign exchange (gain) loss	(1,544)	(1,103)	441	40	1,451	(8,579)	(10,030)	—
<b>Income before income taxes</b>	<b>7,626</b>	8,815	(1,189)	13	<b>23,473</b>	37,016	(13,543)	37
Income tax (recovery) expense	(217)	2,850	3,067	N/A	4,190	1,939	(2,251)	116
Deferred income tax (recovery) expense	(96)	411	507	N/A	723	910	187	21
<b>Net income for the year</b>	<b>7,939</b>	5,554	2,385	43	<b>18,560</b>	34,167	(15,607)	46
<b>Attributable to shareholders of the Company</b>								
Basic EPS	0.06	0.05	0.01	20	0.15	0.36	(0.21)	58
Diluted EPS	0.06	0.05	0.01	20	0.15	0.35	(0.20)	57

<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

	Q4-16 vs Q4-15	2016 vs 2015
<b>Revenues</b>	<p>The growth in revenues is attributable to following:</p> <p><b>Rx</b></p> <ul style="list-style-type: none"> <li>Impavido® revenues increased by \$1,439 primarily due to full recognition of revenues post termination of the distribution and sale agreement with Paladin, and the U.S. commercial launch both in March 2016.</li> </ul> <p><b>Consumer Products</b></p> <ul style="list-style-type: none"> <li>Revenues increased by \$63 due to a launch in November 2015.</li> </ul>	<p><b>Rx</b></p> <ul style="list-style-type: none"> <li>Impavido® revenues increased by \$3,935 primarily due to full recognition of revenues of Impavido® post termination of the distribution and sale agreement with Paladin, and the U.S. commercial launch both in March 2016.</li> </ul> <p><b>Consumer Products</b></p> <ul style="list-style-type: none"> <li>Revenues increased by \$968 due to two launches in June and November 2015.</li> </ul>



	Q4-16 vs Q4-15	2016 vs 2015
<b>Cost of goods sold</b>	<ul style="list-style-type: none"> <li>The increase is related to the growth in revenues.</li> </ul>	
<b>Selling and marketing</b>	<ul style="list-style-type: none"> <li>The increase is related to the launch of new products.</li> </ul>	
<b>General and administrative</b>	<ul style="list-style-type: none"> <li>Increase explained by growth in the number of employees and an increase in professional fees related to 2016 transactions.</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.</li> </ul>	<ul style="list-style-type: none"> <li>Decrease is due to upfront payments on the acquisition of certain pharmaceutical product rights from licensors (Advaxis, Akorn and Alimera) in 2015.</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> </ul> <p><b>Interest Income</b></p> <ul style="list-style-type: none"> <li>Interest income for Q4-16 at \$4,873, increase of 54% or \$1,711 compared to prior year driven by loan deals closed in 2016 (Medimetriks, Intega/ Crescita) and an increase in the average cash, cash equivalents and marketable securities balances due to proceeds raised in bought deals.</li> </ul> <p><b>Accretion</b></p> <ul style="list-style-type: none"> <li>Accretion of \$1,226 for Q4-16, decrease of \$2,386 explained by an adjustment of \$2,966 in Q4-15 due to early repayment of CRH loan offset by loan deals entered in 2016.</li> </ul>	<p><b>Interest Income</b></p> <ul style="list-style-type: none"> <li>Interest income for 2016 at \$18,213, increase of 56% or \$6,566 compared to prior year driven by loan deals closed in 2016 (Medimetriks, Intega/ Crescita), full year of interest on loans closed in 2015 and an increase in the average cash, cash equivalents and marketable securities balances due to proceeds raised in bought deals.</li> </ul> <p><b>Accretion</b></p> <ul style="list-style-type: none"> <li>Accretion of \$6,201 for 2016, decrease of \$784, explained by an adjustment of \$2,966 recorded in 2015 due to early repayment of CRH loan offset by loan deals entered in 2016.</li> </ul>
<b>Other income<sup>1</sup></b>	<ul style="list-style-type: none"> <li>Decrease is primarily driven by non-recurring fees and early repayment fees earned in Q4-2015 on the CRH loan.</li> </ul>	<ul style="list-style-type: none"> <li>Increase is primarily driven by the additional shares of Intega received prior to the close of the Crescita Transaction, certain non-recurring fee earned from a strategic partner, consulting and advisory fees on 3D offset by the non-recurring fees and early repayment penalty earned in 2015 on the CRH loan.</li> </ul>
<b>Net gain on financial assets<sup>2</sup></b>	<ul style="list-style-type: none"> <li>Increase is primarily explained by realized gains during Q4-16 on NEMO II, the exercise of the Apicore warrants, offset by the revaluation of derivatives.</li> </ul>	<ul style="list-style-type: none"> <li>Decrease is primarily explained by realized gains during 2015 on the sale of CRH shares and NEMO II.</li> </ul>
<b>Purchase loss (gain) on business combination</b>	<ul style="list-style-type: none"> <li>No significant variance.</li> </ul>	<ul style="list-style-type: none"> <li>Relates to the excess of the fair value of the assets acquired over the consideration paid on the acquisition of NeurAxon.</li> </ul>
<b>Net loss on settlement of loans receivable</b>	<ul style="list-style-type: none"> <li>Relates to Extenway loan impairment and fees on the Origin transaction.</li> </ul>	<ul style="list-style-type: none"> <li>Relates to Extenway loan impairment and fees on the Origin transaction, offset by the sale of Neuragen® to the US.</li> </ul>
<b>Share of net income of associate</b>	<ul style="list-style-type: none"> <li>Directly related to Medison's performance during the quarter offset by the amortization of fair value adjustments.</li> </ul>	<ul style="list-style-type: none"> <li>The strategic collaboration with Medison closed on September 9, 2015 explaining the increase in the equity income in 2016 offset by the amortization of fair value adjustments.</li> </ul>
<b>Foreign exchange (gain) loss</b>	<ul style="list-style-type: none"> <li>Explained by gains on U.S. dollar denominated financial assets as the Canadian dollar weakened against the U.S. dollar during the period.</li> </ul>	<ul style="list-style-type: none"> <li>Explained by losses on U.S. dollar denominated financial assets as the Canadian dollar strengthened against the U.S. dollar during the period and weakened during the prior period.</li> </ul>
<b>Income tax (recovery) expense</b>	<ul style="list-style-type: none"> <li>Decrease due to lower activity in Q4-16, compared to gains on investment in financial assets in Q4-15.</li> </ul>	<ul style="list-style-type: none"> <li>Increase due to gains on investment in financial assets and amortization of deferred income taxes related to the Company's financings.</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 on financial assets includes unrealized gains and losses on revaluation of warrants and realized gains and losses on equities, warrants and distributions from funds.

# Financial Condition

## Balance Sheet

[In thousands of Canadian dollars]	12-31-16	12-31-15	Change	
			\$	%
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents	514,942	237,481	277,461	117
Marketable securities	221,108	233,726	(12,618)	5
Trade and other receivables	6,440	2,994	3,446	115
Inventories	790	1,460	(670)	46
Other current financial assets	51,789	23,588	28,201	120
Income taxes receivable	4,683	231	4,452	1927
<b>Total current assets</b>	<b>799,752</b>	<b>499,480</b>	<b>300,272</b>	<b>60</b>
Property and equipment	32	18	14	78
Intangible assets	14,153	3,320	10,833	326
Other financial assets	90,643	62,616	28,027	45
Investment in associate	80,113	81,027	(914)	1
Deferred income tax assets	6,077	2,527	3,550	140
<b>Total assets</b>	<b>990,770</b>	<b>648,988</b>	<b>341,782</b>	<b>53</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current</b>				
Accounts payable and accrued liabilities	3,207	2,416	791	33
Income taxes payable	5,659	4,031	1,628	40
Other balances payable	537	—	537	100
Deferred other income	355	293	62	21
<b>Total current liabilities</b>	<b>9,758</b>	<b>6,740</b>	<b>3,018</b>	<b>45</b>
Deferred other income	417	—	417	100
Other balances payable	877	—	877	100
Deferred income tax liabilities	—	186	(186)	100
<b>Total liabilities</b>	<b>11,052</b>	<b>6,926</b>	<b>4,126</b>	<b>60</b>
<b>Shareholders' equity</b>				
Share capital	760,447	439,148	321,299	73
Warrants	785	161	624	388
Contributed surplus	9,469	6,772	2,697	40
Accumulated other comprehensive income	30,431	35,955	(5,524)	15
Retained earnings	178,586	160,026	18,560	12
<b>Total shareholders' equity</b>	<b>979,718</b>	<b>642,062</b>	<b>337,656</b>	<b>53</b>
<b>Total liabilities and shareholders' equity</b>	<b>990,770</b>	<b>648,988</b>	<b>341,782</b>	<b>53</b>

## 12-31-16 vs 12-31-15

<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 details.</li> </ul>
<b>Trade and other receivables</b>	<ul style="list-style-type: none"> <li>Increase due to growth in revenues and interest receivable.</li> <li>Refer to Revenues and Interest Income in Section 3 for further details.</li> </ul>
<b>Inventories</b>	<ul style="list-style-type: none"> <li>Decrease due to timing of purchase orders.</li> </ul>
<b>Other financial assets (Current and Long Term)</b>	<ul style="list-style-type: none"> <li>Increase of \$56,288 driven by: <ul style="list-style-type: none"> <li><b>Funds:</b> <ul style="list-style-type: none"> <li>Increase of \$9,016 due to investments in new funds of \$1,046 and capital calls of \$13,856 offset by distributions and mark-to-market adjustments of \$5,546 in 2016. For further details on Knight’s strategic investments refer to Section 8.</li> </ul> </li> <li><b>Loans and Debentures:</b> <ul style="list-style-type: none"> <li>Increase of \$30,186 due to loans issued in 2016 to Crescita, Medimetriks and 60P offset by principal repayments. For further details on Knight’s strategic lending, refer to Section 7.</li> </ul> </li> <li><b>Equities, Warrants and Derivatives:</b> <ul style="list-style-type: none"> <li>Increase of \$17,026 driven by strategic investments in publicly traded equities, consideration received in strategic loan transactions (equities, warrants and derivatives) offset by the exercise of the Medicare and Apicore warrants. Refer to note 10 in the audited annual financial statements for further details.</li> </ul> </li> </ul> </li> </ul>
<b>Intangible assets</b>	<ul style="list-style-type: none"> <li>Increase due to reacquisition of rights upon termination of the distribution and sale agreement of Impavido® with Paladin, the in-licensing of the Canadian distribution rights of Netildex™ and the exclusive license agreement with AstraZeneca for Movantik® in Canada and Israel.</li> </ul>
<b>Investment in associate</b>	<ul style="list-style-type: none"> <li>Decrease due to dividends received from Medison and the amortization of fair value adjustments offset by the change in contingent consideration and Knight’s share of net income.</li> <li>Refer to Section 9 for further details.</li> </ul>
<b>Accounts payable and accrued liabilities</b>	<ul style="list-style-type: none"> <li>Increase due to timing of payables.</li> </ul>
<b>Share capital</b>	<ul style="list-style-type: none"> <li>Refer to note 14 in the audited annual consolidated financial statements for details.</li> </ul>
<b>Warrants</b>	<ul style="list-style-type: none"> <li>Increase due to issuance of warrants upon investment in Pediapharm.</li> </ul>
<b>Contributed surplus</b>	<ul style="list-style-type: none"> <li>Increase related to share-based compensation expense offset by the issuance of shares to associate.</li> <li>Refer to the statement of changes in shareholder’s equity in the audited annual consolidated financial statements for further details.</li> </ul>
<b>Accumulated other comprehensive income</b>	<ul style="list-style-type: none"> <li>Refer to the statement of changes in shareholder’s equity in the audited annual consolidated financial statements.</li> </ul>
<b>Retained earnings</b>	<ul style="list-style-type: none"> <li>Refer to the statement of changes in shareholder’s equity in the audited annual consolidated financial statements.</li> </ul>

## Liquidity and Capital Resources

The Company's investment policy guides 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.

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. At present, the Company is actively pursuing acquisitions that may require the use of substantial capital resources. There are no present agreements or commitments with respect to such 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.

[In thousands of Canadian dollars ]	2016	2015
Net cash generated by operating activities	14,738	9,651
Net cash used in investing activities	(49,218)	(69,099)
Net cash generated by financing activities	313,329	13,862
Increase (decrease) in cash and cash equivalents during the year	278,849	(45,586)
Net foreign exchange difference	(1,388)	(378)
Cash and cash equivalents, beginning of year	237,481	283,445
Cash and cash equivalents, end of year	514,942	237,481
Marketable securities, end of year	221,108	233,726
<b>Cash, cash equivalents, and marketable securities, end of year</b>	<b>736,050</b>	<b>471,207</b>

The company's cash, cash equivalents and marketable securities increased by \$264,843 or 56% to \$736,050 at December 31, 2016 from \$471,207 at December 31, 2015.

Cash flows generated by operating activities for 2016 were \$14,738 compared to cash generated in operating activities of \$9,651 for the comparative period last year. Cash flows for operating activities for 2016 primarily relate to cash generated through sales of Rx and consumer products, dividends from associate of \$4,837 (2015: \$2,015), and interest received of \$15,665 (2015: \$10,107) offset by operating expenses including salaries, research and development expenses, professional fees, and office expenses. Cash flows provided by operating activities excludes revenues and expenses not affecting cash, such as deferred income taxes, share-based compensation expense, depreciation and amortization, accretion of interest on loans receivable, foreign exchange loss, deferred revenues, deferred other income and net changes in non-cash balances relating to operations.

Cash flows used in investing activities were \$49,218 for 2016 mainly due to the issuance net of repayments of secured loans of \$31,950, net investment in life sciences funds of \$11,893, net purchase of equities of \$6,799 and the acquisition of intangibles of \$9,853 offset by net proceeds from investment in marketable securities of \$9,127. For 2015, cash flows used in investing activities were \$69,099 due to net purchases of marketable securities of \$79,290, the disbursement of \$1,750 for the acquisition of NeurAxon and \$217 related to the investment in associate. The outflows for 2015 were offset by the net proceeds from the disposal of equities and proceeds from distributions of funds of \$12,018 mainly related to distributions from NEMO II and the sale of CRH shares.

Cash flows generated from financing activities of \$313,329 in 2016 were mainly due to the completion of two bought deal agreements. In 2015, cash flows generated from financing activities of \$13,862 were mainly due to the exercise in full of an over-allotment option and the exercise of compensation warrants and participation of employees and directors in the Company's share option plan.

# Product Acquisition Strategy

## Products

Knight pursues opportunities to acquire or in-license innovative 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	Licensor	Status in Territory	Territory Rights
<b>Pain</b>				
Movantik®	OIC	AstraZeneca	Marketed in CAN and under regulatory review in ISR	CAN, ISR
Probuphine™	Opioid addiction	Braeburn	Pre-Registration <sup>1</sup>	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, ROM, 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
ATryn®	Prevention of thromboembolic events	LFB S.A.	Pre-Registration <sup>3</sup>	CAN
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

## Consumer Health Products

Product	Indication	Licensors	Status in Territory	Territory Rights
Neuragen®	Pain associated with diabetic and peripheral neuropathy	N/A	Marketed <sup>2</sup>	Global (Ex. U.S.)
Flat Tummy Tea™	Herbal detox tea	Synergy	Marketed	CAN, ISR, ROM, RUS, ZAF
FOCUSfactor™	Dietary supplement	Synergy	Approved <sup>4</sup>	CAN, ISR, ROM, RUS, ZAF
FLEXISEQ™	Pain and joint stiffness associated with osteoarthritis	PBB	Not Yet Marketed	QUE , ISR
Hand MD™	Line of anti-aging hand skincare products	Synergy	Not Yet Marketed	CAN, ISR, ROM, RUS, ZAF
Crescita family	Dermo-cosmetic line of products	Crescita	Not Yet Marketed	ISR, ROM, RUS, ZAF, CAR

## Medical Devices

Product	Indication	Licensors	Status in Territory	Territory Rights
TULSA-PRO®	Prostate ablation	Profound	Pre-Registration <sup>1</sup>	CAN
3D family	Diagnostic and prognostic tools to improve treatment outcomes	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> Knight received a Notice of Deficiency Withdrawal from Health Canada in March 2017

<sup>4</sup> Approved in Canada only



## 2016 Highlights

### **Braeburn – License Agreement**

On February 1, 2016, Knight entered into an exclusive licensing agreement with Braeburn to commercialize Probuphine™ in Canada. Probuphine™ is a subdermal implant designed to deliver buprenorphine continuously for six months following a single treatment, promoting patient compliance and retention as well as helping to prevent accidental paediatric exposure.

### **Impavido® – Termination of Distribution Agreement**

On March 15, 2016, Knight terminated its agreement with Paladin related to the distribution and sale of Impavido®.

### **Profounda – Launch of Impavido® U.S.**

On March 22, 2016, Knight announced that its U.S. commercialization partner, Profounda, has launched Impavido® (miltefosine) in the United States.

### **Neuragen® - Distribution Agreement**

On April 25, 2016, Knight entered into a distribution agreement with EMPA to commercialize Neuragen®, a topical natural health product used to relieve the symptoms of peripheral nerve pain, in the United Arab Emirates and Kuwait.

### **Netildex™ – License Agreement**

On August 2, 2016, Knight entered into a license agreement for the exclusive rights in Canada to commercialize Netildex™, a fixed combination of netilmicin and dexamethasone for the treatment of ocular inflammation of the anterior segment of the eye, in presence or at risk of bacterial infection.

### **Movantik® – Licence Agreement**

On December 15, 2016 Knight entered into an exclusive license agreement with AstraZeneca, for the rights to Movantik® (naloxegol) in Canada and Israel. Movantik® is the first once-daily oral peripherally-acting mu-opioid receptor antagonist approved in Canada for the treatment of OIC in adult patients with non-cancer pain who have had an inadequate response to laxatives. Per IMS, Movantik sales in Canada were \$558 for the 12-month period ending December 31, 2016. Knight began recording sales of Movantik® as of December 15, 2016. Movantik® is currently under regulatory review in Israel and, when approved, will be marketed under the name Moventig. Under the terms of the exclusive license agreement, Knight is responsible for all commercial, regulatory and certain supply chain activities for Movantik® in Canada and Israel.

### **Synergy – Distribution Agreement**

On December 28, 2016 Knight appointed Synergy as its exclusive third party direct channel distributor of FOCUSfactor™ and Hand MD™ in CAN, ISR, ROM, RUS and ZAF; and as its exclusive third party retail channel distributor in Canada. Additionally, Knight amended its direct channel distribution agreement with Synergy for Flat Tummy Tea™ in Canada.

## Strategic Lending

Knight finances other life sciences companies in all geographic markets with the goal of earning interest income, 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 10 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 Knights' consumer health products (as described in Section 6), the Antibe family, the 60P family and TULSA-PRO®.

Entity	Nominal loan balance as at December 31, 2016	
	In Source Currency	In Canadian Dollars <sup>1</sup>
Medimetriks	US\$23,000	\$30,882
PBB	US\$13,125	\$17,623
Synergy	US\$6,594	\$8,853
Apicore	US\$6,158	\$8,267
Crescita	C\$6,841	\$6,841
Profound	C\$4,000	\$4,000
60P	US\$2,842	\$3,816
Pediapharm <sup>2</sup>	C\$1,250	\$1,250
Ember	US\$500	\$671
Antibe	C\$546	\$546
<b>Total</b>		<b>\$82,749</b>

<sup>1</sup> Converted at the Bank of Canada closing exchange rates on December 31, 2016

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

Loans and receivables includes loans receivable, debentures and long-term receivables. Investments classified as loans and receivables are initially recorded at fair value with subsequent measurements recorded at amortized cost using the effective interest method, less impairment, if any. The investments in loans and receivables are categorized as Level 3 of the fair value hierarchy. The interest accretion is captured under "Interest income" on the consolidated statement of income. Refer to note 10 of the audited annual financial statements for further details.

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

As at December 31,	Carrying value beginning of year	Additions <sup>1</sup>	Accretion <sup>2</sup>	Loan repayments <sup>3</sup>	Other <sup>4</sup>	Carrying value end of year	Current other financial assets	Non-current other financial assets
<b>2016</b>	<b>\$ 45,545</b>	<b>\$ 44,612</b>	<b>\$ 6,201</b>	<b>\$ (18,101)</b>	<b>\$ (2,526)</b>	<b>\$ 75,731</b>	<b>\$ 21,667</b>	<b>\$ 54,064</b>
2015	\$ 37,566	\$ 35,491	\$ 6,985	\$ (40,420)	\$ 5,923	\$ 45,545	\$ 13,206	\$ 32,339

<sup>1</sup> Relative fair value of loans issued net of work and origination fees

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

<sup>3</sup> Principal repayments on loans receivable

<sup>4</sup> Net changes related to write-offs, foreign currency revaluations and other adjustments

## 2016 Highlights

### 60P – Second Tranche of Secured Loan

On December 10, 2015, Knight entered into a secured loan agreement with 60P and issued a first tranche of \$685 [US\$500]. On January 4, 2016, Knight issued \$2,096 [US\$1,500] to 60P as a second tranche. On July 15, 2016, the loan agreement was amended to include additional tranches upon specific criteria being met, thereby increasing the total amount that can be issued under the loan by an additional \$1,705 [US\$1,300] to \$7,116 [US\$5,300]. In the second half of 2016, Knight issued an additional two tranches for an aggregate amount of \$1,134 [US\$842]. The loan bears interest at 15% per annum and will mature on December 31, 2020.

### Intega and Crescita

On January 22, 2016, Knight entered into a secured loan agreement (“Intega Loan Transaction”) whereby it issued an aggregate amount of \$9,000 to Intega to support a business acquisition. As consideration for the Intega Loan Transaction, Knight was issued 780,574 (“Intega Shares”) or 8% of the fully diluted common shares of Intega, and was issued 10-year warrants to purchase up to 762,711 (“Intega Warrants”) additional common shares at \$1.18 per share.

On September 1, 2016, Crescita acquired Intega for \$8,000 plus up to an additional \$2,000 in milestones payable in Crescita shares valued at \$2.44 each (“Crescita Transaction”). Subsequent to the close of the Crescita Transaction, the \$3,000 Intega bridge loan was repaid, while the outstanding balance on the Intega loan of \$6,841 was amended and restated. As consideration for the Crescita Transaction, Knight was issued 297,707 Crescita shares in exchange for the Intega Shares. In addition, Knight received a total of 347,295 common shares and recorded a balance of sale receivable of \$384 in exchange for additional Intega shares. The Intega Warrants were exchanged for 293,153, seven-year Crescita warrants to purchase up to 293,153 additional common shares at \$2.44 each. In addition, Knight received an embedded derivative as a price protection on a portion of the additional Intega shares.

For more details on the Crescita Transaction, refer to note 10 in the audited annual consolidated financial statements.

### Medimetriks – Secured Loan & License Agreement

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. The secured loan, with an initial tranche of \$24,631 [US\$18,000], bears interest at a rate of 13% per annum for a three-year term. A second tranche of \$2,598 [US\$2,000] was issued on June 29, 2016, upon the U.S. Food and Drug Administration filing by Medimetriks of a NDA for Ozenoxacin. The loan was recorded at a relative fair value of \$23,685 [US\$17,370] upon initial measurement and subsequently accounted for at

amortized cost using an effective interest rate of 18.9%. As part of the transaction, Knight has been issued 3.6% of the fully diluted common shares in the capital of Medimetriks. The common shares were assigned a relative fair value of \$2,983 [US\$2,180] using a fair value of \$7.39 [US\$5.40] per share.

On December 23, 2016, Knight amended its initial loan and issued an additional \$4,061 [US\$3,000] (“Second Loan”) to Medimetriks. The Second Loan matures in December 2019, at an interest rate of 13%. The loan was recorded at a relative fair value of \$2,761 [US\$2,040] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 46.7%.

As consideration for the Second Loan, Knight received additional common shares of Medimetriks (“Additional Shares”), increasing its ownership from 3.6% to 5.4% of the fully diluted common shares. The Additional Shares were assigned a relative fair value of \$1,288 [US\$960] using a fair value of \$6.77 [US\$5.00] per share.

In addition to the secured loan, Knight and Medimetriks have entered into a license and distribution agreement whereby Knight will be Medimetriks’ exclusive distribution partner in CAN, ISR, ROM, RUS, ZAF and CAR for future Medimetriks products. Medimetriks currently does not have rights to any products in these territories.

### Ember

Knight’s territorial rights to Ember’s BMP-7 pipeline, which originally included Canada, Israel, Russia and sub-Saharan Africa, have been expanded to include Romania and the Caribbean. Additionally, Knight has acquired the exclusive distribution rights for two diversified products recently acquired by Ember: Migralex™, a commercially-available over-the-counter medication for treating pain, and ICX-RHY/Vavelta®, a development stage regenerative medicine asset, for the previously mentioned territories.

### Apicore

On July 3, 2014, the Company entered into a secured debt agreement whereby it issued a secured loan of \$6,912 [US\$6,500] to Apicore bearing interest at a rate of 12% per annum and maturing on June 30, 2018. As part of the loan transaction, Knight received a total of 1,625,000 warrants in Apicore. Per the loan agreement, Medicure had the right to acquire all of Knight’s interests in Apicore within 3 years. In December 2016, Medicure exercised its right for \$2,157 [US\$1,625] in exchange for Knight’s warrants. The Company de-recognized the carrying amount of \$1,249 [US\$952] and recognized a gain of \$888 [US\$653] in gain on financial assets. Subsequent to year end, Knight received \$8,137 [US\$6,170] on full repayment of the outstanding balance on the Apicore loan.

## 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 December 31, 2016, of which approximately 24% has been funded. 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 December 31, 2016, is \$34,576.

Entity	Fund Commitment	
	In Source Currency	In Canadian Dollars <sup>1</sup>
Domain Associates LLC	US\$25,000	\$29,063
Teralys Capital	C\$30,000	\$30,000
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 dates. Using the December 31, 2016 closing rate total fund commitment would be \$135,227

<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.

As at December 31,	Carrying value beginning of year	Additions <sup>1</sup>	Disposals <sup>2</sup>	Realized gain <sup>3</sup>	Other <sup>4</sup>	Carrying value end of year	Current other financial assets	Non-current other financial assets
<b>2016</b>	<b>\$ 25,560</b>	<b>\$ 14,902</b>	<b>\$ (4,610)</b>	<b>\$ 1,541</b>	<b>\$ (2,817)</b>	<b>\$ 34,576</b>	<b>—</b>	<b>\$ 34,576</b>
2015	\$ 19,904	\$ 15,694	\$ (19,314)	\$ 6,979	\$ 2,297	\$ 25,560	—	\$ 25,560

<sup>1</sup> Investments in equity or debt funds

<sup>2</sup> Distributions received from funds

<sup>3</sup> Realized gains on return of capital

<sup>4</sup> Net changes due to revaluation to fair market value, foreign currency revaluations, and realized gain reclassified from other comprehensive income to consolidated statement of income upon distribution or disposal



During the year, Knight invested in two new funds, namely equity fund Genesys Ventures III LP, a Canadian-based life sciences venture capital fund, and in debt fund Bloom Burton Healthcare Lending Trust II. Knight invested \$14,902 during the year and received distributions of \$4,610 [US\$2,279 and EUR851]. The Company recorded in gain on other financial assets \$1,541 due to the distributions received. Furthermore, the Company recorded in OCI a decrease of \$2,817 upon currency revaluation (on foreign denominated funds) and mark-to-market adjustments. Refer to note 10 of the audited annual financial statements for further details.

## **Other Investments**

### ***Pediapharm***

On July 15, 2016, the Company acquired 11,470,920 common shares of Pediapharm in exchange of 221,126 common shares and 221,126 warrants of Knight. The shares were assigned a value of \$0.21 per share. Combined with previously purchased shares, Knight owned a total of 13,418,920 or approximately 18.5% of the common shares of Pediapharm as at July 15, 2016. During 2016, Knight disposed of 1,142,500 Pediapharm shares for total proceeds of \$308 and realized a gain of \$70.

### **3D**

On September 9, 2016, Knight invested \$1,000 in the equity of 3D, a biotechnology company, following the completion of a business combination and public listing transaction between 3D and Plicit Capital Corp. On December 19, 2016, Knight invested an additional \$180 in 3D, obtaining 240,000 common shares and two-year warrants to purchase 240,000 shares at an exercise price of \$0.92.

### ***Synergy***

On December 22, 2016, Knight entered into an agreement with Synergy to exchange its share purchase warrants and stock options in exchange for 7,500,000 common shares. As a result of the transaction, the Company de-recognized its investment on the warrants and options and recognized the shares received at the fair value of the consideration given. Subsequent to the transaction, Knight owns 17,645,812 or 19.9% of Synergy's common shares outstanding.

For further details regarding the movement in AFS equities or derivatives held by Knight throughout the year, refer to Note 10 "Other Financial Assets" of the audited annual consolidated financial statements.

## Rest of World Strategy

Knight's international strategy is focused on identifying potential products and companies that fit within our existing business model and in select markets such as Israel, Romania, Russia, Sub-Saharan Africa, the Caribbean and other countries outside the United States, Western Europe, China and Japan. Knight intends to continue its growth by becoming an international specialty pharmaceutical company and believes that these countries provide potentially significant growth and value opportunities.

### Investment in Medison

On September 9, 2015, Knight acquired a 28.3% ownership interest in Medison, a privately-owned specialty pharmaceutical company based in Israel. The consideration given for the equity interest in Medison amounted to \$82,001, which includes the fair value of 10,330,884 common shares of Knight issued to Medison and its controlling shareholder and a contingent consideration of \$1,100. In addition, the Company incurred \$217 of transaction costs which were

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

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

This selected information is derived from our financial statements.

	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15 <sup>1</sup>
Carrying value of investment	\$ 80,113	\$ 80,075	\$ 81,393	\$ 79,458	\$ 81,027	\$ 82,096
Amortization of FMV adjustments	\$ (1,749)	\$ (1,207)	\$ (1,208)	\$ (1,006)	\$ (1,260)	\$ (333)
Share of net income, net of FMV adjustment	\$ 38	\$ 1,096	\$ 805	\$ 854	\$ 946	\$ 95
Dividends received	—	\$ 2,414	—	\$ 2,423	\$ 2,015	—

<sup>1</sup> From September 9, 2015 to September 30, 2015

# Risk Management

## Currency Risk

Knight holds a significant portion of its financial assets in US\$, EUR and ILS which results in financial risk due to fluctuations in the value of the currencies relative to the CAD. 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 \$12,003, \$382 and \$337, respectively.

## Equity Price Risk

Equity price risk arises from changes in market prices of the AFS investments. The carrying values of investments subject to equity price risk are \$65,512 as at December 31, 2016 (December 31, 2015: \$34,038). 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.

## 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 5 and 6 of the audited annual consolidated 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.

## Liquidity Risk

The majority of the Company's financial liabilities are short term in nature. The Company generates sufficient cash from operating activities to fund its operations and fulfil its obligations as they become due. The Company has sufficient funds available through its cash, cash equivalents and marketable securities, should its cash requirements exceed cash generated from operations to cover all financial liability obligations. As at December 31, 2016, 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 Section 18.

## Credit Risk

The Company considers its maximum credit risk to be \$117,209 (December 31, 2015: \$79,766) which is the total of the following assets; trade and accounts receivable, interest receivable, loans receivable, investment in funds and derivatives. The marketable securities and cash equivalent balances are subject to minimal risk of changes in value. They are invested within three 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, twelve 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.

## 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

## Selected Annual Information

This selected information is derived from our annual financial statements.

[In thousands of Canadian dollars, except for share and per share amounts]	2016	2015	2014
Revenues	5,940	1,037	365
Net income	18,560	34,167	125,859
Basic earnings per share	0.15	0.36	2.20
Diluted earnings per share	0.15	0.35	2.20
Total Assets	990,770	648,988	486,613
Total non-current liabilities	1,294	186	—

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

## Selected Quarterly Financial Information

This selected information is derived from our financial statements.

[In thousands of Canadian dollars, except for share and per share amounts]	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15	Q2-15	Q1-15
Revenues	1,845	1,892	1,135	1,068	343	114	333	247
Net income	7,939	5,698	4,446	477	5,554	6,277	8,520	13,816
EPS								
Basic	0.06	0.04	0.04	0.005	0.05	0.07	0.09	0.15
Diluted	0.06	0.04	0.04	0.005	0.05	0.07	0.09	0.15
Cash, cash equivalents, marketable securities	736,050	645,054	638,423	426,235	471,207	445,889	436,997	452,186
Total assets	990,770	877,904	867,999	638,336	648,988	627,821	530,136	525,424
Total liabilities	11,052	8,305	6,034	5,663	6,926	2,372	3,797	5,973



## Outstanding Share Data

The table below summarizes the share data:

As at	March 15, 2017
Common Shares	142,719,326
Stock Options	3,140,629
Warrants	406,126

## Use of Proceeds from Financing

To date, Knight has raised net proceeds of approximately \$685,000 from five public offerings, including approximately \$218,000 from the public offering completed in June 2016, and \$95,000 from the public offering completed in December 2016. In our short form prospectuses related to the offerings, Knight disclosed that its intent was to use a substantial portion of the net proceeds (i) for potential acquisitions of (a) in-licensing of over-the-counter and prescription pharmaceutical products and targeted promotion of these products, and (b) specialty pharmaceutical businesses in select international markets, (ii) for financing of other life sciences companies in Canada and internationally as well as for investments in funds focused in the life sciences sector, and (iii) the remainder for general corporate purposes.

As at December 31, 2016, 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.

## 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.

## 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. For existing patented products prices 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.

## Financial Instruments

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

Knight has not entered into any currency or other hedging instrument contracts during the period ended December 31, 2016.

Please refer to note 10 of the annual audited annual consolidated financial statements for the year ended December 31, 2016 for additional details.

## 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 transaction of the remaining responsibilities and obligations to the licensor under agreed upon time frames and conditions. Please refer to note 21 of the annual audited consolidated financial statements for the year ended December 31, 2016 for additional details. Other than these contractual obligations and commitments, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

## Commitments

Knight has financial commitments with respect to operating leases, a real property, equity and loans, contributions of additional capital to our AFS investments in funds, purchase commitment and revenue and milestone commitments related to product distribution, license and supply agreements which are reported in note 21 of our audited annual consolidated financial statements for the period ended December 31, 2016.

## Related Party Transactions

During the year ended December 31, 2016, the Company entered into transactions with Pharmascience Inc., a company related to the Company's CEO. For additional details on the transactions refer to note 13 of our audited annual consolidated financial statements for the period ended December 31, 2016.

## 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 innovative pharmaceutical products, consumer health products and medical devices in Canada and select international markets.

## 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 audited annual consolidated financial statements.

## 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 for the Company with earlier application permitted. The Company is currently assessing the impact of this standard on its consolidated financial statements.

### 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 Company is currently assessing the potential impact of this standard on its consolidated financial statements.

### IFRS 16 - Leases

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

### IAS 12 - Income taxes

In January 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses as an amendment to IAS 12 – Income Taxes. These amendments address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

These amendments are effective for periods beginning on or after January 1, 2017. Earlier application is permitted. The Company has concluded that this standard has no impact on its consolidated financial statements.

## Disclosure Controls and Procedures

The Company’s management is responsible for the existence of appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable.

The Company has evaluated the effectiveness of its designed DC&P. Based on the evaluation of its DC&P, management has concluded that they are effective as of December 31, 2016 to provide reasonable assurance that material information relating to the Company is made known to management and that information required to be disclosed in the Company’s annual and interim filings and other reports are reported within the timeliness specified by securities legislation.

## Internal Control Over Financial Reporting

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

Management has evaluated the design and operating effectiveness of its ICFR as defined in NI 52-109. The evaluation was based on the criteria established in the “Internal Control-Integrated Framework” issued by the COSO. This evaluation was performed by management of the Company with the assistance of staff to the extent deemed necessary. Based on this evaluation, management concluded that the ICFR were appropriately designed and operating effectively, as at December 31, 2016.

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

During the year, there was no change in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect the Company’s internal controls over financial reporting.



# Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Knight Therapeutics Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

## **Management's responsibility for the consolidated financial statements**

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

## **Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Knight Therapeutics Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and 2015 in accordance with International Financial Reporting Standards.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

Montreal, Canada  
March 15, 2017

<sup>1</sup> CPA Auditor, CA, public accountancy permit No. A120254

# Consolidated Balance Sheets

[In thousands of Canadian dollars]

	Notes	2016	2015
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	5	514,942	237,481
Marketable securities	6	221,108	233,726
Trade and other receivables	7	6,440	2,994
Inventories	8	790	1,460
Other current financial assets	10	51,789	23,588
Income taxes receivable		4,683	231
<b>Total current assets</b>		<b>799,752</b>	499,480
Property and equipment		32	18
Intangible assets	9	14,153	3,320
Other financial assets	10	90,643	62,616
Investment in associate	11	80,113	81,027
Deferred income tax assets	18	6,077	2,527
<b>Total assets</b>		<b>990,770</b>	648,988
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	12	3,207	2,416
Income taxes payable		5,659	4,031
Other balance payable		537	—
Deferred other income		355	293
<b>Total current liabilities</b>		<b>9,758</b>	6,740
Deferred other income		417	—
Other balances payable		877	—
Deferred income tax liabilities	18	—	186
<b>Total liabilities</b>		<b>11,052</b>	6,926
<b>Shareholders' equity</b>			
Share capital	14 [i]	760,447	439,148
Warrants	14 [iv]	785	161
Contributed surplus		9,469	6,772
Accumulated other comprehensive income	15	30,431	35,955
Retained earnings		178,586	160,026
<b>Total shareholders' equity</b>		<b>979,718</b>	642,062
<b>Total liabilities and shareholders' equity</b>		<b>990,770</b>	648,988

Commitments [note 21]

Subsequent events [note 24]

See accompanying notes

# Consolidated Statements of Income

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

	Notes	2016	2015
Revenues		5,940	1,037
Cost of goods sold		1,550	428
<b>Gross margin</b>		<b>4,390</b>	609
<b>EXPENSES</b>			
Selling and marketing		532	—
General and administrative		9,302	9,086
Research and development		1,955	2,707
		<b>(7,399)</b>	(11,184)
Depreciation of property and equipment		18	30
Amortization of intangible assets		419	94
Interest income		(24,414)	(18,632)
Other income		(3,894)	(2,860)
Net gain on financial assets		(1,659)	(17,347)
Purchase gain on business combination		—	(515)
Net loss on settlement of loans receivable		—	650
Share of net income of associate	11	(2,793)	(1,041)
Foreign exchange loss (gain)		1,451	(8,579)
<b>Income before income taxes</b>		<b>23,473</b>	37,016
Income tax expense	18	4,190	1,939
Deferred income tax expense	18	723	910
<b>Net income for the year</b>		<b>18,560</b>	34,167
<b>ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY</b>			
Basic earnings per share	17	0.15	0.36
Diluted earnings per share	17	0.15	0.35
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>			
Basic		120,723,270	96,191,285
Diluted		121,263,522	96,532,104

See accompanying notes

# Consolidated Statements of Comprehensive Income

[In thousands of Canadian dollars]

	2016	2015
<b>NET INCOME FOR THE YEAR</b>	<b>18,560</b>	34,167
Realized gain on available for sale financial instruments reclassified to statement of income net of tax of \$247 (2015: \$1,345)	<b>(1,592)</b>	(8,654)
<b>Other comprehensive (loss) income to be reclassified to statement of income in subsequent periods:</b>		
Unrealized gain on available for sale financial instruments net of tax of \$245 (2015: \$528)	<b>1,146</b>	7,083
Unrealized (loss) gain on translation of foreign operations	<b>(5,078)</b>	27,559
<b>Other comprehensive (loss) income for the year</b>	<b>(5,524)</b>	<b>25,988</b>
<b>Total comprehensive income for the year</b>	<b>13,036</b>	<b>60,155</b>



# Consolidated Statement of Changes in Shareholders' Equity

[In thousands of Canadian dollars]

	Notes	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
<b>BALANCE AS AT JANUARY 1, 2015</b>		341,065	—	2,100	9,967	125,859	<b>478,991</b>
Net income for the year		—	—	—	—	34,167	<b>34,167</b>
Realized gain reclassified to statement of income, net of tax of \$1,345		—	—	—	(8,654)	—	<b>(8,654)</b>
Unrealized gain on available for sale financial instruments, net of tax of \$528		—	—	—	7,083	—	<b>7,083</b>
Unrealized gain on translation of foreign operations		—	—	—	27,559	—	<b>27,559</b>
<b>Comprehensive income</b>		—	—	—	25,988	34,167	<b>60,155</b>
Share-based compensation expense	14 [ii]	—	—	4,421	—	—	<b>4,421</b>
Issuance of shares upon financing, net of costs and deferred tax of \$2,155		14,573	—	—	—	—	<b>14,573</b>
Issuance upon investment in associate	11	80,684	—	1,100	—	—	<b>81,784</b>
Issuance due to share-based payments		332	—	—	—	—	<b>332</b>
Exercise of stock options		1,487	—	(554)	—	—	<b>933</b>
Issuance of warrants		—	161	—	—	—	<b>161</b>
Exercise of compensation warrants		930	—	(295)	—	—	<b>635</b>
Issuance under share purchase plan		77	—	—	—	—	<b>77</b>
<b>Balance as at December 31, 2015</b>		439,148	161	6,772	35,955	160,026	<b>642,062</b>
<b>BALANCE AS AT JANUARY 1, 2016</b>		439,148	161	6,772	35,955	160,026	<b>642,062</b>
Net income for the year		—	—	—	—	18,560	<b>18,560</b>
Realized gain reclassified to statement of income, net of tax of \$247		—	—	—	(1,592)	—	<b>(1,592)</b>
Unrealized gain on available for sale financial instruments, net of tax of \$245		—	—	—	1,146	—	<b>1,146</b>
Unrealized loss on translation of foreign operations		—	—	—	(5,078)	—	<b>(5,078)</b>
<b>Comprehensive (loss) income</b>		—	—	—	(5,524)	18,560	<b>13,036</b>
Share-based compensation expense	14 [ii]	—	—	3,640	—	—	<b>3,640</b>
Issuance upon bought deals, net of costs and includes deferred tax of \$4,465	14 [i] [a]	317,616	—	—	—	—	<b>317,616</b>
Issuance of shares to associate	14 [i] [b]	2,073	—	(943)	—	—	<b>1,130</b>
Issuance upon investment	14 [i] [c]	1,846	624	—	—	—	<b>2,470</b>
Share purchase loans	14 [i] [e]	(350)	—	—	—	—	<b>(350)</b>
Issuance under share purchase plan		114	—	—	—	—	<b>114</b>
<b>Balance as at December 31, 2016</b>		760,447	785	9,469	30,431	178,586	<b>979,718</b>

See accompanying notes

# Consolidated Statement of Cash Flows

[In thousands of Canadian dollars]

	Notes	2016	2015
<b>OPERATING ACTIVITIES</b>			
<b>Net income for the year</b>		<b>18,560</b>	34,167
Adjustments reconciling net income to operating cash flows:			
Deferred tax		723	910
Share-based compensation expense	14 [ii]	3,640	4,421
Depreciation and amortization		437	124
Accretion of interest	10	(6,201)	(6,985)
Other income		(1,274)	—
Realized gain on financial assets		(2,569)	(15,381)
Unrealized loss (gain) on financial assets		910	(1,966)
Net loss on settlement of loans receivable		—	535
Foreign exchange loss (gain)		1,451	(2,068)
Purchase gain on business combination		—	(515)
Share of net income from associate	11	(2,793)	(1,041)
Deferred other income		479	(747)
		<b>13,363</b>	11,454
Changes in non-cash working capital related to operations	22	(3,462)	(3,818)
Dividends from associate	11	4,837	2,015
<b>Cash inflow from operating activities</b>		<b>14,738</b>	9,651
<b>INVESTING ACTIVITIES</b>			
Purchase of marketable securities		(535,685)	(583,225)
Purchase of equities		(16,371)	(11,360)
Purchase of property and equipment		(7)	—
Purchase of intangibles		(9,853)	(1,750)
Investment in funds		(16,503)	(15,694)
Issuance of loans receivable		(43,274)	(40,280)
Investment in associate	11	—	(217)
Proceeds from repayments of loans receivable		11,324	40,420
Proceeds from sale of marketable securities		544,812	503,935
Proceeds from distribution of funds		4,610	19,314
Proceeds from disposal of equities		9,572	19,758
Proceeds from disposal of derivatives		2,157	—
<b>Cash outflow from investing activities</b>		<b>(49,218)</b>	(69,099)

See accompanying notes



# Consolidated Statement of Cash Flows

[In thousands of Canadian dollars]

	Notes	2016	2015
<b>FINANCING ACTIVITIES</b>			
Proceeds from share issuance	14 [i] [a]	313,574	12,424
Proceeds from exercise of compensation warrants		—	635
Share option plan		—	933
Share purchase plan		105	77
Share purchase loans	14 [i] [d]	(350)	—
Cost related to prior period share issuance		—	(207)
<b>Cash inflow from financing activities</b>		<b>313,329</b>	<b>13,862</b>
<b>Increase (decrease) in cash during the year</b>			
Cash and cash equivalents, beginning of the year		237,481	283,445
Net foreign exchange difference		(1,388)	(378)
<b>Cash and cash equivalents, end of the year</b>		<b>514,942</b>	<b>237,481</b>
<b>Supplemental cash flow information:</b>			
Interest received		15,665	10,107
Income taxes paid		7,010	1,980

See accompanying notes

# Notes to Consolidated Financial Statements

[In thousands, except for share and per share amounts]

## Glossary of Abbreviations

Company	
Abbreviation	Description
3D	3D Signatures Inc.
60P	60 <sup>o</sup> Pharmaceuticals LLC
Antibe	Antibe Therapeutics Inc.
Apicore	Apicore Inc. and Apigen Investments Limited
Crescita	Crescita Therapeutics Inc.
CRH	CRH Medical Corporation
Ember	Ember Therapeutics Inc.
Extenway	Extenway Solutions Inc.
Intega	INTEGA Skin Sciences Inc.
Knight or the Company	Knight Therapeutics Inc.
Medimetriks	Medimetriks Pharmaceuticals Inc.
Medison	Medison Biotech (1995) Ltd.
NEMO II	New Emerging Medical Opportunities Fund II Ltd.
NeurAxon	NeurAxon Inc.
Origin	Origin Biomed Inc.
Otsuka	Otsuka Pharmaceutical Co. Ltd
PBB	Pro Bono Bio PLC
Pediapharm	Pediapharm Inc.
Profound	Profound Medical Inc.
Profounda	Profounda Inc.
Protalix	Protalix Bio Therapeutics Inc.
Synergy	Synergy CHC Corp.
Sectoral	Sectoral Asset Management Inc.

## 1. Nature of Operations

### Description of business

The Company 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 developing, acquiring, in-licensing, out-licensing, marketing and distributing innovative pharmaceutical products, consumer health products and medical devices in Canada and select international markets. The Company is located at 3400 De Maisonneuve Boulevard West, Suite 1055, Montreal, Quebec, H3Z 3B8. Knight is listed on Toronto Stock Exchange under the ticker symbol “GUD”.



## 2. Summary of Significant Accounting Policies

### **Basis of presentation and statement of compliance**

These consolidated financial statements of the Company for the year ended December 31, 2016, have been prepared in accordance with International Financial Reporting Standards (IFRS) on a historical cost basis, except for items that are required to be accounted for at fair value. The policies set out below have been consistently applied to all the periods presented.

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

These consolidated financial statements were authorized for issue by the Company's Board of Directors on March 15, 2017.

### **Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Knight Therapeutics (Barbados) Inc., Knight Therapeutics (USA) Inc. and Abir Therapeutics Ltd. These subsidiaries are fully consolidated and continue to be consolidated until the date that such control ceases.

All significant inter-company transactions, balances, revenues and expenses have been eliminated upon consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

### **Business combinations**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill (the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed) is initially measured at cost. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in profit or loss.

### **Foreign currency translation**

#### ***[a] Functional and presentation currency***

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

#### ***[b] Transactions and balances***

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

#### ***[c] Foreign operations***

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

### Cash and cash equivalents

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

### Marketable securities

Marketable securities consist of securities that are liquid and subject to an insignificant risk of change in value. Marketable securities that are classified as “available for sale” are initially measured at fair value with any resulting subsequent changes in the fair value being charged or credited to other comprehensive income and when ultimately sold to net income. Fair values for marketable securities are obtained using techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

### Inventory

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

## Financial instruments

### *Initial recognition and subsequent measurement*

Category	Financial instruments	Description
<b>Available for sale</b>	Cash equivalents	Highly liquid investments.
	Marketable securities	Liquid investments that are readily convertible into a known amount of cash.
	Investments in funds	Life sciences venture capital equity funds and debt funds.
	Investments in equities	Equities of publicly-traded and private entities.
<b>Financial assets classified as Fair Value Through Profit or Loss (“FVPTL”)</b>	Derivatives	Warrants, stock options, conversion features on debentures and other.
	Cash	Cash balances with banks.
<b>Loans and receivables</b>	Loans and receivables	Loans receivable, debentures and long-term receivables.
	Trade and other receivables	Amounts receivable from customers and third parties.
<b>Financial liabilities</b>	Accounts payable and accrued liabilities	Not applicable.

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

### Day 1 gain on initial measurement

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

- In the income statement on a straight-line basis over the term for financial assets classified as FVTPL
- In the income statement through the application of the effective interest method for loans receivable
- In the statement of comprehensive income for financial assets classified as available for sale when there is a change in a factor that market participants would consider when pricing the asset

### Impairment of financial assets

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

Objective evidence of impairment may include the following:

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

## Derecognition

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

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

## Fair value hierarchy

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

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

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

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

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

## Property and equipment

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

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

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

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

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



## Intangible assets

Intangible assets acquired are recorded at cost. Intangibles assets consist of pharmaceutical product rights, intellectual property and process know-how covered by certain patented and non-patented information. Intangible assets with finite lives are amortized on a straight-line basis over the lesser of the term of the agreement, the life of the patent or the expected useful life of the product once they are available for commercialization. The amortization terms range from 7 to 15 years. The Company periodically reviews the useful lives and the carrying values of its intangible assets. As a result, the useful life of intangible assets may be adjusted accordingly.

The Company assesses at each reporting period whether there is an indication that an asset may be impaired. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

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

## Investments in associates

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

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

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

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

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

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

## Accruals and provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The recognized provisions are mostly related to business acquisitions and product-related agreement exposures and are part of the normal course of business.

### **Other balances payable**

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

### **Share-based compensation plans**

The Company has share-based compensation plans, which are described in note 14. The cost of share-based compensation plans is recognized, together with a corresponding increase in contributed surplus over the period in which the service conditions are fulfilled. The cumulative expense is recognized at each reporting date until the vesting date and reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative expense recognized for the period is recorded under general and administrative expenses on the consolidated statement of income. No expense is recognized for awards that do not ultimately vest. Any consideration paid by employees on exercise of share options or purchase of shares is credited to share capital. The dilutive effect of outstanding options, if any, is reflected as additional share dilution in the computation of diluted earnings per share.

### **Share purchase plan**

The Company offers a share purchase plan to its employees and directors. Under this plan, the Company contributes, in the form of shares, a percentage of the employees' or directors' contributions that have been purchased and held for two years by the individual. The Company contributions to the plan are recognized in other compensation costs in general and administrative expenses.

### **Equity instrument share issue costs**

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

### **Operating lease**

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

### **Revenue recognition**

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

### **Research and development**

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

### **Interest income/expense**

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

### **Government assistance**

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

## **Income taxes**

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

### **Current income tax**

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

### **Deferred tax**

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

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

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

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

become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

### **Commodity tax**

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

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

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

### **Earnings per share**

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

### 3. Use of Judgements and Estimates

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

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

#### **Fair value measurement of financial assets**

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

#### **Investments in Funds**

The Company records investments in funds at its net asset value ("NAV") and judgment is used to determine if the NAV provided by the fund approximates fair value. If it is determined that the NAV represents fair value, the investment in fund is adjusted to reflect the NAV and unrealized gains or losses are recorded in other comprehensive income.

#### **Loans receivable**

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

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

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

#### **Derivatives**

When determining fair value of derivatives such as warrants, the Company uses the Black-Scholes model which involves using judgment on certain inputs such as the volatility and term over which the financial asset will be held.

#### **Impairment**

##### **Loans receivable**

If there is an indicator of impairment such as an event of default on the loan receivable, the Company assesses the recoverable amount of the loan using judgement and estimates. This assessment involves but is not limited to revenues and expenses forecasts assumptions of the debtor as well as valuing the recoverable amount of the security or collateral on which the loan was issued. Future cash flows are based on sales projections and allocated costs which are estimated based on forecast results and business initiatives. Discount rates are based on the Company's cost of capital, adjusted for asset-specific risks. Future events could cause the assumptions used in the impairment review to change with a consequential adverse effect on the results of the Company.

### ***Investment in associate***

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

### ***Intangibles***

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

### ***Share-based compensation***

The Company measures the cost of equity-settled transactions with employees and others by reference to the fair value of the related instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant, which is dependent on the terms and conditions of the grant. This also requires making assumptions and determining the most appropriate inputs to the valuation model including volatility (see note 14 for further disclosures).

### ***Income taxes***

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

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the tax assets can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on income taxes are disclosed in note 18.

### ***Functional currency***

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

## 4. 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 for the Company with earlier application permitted. The Company is currently assessing the impact of this standard and amendments on its consolidated financial statements.

### 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 Company is currently assessing the potential impact of this standard on its consolidated financial statements.

### IFRS 16 - Leases

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

### IAS 12 - Income Taxes

In January 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses as an amendment to IAS 12 – Income Taxes. These amendments address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company has concluded that this standard will have no impact on its consolidated financial statements.

## 5. Cash and Cash Equivalents

[In thousands of Canadian dollars]

As at December 31,	2016	2015
Cash in bank	490,435	235,484
Term deposit of US\$18,252 earning interest at 0.80% and maturing January 2017	24,507	—
Monthly renewable term deposit (December 31, 2015: ILS5,624 earned interest of 0.05%)	—	1,997
	514,942	237,481

## 6. Marketable Securities

[In thousands of Canadian dollars]

As at December 31,	2016	2015
Guaranteed investment certificates earning interest rates ranging from 0.95% to 1.90% and maturing from January 2017 to April 2018 (December 31, 2015: earned interest ranging from 1.30% to 1.76% and matured from January 2016 to December 2016)	110,890	100,000
Term deposits of US\$67,470 earning interest rates ranging from 1.29% to 1.70% and maturing from May 2017 to December 2017 (December 31, 2015: US\$86,864 earned interest at 0.60% and matured from January 2016 to June 2016)	90,592	120,219
Guaranteed investment certificates of US\$9,607 earning interest rates ranging from 1.34% to 1.51% and maturing from May 2017 to November 2017	12,900	—
Term deposit of ILS19,250 earning interest at 0.08% and maturing November 2017	6,726	—
Term deposits earning interest ranging from 0.20% to 0.50% and matured on various dates from March 2016 to June 2016	—	13,507
	<b>221,108</b>	<b>233,726</b>

## 7. Trade and Other Receivables

[In thousands of Canadian dollars]

As at December 31,	2016	2015
Trade and accounts receivable	2,606	414
Interest receivable	3,107	1,626
Commodity taxes receivable	102	366
Prepays and other receivable	625	423
Refundable investment tax credits	—	165
	<b>6,440</b>	<b>2,994</b>

## 8. Inventories

[In thousands of Canadian dollars]

As at December 31,	2016	2015
Raw materials	400	1,407
Work in progress	237	37
Finished goods	153	16
	<b>790</b>	<b>1,460</b>

During the year ended December 31, 2016, total inventory in the amount of \$1,215 (2015: \$379) was recognized as cost of goods sold including an increase in provision of \$617.



## 9. Intangible Assets

[In thousands of Canadian dollars]

	Notes	2016	2015
Cost as at January 1		3,500	909
Additions		11,258	1,183
Acquired in a business combination		—	2,100
Disposals		—	(911)
Foreign exchange		(4)	219
<b>Cost as at December 31</b>		<b>14,754</b>	<b>3,500</b>
Accumulated amortization as at January 1		180	63
Amortization charge		419	94
Foreign exchange		2	23
<b>Accumulated amortization as at December 31</b>		<b>601</b>	<b>180</b>
<b>Net book value as at December 31</b>		<b>14,153</b>	<b>3,320</b>

### 2016

During 2016, the Company acquired \$11,258 of intangible assets upon termination of its Impavido® agreement with Paladin Labs (Barbados) Inc., in-licensed Netildex™ and Movantik® and recorded certain milestones payable on a product.

### 2015

#### NeurAxon Acquisition

On January 1, 2015, the Company entered into a purchase agreement with NeurAxon whereby the Company acquired all of the issued and outstanding common shares of NeurAxon for \$1,750 in cash. NeurAxon was a clinical stage research company focused on the development of innovative selective inhibitors of nitric oxide synthase as novel therapies for migraine and other conditions.

The acquisition was accounted for using the acquisition method of accounting and as at January 1, 2015, the assets and liabilities acquired and the results of operations were included in these consolidated financial statements. The allocation of the purchase price was as follows:

[In thousands of Canadian dollars]

Current investment tax credits receivable	165
Intangible assets	2,100
Deferred tax asset	565
Deferred tax liability	(565)
<b>Total net assets acquired</b>	<b>2,265</b>
Consideration paid	(1,750)
<b>Purchase gain on acquisition</b>	<b>515</b>

As part of the acquisition, the Company acquired tax assets of \$21,132 on total tax attributes of \$75,661 which were not fully recognized in the consolidated financial statements. There is uncertainty as to whether sufficient income will be generated in the future to recover these deferred tax assets. The Company recognized a deferred tax asset of \$565 to the extent of the deferred tax liability recorded as part of the purchase price allocation.



## 10. Other Financial Assets

[In thousands of Canadian dollars]

As at December 31,	2016	2015
<b>OTHER FINANCIAL ASSETS</b>		
Loans and other receivables [i]	75,731	45,545
Available for sale equity investments [ii]	30,936	8,478
Available for sale fund investments [iii]	34,576	25,560
Derivatives [iv]	1,189	6,621
<b>Total</b>	<b>142,432</b>	<b>86,204</b>

### Fair value hierarchy

[In thousands of Canadian dollars]

As at December 31,	2016	Level 1	Level 2	Level 3
<b>Recurring fair value measurements</b>				
Cash equivalents	24,507	—	24,507	—
Marketable securities	221,108	—	221,108	—
Available for sale equity investments [ii]	26,965	19,935	7,030	—
Available for sale fund investments [iii]	34,576	—	—	34,576
Derivatives [iv]	1,189	—	—	1,189
<b>Measured at cost or amortized cost</b>				
Loans and other receivables [i]	75,731	—	—	75,731
Available for sale equity investments [ii]	3,971	—	—	3,971
<b>Total</b>	<b>388,047</b>	<b>19,935</b>	<b>252,645</b>	<b>115,467</b>
<b>As at December 31,</b>				
	<b>2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Recurring fair value measurements</b>				
Cash equivalents	1,997	—	1,997	—
Marketable securities	233,726	—	233,726	—
Available for sale equity investments [ii]	8,478	2,879	5,609	—
Available for sale fund investments [iii]	25,560	—	—	25,560
Derivatives [iv]	5,303	—	—	5,303
<b>Measured at cost or amortized cost</b>				
Loans and other receivables [i]	45,545	—	—	45,545
Derivatives [iv]	1,318	—	—	1,318
<b>Total</b>	<b>321,927</b>	<b>2,879</b>	<b>241,332</b>	<b>77,726</b>

In 2016, a publicly-traded equity investment was transferred from level 2 to level 1 due to an increase in trading activity following an equity raise that was completed by the investee. As at December 31, 2016, the fair value of this investment was \$3,375. There were no transfers between levels of the fair-value hierarchy for the year ended December 31, 2015.

## [i] Loans and other receivables

As at December 31,	Carrying value beginning of year	Additions <sup>1</sup>	Accretion <sup>2</sup>	Loan repayments <sup>3</sup>	Other <sup>4</sup>	Carrying value end of year	Current other financial assets	Non-current other financial assets
<b>2016</b>	<b>\$ 45,545</b>	<b>\$ 44,612</b>	<b>\$ 6,201</b>	<b>\$ (18,101)</b>	<b>\$ (2,526)</b>	<b>\$ 75,731</b>	<b>\$ 21,667</b>	<b>\$ 54,064</b>
2015	\$ 37,566	\$ 35,491	\$ 6,985	\$ (40,420)	\$ 5,923	\$ 45,545	\$ 13,206	\$ 32,339

<sup>1</sup> Relative fair value of loans issued net of work and origination fees

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

<sup>3</sup> Principal repayments on loans receivable

<sup>4</sup> Net changes related to write-offs, foreign currency revaluations and other adjustments

### 2016

#### 60P

On December 10, 2015, the Company issued a first \$685 [US\$500] tranche of a secured loan of up to \$5,440 [US\$4,000] to 60P. On January 4, 2016, Knight issued \$2,096 [US\$1,500] to 60P as a second tranche. On July 15, 2016, the loan agreement was amended to include additional tranches upon specific criteria being met, thereby increasing the total amount that can be issued under the loan by an additional \$1,705 [US\$1,300] to \$7,116 [US\$5,300]. In the second half of 2016, Knight issued an additional two tranches for an aggregate amount of \$1,134 [US\$842]. The loan bears interest at 15% per annum and matures on December 31, 2020.

#### Intega and Crescita

On January 22, 2016, Knight entered into a secured loan agreement whereby it issued an aggregate amount of \$9,000 to Intega to support a business acquisition ("Intega Loan Transaction"). The Company issued a loan of \$6,000 ("Intega Loan") at an interest rate of 13% per year and maturing on January 22, 2022, as well as a bridge loan of \$3,000 ("Intega Bridge Loan") with a one-year term bearing interest at a minimum of 16% per annum. The loans were recorded at a relative fair value of \$7,730 upon initial measurement and subsequently accounted for at amortized cost using effective interest rates of 19.8% and 44.1% for Intega Loan and Intega Bridge Loan, respectively.

On September 1, 2016, Crescita acquired Intega for \$8,000 plus up to an additional \$2,000 in milestones payable in Crescita shares valued at \$2.44 each ("Crescita Transaction"). Subsequent to the close of the Crescita Transaction, the Intega Bridge Loan was fully repaid and Knight recognized a gain of \$233 on de-recognition of the financial asset. The Intega Loan was amended and restated ("Crescita Loan"), matures on January 22, 2022, has a carrying and fair value of \$6,841, earns interest at 9% per annum and is secured against a letter of credit. Since the economic characteristics

of the Crescita Loan are substantially different from the Intega Loan, the Company recognized a gain of \$1,089 on the financial asset related to the de-recognition of the Intega Loan and subsequent recognition of the Crescita Loan.

#### 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 ("Medimetriks Loan Transaction"). The secured loan, with an initial tranche of \$24,631 [US\$18,000], bears interest at a rate of 13% per annum for a three-year term. A second tranche of \$2,598 [US\$2,000] was issued on June 29, 2016, upon the U.S. Food and Drug Administration filing by Medimetriks of a NDA for Ozenoxacin. The loan was recorded at a relative fair value of \$23,685 [US\$17,370] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 18.9%.

On December 23, 2016, Knight amended its initial loan agreement and issued an additional \$4,061 [US\$3,000] ("Second Loan") to Medimetriks. The Second Loan matures in December 2019, and bears interest at a rate of 13%. The loan was recorded at a relative fair value of \$2,761 [US\$2,040] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 46.7%.

### *Other changes during the year*

On July 15, 2016, the Company assigned its Pediapharm convertible debenture to the Bloom Burton Healthcare Lending Trust. There were no amendments to the loan agreement or significant changes to its risk and reward profile.

Effective June 30, 2016, the Synergy loan issued on January 22, 2015 and maturing January 20, 2017 was extended to January 20, 2018 as a result of Synergy exercising its option to extend the term of the loan as it had met specific revenue and earnings targets. The accretion on the loan was adjusted prospectively.

On December 30, 2016, the Company obtained an early repayment notice from Apicore. Consequently, the carrying value of the loan was adjusted based on the new repayment date.

## **2015**

### *Synergy*

On January 22, 2015, the Company entered into a secured debt agreement with Synergy (“Synergy Loan Agreement”), whereby it issued a secured loan of \$7,423 [US\$6,000] which bears interest at 15% per annum and is fully secured against the assets of Synergy. The loan, which matures on January 20, 2017, may be extended for up to an additional two years should Synergy meet certain revenue and profitability targets, and the interest rate could decrease to 13% if Synergy meets certain equity-fundraising targets. The loan was recorded at a relative fair value of \$5,938 [US\$4,800] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 23.4%.

On November 12, 2015, the Company extended an additional secured loan (“Additional Synergy Loan Agreement”) of \$7,319 [US\$5,500] to Synergy which bears interest at 15% per annum and matures on November 11, 2017. The loan was recorded at a relative fair value of \$4,214 [US\$3,167] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 62.4%.

### *CRH*

On March 25, 2015, the Company received early repayment of \$9,971 [US\$7,969] on its secured loan to CRH issued in 2014. On November 25, 2015, the Company received early repayment of the remaining balance of \$29,395 [US\$22,031] on its secured loan to CRH as well as a prepayment fee of \$1,250 [US\$940] recorded in other income in the statement of income. On February 29, 2016, the Company received \$676 [US\$500] from CRH in exchange for the Company relinquishing a product option from CRH.

### *Pediapharm*

On March 30, 2015, the Company purchased \$1,250 of convertible debentures of Pediapharm, as part of a \$5,550 offering (“Pediapharm Agreement”), which bear interest at a rate of 12% per annum, mature on March 30, 2019 and are fully secured by the assets of Pediapharm on a pari passu basis with the other lenders. The debentures will automatically convert into common shares at the conversion price if during any twenty consecutive trading days, the common shares trade at a volume weighted average price of at least \$0.60 on a total cumulative volume of not less than 2,000,000 shares. The convertible debentures were accounted for at their relative fair value of \$1,108 upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 16.1%.

### *Profound*

On April 30, 2015, the Company entered into a secured debt agreement (“Profound Agreement”) with Profound, whereby it issued a secured loan of \$4,000 on June 4, 2015 bearing interest at 15% per annum, maturing on June 3, 2019. The loan terms include a two-year payment holiday during which no interest or principal repayment is required. The loan may be extended by up to four successive additional 12-month periods should Profound meet certain revenue thresholds. In addition, Knight is to receive a royalty equal to 0.5% of net sales by Profound until maturity of the loan. The loan was recorded at a relative fair value of \$2,800 upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 31.4%.

### *PBB*

On June 25, 2015, the Company entered into a secured debt agreement with PBB, whereby it issued a secured loan of \$18,521 [US\$15,000] bearing interest at 12% per annum that will mature on June 25, 2018. The interest rate may decrease to 10% if PBB meets certain equity-fundraising targets. Contingent on PBB meeting certain equity-fundraising targets, Knight will receive a fee, payable in cash or shares at the option of PBB, ranging from \$2,472 [US\$2,000] to \$3,399 [US\$2,750], as well as a warrant to acquire 750 common shares of PBB at an exercise price of \$3,708 [US\$3,000] per share. The loan was recorded at relative fair value of \$18,199 [US\$14,725] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 13.3%.

### Origin Settlement of Loan Receivable

On June 24, 2015, Knight acquired the assets related to Neuragen® pursuant to an order of The Supreme Court of Nova Scotia following a default by Origin under its secured loan agreement with Knight. The net assets acquired to settle the loan receivable of \$925 were assigned a fair value of \$1,820. In connection with the acquisition, Knight issued 185,000 warrants on June 30, 2015 to several Origin stakeholders which are exercisable, in some instances subject to the achievement of certain prescribed financial benchmarks, for a period of ten years at an exercise price of \$10 per share. The warrants were assigned a value of \$161 using the Black-Scholes option pricing model based on the likelihood of meeting certain financial conditions. Knight recognized a gain on settlement of loan receivable of \$382, net of \$352 of related expenses.

On June 26, 2015, Knight entered into a sale agreement with Synergy related to the U.S. rights to Neuragen®. Under the terms of the agreement, Knight will receive minimum aggregate consideration of \$1,498 [US\$1,200] payable as follows: (i) \$312 [US\$250] upon closing, (ii) \$312 [US\$250] by June 30, 2016, (iii) \$874 [US\$700] payable in quarterly installments equal to the greater of \$15 [US\$12.5] or 5% of U.S. net sales, plus (iv) 2% of U.S. net sales of Neuragen® for 60 months thereafter. Knight retains the Canadian and other ex-U.S. global rights to Neuragen®. Knight recognized a loss of \$230 on the sale of the U.S. rights of Neuragen® and other assets.

### Extenway

On June 25, 2015, the Company entered into a secured debt agreement with Extenway whereby it issued a secured loan of \$800 bearing interest at 15% per annum maturing on June 24, 2021. On December 21, 2015 a receiver was appointed over the majority of Extenway's assets under direction from another secured creditor. Due to uncertainty regarding the Company's ability to recover its principal and interest, an impairment loss of \$802 was recorded.

### Ember

On August 5, 2015, Knight issued a secured loan of \$1,318 [US\$1,000] to Ember which bears interest at 12.5% per annum for a one-year term. The effective interest rate on this loan was 18.1%. On August 14, 2015, Knight assigned \$654 [US\$500] of the principal amount of the loan to the Bloom Burton Healthcare Lending Trust.

### Antibe

On November 13, 2015, the Company purchased \$500 of senior secured convertible debentures of Antibe as part of a \$2,600 private placement ("Antibe Transaction"). The debentures bear interest at a rate of 10% per annum, mature on October 15, 2018 and are secured by the assets of Antibe. At Knight's option, the debentures may be converted at any time into common shares of Antibe at a price of \$0.22 per common share. The effective interest rate of the debentures is 45.1%. The debentures were accounted for at their relative fair value of \$270 upon initial measurement.

### 60P

On December 10, 2015, the Company issued a first \$685 [US\$500] tranche of a secured loan of up to \$5,440 [US\$4,000] to 60P. The loan will bear interest at 15% per annum and will mature on December 31, 2020. As part of the transaction, Knight will receive a share of all proceeds arising from the successful approval of 60P's products in the U.S. and elsewhere. The loan was recorded at a fair value of \$685 [US\$500] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 15%. In December 2015, 60P met certain conditions required to receive the second tranche of \$2,095 [US\$1,500] which was issued on January 4, 2016.

## [ii] Available for sale equity investments

As at December 31,	Carrying value beginning of year	Additions <sup>1</sup>	Disposals <sup>2</sup>	Realized gain <sup>3</sup>	Other <sup>4</sup>	Carrying value end of year	Current other financial assets	Non-current other financial assets
2016	\$ 8,478	\$ 26,025	\$ (10,252)	\$ 2,764	\$ 3,921	\$ 30,936	\$ 29,386	\$ 1,550
2015	\$ 8,204	\$ 13,731	\$ (19,758)	\$ 8,402	\$ (2,101)	\$ 8,478	\$ 8,478	—

<sup>1</sup> Equities purchased or received as consideration with the strategic lending transactions

<sup>2</sup> Cash received upon disposal of equities during the year

<sup>3</sup> Realized gain on the disposals of equities

<sup>4</sup> Net changes due to revaluation of equities to fair market value, foreign currency translation, realized gains or losses reclassified from other comprehensive income to consolidated statement of income upon disposal and other adjustments

### *Medimetriks*

As part of the Medimetriks Loan Transaction, Knight was issued 455,219 or 3.6% of the fully diluted common shares in the capital of Medimetriks. As at February 17, 2016, the common shares were assigned a relative fair value of \$2,983 [US\$2,180] using a fair value of \$7.39 [US\$5.40] per share which was derived by using a combination of the income approach and market approach valuation techniques.

As consideration for the Second Loan, Knight received an additional 282,425 shares (“Additional Shares”), increasing its ownership from 3.6% to 5.4% of the fully diluted common shares. The Additional Shares were assigned a relative fair value of \$1,288 [US\$960] using a fair value of \$6.77 [US\$5.00] per share which was derived using an income approach valuation technique.

As at December 31, 2016, the Company holds 737,644 shares of Medimetriks recorded at a carrying amount of \$3,973 [US\$2,959]. The fair value cannot be reliably measured at every reporting period since it is a privately-held company. The Company has deferred a day 1 gain of \$980 [US\$730] on the common shares of Medimetriks since the fair value was not based on data observable from active markets.

### *Intega and Crescita*

As consideration for the Intega Loan Transaction, Knight was issued 780,574 or 8% of the fully diluted common shares of Intega (“Intega Shares”) which were assigned a relative fair value of \$680 using a fair value of \$1 per share. Prior to the Crescita Transaction, on August 31, 2016, Knight was issued an additional 1,609,555 Intega shares (“Additional Intega Shares”).

As consideration for the Crescita Transaction, Knight was issued 297,707 Crescita shares valued at \$1.66 based on the September 1, 2016 closing price, in exchange for the Intega Shares resulting in a realized loss of \$186. In addition, Knight received a total of 347,295 Crescita common shares and recorded a balance of sale receivable of \$384 in exchange for the Additional Intega Shares resulting in other income of \$968. As at December 31, 2016 the balance of sale receivable was revalued to \$279 and the Company held an aggregate of 1,513,502 shares of Crescita representing approximately 10.9% of its outstanding common shares.

### *Pediapharm*

On July 15, 2016, the Company acquired 11,470,920 common shares of Pediapharm in exchange of 221,126 common shares and 221,126 warrants of Knight (“Pediapharm Transaction”). The shares were assigned a value of \$0.21 per share. Combined with previously purchased shares, Knight owned a total of 13,418,920 or approximately 18.5% of the common shares of Pediapharm as at July 15, 2016. During 2016, Knight disposed of 1,142,500 Pediapharm shares for total proceeds of \$308 and realized a gain of \$70. Subsequent to year end, the Company disposed of an additional 839,000 Pediapharm shares.

### *Medicare*

On August 31, 2016, the Company received 480,000 Medicare common shares for \$1,056 through the exercise of share purchase warrants and disposed of them for net cash proceeds of \$3,029.

### *3D*

On September 9, 2016, Knight invested \$1,000 to purchase 2,857,140 common shares of 3D, a biotechnology company, following the completion of a business combination and public listing transaction between 3D and Plicit Capital Corp. On December 19, 2016, Knight invested an additional \$180 in 3D, obtaining 240,000 common shares and two-year warrants to purchase 240,000 shares at an exercise price of \$0.92. As at December 31, 2016, Knight held 3,097,140 or approximately 5.9% of the common shares of 3D.

### *Synergy*

On December 22, 2016, Knight entered into an agreement with Synergy to exchange its share purchase warrants and stock options in exchange for 7,500,000 common shares. As a result of the transaction, the Company de-recognized its investment on the warrants and options and recognized the shares received at the fair value of the consideration given. As at December 31, 2016, the Company held 17,645,812 shares, or 19.9% of Synergy’s common shares outstanding, at a carrying amount of \$7,030 [US\$5,236] which were valued using the quoted market price (December 31, 2016 closing share price on the OTCXD) less the day 1 gain on initial measurement of \$5,054 [US\$3,764] that the Company deferred.

### *Other publicly-traded equities*

During the year ended December 31, 2016, Knight purchased equities in other publicly traded entities for \$12,532, disposed of \$6,158 and realized a gain of \$713 in the statement of income.

## 2015

### CRH

Knight sold all of its 3,000,000 common shares of CRH received as consideration for the strategic loan transaction issued in 2014 for gross proceeds of \$9,888 and realized a gain of \$7,038.

### Synergy

As part of the Synergy Loan Agreement, Knight was issued 4,595,187 common shares of Synergy. The common shares were assigned a relative fair value of \$855 [US\$690] using a fair value of \$0.31 [US\$0.25] per share.

As part of the Additional Synergy Loan Agreement transaction, Knight was issued 5,550,625 common shares of Synergy. The common shares were assigned a relative fair value of \$1,667 [US\$1,250] using a fair value of \$0.45 [US\$0.34] per share.

### Profound

As part of the Profound Agreement, Knight was issued 1,717,450 common shares in Profound. The common shares were assigned a relative fair value of \$1,200 using a fair value of \$1.50 per share adjusted by an illiquidity factor of 30%.

### Other publicly-traded equities

During the year ended December 31, 2015, Knight purchased equities in other publicly traded entities for \$11,360 and recorded an unrealized loss of \$1,065 in other comprehensive income. The Company disposed of \$9,870 of publicly-traded common shares and realized a gain of \$1,364.

## [iii] Available for sale fund investments

The following table summarizes the investments, distributions received, realized gain recorded in the statement of income and unrealized gain or loss recorded in the statement of comprehensive income.

As at December 31,	Carrying value beginning of year	Additions <sup>1</sup>	Distributions <sup>2</sup>	Realized gain/(loss) <sup>3</sup>	Other <sup>4</sup>	Carrying value end of year	Current other financial assets	Non-current other financial assets
2016	\$ 25,560	\$ 14,902	\$ (4,610)	\$ 1,541	\$ (2,817)	\$ 34,576	—	\$ 34,576
2015	\$ 19,904	\$ 15,694	\$ (19,314)	\$ 6,979	\$ 2,297	\$ 25,560	—	\$ 25,560

<sup>1</sup> Investments in equity or debt funds

<sup>2</sup> Distributions received from funds

<sup>3</sup> Realized gains on return of capital

<sup>4</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

## 2016

Knight invested \$14,902 during the year and received distributions of \$4,610 [including US\$2,279 and EUR851]. The Company recorded in gain on other financial assets of \$1,541 due to the distributions received. Furthermore, the Company recorded a net decrease of \$2,817 in other comprehensive income due to currency revaluation (on foreign denominated funds) and mark-to-market adjustments.

## 2015

During the year, the Company invested \$15,694 in life science funds. The Company used the net asset value of the funds to measure fair value at December 31, 2015 and recorded a net unrealized gain of \$2,297 in other comprehensive income.

## NEMO II

During the year, the Company received distributions of \$19,049 [US\$15,163] related to its investment in Sectoral's NEMO II. The Company had invested \$13,359 [US\$12,267] which includes \$538 [US\$504] in fees prior to the partial distribution. The Company recognized a gain of \$6,979 as a result of the distributions.

### [iv] Derivatives

As at December 31,	Carrying value beginning of year	Additions <sup>1</sup>	Disposals <sup>2</sup>	Realized gain/(loss) <sup>3</sup>	Other <sup>4</sup>	Carrying value end of year	Current other financial assets	Non-current other financial assets
<b>2016</b>	\$ <b>6,621</b>	\$ <b>1,417</b>	\$ <b>(3,670)</b>	\$ <b>(1,820)</b>	\$ <b>(1,359)</b>	\$ <b>1,189</b>	\$ <b>736</b>	\$ <b>453</b>
2015	\$ 1,562	\$ 2,729	—	—	\$ 2,330	\$ 6,621	\$ 1,903	\$ 4,718

<sup>1</sup> Derivatives received during the year

<sup>2</sup> Derivatives disposed of during the year

<sup>3</sup> Realized gain or loss on the disposals

<sup>4</sup> Changes due to revaluation to fair market value and foreign currency revaluations on derivatives held throughout the year

## 2016

### Medicare

On August 31, 2016, the Company exercised its 480,000 Medicare Inc. stock options for \$1,056. On exercise of the options, the Company de-recognized \$2,698 from financial assets.

### Intega and Crescita

As consideration for the Intega Loan Transaction, the Company was issued ten-year warrants to purchase up to 762,711 ("Intega Warrants") additional common shares at \$1.18 per share. The Intega Warrants were assigned a relative fair value of \$590 using the Black-Scholes model based on the fair value of \$1 per share.

As consideration for the Crescita Transaction, the Intega Warrants were exchanged for 293,153 seven-year Crescita warrants ("Crescita Warrants") to purchase up to 293,153 additional common shares at \$2.44 per share and were valued at \$159 resulting in a realized loss of \$431. As at September 1, 2016, the fair value of \$0.54 for each Crescita Warrant was determined using the Black-Scholes model. As at December 31, 2016 the fair value was determined to be \$0.27 for each Crescita Warrant. In determining the fair value, the following assumptions and inputs were used:

Assumptions	December 31, 2016	September 1, 2016 <sup>1</sup>
Risk-free interest rate	<b>1.11%</b>	0.76%
Expected remaining term	<b>4.7 years</b>	5 years
Expected volatility	<b>50%</b>	50%

  

Inputs	December 31, 2016	September 1, 2016 <sup>1</sup>
Value per common share	\$ <b>1.18</b>	\$ 1.66
Exercise price	\$ <b>2.44</b>	\$ 2.44

<sup>1</sup> Transaction date



In addition, Knight received a price protection on a portion of the Crescita shares received in exchange for Additional Intega Shares which is considered to be a derivative. On the transaction date, the derivative was assigned a fair value of \$538 which was recorded in other income. As at December 31, 2016, the derivative was revalued and recorded at its fair value of \$668, with the difference being recorded in net gain on financial assets.

### 3D

The Company obtained warrants to buy 240,000 common shares of 3D. The fair value of each 3D warrant was valued at \$0.23 and \$0.28 on December 16, 2016 and December 31, 2016, respectively, determined using the Black-Scholes model with the following assumptions and inputs:

Assumptions	December 31, 2016	December 16, 2016 <sup>1</sup>
Risk-free interest rate	0.74%	0.63%
Expected remaining term	1 year	1 year
Expected volatility	80%	80%

  

Inputs	December 31, 2016	December 16, 2016 <sup>1</sup>
Value per common share	\$ 0.91	\$ 0.83
Exercise price	\$ 0.92	\$ 0.92

<sup>1</sup> Transaction date

### Apicore Inc.

As part of the Apicore Loan transaction, Knight received a total of 1,625,000 warrants in Apicore which was classified as a level 3 financial instrument and recorded at cost. Per the Apicore loan agreement, Medicare had the right to acquire all of Knights' interests in Apicore within 3 years. In December 2016, Medicare exercised its right for \$2,157 [US\$1,625] in exchange for Knight warrants. The Company de-recognized the carrying amount of \$1,249 [US\$952] and recognized a gain of \$888 [US\$653] recorded in gain on financial assets in the statement of income.

### Synergy

On December 22, 2016, Knight entered into an agreement with Synergy to exchange its share purchase warrants and stock options in exchange for 7,500,000 common shares. As a result of the transaction, the Company de-recognized its investment on the warrants and options and recognized the shares received at the fair value of the consideration given.

### 2015

#### Synergy

As part of the Synergy Loan Agreement, Knight was issued 10-year warrants entitling the Company to purchase up to 3,584,759 additional common shares of Synergy at \$0.42 [US\$0.34] per share. The warrants were assigned a relative fair value of \$630 [US\$510] using the Black-Scholes model based on the fair value per share of \$0.31 [US\$0.25].

As part of the Additional Synergy Loan Agreement transaction, Knight also received a 10-year warrant entitling Knight to purchase up to 4,547,243 shares of Synergy at \$0.65 [US\$0.49] per share. The warrants were assigned a relative fair value of \$1,188 [US\$890] using the Black-Scholes model based on the fair value per share of \$0.45 [US\$0.34].

On December 14, 2015, Knight received 1,000,000 ten-year stock options, vesting over 3 years, entitling the Company to purchase 1,000,000 common shares of Synergy at \$0.34 [US\$0.25] per share. As at December 31, 2016 the value of the stock options was nominal.



### *Pediapharm*

As consideration in the Pediapharm Agreement, Knight was issued 757,500 share purchase warrants to acquire 757,500 common shares of Pediapharm at an exercise price of \$0.33 per common share for a period of four years until March 30, 2019 whose relative fair value was determined to be \$97. The fair value of the warrants was determined using the Black-Scholes model with the following assumptions and inputs:

	<b>December 31, 2016</b>	December 31, 2015	March 30, 2015 <sup>1</sup>
Black Scholes value	\$ <b>0.12</b>	\$ 0.11	\$ 0.14
Assumptions	<b>December 31, 2016</b>	December 31, 2015	March 30, 2015 <sup>1</sup>
Risk-free interest rate	<b>0.79%</b>	0.49%	0.64%
Expected remaining term	<b>2.2 years</b>	3.25 years	4 years
Expected volatility	<b>72%</b>	72%	100%
Inputs	<b>December 31, 2016</b>	December 31, 2015	March 30, 2015 <sup>1</sup>
Value per common share	\$ <b>0.30</b>	\$ 0.27	\$ 0.23
Exercise price	\$ <b>0.33</b>	\$ 0.33	\$ 0.33

<sup>1</sup> Transaction date

### *Medicure Inc.*

On July 7, 2015, the Company received 240,000 stock options from Medicure Inc. with a five-year life at an exercise price of \$2.50 per option in exchange for advisory services to be provided by Knight over a one-year period. The fair value of the options was \$569 and was determined using the Black-Scholes option pricing model with a corresponding amount recorded in deferred revenue. Revenue is recognized over the term of the agreement. Medicure Inc. is a public company trading on TSX-V under the ticker symbol "MPH".

### *Antibe*

As part of the Antibe Transaction, Knight was issued 1,000,000 share purchase warrants to acquire 1,000,000 common shares of Antibe at an exercise price of \$0.31 per common share, exercisable until October 15, 2018 whose relative fair value was determined to be \$60. The conversion option was assigned a value of \$140.

## 11. Investment in Associate

On September 9, 2015, Knight acquired a 28.3% ownership interest in Medison, a privately-owned specialty pharmaceutical company based in Israel. The consideration given for the equity interest in Medison amounted to \$82,001, which includes the fair value of 10,330,884 common shares of Knight issued to Medison and its controlling shareholder and a contingent consideration of \$1,100. 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. As at December 31, 2016 there is no further contingent consideration payable to Medison.

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

[In thousands of Canadian dollars]

As at December 31,	Notes	2016	2015
<b>Carrying value, beginning of the year</b>		<b>81,027</b>	—
<b>Additions in the year</b>		—	82,001
<b>Change in contingent consideration</b>	14 [i] [b]	<b>1,130</b>	—
Share of net income for the year before adjustments		7,963	2,634
Amortization of fair value adjustments		(5,170)	(1,593) [i]
<b>Share of net income for the year</b>		<b>2,793</b>	1,041 [i]
<b>Dividends [ii]</b>		<b>(4,837)</b>	(2,015)
<b>Carrying value, end of the year</b>		<b>80,113</b>	81,027

[i] For the period from September 9, 2015 to December 31, 2015

[ii] The Company has received dividends from Medison as follows:

On December 7, 2015, received \$2,015 [ILS5,654]

On March 15, 2016, received \$2,423 [ILS7,068]

On August 11, 2016, received \$2,414 [ILS7,068]

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

### Medison's statement of income data

[In thousands of Canadian dollars]

	<b>For the year ended December 31, 2016</b>	For the period from September 9, 2015 to December 31, 2015
<b>Revenue</b>	<b>206,471</b>	64,044
<b>Net income</b>	<b>9,875</b>	3,682

### Medison's balance sheet data

[In thousands of Canadian dollars]

<b>As at December 31,</b>	Notes	<b>2016</b>	2015
Current assets		<b>134,772</b>	133,785
Non-current assets		<b>304,714</b>	321,913
<b>Total assets</b>		<b>439,486</b>	455,698
Current liabilities		<b>85,322</b>	96,893
Non-current liabilities		<b>75,072</b>	72,490
<b>Total liabilities</b>		<b>160,394</b>	169,384
<b>Total equity</b>		<b>279,092</b>	286,314
Knight's carrying amount of investment before reconciling item		<b>78,983</b>	81,027
Change in contingent consideration	14 [i] [b]	<b>1,130</b>	—
<b>Knight's carrying amount of investment</b>		<b>80,113</b>	81,027

## 12. Accounts Payable and Accrued Liabilities

As at December 31,	2016	2015
Trade payables	748	39
Accrued liabilities	2,459	2,377
	<b>3,207</b>	2,416

## 13. Related Party Transactions

Pharmascience Inc., a company related to the Company's CEO provided administrative services of approximately \$15 to the Company for the year ended December 31, 2016 (2015 - approximately \$24).

## 14. 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:

[In thousands of Canadian dollars]

	Notes	Number of common shares	\$
<b>Balance as at January 1, 2015</b>		<b>90,818,595</b>	<b>341,065</b>
Issuance of shares upon financing, net of costs and includes deferred tax of \$2,155	[a]	1,932,420	14,573
Issuance upon investment in associate	11	10,330,884	80,684
Issuance due to share-based payments		43,101	332
Exercise of stock options	[ii]	170,000	1,487
Exercise of compensation warrants	[d]	169,360	930
Issuance under share purchase plan		10,007	77
<b>Balance as at December 31, 2015</b>		<b>103,474,367</b>	<b>439,148</b>
Issuance upon bought deals, net of costs and includes deferred tax of \$4,465	[a]	38,755,000	317,616
Issuance of shares to associate	[b]	250,000	2,073
Issuance upon investment	[c]	221,126	1,846
Share purchase loans	[e]	—	(350)
Issuance under share purchase plan		12,996	114
<b>Balance as at December 31, 2016</b>		<b>142,713,489</b>	<b>760,447</b>

### ***[a] Issuance of shares upon bought deal***

#### **2016**

On June 2, 2016, the Company completed a bought deal (the “Offering”) for gross proceeds of \$230,000 of common shares of Knight at a price of \$8.00 per common share. An aggregate of 28,750,000 common shares including underwriters’ over-allotment option of 3,750,000 common shares were issued. Issue costs related to the Offering were \$11,463 (net of deferred tax of \$3,083) for the year ended December 31, 2016. Long Zone Holdings Inc. (“Long Zone”), a company controlled by Mr. Jonathan Ross Goodman, Chief Executive Officer of the Company, purchased 45,000 common shares under the Offering, and Jeffrey Kadanoff, Chief Financial Officer of the Company and Amal Khouri, Vice-President of Business Development of the Company each purchased 12,500 common shares.

On December 22, 2016, the Company completed a second bought deal (the “Second Offering”) for gross proceeds of \$100,050 of common shares of Knight at a price of \$10.00 per common share. An aggregate of 10,005,000 common shares including underwriters’ over-allotment option of 1,305,000 common shares were issued. Issue costs related to the Second Offering were \$5,436 (net of deferred tax of \$1,382) for the year ended December 31, 2016. Long Zone, a company controlled by Mr. Jonathan Ross Goodman, Chief Executive Officer of the Company, purchased 25,000 common shares under the Offering. Samira Sakhia, President of the Company and Jeffrey Kadanoff, Chief Financial Officer of the Company, each purchased 10,000 common shares, and Amal Khouri, Vice-President of Business Development of the Company purchased 5,000 common shares.

#### **2015**

On January 14, 2015, the underwriters acquired 1,932,420 additional common shares of the Company at a price of \$6.75 per share pursuant to the exercise in full of an over-allotment option (“the Over-Allotment Option”) with regards to a financing that occurred on December 22, 2014. Following the exercise in full, the Over-Allotment Option resulted in gross proceeds of \$13,044 for total gross proceeds from the 2014 Offering of \$100,003.

### ***[b] Issuance of shares to associate***

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. As at December 31, 2016, there is no further contingent consideration payable.

### ***[c] Issuance of shares upon investment in PEDIAPHARM***

On July 15, 2016, the Company issued 221,126 common shares at a price of \$8.35 per share as consideration in the PEDIAPHARM Transaction.

### ***[d] Issuance of shares upon exercise of compensation warrants***

On February 24, 2015, 169,360 compensation warrants were exercised for total proceeds of \$635. The compensation warrants were issued as part of a financing that occurred on March 19, 2014.

### ***[e] Share purchase loans***

During the year ended December 31, 2016, certain participating employees were granted \$350 in share purchase loans bearing an interest rate of 1% per annum to help fund the acquisition of 40,000 common shares from the Offering and the Second Offering. The obligations of the employees are secured by an agreement of pledge of securities granted by the employees in favour of the Company until such time as the individual loans are repaid. The share purchase loans are due and payable to the Company upon the sale of the common shares or upon the termination of employment, subject to certain conditions being met. These loans have been recorded against the share capital.

### ***[ii] Share option plan***

The Company has an equity-settled Share Option Plan (“the Plan”) in place for the benefit of employees, directors and officers of the Company. The aggregate maximum number of shares reserved for issuance under the Plan at any given time shall not exceed 10% of the outstanding shares as of the grant date of an option and the option period may be up to ten years from the date the option is granted. The Board of Directors or its designated committee may determine when an option will become exercisable and may determine that the option will be exercisable immediately upon the date of grant, in instalments or pursuant to a vesting schedule. Generally, the options have a seven-year or ten-year term and vest over a one-year period for directors and a three-year period for employees.

The Company recorded stock-based compensation expense of \$3,640 (2015: \$4,421) for the year ended December 31, 2016 with a corresponding credit to contributed surplus related to the issuance of stock options. The Company determined the weighted average fair value of the options to be \$4.01 (2015: \$3.94) under the Black-Scholes option pricing model using the following assumptions:

For the year ended December 31,	2016	2015
Weighted average risk-free interest rate	1.43%	1.47%
Dividend yield	Nil	Nil
Weighted average volatility factor [i]	54.7%	56.3%
Annualized forfeiture rate	2.3%	3.6%
Weighted average expected life	7.3 years	6 years

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

For the year ended December 31,	2016		2015	
	Number of share options #	Weighted average exercise price \$	Number of share options #	Weighted average exercise price \$
<b>Balance beginning of year</b>	2,815,483	6.89	1,644,720	5.62
Options granted	336,628	9.25	1,348,263	8.25
Options exercised	—	—	(170,000)	5.49
Options expired/forfeited	(5,000)	5.65	(7,500)	7.25
<b>Balance at end of the year</b>	<b>3,147,111</b>	<b>7.14</b>	2,815,483	6.89
<b>Options exercisable at end of year</b>	<b>1,401,554</b>	<b>6.43</b>	664,907	6.10

The following table summarizes information about outstanding stock options granted by the Company as at December 31, 2016:

Range of exercise \$	Options outstanding			Options exercisable		
	Number of share options #	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of share options #	Weighted average remaining contractual life (years)	Weighted average exercise price \$
5.20 to 5.71	1,422,220	4.43	5.62	978,148	4.43	5.62
5.72 to 8.02	738,425	6.09	7.62	126,666	5.74	7.18
8.03 to 9.18	718,570	5.28	8.73	296,740	5.22	8.75
9.19 to 9.64	267,897	9.73	9.6	—	—	—
	<b>3,147,112</b>	<b>5.47</b>	<b>7.14</b>	1,401,554	4.72	6.43

The following table summarizes information about outstanding stock options granted by the Company as at December 31, 2015:

Range of exercise \$	Options outstanding			Options exercisable		
	Number of share options #	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of share options #	Weighted average remaining contractual life (years)	Weighted average exercise price \$
5.20 to 6.00	1,467,220	5.45	5.63	562,407	5.44	5.63
6.69 to 7.25	32,500	6.46	7.12	2,500	5.90	6.69
7.76 to 8.75	1,315,763	6.70	8.28	100,000	6.23	8.75
	<b>2,815,483</b>	<b>6.04</b>	<b>6.89</b>	<b>664,907</b>	<b>5.57</b>	<b>6.10</b>

### *[iii] Share purchase plan*

The Company has a Share Purchase Plan (“Purchase Plan”) allowing employees and directors of the Company to purchase common shares at listed market prices from treasury. The plan allows for employees to contribute up to a maximum of 10% of their salary and directors to contribute up to \$10 per year. During the year ended December 31, 2016, 12,996 shares (2015 – 10,007 shares) were issued from treasury at fair market value under the Purchase Plan for total proceeds of \$114 (2015 - \$77). As at December 31, 2016, 1,427,135 common shares (2015 – 1,034,744 common shares) reserved for share purchase arrangements remain available under the Plan.

Under the Purchase Plan, the Company will contribute 25% of employees’ or directors’ contributions in the form of common shares if the employee remains employed by the Company or director remains on the Board, and has held the original shares for two years from the original purchase date. The Company’s contribution in common shares is calculated using the lesser of the original common share value at the original purchase date and at the date of the Company’s contribution. During the year ended December 31, 2016, the Company issued 908 shares (2015: nil) representing its 25% contribution.

### *[iv] Warrants*

#### *Pediapharm*

As described in note 10 [ii], the fair value of each Knight warrant issued in the Pediapharm Transaction was valued at \$2.82 [\$624 in aggregate], determined using the Black-Scholes model with the following assumptions and inputs:

Assumptions	July 15, 2016
Risk-free interest rate	0.62%
Expected remaining term	4 years
Expected volatility	50%
Inputs	July 15, 2016
Value per common share	\$8.35
Exercise price	\$10

### Origin

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

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

  

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

## 15. Accumulated Other Comprehensive Income

As at December 31,	2016	2015
Realized gains reclassified to statement of income, net of tax of \$1,592 (\$1,345 as at December 31, 2015)	(10,246)	(8,654)
Net unrealized gains in available for sale investments, net of tax of \$1,879 (\$1,629 as at December 31, 2015)	14,997	13,851
Unrealized gain on translating financial statements of foreign operations	25,680	30,758
	<b>30,431</b>	35,955

## 16. Employee Benefit Expenses

For the year ended December 31,	2016	2015
Wages and salaries	2,085	1,981
Bonuses	381	143
Severances	—	34
Shared-based incentive plans	3,837	3,642
	<b>6,303</b>	5,800

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

For the year ended December 31,	2016	2015
Wages and salaries	908	848
Bonuses	252	113
Board fees	71	60
Shared-based incentive plans	3,439	3,738
	<b>4,670</b>	4,759



## 17. Earnings Per Share

### Basic

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

	2016	2015
Net income	18,560	34,167
Weighted average of common shares outstanding	120,723,270	96,191,285
<b>Basic earnings per share</b>	<b>\$ 0.15</b>	<b>\$ 0.36</b>

### Diluted

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

	2016	2015
Net income	18,560	34,167
Weighted average of common shares outstanding	120,723,270	96,191,285
Adjustment for warrants and share options	540,252	340,819
Weighted average shares outstanding (diluted)	121,263,522	96,532,104
<b>Diluted earnings per share</b>	<b>\$ 0.15</b>	<b>\$ 0.35</b>

## 18. Income Tax

### [i] Consolidated statement of income

	2016	2015
<b>CURRENT INCOME TAX</b>		
Current income tax charge	2,970	4,763
Adjustments in respect of current tax of previous year	1,220	(2,824)
<b>DEFERRED TAX</b>		
Relating to the origination and reversal of temporary differences	1,818	910
Variation in tax rate	248	—
Adjustment for prior years	(1,343)	—
<b>Income tax expense reported in statement of income</b>	<b>4,913</b>	<b>2,849</b>

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

	2016	2015
Earnings before income taxes	23,473	37,016
Applicable tax rate	26.9%	26.9%
Income taxes at applicable statutory rate	6,310	9,957
<b>INCREASE (DECREASE) RESULTING FROM:</b>		
Rate differential between jurisdictions	(2,172)	(204)
Variation in tax rate	248	—
Adjustment for prior years	(123)	(2,824)
Non-recognition (recognition) of tax benefits related to tax losses and temporary differences	1,120	(4,267)
Effect of non deductible expenses and other	(470)	187
<b>Total income tax expense</b>	<b>4,913</b>	<b>2,849</b>
<b>Average effective tax rate</b>	<b>20.9%</b>	<b>7.7%</b>

	Balance December 31, 2015	Recognized in statement of income	Recognized in statement of comprehensive income	Recognized in shareholders' equity	Acquired in business combinations	Exchange rate variation	Balance December 31, 2016
Property and equipment	521	(361)	—	—	—	—	160
Intangible assets	(565)	400	—	—	—	—	(165)
Financial assets	(1,111)	1,446	2	—	—	(9)	328
Financing fees	2,451	(1,587)	—	4,466	—	—	5,330
Tax losses	1,368	(811)	—	—	—	—	557
Other	(323)	190	—	—	—	—	(133)
<b>Net deferred tax assets</b>	<b>2,341</b>	<b>(723)</b>	<b>2</b>	<b>4,466</b>	<b>—</b>	<b>(9)</b>	<b>6,077</b>

	Balance December 31, 2014	Recognized in statement of income	Recognized in statement of comprehensive income	Recognized in shareholders' equity	Acquired in business combinations	Other	Balance December 31, 2015
Property and equipment	—	521	—	—	—	—	521
Intangible assets	—	—	—	—	(565)	—	(565)
Financial assets	(1,422)	(506)	817	—	—	—	(1,111)
Financing fees	1,498	(1,202)	—	2,155	—	—	2,451
Tax losses	—	524	—	—	565	279	1,368
Other	(76)	(247)	—	—	—	—	(323)
<b>Net deferred tax assets</b>	<b>—</b>	<b>(910)</b>	<b>817</b>	<b>2,155</b>	<b>—</b>	<b>279</b>	<b>2,341</b>

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

	2016	2015
Tax losses	7,778	10,031
Investment tax credit	1,230	1,234
Scientific research and experimental development expenses	5,789	5,876
Financial assets	298	—
<b>Unrecognized deferred tax assets</b>	<b>15,095</b>	<b>17,141</b>

## 19. Segment Reporting

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

## 20. Financial Risk

### Management of capital

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

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Managed capital includes cash and cash equivalents, marketable securities, other financial assets [note 10] and shareholders' equity. To maintain or adjust the capital structure, the Company may attempt to issue new common shares, repurchase the Company's own stock, and acquire or dispose of assets. The issuance and repurchase of common shares requires approval of the Board of Directors.

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

## Market risk

### Currency risk

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

2016	USD	EUR	ILS
Cash and cash equivalents	24,212	1,495	66
Marketable securities	77,077	—	19,250
Account receivable	940	705	—
Other financial assets	76,893	3,263	—
Accounts payable and accrued liabilities	(329)	(65)	—
<b>Net exposure</b>	<b>178,793</b>	<b>5,398</b>	<b>19,316</b>
2015	USD	EUR	ILS
Cash and cash equivalents	35,620	57	—
Marketable securities	86,864	—	—
Account receivable	452	—	—
Other financial assets	46,720	2,801	—
Accounts payable and accrued liabilities	(73)	(1,030)	—
<b>Net exposure</b>	<b>169,583</b>	<b>1,828</b>	<b>—</b>

### Equity price risk

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

2016	\$
Available for sale equity investments	30,936
Available for sale fund investments	34,576
<b>Net exposure</b>	<b>65,512</b>
2015	\$
Available for sale equity investments	8,478
Available for sale fund investments	25,560
<b>Net exposure</b>	<b>34,038</b>

The Company monitors its equity investments for impairment on a periodic basis and at least at every reporting period. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold. The Company manages the equity price risk through the use of strict investment policies approved by the Board of Directors. The Company's Board of Directors regularly reviews and approves equity investment decisions.

### **Interest rate risk**

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

### **Credit risk**

The Company considers its maximum credit risk to be \$117,209 (December 31, 2015: \$79,766) which is the total of the following assets, trade and accounts receivable, interest receivable, loans receivable, investment in funds and derivatives.

The marketable securities and cash equivalent balances are invested within three 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, twelve guaranteed investment certificate investments and five term deposits. They are subject to minimal risk of changes in value and have a maturity of up to two years from the date of purchase.

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.

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

<b>For the year ended December 31,</b>	<b>2016</b>	2015
Trade and Accounts Receivable	<b>2,606</b>	414
Interest Receivable	<b>3,107</b>	1,626
Loans Receivable	<b>75,731</b>	45,545
Investments in Funds	<b>34,576</b>	25,560
Derivatives	<b>1,189</b>	6,621
<b>Total</b>	<b>117,209</b>	79,766

For trade and accounts receivable, management determines credit risk based on customers who account for more than 10% of accounts receivable. As at December 31, 2016, three customers represented 55% of the trade and accounts receivable balance. For the year ended December 31, 2016, four customers of the Company represented 86% of revenues.

### **Liquidity risk**

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

## Sensitivity Analysis

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

For the year ended December 31,	2016	2015
<b>Foreign Exchange Risk (5% change)</b>		
USD	12,003	11,735
EUR	382	137
ILS	337	—
<b>Equity Price Risk (5% change)<sup>1</sup></b>		
Available for sale investment in equities	1,547	424
Available for sale investment in funds	1,729	1,278

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

## 21. 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: fund commitments, revenue, milestone and purchase commitments, equity and loan commitments and other commitments. The commitments of the Company as at December 31, 2016, 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:

	2016
<b>2017</b>	<b>128</b>
<b>2018</b>	<b>186</b>
<b>2019</b>	<b>175</b>
<b>2020</b>	<b>175</b>
<b>2021</b>	<b>175</b>
<b>Thereafter</b>	<b>117</b>
	<b>956</b>

### [ii] Fund commitments

As at December 31, 2016, under the terms of Company's agreements with life sciences venture capital funds, \$103,096 (2015: \$118,397), including \$41,675 [US\$31,021] and \$21,807 [EUR 15,391], may be called over the life of the funds (based on the closing foreign exchange rates).

### **[iii] Revenue, milestone 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 \$37,302 including \$25,914 [US\$19,300] and \$638 [EUR 450] upon achieving certain sales volumes, regulatory or other milestones related to specific products.

In addition, Knight has a commitment to purchase up to \$1,046 [EUR 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 its borrowers, Knight has committed up to a maximum of \$3,357 [US\$2,500] to participate in the initial public offering of equity interests of the borrower. In addition, Knight committed to invest up to \$2,685 [US\$2,000] towards the purchase of common shares of a borrower if it meets certain fundraising targets in 2017.

Subject to a loan agreement with one of its borrowers, Knight has committed to loan an additional \$3,300 [US\$2,458] should the borrower meet certain conditions.

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

As at December 31, 2016, the Company is committed to pay \$116 [US\$86] in 2017 towards a real property.

## **22. Statement of Cash Flows**

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

	2016	2015
<b>Decrease (increase) in</b>		
Trade and other receivables	(3,446)	(1,970)
Inventories	670	(858)
Income taxes receivable	(4,452)	(231)
Long term receivables	195	(624)
<b>Increase (decrease) in</b>		
Accounts payable and accrued liabilities	1,943	326
Income taxes payable	1,628	(461)
	<b>(3,462)</b>	<b>(3,818)</b>

## **23. 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 Patented Medicine Prices Review Board (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. For existing patented products prices 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.

## **24. Subsequent Events**

### **[i] Repayment of Apicore loan**

On January 6, 2017, Apicore repaid the remaining principal on its loan to Knight of \$8,137 [US\$6,157] with all remaining accrued interest as at the date thereof.

### **[ii] Protalix**

On January 26, 2017, the Company acquired, through one of its subsidiaries, 6,200,000 common shares of Israeli-based Protalix at an average price of \$0.75 [US\$0.57] per share representing approximately 5% of the outstanding common shares of Protalix.

# Management Team



**Jonathan Ross Goodman**  
**Chief Executive Officer**

Prior to Knight, Mr. Goodman was the co-founder, President and CEO of Paladin Labs Inc. which was acquired by Endo for \$3.2 billion. Under his leadership, \$1.50 invested in Paladin at its founding was worth \$142 nineteen years later. Prior to co-founding Paladin in 1995, Mr. Goodman was a consultant with Bain & Company and also worked in brand management for Procter & Gamble. Mr. Goodman holds a B.A. with Great Distinction from McGill University and the London School of Economics with 1st Class Honours. Additionally, Mr. Goodman holds an LL.B. and an M.B.A. from McGill University.



**Samira Sakhia**  
**President**

Prior to Knight, Ms. Sakhia served as the CFO at Paladin Labs Inc. from 2001 to 2015. At Paladin, Ms. Sakhia was responsible for the finance, operations, human resources and investor relations functions. During her employment with Paladin, Ms. Sakhia was instrumental in executing in-licensing and acquisition transactions of Canadian and international pharmaceutical products and businesses. In addition, Ms. Sakhia led several M&A and strategic lending transactions as well as equity rounds on the TSX and completed the sale of Paladin to Endo International for \$3.2 billion. Ms. Sakhia holds an M.B.A. and a Bachelors of Commerce degree from McGill University, and is also a Chartered Professional Accountant.





**Jeffrey Kadanoff**  
**Chief Financial Officer**

Prior to Knight, Mr. Kadanoff was Vice President-Strategic Planning and Development at Reitmans. Prior to Reitmans, he was a Principal with Bain & Company where he served as a strategy consultant for 14 years. Prior to Bain, Mr. Kadanoff worked as a consulting engineer at Hatch. Mr. Kadanoff holds a B. Eng. with Distinction in Chemical Engineering and a Minor in Management from McGill University, and an M.B.A. with Distinction from INSEAD. Additionally, Mr. Kadanoff is a licenced member of Professional Engineers Ontario.



**Amal Khouri**  
**Vice President, Business Development**

Prior to Knight, Ms. Khouri worked at Novartis Pharma for over 7 years, where she held multiple positions within the global business development and licensing team in Basel, Switzerland. Before joining Novartis, she worked in business development at Paladin Labs Inc. in roles with increasing responsibilities. Ms. Khouri holds a B.Sc. in Biochemistry from McGill University and an M.B.A. from the University of Ottawa.

# Board of Directors



**James C. Gale<sup>\*†</sup>**

**Chairman**

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



**Dr. Sarit Assouline**

**Director**

Following her training in hematology and oncology at McGill University, Dr. Assouline completed a Master’s program in clinical epidemiology and biostatistics at McGill University, and a CIHR funded drug development fellowship at the National Cancer Institute of Canada Clinical Trials Group. Since 2005, she has been involved in the design and conduct of numerous clinical trials testing novel therapies in patients with leukemia and lymphoma. These therapies include novel targeted monoclonal antibody therapies, proteasome inhibitors, histone deacetylase inhibitors, and drugs targeting protein translation. Dr. Assouline is the Director of the Chronic Myelogenous Leukemia Clinic of the Jewish General Hospital and, in this capacity, has contributed to epidemiological research into the outcome of patients treated with tyrosine kinase inhibitors.



**Jonathan Ross Goodman**

**Director, Chief Executive Officer**

Refer to Management Team section above. Mr. Goodman was on the Board of Paladin Labs Inc. from 1995 to 2014.

*\* Member of the Audit Committee*

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



## **Meir Jakobsohn**

### **Director**

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



## **Robert Lande\*\*†**

### **Director**

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



## **Samira Sakhia**

### **President, Director**

Refer to Management Team section above.



## **Sylvie Tendler\*\*†**

### **Director**

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

\* Member of the Audit Committee

† Member of the Compensation, Corporate Governance and Nominating Committee

# Corporate Information

## **Knight Therapeutics Inc.**

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Montreal, Quebec  
H3Z 3B8

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F: 514-481-4116

Email: [info@gudknight.com](mailto:info@gudknight.com)

[www.gudknight.com](http://www.gudknight.com)

## **Stock Exchange Listing**

Toronto Stock Exchange

Trading Symbol: GUD

## **Shares Outstanding**

142,713,489 Common Shares

(as at December 31, 2016)

## **Fiscal 2016 Trading Summary**

High: \$11.03

Low: \$5.89

Close: \$10.74

Average Daily Volume: 239,375

## **Transfer Agent**

CST Trust Company

1-800-387-0825

## **Auditors**

Ernst & Young LLP

## **Annual General Meeting**

May 9, 2017, 5:00 PM

This annual report is also available at [www.gudknight.com](http://www.gudknight.com)  
Designed and produced by Zenergy Communications, [www.zenergycom.com](http://www.zenergycom.com)

*Ce document est également disponible en français.*

**Knight Therapeutics Inc.**

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