Knight Therapeutics Inc.

GUD-TSX

David Novak MSc | 416.777.7029 | david.novak@raymondjames.ca

Pharmaceuticals

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Company Report - Initiation of Coverage

Reintroducing a Dose of Foresight, Discipline, and Sustainability to Canadian Spec Pharma

Recommendation

We are initiating coverage on Knight Therapeutics Inc. with an Outperform rating and a C$10.25 target price. Knight is an early-stage specialty pharmaceutical company which was spun out from Paladin Labs as a result of its acquisition by Endo International. Through Paladin, Knight's CEO, Jonathan Ross Goodman has developed a consistent track record of delivering ROIC. With a war chest of cash at its disposal, we believe that in time, Knight will outperform the accomplishments of Paladin by uncovering value through patience, opportunism, and calculated foresight.

Analysis

- **Undeniably the Strongest Management Team in Canadian Spec Pharma.** This is not Knight's executive team's first rodeo: Mr. Jonathan Goodman, Ms. Samira Sakhia, and Ms. Amal Khouri are well known in Canada for delivering a spectacular exit with Paladin Labs' acquisition by Endo International. Furthermore, through Paladin's history, management proved time after time, its steadfast commitment to delivering shareholder value through responsible and disciplined capital deployment aimed at generating future growth and bottom line profitability.
- **Ample Cash for Strategic Deployment.** Currently exiting 1Q18 with $802.4 mln in cash and marketable securities ($658.1 mln in uncommitted capital) Knight is in possession of the largest cash war chest amongst its Canadian Specialty Pharmaceutical peers. As such, we believe Knight is the best-positioned company to rapidly close on unique transactional opportunities without the caveat of conditional financing.
- **Always Focused On The Bottom Line.** While still in the early days of amassing a robust pipeline of commercial therapeutic and diagnostic assets, Knight has nonetheless generated approximately $203 mln in Net Income since inception through its unique lending and investment strategies in conjunction with its early commercial activities.

Valuation

While we would typically value a specialty pharmaceutical company by utilizing either a DCF valuation methodology or a forward EBITDA multiple, we believe neither approach accurately captures the inherent value in Knight's early-stage operational strategy nor growing cash balance. This is particularly true as at present, the majority of Knight's earnings are to date generated from interest income on loans receivable, as well as other unique investment tactics. As such, we have opted to utilize a price-to-book value per share multiple valuation methodology which we believe more precisely represents the current value in in Knight's growing asset base. Specifically, we value Knight at 1.5x P/BVPS which represents a 25% discount to its North American Specialty Pharmaceutical comps which currently trade at an average of 2.0x. Our 1.5x multiple results in a value of $10.35 per share which we round down to $10.25. See our Valuation section.

GAAP EPS	1Q Mar	2Q Jun	3Q Sep	4Q Dec	Full Year	Revenues (mln)	EBITDA (mln)
2017A	C$0.04	C$0.00	C$0.03	C$0.05	C$0.12	C$8,634	NM
2018E	0.05A	0.02	0.02	0.02	0.11	9,638	NM
2019E	0.02	0.02	0.02	0.02	0.09	9,716	NM

Source: Raymond James Ltd., Thomson One

Outperform 2
C$10.25 target price

Current Price (Jul-10-18)	C$8.46
Total Return to Target	25%
52-Week Range	C$10.29 - C$7.38
Suitability	Medium Risk/Growth

Market Data

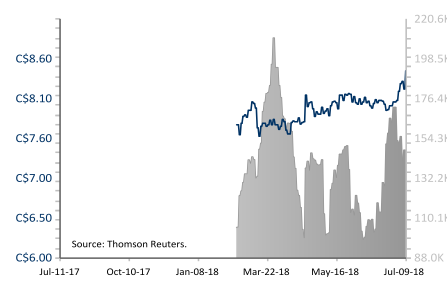
Market Capitalization (mln)	C$1,174
Current Net Debt (mln)	C$0
Enterprise Value (mln)	C$372
Shares Outstanding (mln, f.d.)	146.7
10 Day Avg Daily Volume (000s)	137
Dividend/Yield	C$0.00/0.0%

Key Financial Metrics

	2017A	2018E	2019E
P/E (GAAP)	NM	78.9x	94.0x
EV/EBITDA	NM	NM	NM
EV/Revenue	NM	38.5x	38.2x
Revenue y/y chg	45.0%	12.0%	1.0%
EPS y/y chg	-21.0%	-5.0%	-23.0%
BVPS	C$6.76	C$6.90	C$7.00

Company Description

Knight Therapeutics Inc. is a specialty pharmaceutical company ultimately focused on acquiring, in-licensing, selling, and marketing prescription and over-the-counter pharmaceutical products. Knight was born out of Paladin Labs as a result of its acquisition by Endo International.



Please read domestic and foreign disclosure/risk information beginning on page 22 and Analyst Certification on page 23.

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Investment Overview

A Seasoned Knight Dead Set On Victory

Mr. Goodman founded Paladin Labs in 1995 and led the company through 19 years of record growth, achieving revenues of greater than $270 mln and EBITDA in excess of $90 mln, when it sold to Endo International for $77.00 per share or $1.6 bln. Having had the foresight to negotiate equity in Endo as part of the sale, upon closing of the transaction, the deal had effectively appreciated in value to $3.1 bln. The Goodman family owned 34% of Paladin and thus, it is our view that Mr. Goodman's motivation with Knight is not monetarily focused; rather, we believe he is sincerely driven to demonstrate his ability to succeed again. We think it is this unique and unwavering drive that will ensure Knight's victory.

Leading The Battle From The Frontlines

Knight's Management (specifically, Mr. Goodman, Ms. Sakhia, and Ms. Khouri), while at Paladin, developed a reputation for fighting shoulder-to-shoulder with investors and looking out for their financial interests. That dedication to shareholders transferred over to Knight on Day 1 when it was negotiated that every shareholder of Paladin would receive one common share of Knight as part of the transaction. Furthermore, to date, Knight has raised $685 mln in equity capital in five separate financing rounds, each at increasing valuation and with significant participation from Knight's CEO, who is currently the largest shareholder at greater than 15%. With $802.4 mln in cash and marketable securities ($658.1 mln in uncommitted capital), we think Knight is undeniably the best-positioned specialty pharmaceutical company in Canada to rapidly transact on unique market opportunities without additional contingent financing.

Strategic Foresight That Rewards Patience

Paladin produced a staggering 4,600%+ return over 19 years (at $77.00 per share) easily outperforming the TSX Composite Index at 219% for the same period. Plan B, an unapproved post-coital contraceptive acquired by Paladin in 1999, became one of Paladin's top-selling products in 2012. Impavido, acquired by Paladin in 2008, resulted in a greater than 13x ROI to Knight in 2014 when it sold a Priority Review Voucher (PRV) issued in connection with its FDA approval. Endo ascribed no value to the PRV in previous negotiations. These are the type of transactions we have come to expect from Knight's management and it is this track record that leads us to believe that Knight will deploy its capital over time in a disciplined and creative manner. Knight essentially has a tabula rasa; there are no at-risk cash flows and no recent opaque acquisitions that need to be concealed by subsequent transactions. What Knight has is an extremely well-capitalized balance sheet with no debt (management has guided that it is unlikely to ever take on debt), and we believe it has begun to set the foundation for a rich pipeline of potentially novel, high-growth assets.

Company Overview

"Specialty Pharmaceuticals" Has Become a Dirty Phrase in Canada

Any investor that has followed the Canadian specialty pharmaceutical industry over the past 5-10 years has likely picked up on a consistent theme. Specifically, Canadian specialty pharmaceuticals went through a period where the majority of companies subscribed to the "multiple accretion/financial arbitrage" model of acquiring legacy assets and performing life cycle management. It is our view that this model, which we define as the **"Roll Up" Pharma Model**, in reality, very frequently, fails to result in sustainability. While this model can be lucrative in a pharmaceutical bull market, it is a strategy that rapidly comes under pressure when the cycle turns, cost of capital rises, transaction cadence slows, and company valuations compress. When the cycle turns, investors are exposed to significant downside risk.

It is our opinion that the successful specialty pharmaceutical model, which we define as the **"Full Cycle" Pharma Model**, is one that requires: i) the ability to generate volume-driven growth; ii) responsible use of leverage; iii) strong management; and, iv) disciplined use of capital. Typically, in the full-cycle pharma model, companies will focus on specialty therapeutic niches where the large majority of prescribing physicians can be called upon by a small specialized sales force who detail products at the beginning of their life cycle. In this model, companies benefit from organic volume- driven growth and further benefit from significant operating leverage, as they continue to build out their product portfolio. In our view, Mr. Jonathan Goodman, Knights CEO and founder, wrote the book on the full-cycle pharma model, as demonstrated with his success at Paladin Labs. This model, with a few exceptions, has rarely been replicated in Canada subsequent to Paladin. We believe Mr. Goodman, along with his ex-Paladin team including Ms. Sakhia and Ms. Khouri, are well on their way to once again replicating this model with Knight Therapeutics.

A Pharmaceutical Squire With Noble Pedigree

Knight Therapeutics founder and CEO Jonathan Ross Goodman is well known for his success at Paladin Labs. However, Mr. Goodman's pharmaceutical exposure precedes Paladin, and in fact emanates from a long-standing pedigree of Canadian pharmaceutical talent.

Mr. Goodman is the son of pharmacist Morris Goodman, who began his career with the establishment of Winley-Morris, a company focused on seeking out distribution rights from several international pharmaceutical companies in order to bring their products to Canada. Subsequent to becoming the Canadian distributor of L-Dopa for International Chemical & Nuclear Corporation (ICN), ICN purchased Winley-Morris and established Morris Goodman as President of ICN Canada.

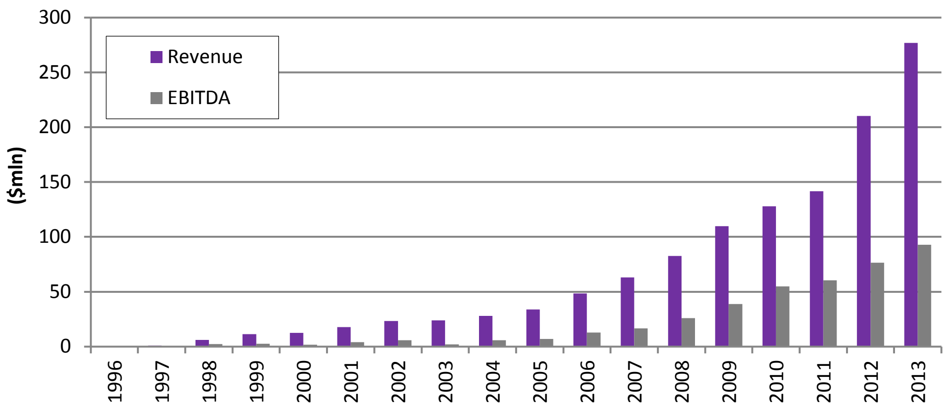
In 1983, Mr. Morris Goodman co-founded Pharmascience with colleague Ted Wise. Pharmascience was established in 1983 and has grown into Canada's third-largest generic drug company with annual sales in excess of $700 mln. Mr. Jonathan Goodman's brother, Dr. David Goodman, is current CEO of Pharmascience. Mr. Jonathan Goodman joined Pharmascience in 2004 as Vice President of Business Development, a career juncture which would ultimately catalyze his own pharmaceutical legacy.

The Path to Knighthood Began With Paladin

Paladin Labs went public via an RTO by GeriatRx in 1995. Mr. Goodman, President and CEO, was Paladin's first employee.

From its inception, Paladin differentiated itself from the typical Canadian pharmaceutical company by focusing on free cash flow and growth in a disciplined and conservative manner. Throughout the 19 years that Paladin operated independently, its revenues grew to greater than $270 mln, EBITDA exceeded $90 mln and EPS went from a loss of $0.50 per share to a gain of $2.45 per share (Exhibit 1). On November 5, 2013, it was announced that Endo had entered into an agreement to acquire Paladin Labs for $77.00 per share or $1.6 bln (1.6331 shares of new ENDO, $1.16 cash and one share of Knight Therapeutics). Upon closing of the deal on February 28, 2014, Endo's equity value had significantly increased in response to the news (in particular, the tax implications) effectively revaluing the transaction at $3.1 bln or $142.06 per share ($1.14 US$/C$).

Exhibit 1: Paladin Labs' Historical Financials



Source: Capital IQ, Raymond James Ltd.

Paladin's success was a direct result of its creative, insightful, and disciplined use of capital which generally can be distilled down as follows: i) capital deployed in order to acquire or license product rights, ii) high interest secured lending; and, iii) equity investments. It is this strategy that enabled Paladin to establish a reputation for generating an industry-leading ROI.

Throughout its history, Paladin grew from a niche-focused specialty pharmaceutical company into a full-blown diversified pharmaceutical company with limited exposure to any single product. At the time of its exit to Endo, Paladin had amassed a portfolio consisting of greater than 60 actively marketed products, the Top 5 as per 2012 sales being Dexedrine, Tridural, Metadol, Pennsaid and Plan B (Exhibit 2). Retrospectively, each of these products had significant growth potential when acquired by Paladin, a key differentiating strategic aspect relative to many acquisitions observed in recent Canadian Specialty Pharmaceutical history, which has largely been dominated by a "multiple accretion" strategy where buyers acquire to support their multiple, and in many cases acquire diminishing cash flows at astronomical multiples. In our view, these five products clearly punctuate Mr. Goodman's foresight when considering how and when to deploy capital, a strategy which rewards patience – a fundamental theme of this report. In addition to marketed products, Paladin had assembled a growth pipeline, consisting of more than 15 development-stage therapeutics.

To our knowledge, at Paladin, the longest pharmaceutical amortization period was six years, implying that management had been reluctant to pay more than 6x EBITDA for a product. While Big Pharma remains active in its divestiture of non-core assets, we note that the competitive landscape of potential buyers has become substantially more crowded. Therefore, we do not discount the possibility that Knight may be required to extend beyond this historical upper range.

Exhibit 2: Paladin Labs' Top Five Assets by Sales

Product	Date Acquired/ Licensed	Vendor/Target	Historical Sales ($mln)	2012 Sales ($mln)	CAGR
Dexedrine	November 29, 2008	GlaxoSmithKline Inc	$14.0 (FY2007)	$18.8	6.1%
Metadol	November 10, 2006	Pharmascience	$3.6 (June 2006 TTM)	$11.3	19.2%
Tridural	December 07, 2007	Labopharm	Launched by PLB	$11.7	-
Pennsaid	August 16, 2005	Dimethaid Health Care Ltd.	$6.0 (FY2004)	$9.4	5.8%
Plan B	December 01, 1999	Women's Capital Corporation	Launched by PLB	$9.1	-

Source: Capital IQ, Raymond James Ltd.

In addition to its product acquisition strategy, Paladin uniquely created value for shareholders by acquiring, investing in, and negotiating secured loans to various healthcare companies. For example, in March 2010, Paladin purchased a 45% stake in Pharmaplan Ltd., which was subsequently acquired by Litha Healthcare Group in February 2012, with Paladin exiting its position at $72.9 mln or a 14% return. Similarly, in July 2011, Paladin purchased 14.9% of Afexa Life Sciences (total consideration of approximately $8.0 mln) with a view of acquiring outright, the developer of Cold-FX. However, as a result of a bidding war with Valeant Pharmaceuticals, Paladin walked away from its final offer of $0.81 per share, selling its position in the company for $13.1 mln in October 2011, a 63% return.

Beginning with the economic downturn of 2008, when constricting access to capital threatened the livelihood of many speculative healthcare companies, and in the subsequent aftermath, Paladin identified an opportunity to deploy capital in an opportunistic, low-risk manner with the potential for attractive returns. For example, in December 2010, Paladin had $81.4 mln of 10.5% debt assigned to it from distressed ProStrakan, along with various product rights. In April 2011, ProStrakan was acquired by Kyowa Hakko Kirin and Paladin was repaid in full. Furthermore, Paladin received a full year of interest, a $3.3 mln break fee, and it retained the aforementioned product rights. Paladin successfully replicated this creative strategy on numerous occasions throughout 2008-2013, lending at an average rate of 13% (Exhibit 3).

Exhibit 3: Paladin Labs' Strategic Lending

Date	Type	Lendee	Amount ($mln)	Interest Rate
Jul-08	Convertible	Nuvo Research	$2.0	8%
Feb-10	Convertible	SpecPharm	$5.8	15%
Oct-10	Loan	Labopharm	$10.0	16%
Jan-11	Loan	ProSrakan	$81.4	10.50%
Jun-13	Loan	Bioniche	US$30.0	13.25%
Jun-13	Loan	Nuvo Research	$4.0	15%
Jul-13	Loan	Undiscl. Pharma	$4.2	-

Source: Capital IQ, Raymond James Ltd.

We believe the above review is of significant value as Management has clearly articulated its intent to create Paladin Labs 2.0 with Knight Therapeutics and in doing so, will likely follow a similar formula to success.

On February 28, 2014: A Knight Was Born

Headquartered in Montreal, QC, Knight Therapeutics Inc. is a specialty pharmaceutical company born out of the business separation agreement between Knight and Paladin Labs. Knight began operations on February 28, 2014, the same day Paladin was sold to Endo. Importantly, in consideration of the Paladin transaction, every Paladin shareholder received one share of Knight for each Paladin common share. At inception, Knight's assets included $1.0 mln in cash and worldwide rights to the drug Impavido (partnered with Paladin ex-US), a therapeutic indicated in the treatment of leishmaniasis. Knight began trading on the TSXV on March 3, 2014, and subsequently graduated to the TSX on April 29, 2014.

To date, Knight has successfully raised $685 mln in equity capital in five separate financing rounds (Exhibit 4), each with significant participation from Mr. Goodman and each at increasing valuations. Mr. Goodman is currently the largest shareholder of Knight with an ownership position of 15.3%. As of March 30, 2018, Knight had 142,818,883 shares outstanding (146,665,882 FD).

Exhibit 4: Knight Therapeutics' Equity Financings

Date	Amount ($mln)	Shares Issued	Price	Comments	Broker Warrants
6-Mar-14	$75	21,428,580	$3.50	Bought deal. Full over-allotment exercised.	282,266 at 3.75
21-Mar-14	$180	34,300,000	$5.25	Bought deal. Upsized from $75 mln.	
3-Dec-14	$100	14,815,220	$6.75	Bought deal. Upsized from $75 mln. Full over-allotment exercised.	
11-May-16	$230	28,750,000	$8.00	Bought deal. Full over-allotment exercised.	
6-Dec-16	$100	10,005,000	$10.00	Bought deal. Upsized from $75 mln. Full over-allotment exercised.	

Source: Raymond James Ltd.

Management has been adamant that Knight's mission is to become Paladin 2.0. In order to accomplish this, its strategy is fourfold as it plans to: 1) license innovative pharmaceuticals; 2) acquire mature or "under-promoted" products from Big Pharma; 3) develop near-term, low-risk/low-expense products for the Canadian and global markets; and, 4) lend, on a fully secured basis, to life science companies in need, for interest and/or product rights.

Product Portfolio

Building a Foundation for Growth

Despite Knight's healthy balance sheet and thus, ability to execute on acquisitions, its product portfolio is currently in its infancy. We attribute this to the fact that the present environment is very much a "seller's market" with products fetching multiples exceeding historical highs. We note that similar market conditions developed during a period throughout Paladin's lifespan (early 2000s), and despite shareholder pressure on Paladin's management to continue with capital deployment, Paladin resisted, instead opting to remain disciplined. In retrospect, Paladin's discipline paid off, as when prices fell, Paladin was one of the few well-capitalized pharmaceutical companies able to execute opportunistically on significantly discounted assets.

Looking forward, we expect Knight to target three sources for new products. Specifically, non-core assets from multinational pharmaceutical companies, emerging specialty pharmaceutical companies that lack a Canadian presence, and biotechnology companies with products in late-stage clinical trials. From a clinical development/risk perspective, Knight will generally only consider products in Phase II or later. To date, Knight has curated a small assortment of such assets with varying degrees of potential (Exhibit 5). In the following text, we will provide a brief review of those assets that are at currently approved or are currently commercial.

Exhibit 5: Overview of Knight's Therapeutic Pipeline

Date	Product/Family	Licensor/Vendor	Indication	Regulatory Status	Territory Rights
			Pain/GI Rx Products		
15-Dec-16	Movantik	AstraZeneca	Opioid-induced constipation	Marketed	CAN, ISR
1-Feb-16	Probuphone	Braeburn	Opioid addiction	Approved	CAN
19-Mar-18	Tenapanor	Ardelyx	IBS-C and Hyperphosphatemia	Phase 3 - Pre-Registration	CAN
1-Jan-15	NeurAxon family	Owned	Migraine, pain and other CNS	Pre-Clinical - Phase 3	CAN, ISR, RUS, ZAF
16-Nov-15	Antibe family	Antibe	Chronic pain and inflammation	Pre-Clinical - Phase 2	CAN, ISR, RUS, ZAF
			Opthalmic Rx Products		
24-Jul-15	AzaSite	Akorn	Bacterial conjunctivitis	Approved	CAN
21-Jul-15	Iluvien	Alimera	Diabetic macular edema	NDS in Review	CAN
2-Aug-16	Netildex	SIFI	Ocular inflammation	NDS in Review	CAN
			Other Rx Products		
28-Feb-14	Impavido	Owned	Leishmaniasis	Marketed	Global
11-Dec-15	60P family	60P	Tropical diseases	Phase 2 - Pre-Registration	CAN, ISR, RUS
26-Aug-15	Advaxis family	Advaxis	HPV-associated oncology and others	Phase 1 - Phase 3	CAN
			Consumer Health Products		
4-Jun-15	Neuragen	Owned	Diabetic and peripheral neuropath associated pain	Marketed	Global (Ex. U.S.)
22-Jan-14	Synergy family	Synergy	Various consumer health	Marketed	CAN, ISR, ROM, RUS, ZAF
26-Jun-15	FLEXISEQ	Pro Bono Bio	Osteoarthritis associated pain/joint stiffness	Not Marketed	QC, ISR
14-Aug-17	Crecista family	Crescita	Dermo-cosmetic	Not Marketed	CAR, ISR, ROM, RUS, ZAF
			Medical Device/Diagnostic Products		
30-Apr-15	TULSA-PRO	Profound	Prostate ablation	Pivotal Trial - Pre-Registration	CAN
9-Sep-16	3D Signatures family	3D Signatures	Telomere imaging based prognostics/diagnostics	Development	CAN, CAR, ISR, ROM, RUS, ZAF

Legend: **CAN**: Canada, **CAR**: The Carribbean, **ISR**: Israel, **QC**: Quebec, **ROM**: Romania, **RUS**: Russia, **ZAF**: Sub-Saharan Africa

Source: Knight Therapeutics Inc., Raymond James Ltd.

Movantik: Knight's First Commercial Specialty Product in Canada

On December 15, 2016, Knight announced that it had in-licensed the Canadian and Israeli rights to Movantik from AstraZeneca. Movantik (naloxegol oxalate) is a therapeutic indicated for the treatment of opioid-induced constipation in adult patients with non-cancer pain who have had an inadequate response to laxatives. Opioid-induced constipation affects between 26%-79% of patients taking an oral opioid.

Movantik is currently approved in Canada and is covered by three patents with expiry dates ranging from 2022 to 2031. The therapeutic was launched in Canada by AstraZeneca in October 2015 and relaunched by Knight on March 13, 2017. In Israel, Movantik is currently under regulatory review and is expected to be launched through Medison Biotech in 2018. Movantik sales in Canada were $372,000 for the 10-month period ending October 2016. We are forecasting that Movantik will contribute approximately $1.4 mln in 2018 sales.

Probuphine: Builds Upon Existing Therapeutic Competency

On February 1, 2016, Knight announced that it had entered into a sublicense agreement with Braeburn Pharmaceuticals Inc., whereby Knight had received the rights to commercialize Probuphine in Canada. The product was approved by Health Canada in April 2018.

Probuphine is a subdermal (below the skin) implant designed to deliver the active compound buprenorphine continuously for six months following a single treatment. Buprenorphine is the active ingredient in Suboxone and Subutex, in addition to their generic equivalents, and is considered to be the most significant new development in the treatment of opioid addiction. Buprenorphine suppresses cravings and withdrawal symptoms enabling patients to make long-term behavioral changes resulting in sustained addiction remission. Current formulations of buprenorphine are plagued by issues such as treatment diversion, missed doses, abrupt termination by the patient, accidental exposure to non-patients, and accidental overdosing. Probuphine provides a solution to these issues, promoting compliance and retention in addition to preventing accidental exposure.

In Canada, Knight estimates that there are less than 300 addiction specialist prescribers of opioid dependence therapeutics. Furthermore, these prescribers overlap with the same call points as Knight's other opioid support products such as Movantik. In order to estimate peak annual revenues to Knight from the Canadian distribution of Probuphine, we take the mean reported prevalence of opioid dependence in Canada of 75,000 individuals (estimates range from 50,000 to 100,000). We assume a treatment cost of $1,053 per patient year, in line with the low range end of the average per patient year treatment cost of Suboxone (ranging from $1,053 to $5,520 pending on dosage). We assume Knight achieves a peak penetration of 7.5% five years post launch. We assume a 35% royalty to Braeburn. Our revenue model suggests that Probuphine could achieve peak annual revenues to Knight of approximately $4.5 mln (Exhibit 6).

We currently forecast a 4Q18 launch for Probuphine in Canada and assume the asset will contribute $0.1 mln in 2018 sales.

Exhibit 6: Probuphine Revenue Estimates

All Amounts in C$	2018E	2019E	2020E	2021E	2022E	2022E
Canadian Prevalence of Opioid Dependence	75,000	75,750	76,508	77,273	78,045	78,826
Market Penetration (%)	0.2%	0.6%	1.3%	2.5%	5.0%	7.5%
Total Number of Treated Patients	150	455	995	1,932	3,902	5,912
Avg. Cost Per Patient Year	$1,053	$1,075	$1,098	$1,121	$1,144	$1,168
Price Appreciation	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Knight Gross Sales	$157,950	$488,639	$1,091,760	$2,165,065	$4,465,274	$6,906,953
Less: Royalty to Braeburn	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Total Revenue to GUD	**$102,668**	**$317,615**	**$709,644**	**$1,407,292**	**$2,902,428**	**$4,489,519**

Source: Raymond James Ltd.

AzaSite: Health Canada Approved In March 2009

On July 25, 2015 Knight announced that it had signed an exclusive agreement with Akorn, Inc. for the Canadian distribution of AzaSite.

AzaSite(R) is a DuraSite formulation of azithromycin, a broad spectrum ocular antibiotic approved by the US FDA in April 2007 and by Health Canada in March 2009, indicated to treat bacterial conjunctivitis (pink eye). It was commercialized in the US by Inspire Pharmaceuticals, Inc. in August 2007. In May 2011, Merck & Co acquired Inspire. On November 15, 2013, Akorn Inc. acquired the rights to AzaSite(R) from Merck.

While the competitive landscape is considerably populated, key advantages of AzaSite are: i) reduced dosing frequency leading to better compliance and outcome; and ii) a lowered probability of bacterial resistance based on high tissue concentration. AzaSite(R) is currently protected by four patents expiring in 2020. We currently do not attribute any value to AzaSite in our model as we await guidance from Knight regarding launch timing. We believe impending generic entry may dissuade Knight from launching this asset until the company has established an ophthalmology-specialized sales force detailing Iluvian and Netildex. Should Azasite face generic competition by the time of commercial launch, we would estimate revenues from this asset to be immaterial (<$1 mln).

Impavido: Foresight Which Translated Into US$125+ mln

We believe management's strategy surrounding Impavido perfectly highlights our thesis that Knight employs a unique degree of foresight when considering potential product acquisitions. Impavido (miltefosine alkylphosphocholine) is an FDA-approved oral therapeutic indicated for the treatment of leishmaniasis. Leishmaniasis is a parasitic disease transmitted by certain types of sandflies and is endemic in 98 tropical countries with an annual worldwide incidence of approximately 2 mln cases. The disease can present as either cutaneous, mucocutaneous or visceral leishmaniasis.

Impavido was originally acquired by Paladin Labs from Aeterna Zentaris for $9.0 mln and a trailing and perpetual 1.5% royalty in 2008. At the time, Aeterna Zentaris was actively divesting assets for a much-needed injection of capital. Paladin subsequently invested approximately $10.0 mln in clinical development of the therapeutic with the intent of positioning it for FDA approval. US approval for the therapy was a strategic decision for Paladin as in 2007 the FDA implemented the Priority Review Voucher (PRV) program. The concept of the program is to incentivize drug development for indications in which there is no significant market (specifically rare pediatric and neglected tropical diseases). Upon approval of such a therapeutic, the FDA grants a transferable voucher which can be used to expedite the review time (among other marginal benefits) of a subsequent, potentially blockbuster therapeutic, where first-mover advantage could confer significant value.

During the negotiation process between Paladin and Endo, it became evident that Endo ascribed no value to the PRV that could be issued in conjunction with Impavido's US approval. Thus, Mr. Goodman negotiated the transfer of all Impavido IP rights to Paladin Labs' shareholders via the formation of Knight. The FDA approved Impavido in March 2014 granting Knight a PRV. On November 17, 2014, Knight created significant value for shareholders when it sold the voucher to Gilead for US$125 mln, a value double the US$67.5 mln that BioMarin received for its voucher, which arguably was a more valuable voucher, just months prior in its sale to Regeneron Pharmaceuticals. The fact that Management was able to build a company around an asset that had no precedent of value when it was spun out of Paladin, and then monetize that asset for twice the recently established precedent, speaks volumes of management's foresight and ability to execute, in our view. On September 28, 2015, Knight announced that it had entered into an exclusive distribution agreement with Profounda Inc. to commercialize Impavido in the US. Impavido was officially launched in the US on March 25, 2016.

Additionally, On March 15, 2016 Knight announced that it had reacquired the worldwide rights to Impavido upon termination of its agreement with Paladin Labs related to the sale and distribution of Impavido in Paladin's territories (global ex-US). As a result, Knight is now presently distributing Impavido globally through several international distribution partners and is fully recognizing Impavido revenues (as opposed to a 22.5% royalty under the original Paladin agreement).

Our model estimates cumulative annual revenues to Knight from Impavido sales of approximately $5.8-$6.1 mln annually (Exhibit 7). Specifically, for visceral leishmaniasis, we take the median of a 200,000-300,000 annual incidence with a 1% annual increase in incidence. We assume a median cost per patient of $107.50 for a 28-day cycle (WHO negotiated cost of $65-$150 per 28-day cycle). We assume an initial uptick in market penetration from 7% in 2017 to 9% in 2019 driven by Impavido's availability in the US. We assume 30% of gross visceral sales are derived from Profounda's US sales, of which Knight receives a 20% royalty.

For cutaneous leishmaniasis, we take the median of a 700,000-1,300,000 annual incidence with a 1% annual increase in incidence. We assume a median cost per patient of $26.35 per treatment cycle (WHO negotiated cost of $13.20-39.50 per cycle). We assume an initial uptick in market penetration from 15% in 2017 to 17% in 2019 driven by Impavido's availability in the US. We assume 30% of gross cutaneous sales are derived from Profounda's US sales, of which Knight receives a 20% royalty. Notably, we believe there is potential upside to our estimates from off-label usage in the US particularly in primary amebic meningoencephalitis (PAM) caused by Naegleria fowleri infection, Ancanthamoeba Keratitis, as well as companion pet usage. We currently do not value off-label Impavido use.

Exhibit 7: Historical and Forward Impavido Sales Estimates

Impavido Revenue Model (C$)	2015A	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Visceral Leishmaniasis									
Annual WW Incidence of Visceral Leishmaniasis	303,000	306,030	309,090	312,181	315,303	318,456	321,641	324,857	328,106
Market Penetration (%)	5.0%	7.0%	8.5%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Total Number of Treated Patients	15,150	21,422	26,273	28,096	28,377	28,661	28,948	29,237	29,530
Cost per Treated Patient	$108	$108	$108	$108	$108	$108	$108	$108	$108
Price Appreciation	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Paladin Gross Sales	$1,628,625	$2,302,876	$2,824,313	$3,020,353	$3,050,557	$3,081,062	$3,111,873	$3,142,992	$3,174,422
Less US Revenue To Profounda	22.5%	$552,690	$677,835	$724,885	$732,134	$739,455	$746,849	$754,318	$761,861
Total Revenue to GUD	**$366,441**	**$1,750,186**	**$2,146,478**	**$2,295,468**	**$2,318,423**	**$2,341,607**	**$2,365,023**	**$2,388,674**	**$2,412,560**
Cutaneous Leishmaniasis									
Annual WW Incidence of Cutaneous Leishmaniasis	1,010,000	1,020,100	1,030,301	1,040,604	1,051,010	1,061,520	1,072,135	1,082,857	1,093,685
Market Penetration (%)	10.0%	15.0%	16.5%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
Total Number of Treated Patients	101,000	153,015	170,000	176,903	178,672	180,458	182,263	184,086	185,926
Cost per Treated Patient	$26	$26	$26	$26	$26	$26	$26	$26	$26
Price Appreciation	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Paladin Gross Sales	$2,661,350	$4,031,945	$4,479,491	$4,661,386	$4,708,000	$4,755,080	$4,802,630	$4,850,657	$4,899,163
Less US Revenue To Profounda	22.5%	$967,667	$1,075,078	$1,118,733	$1,129,920	$1,141,219	$1,152,631	$1,164,158	$1,175,799
Total Revenue to GUD	**$598,804**	**$3,064,278**	**$3,404,413**	**$3,542,653**	**$3,578,080**	**$3,613,860**	**$3,649,999**	**$3,686,499**	**$3,723,364**
Total Impavido Sales to GUD	**$965,244**	**$4,814,464**	**$5,550,891**	**$5,838,121**	**$5,896,503**	**$5,955,468**	**$6,015,022**	**$6,075,173**	**$6,135,924**

Source: Raymond James Ltd.

Neuragen: Generating Value in a Worst-Case Scenario

Neuragen is a homeopathic remedy marketed as topical oil for fast-acting relief of diabetic neuropathy. The product is a mixture of St. John's Wort, wolfbane, club moss, rye ergot, and a proprietary blend of geranium oil, bergamot oil, tea tree oil, and eucalyptus oil. One small, manufacturer-funded study has been published demonstrating efficacious pain reduction. The trial, in our view, does not meet the standards (nor is it required to) of a typical clinical program required of a registered prescription therapeutic. The Neuragen trial harbours a number of limitations which make us somewhat skeptical of the actual clinical effectiveness of the product. In fact in 2013, the FDA voiced concern over some of the medical claims Origin Biomed had been making over social media with respect to the product. Nonetheless, the product is licensed as a Natural Health product in Canada.

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 $925,000 (US$850,000) were assigned a fair value of $1.82 mln. In connection with the acquisition, Knight issued 185,000 warrants on June 30, 2015 to Origin stakeholders which are exercisable for a period of 10 years at an exercise price of $10.00 per share. Per the transaction, Knight recognized a gain on settlement of loan receivable of $382,000 net of $352,000 of related expenses.

Further to the above settlement, on June 26, 2015, Knight entered into a sale agreement with Synergy Strips related to the US rights to Neuragen where it would receive minimum aggregate consideration of $1.498 mln (US$1.2 mln), while maintaining rights to the asset in Canada and other ex-US jurisdictions. On April 26, 2016, Knight realized further value from this asset when it entered into an exclusive distribution agreement with EMPA Healthcare LLC to commercialize Neuragen in the United Arab Emirates and Kuwait. Details of the EMPA transaction were not disclosed and we believe any upfront associated with the transaction were likely not material.

Our model assumes Nueragen contributes $250,000 per year in revenues for Knight. While we remain skeptical of the actual clinical utility of this asset and its commercial longevity (natural health products tend to be highly promotionally sensitive and are subjected to the “fad effect”) we view the ownership of this asset and associated business development activities following its acquisition as a prime example of Knight’s ability to generate shareholder value even in a “worst-case scenario” outcome. We believe this speaks to Knights diligent approach to capital deployment.

Synergy Family: Free “Kickers” To Secured Lending

In January 2015, Knight obtained the exclusive distribution rights to Synergy Strips Corporation’s products in Canada and select international markets as part of its licensing agreement with Synergy, signed in conjunction with a secured loan. The Synergy family includes consumer products such as the dietary/weight loss supplement, Flat Tummy Tea and FOCUSFactor, a dietary supplement claimed to improve “brain health” which was approved by Health Canada as a natural health product in October 2015.

As mentioned above, we generally take the stance that Natural Health products and homeopathic medicines lack the rigorous clinical data typically associated with regulated Rx products. As such, we are typically highly skeptical of the claims associated with such products and their associated commercial longevity. Such products tend to be promotionally sensitive, relying on direct to consumer advertising through various outlets such as social media. Looking forward, we do not believe such products will materially contribute to Knights top line once it has evolved a robust commercial pipeline of Rx products. Rather, we urge investors to view such products as “free kickers” obtained in conjunction with its strategic lending activities. Our model currently assumes Knight generates approximately $1.1 mln in revenue from the Synergy family of products; however, we lack confidence in the longevity of this revenue line item.

Fully Secured Lending

Interest Income That Covers Your Cost of Capital

Unlike the majority of recent Canadian specialty pharmaceutical companies that subscribe to the “pharma roll-up” model of acquiring legacy assets and performing life cycle management, Knight is in a favourable position where it has not been pigeon-holed into a multiple accretion game. There is no impetus on Knight to consummate its next acquisition in order to obscure the underwhelming performance of a former acquisition, or to replace an at-risk source of cash flow.

In our view, this affords Knight the opportunity to bide its time in order to make well-researched, meaningful capital deployments, provided they protect their cost of capital. Knight has opted to exercise extreme discipline on the product-acquisition front, in a market that favours sellers over buyers. Knight has entered into a number of high-interest secured lending agreements generating a strong IRR, a strategy we expect it will continue to pursue until pricing realigns with its expectations. We suggest that this strategy will be viewed upon favourably by the investor community when the cycle turns, as Knight will be one of the most well-positioned companies to capitalize on the opportunity while exposing investors to relatively minimum downside risk.

To date, Knight has deployed over $145 mln under its lending strategy at an average interest rate of 13%. Furthermore, in many cases, Knight negotiates additional consideration including product rights or equity kickers. To date, Knight has secured the rights to greater than 15 products through its secured lending strategy. As at March 31, 2018, Knight had an outstanding loan balance of $28.9 mln. We review Knights lending transactions to date in Exhibits 8 and 9.

Exhibit 8: Overview of Knight's Strategic Loans

Date	Company	Amount (mln)	Maturity	Interest	Comments
25-Jun-14	Origin	$0.85	25-Jun-17	15%	●Issued warrants to acquire 0.7 mln pref shares at $0.0794 ●Origin defaulted and Knight took ownership of assets June 4, 2015 ●Knight subsequently divested US rights of Neuragen to Synergy Strips Corp for a minimum aggregate consideration of US$1.20 mln
3-Jul-14	Apicore	US$6.5	30-Jun-18	12%	●Issued warrants to acquire a beneficial interest of 8.125% of Apicore **●Paid in full generating a 24.8% IRR**
2-Dec-14	CRH Medical	US$30	1-Dec-16	10%	●Issued 3.0 mln shares at $0.82 which it sold for gross proceeds of $9.9 mln **●Paid in full generating an IRR in excess of 40%**
22-Jan-14	Synergy Strips	US$21.5	20-Jan-17	15%	●Decreases to 13% pending targets ●Issued 6.5% equity ●Received 10 year warrant (3.6 mln shares at $0.34) ●Rights (cost plus) to FOCUSfactor and all of Synergy's brands in GUD territories ●US$5.5 mln issued 16-Nov-15 at 15% (decreases to 13% and matures 11-Nov-17) ●Recieved 6.5% equity, 4.55 mln warrants at US$0.49, Flat Tummy Tea and UrgentRX rights ●US$10 mln issued 9-Aug-17 at 10.5% and matures 9-Aug-20
31-Mar-15	Pediapharm	$1.25	30-Mar-19	12%	●Debentures may be converted at anytime into common shares at $0.45 ●Received 757,000 4-year warrants at an exercise price of $0.33 per common share
30-Apr-15	Profound Medical	$4.00	30-Apr-19	15%	●Issued 4.0% equity ●Purchased $2.0 mln (of $24.0 mln offering). Sub receipts at $1.50 ●GUD will be exclusive distributor of TULSA-PRO system in Canada for an initial 10-year term
26-Jun-15	Pro Bono Bio	US$15.0	25-Jun-18	12%	●Decreases to 10% on targets ●Quebec and Israeli distribution rights to the range of Flexiseq and SEQuaderma products **●Loan assigned generating a 14% IRR**
26-Jun-15	Extenway Solutions	$0.8	25-Jun-21	15%	●Decreases to 13.5% pending equity financing targets ●Secured against the projected 10-year revenue streams from touchscreen terminals ●Currently impaired
5-Aug-15	Ember Therapeutics	US$1.0	3-Aug-16	12.5%	●May provide $5 mln equity commitment ●Rights to BMP-7 pipeline in GUD territories
16-Nov-15	Antibe Therapeutics	$0.5	15-Oct-18	10%	●Debentures convertible at $0.22 per share ●Issued 1 mln warrants exercisable at $0.31 ●Anti-inflammatory and pain drug rights in GUD territories
11-Dec-15	60P Pharma	US$4.0	11-Dec-20	15%	●Rights and option to develop all products in GUD territories
25-Jan-16	INTEGA/Crescita	$10.5	25-Jan-22	13%	●Issued 8% equity ●Rights to current and future products in GUD territories (CDN subject to conditions) ●Acquired by Crescita. **$5.5 mln paid to date.**
17-Feb-16	Medimetriks	US$23.0	17-Feb-19	13%	●Issued 3.6% equity ●Rights to future products in GUD territories **●Prepaid US$20 mln; IRR of 20% to date.**

Source: Knight Therapeutics Inc., Raymond James Ltd.

Exhibit 9: Knight's Currently Active Strategic Loans

Company	In Source Currency ($000s)	In Canadian ($000s)
Synergy	US$9,000	$11,650
60P	US$4,685	$6,041
Crescita	C$3,639	$3,639
Profound	C$3,143	$3,143
Medimetriks	US$2,000	$2,579
Pediapharm	C$1,250	$1,250
Ember	US$500	$654

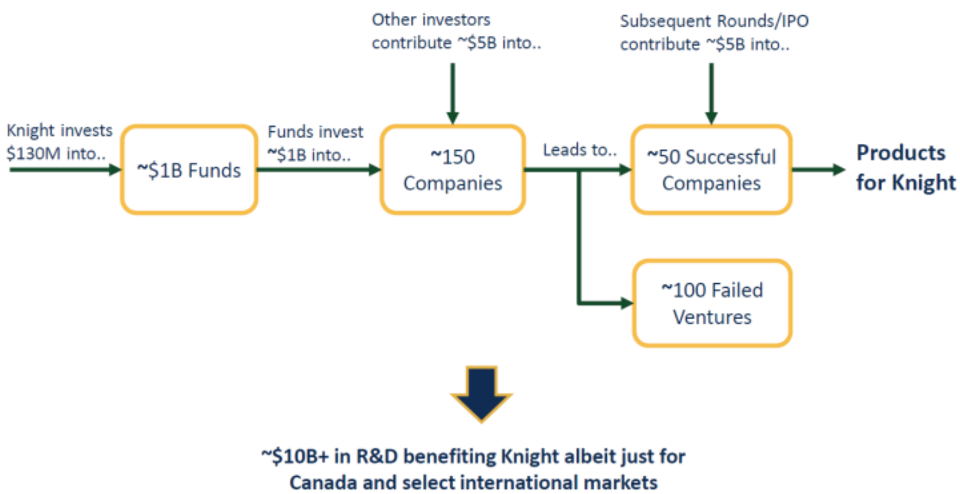
Source: Knight Therapeutics Inc., Raymond James Ltd.

Long-Term Licensing Strategy

Investments Provide Unique Insight Into Diverse Clinical Pipeline

Knight has embarked on a unique long-term strategy to invest $130 mln into proven life science funds in order to generate LP returns, and more strategically, to obtain preferential access to innovative pharmaceutical products from around the world for the Canadian market. While a novel strategy in Canada, it does not appear that this is without precedence. For example, a similar strategy was employed when Domain Associates and Rusnano, a Russian investment group, partnered in a manner such that investments made by Domain into companies resulted in Russian product rights for NovaMedica, a pharmaceutical company controlled by Rusnano.

Exhibit 10: Illustration of Knight's Long-Term Licensing Strategy



Source: Knight Therapeutics Inc.

To date, Knight has committed over $126 mln (with $81 mln remaining to be funded) of the $130 mln earmarked for investment under this strategy (Exhibit 11). These investments are long-term oriented and Knight expects that for each dollar invested in these funds, it will generate a dollar in annual revenues from future product rights acquired from the relationships established from funded companies in addition to a 5%-15% return on principal. To date, Knight's investment strategy has led to the license of Iluvien from Alimera (Domain Partners IX, L.P. is an early investor of Alimera) and has led to a license agreement with Advaxis for their portfolio of products for Canada (Sectoral is an investor of Advaxis).

We acknowledge that this is an unorthodox strategy; however, we believe that even if Knight is successful in securing the rights to one potential blockbuster asset from the hundreds of assets it will have visibility into, this will prove to be a successful strategy. We once again refer to Paladin's Top 5 selling assets in 2012, all of which were a direct result of Paladin's long-term horizon outlook.

Exhibit 11: Knight's Fund Investment Portfolio

Date	Managing Entity	Fund	Amount	Fund AUM	Development Stage	Geography
26-Jun-14	Sectoral Asset Management Inc	NEMO II	US$13 mln	US$3.6 bln	Late stage to small cap	Global
2-Oct-14	Forbion Capital Partners	Forbion Capital Fund III C.V. ("FCF III")	EUR€19.5 mln	EUR€400 mln	All clinical stages	Europe
28-Oct-14	Teralys Capital	Teralys Capital Innovation Fund LP ("Teralys Fund")	C$30 mln	$450 mln	VCAP fund of funds	Canada
16-Dec-14	Domain Associates L.L.C.	Domain Partners IX, L.P. ("Domain Fund")	US$25 mln	US$2.4 mln	Early stage	North America
16-Dec-14	Sanderling Ventures, L.L.C.	Sanderling Ventures VII, L.P.	US$10 mln	US$900 mln	Early Stage	North America
3-Apr-15	HarbourVest Partners LLC	HarbourVest Canada Growth Fund L.P.	$10 mln	US$32.3 bln	VCAP fund of funds	Canada
2-Jul-15	Sectoral Asset Management Inc.	NEMO III	US$10 mln	US$3.6 bln	Late stage to small cap	Global
7-Jul-15	TVM Capital Life Science	TVM Life Sciences Venture VII	US$1.6 mln	US$1.2 bln	VCAP fund of funds	Global
9-Jul-15	Stratigis Capital Advisors	Bloom Burton Lending Trust	C$1.5 mln	C$16 mln	Emerging Commercial	Canada
16-Aug-16	Genesys Capital	Genesys Ventures III	C$1 mln	N/A	All clinical stages	Global

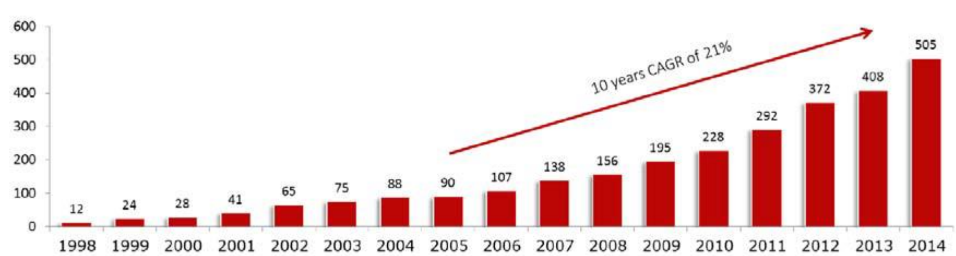
Source: Knight Therapeutics Inc., Raymond James Ltd.

Medison Biotech Ltd: Establishing a Rest-of-World Footprint

In September 2015, Knight officially established its rest-of-world, global footprint through the acquisition of a 28.3% strategic interest in Medison Biotech Ltd., an Israeli specialty pharmaceutical company. The consideration given for the equity interest amounted to $82.0 mln (10.33 common shares of Knight) including a contingent consideration of $1.13 mln settled in 2016.

Founded in 1995, Medison is currently Israel's fourth-largest healthcare company ranked by prescription volume, preceded only by Roche, Janssen and Novartis. With approximately 185 employees at the time of the transaction, Medison boasted 17 years of profitable growth and a 10-year CAGR of 21% (Exhibit 12).

Exhibit 12: Medison Revenues 1998-2014 (NIS in mln)



Source: Knight Therapeutics Inc.

At the time of the transaction, Knight had disclosed that Medison had a portfolio consisting of 46 products licensed from approximately 40 high-profile global healthcare companies such as Shire/Genzyme, Biogen, Amgen, BioMarin, etc. Medison's product offering covers multiple therapeutic areas, with the largest revenue contributors being medical specialties where a small number of physicians drive a large volume of scripts, such as Neurology (24%), Rare Diseases (23%), and Oncology/Endocrinology (18%). According to Knight, approximately 25% of Medison's product portfolio does not currently have representation in Canada. As such, management believes there may be opportunity to leverage its relationship with Medison who could potentially facilitate introductions to various vendors seeking a Canadian partner for any of these products.

In addition to an Israeli footprint, Medison maintains a wholly owned subsidiary established in 2006 and headquartered in Bucharest, Romania where it is currently the market leader ranked by prescription volume. As Knight has gained the rest of world rights to a number of products in its pipeline, Medison represents an attractive partner with local market expertise in its various Middle Eastern and eastern European jurisdictions. In fact, Knight has already demonstrated the value of this partnership by out licensing the Israeli rights of Movantik to Medison.

As of March 31, 2018, Knight had received dividends from Medison totaling $11.8 mln.

Valuation & Recommendation

P/BVPS Best Captures Knight's Focus on Building Shareholder Equity

We are initiating on Knight Therapeutics with an Outperform recommendation and a $10.25 per share target price. While we would typically value a specialty pharmaceutical company by utilizing either a DCF valuation methodology or a forward EBITDA multiple, we believe neither approach accurately captures the inherent value in Knight's current early-stage operational strategy nor growing cash balance. This is particularly true, as at present, the majority of Knights earnings are to date generated from interest income on loans receivable as well as other unique investment tactics. Furthermore, we would lack confidence in any assumptions we make at present around the timing of future debt issuances and product launches. As such, we have opted to utilize a price to book value per share multiple valuation methodology which we believe more precisely represents the current value in in Knights growing asset base. Specifically, we value Knight at 1.5x P/BVPS which represents a 25% discount to its North American Specialty Pharmaceutical comps which currently trade at an average of 2.0x (Exhibit 13). Our 1.5x multiple results in a value of $10.35 per share which we round down to $10.25 (Exhibit 14). We provide a sensitivity analysis around our multiple in Exhibit 15.

Exhibit 13: North American Specialty Pharmaceutical Comparables

Company Name	Price	Market Cap. (mln)	TEV (mln)	Debt / EBITDA	EBITDA (mln) 2018E	EBITDA (mln) 2019E	Diluted EPS 2018E	Diluted EPS 2019E	EV/EBITDA 2018E	EV/EBITDA 2019E	P/E 2018E	P/E 2019E	P/BV
Select Canadian Spec Pharma													
BioSyent Inc.	$9.50	$138	$118	NM	$7.9	$9.4	$0.4	$0.5	14.3x	14.3x	22.4x	22.4x	5.9x
Cipher Pharmaceuticals Inc.	$2.84	$76	$61	NM	$15.7	$20.4	$0.6	$0.7	3.6x	3.6x	4.7x	4.7x	2.6x
HLS Therapeutics Inc.	$9.40	$258	$366	1.6x	$56.2	$54.1	-$0.5	-$0.4	6.6x	6.6x	NM	NM	1.1x
Medicure Inc.	$7.14	$104	$32	NM	$13.0	$32.6	$0.7	$1.5	1.8x	1.8x	7.5x	7.5x	1.3x
Nuvo Pharmaceuticals Inc.	$2.66	$31	$24	NM	$3.6	$5.3	$0.1	$0.2	6.0x	6.0x	32.7x	32.7x	1.2x
Valeant Pharmaceuticals International, Inc.	$30.13	$10,517	$42,633	7.2x	$4,252.6	$4,318.2	$4.4	$4.6	0.0x	0.0x	0.0x	0.0x	0.0x
Canadian Average									**5.4x**	**5.4x**	**13.5x**	**13.5x**	**2.0x**
Select US Spec Pharma													
Akorn, Inc.	$18.02	$2,196	$2,703	4.5x	$123.1	$212.1	$0.4	$0.8	18.6x	18.6x	46.1x	46.1x	2.7x
Allergan plc	$174.74	$58,387	$82,935	3.2x	$7,563.9	$7,678.8	$16.0	$16.7	10.9x	10.9x	10.8x	10.8x	0.8x
Depomed, Inc.	$7.17	$448	$979	3.2x	$127.2	$127.8	$0.8	$0.8	7.7x	7.7x	9.5x	9.5x	2.2x
Horizon Pharma Public Limited Company	$16.80	$2,756	$3,987	NM	$397.1	$457.9	$1.5	$1.8	9.2x	9.2x	9.4x	9.4x	3.2x
Jazz Pharmaceuticals plc	$179.31	$10,640	$11,513	1.2x	$1,026.3	$1,190.1	$13.0	$15.1	10.8x	10.8x	13.4x	13.4x	3.8x
Mallinckrodt Public Limited Company	$19.90	$1,601	$7,903	4.7x	$1,091.0	$1,165.9	$6.2	$6.9	7.1x	7.1x	3.1x	3.1x	0.2x
Perrigo Company plc	$76.51	$10,417	$13,054	2.3x	$1,147.6	$1,202.9	$5.2	$5.7	11.2x	11.2x	14.2x	14.2x	1.7x
US Average									**10.8x**	**10.8x**	**15.2x**	**15.2x**	**2.1x**
North American Average									**8.1x**	**8.1x**	**14.3x**	**14.3x**	**2.0x**
Knight Therapeutics Inc.w	**$8.23**	**$851**	**$414**	**NM**	**($11.2)**	**($7.4)**	**$0.11**	**$0.09**	**NM**	**NM**	**72.1x**	**94.1x**	**1.2x**

Source: Capital IQ, Raymond James Ltd.

Exhibit 14: Knight Therapeutics Valuation

C$mln (except per share)	2018E
Tangible Book Value	1012.23
FD S/O	146.67
BVPS	6.90
Multiple	1.5x
Per Share Target	**$10.35**

Source: Raymond James Ltd.

Exhibit 15: Sensitivity Analysis

P/BVPS Multiple	2018E BVPS: $5.92	$6.23	$6.56	$6.90	$7.25	$7.61	$7.99
1.2x	$7.10	$7.47	$7.87	$8.28	$8.70	$9.13	$9.59
1.3x	$7.69	$8.10	$8.52	$8.97	$9.42	$9.89	$10.39
1.4x	$8.28	$8.72	$9.18	$9.66	$10.14	$10.65	$11.18
1.5x	$8.88	$9.34	$9.83	$10.35	$10.87	$11.41	$11.98
1.6x	$9.47	$9.97	$10.49	$11.04	$11.59	$12.17	$12.78
1.7x	$10.06	$10.59	$11.15	$11.73	$12.32	$12.93	$13.58
1.8x	$10.65	$11.21	$11.80	$12.42	$13.04	$13.70	$14.38

Source: Raymond James Inc.

Appendix: Financial Statements

Exhibit 16: Knight Therapeutics Inc. Income Statement

Fiscal YE Dec. 31			**2018E**					
(C$000s, except where noted)	**2016A**	**2017A**	**1QA**	**2QE**	**3QE**	**4QE**	**2018E**	**2019E**
Total Revenue	5,940	8,634	3,154	2,161	2,161	2,161	9,638	9,716
COGS	1,550	1,585	834	432	432	432	2,131	1,943
Gross Profit	$4,390	$7,049	$2,320	$1,729	$1,729	$1,729	$7,508	$7,773
Expenses								
Selling General & Administrative	9,834	11,576	2,884	2,971	3,089	3,213	12,157	13,950
Research & Development	1,955	2,750	489	513	539	566	2,108	2,562
Total Expenses	11,789	14,326	3,373	3,484	3,628	3,779	14,264	16,511
EBITDA	$(7,399)	$(7,277)	$(1,053)	$(1,755)	$(1,899)	$(2,050)	$(6,757)	$(8,738)
Depreciation of Property & Equip.	18	8	16	300	171	100	588	172
Amortization of Intangible Assets	419	1,621	441	318	312	306	1,376	1,162
EBIT	$(7,836)	$(8,906)	$(1,510)	$(2,373)	$(2,383)	$(2,455)	$(8,721)	$(10,072)
Foreign Exchange Loses/(Gains)	1,451	3,689	(2,597)	-	-	-	(2,597)	-
Interest Expense	-	-	-	-	-	-	-	-
Interest Income	(24,414)	(26,300)	(5,288)	(6,261)	(6,290)	(6,111)	(23,950)	(25,230)
Gain on Sale of Intangible Asset	-	-	-	-	-	-	-	-
Net Gain on Financial Assets	(1,659)	(6,734)	(541)	-	-	-	(541)	-
Purchase Gain on Acquisition	-	-	-	-	-	-	-	-
Net loss on settlement of Loans	-	-	-	-	-	-	-	-
Impairment on Financial Assets	-	1,621	-	-	-	-	-	-
Share of net income of associate	(2,793)	(854)	(503)	(503)	(503)	(503)	(2,012)	(2,012)
Other Income	(3,894)	(1,527)	(1,351)	-	-	-	(1,351)	-
EBT	$23,473	$21,199	$8,770	$4,391	$4,411	$4,158	$21,730	$17,170
Income Tax Expense/(Recovery)	4,190	1,897	641	1,181	1,186	1,119	4,127	4,619
Deferred Tax Exp./(Recovery)	723	2,058	1,220	-	-	-	1,220	-
Net Income (Loss)	$18,560	$17,244	$6,909	$3,210	$3,224	$3,040	$16,383	$12,551
Weighted Average S/O								
Basic	120,723	142,764	142,778	142,792	142,807	142,821	142,821	142,878
Fully Diluted	121,264	143,417	143,431	143,445	143,460	143,474	143,474	143,531
Earnings Per Share								
Basic	**$0.15**	**$0.12**	**$0.05**	**$0.02**	**$0.02**	**$0.02**	**$0.11**	**$0.09**
Fully Diluted	**$0.15**	**$0.12**	**$0.05**	**$0.02**	**$0.02**	**$0.02**	**$0.11**	**$0.09**

Source: Knight Therapeutics Inc., Raymond James Ltd.

Exhibit 17: Knight Therapeutics Inc. Balance Sheet

Fiscal YE Dec. 31 (C$000s, except where noted)	2016A	2017A	2018E 1QA	2018E 2QE	2018E 3QE	2018E 4QE	2018E 2018E	2019E
ASSETS								
Current Assets:								
Cash	$514,942	$496,460	$583,408	$589,179	$593,124	$596,991	$596,991	$612,111
Marketable Securities	221,108	232,573	183,017	183,223	183,429	183,635	183,635	184,463
Accounts Receivable	6,440	9,176	10,046	3,369	3,381	3,309	3,309	3,446
Invest. Tax Credits Receivable	4,683	-	-	-	-	-	-	-
Inventory	790	1,224	994	2,527	2,536	2,482	2,482	2,585
Other Current Financial Assets	51,789	58,848	25,167	25,167	25,167	25,167	25,167	25,167
Income Taxes Receivable	-	792	819	819	819	819	819	819
Total Current Assets	799,752	799,073	803,451	804,284	808,455	812,403	812,403	828,591
Property & Equipment	32	633	675	386	225	136	136	43
Intangible Assets	14,153	12,576	15,906	15,588	15,276	14,971	14,971	13,808
Intang. Assets Held for Sale	-	36,000	36,000	36,000	36,000	36,000	36,000	36,000
Investment in Associate	80,113	75,983	77,697	77,697	77,697	77,697	77,697	77,697
Deferred Inc. Tax Assets	6,077	4,730	3,455	3,455	3,455	3,455	3,455	3,455
Other Financial Assets	90,643	76,988	79,669	79,669	79,669	79,669	79,669	79,669
Total Assets	**$990,770**	**$1,005,983**	**$1,016,853**	**$1,017,079**	**$1,020,777**	**$1,024,331**	**$1,024,331**	**$1,039,263**
LIABILITIES & SHAREHOLDERS' EQUITY								
Current Liabilities:								
Accounts Payable & Accruals	$3,207	$5,025	$4,592	$1,219	$1,270	$1,323	$1,323	$1,531
Int. Pay. to Rltd. Party	-	-	-	-	-	-	-	-
Loan Pay. to Rltd Party	-	-	-	-	-	-	-	-
Income Taxes Payable	5,659	7,599	7,962	7,962	7,962	7,962	7,962	7,962
Other Balances Payable	537	1,354	1,394	1,394	1,394	1,394	1,394	1,394
Deferred Revenue	355	282	251	251	251	251	251	251
Total Current Liabilities	9,758	14,260	14,199	10,826	10,877	10,930	10,930	11,138
Deferred Income Tax Liability	1,294	515	1,171	1,171	1,171	1,171	1,171	1,171
Total Liabilities	11,052	14,775	15,370	11,997	12,048	12,101	12,101	12,309
Shareholders' Equity:								
Share Capital	760,447	761,490	761,546	761,546	761,546	761,546	761,546	761,546
Warrants	785	785	785	785	785	785	785	785
Contributed Surplus	9,469	12,196	12,741	12,741	12,741	12,741	12,741	12,741
Accum. Other Comp. Inc. / (Loss)	30,431	20,907	11,459	10,956	10,453	9,950	9,950	7,938
Retained Earnings / (Deficit)	178,586	195,830	214,952	219,053	223,204	227,208	227,208	243,944
Total Shareholders' Equity	979,718	991,208	1,001,483	1,005,081	1,008,729	1,012,230	1,012,230	1,026,954
Total Liabilities & Share. Equity	**$990,770**	**$1,005,983**	**$1,016,853**	**$1,017,079**	**$1,020,777**	**$1,024,331**	**$1,024,331**	**$1,039,263**

Source: Knight Therapeutics Inc., Raymond James Ltd.

Exhibit 18: Knight Therapeutics Inc. Cash Flow Statement

Fiscal YE Dec. 31			2018E					
(C$000s, except where noted)	**2016A**	**2017A**	**1QA**	**2QE**	**3QE**	**4QE**	**2018E**	**2019E**
Operating Activities								
Net Income	$18,560	$17,244	$6,909	$3,210	$3,224	$3,040	$16,383	$12,551
Non-cash Items:								
Deferred Income Tax Recovery	723	2,058	1,220	-	-	-	1,220	-
Stock-based Compensation	3,640	3,038	545	891	927	964	3,327	4,185
Acquisition of Product Rights	-	-	-	-	-	-	-	-
Deprec. of Property & Equip.	18	8	16	300	171	100	588	172
Amort. of Intang. Assets	419	1,621	441	318	312	306	1,376	1,162
Accretion of Interest	(6,201)	(5,382)	-	-	-	-	-	-
Other Income	(795)	(886)	(94)	-	-	-	(94)	-
Gain/Unrealized Other Cur. Fin. Ass.	(1,659)	(4,421)	(541)	-	-	-	(541)	-
Dividen	4,837	4,984	-	-	-	-	-	-
Impairment	-	1,621	-	-	-	-	-	-
Share of Ass. Net Inc.	(2,793)	(854)	(503)	(503)	(503)	(503)	(2,012)	(2,012)
Unrealized Loss on Deriv/Other	-	(2,313)	-	-	-	-	-	-
Unrealized Foreign Exch. Gain	1,451	3,689	(2,597)	-	-	-	(2,597)	-
Chngs: Non-cash WC Rel. to Ops.	(3,462)	3,050	1,468	1,566	(176)	(28)	2,830	(860)
Cash Flow from Op. Activities	$14,738	$23,457	$6,864	$5,782	$3,955	$3,878	$20,480	$15,198
Investing Activities								
Purch. of Mark. Sec.	$(535,685)	$(314,358)	$(50,755)	$-	$-	$-	$(50,755)	$-
Proc. from Disposal of Mark. Sec.	544,812	259,067	101,318	-	-	-	101,318	-
Purch. of Other Curr. Fin. Assets	(16,371)	(2,939)	(400)	-	-	-	(400)	-
Fund Dist.	11,729	8,083	343	-	-	-	343	-
Purch. Of Intang.	(9,853)	-	(3,000)	-	-	-	(3,000)	-
Issuance of Loans & Deb. Rec.	(43,274)	(20,112)	-	-	-	-	-	-
Proc. from Repay. on Loans Rec.	11,324	38,835	33,440	-	-	-	33,440	-
Purchase of P&E	(7)	(126)	(42)	(11)	(11)	(11)	(74)	(78)
Sale of Investment in Funds	4,610	-	-	-	-	-	-	-
Proc. Sale of Equity/Der.	-	12,872	-	-	-	-	-	-
Investment in Fund	(16,503)	(21,314)	(4,277)	-	-	-	(4,277)	-
Cash Flow from Invest. Activities	$(49,218)	$(39,992)	$76,627	$(11)	$(11)	$(11)	$76,595	$(78)
Financing Activities								
Net Proc. from Share Issuance	313,574	-	-	-	-	-	-	-
Share Purchase Loans	(350)	-	-	-	-	-	-	-
Share Option Plan	-	551	-	-	-	-	-	-
Share Purchase Plan	105	195	49	-	-	-	49	-
Cash Flow from Fin. Activities	$313,329	$746	$49	$-	$-	$-	$49	$-
Incr. / (Dec. in Cash & Equivalents	278,849	(15,789)	83,540	5,771	3,945	3,867	97,123	15,120
Cash & Equiv., Begin. of Period	237,481	514,942	496,460	583,408	589,179	593,124	496,460	596,991
Net Foreign Exchange Difference	(1,388)	(2,693)	3,408	-	-	-	3,408	-
Cash & Equiv., End of Period	$514,942	$496,460	$583,408	$589,179	$593,124	$596,991	$596,991	$612,111

Source: Knight Therapeutics Inc., Raymond James Ltd.

Appendix: Management & Board of Directors

Jonathan Ross Goodman – CEO & Founder

Prior to establishing Knight Therapeutics, Mr. Goodman was the co-founder of Paladin Labs Inc., which was purchased by Endo International for $1.6 bln in November 2013. 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 BA with Great Distinction from McGill University and the London School of Economics with 1st Class Honours. Additionally, he holds an LLB and an MBA from McGill University. Mr. Goodman is a member of the Bars of New York and Massachusetts, is an accredited pharmaceutical manufacturing representative and is a seasonal lecturer in pharmaceutical entrepreneurship at McGill University. Mr. Goodman was named Quebec Entrepreneur of the Year in the Life Sciences by Ernst & Young in 2003. Under Mr. Goodman's leadership, $1 invested in Paladin at its founding was worth approximately $100 at its sale 19 years later.

Samira Sakhia – President & CFO

Ms. Sakhia joined Knight as President in August 2016 and assumed the additional responsibility of CFO in October 2017. Prior to Knight, Ms. Sakhia served as the CFO at Paladin 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 over $3 billion. Ms. Sakhia holds an MBA and a Bachelors of Commerce degree from McGill University and is also a Chartered Professional Accountant. Ms. Sakhia serves on the boards of Crescita Therapeutics Inc., Profound Medical Corporation and Antibe Therapeutics. In addition, Ms. Sakhia serves on the board of the Montreal Society for the Prevention of Cruelty to Animals, the International Advisory Board of McGill's Desautels Faculty of Management, and is an independent board member at the McGill University Health Center.

Amal Khouri – VP, Business Development

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

James C. Gale – Chairman

Mr. Gale is the founding partner of Signet Healthcare Partners. 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 AG, Bionpharma Inc., CoreRx, Inc., Leon Nanodrugs GmbH and Chr. Olesen Synthesis A/S. Prior to Signet, Mr. Gale worked for Gruntal & Co., LLC as head of principal investment activities and investment banking. Prior to joining Gruntal, he worked in 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 from 2008 to 2014.

Risks

Key Personnel Risk

Our thesis is heavily dependent on our confidence in Mr. Goodman's continuing ability to execute as per his historical precedence. If he is unable to operate Knight as effectively as he did Paladin, or should a scenario arise which would demand that he step down as CEO, this would materially impact our outlook. However, that said, we believe it is worth noting that Mr. Goodman, to date, has assembled an outstanding team supporting him, led by Jeffrey Kadanoff and Amal Khouri, which could somewhat mitigate this risk.

Impavido Generic Competition Risk

Impavido is currently under generic threat. Given that buyers of Impavido are typically the WHO and developing nations, we do not believe there is much safety afforded by brand loyalty. We anticipate that Impavido sales in markets ex-US will face pressure. However, given that Impavido's royalty will become immaterial to Knight's top line as it develops the business, we do not find this risk significant.

Inside Ownership Risk

Mr. Goodman is currently the largest shareholder of Knight, owning 15.3% of the company. It is possible that his interest may diverge from those of other shareholders at some point in the future.

Tax Structure Risk

Knight currently utilizes a Barbados corporate tax structure through one of its subsidiaries. Changes to relevant tax laws in the future may impair Knight's tax strategy.

Competition Risk

Paladin's success has spurred an abundance of new Canadian specialty pharmaceutical companies. As a result, the demand for Canadian rights to pharmaceutical assets is at a historic high and acquisition price multiples are expanded in response. There is no guarantee that the market will indeed shift, resulting in a valuation corrections, and as such Knight may be forced to amend its strategy. Acquiring products for price multiples at the high end of historical precedent will materially impact our future forecasts and valuation due to slower growth rates or reduced profitability estimates.

Lending Risk

Part of Knight's strategy includes lending capital to life science companies. While all of Knight's loans are fully secured, it is possible that a scenario will manifest where Knight is unable to recuperate its investment. Such a scenario would negatively impact the company's valuation and furthermore would cast doubt on its ability to structure similar transaction in the future.

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
Akorn, Inc.	AKRX	NASDAQ	US$	17.97	3	RJ & Associates
Allergan plc	AGN	NYSE	US$	175.95	2	RJ & Associates
Amgen Inc.	AMGN	NASDAQ	US$	195.69	S	RJ & Associates
Biogen Inc.	BIIB	NASDAQ	US$	344.82	3	RJ & Associates
BioMarin Pharmaceutical Inc.	BMRN	NASDAQ	US$	99.37	2	RJ & Associates
BioSyent, Inc.	RX	TSXV	C$	9.28	2	RJ Ltd.
Endo International plc	ENDP	NASDAQ	US$	10.88	3	RJ & Associates
Gilead Sciences, Inc.	GILD	NASDAQ	US$	76.75	1	RJ & Associates
Mallinckrodt public limited company	MNK	NYSE	US$	20.98	2	RJ & Associates
Origin Bancorp, Inc.	OBNK	NASDAQ	US$	39.80	1	RJ & Associates
Perrigo Company PLC	PRGO	NYSE	US$	77.81	3	RJ & Associates
Teligent, Inc.	TLGT	NASDAQ	US$	3.80	1	RJ & Associates
The Procter & Gamble Company	PG	NYSE	US$	79.82	3	RJ & Associates

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be registered for sale in all U.S. states. NC=not covered.

Glossary

PAM	primary amebic meningoencephalitis
PVR	Priority Review Voucher

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Medium Risk/Income (M/INC) Lower to average risk equities of companies with sound financials, consistent earnings, and dividend yields above that of the S&P 500. Many securities in this category are structured with a focus on providing a consistent dividend or return of capital.

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Strong Buy and Outperform (Buy)	71%	56%	51%	36%	22%	0%
Market Perform (Hold)	25%	39%	34%	13%	9%	0%
Underperform (Sell)	4%	5%	15%	22%	5%	0%

* Columns may not add to 100% due to rounding.

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Company Name	Disclosure
Knight Therapeutics Inc.	Raymond James Ltd - the analyst and/or associate has viewed the material operations of GUD.

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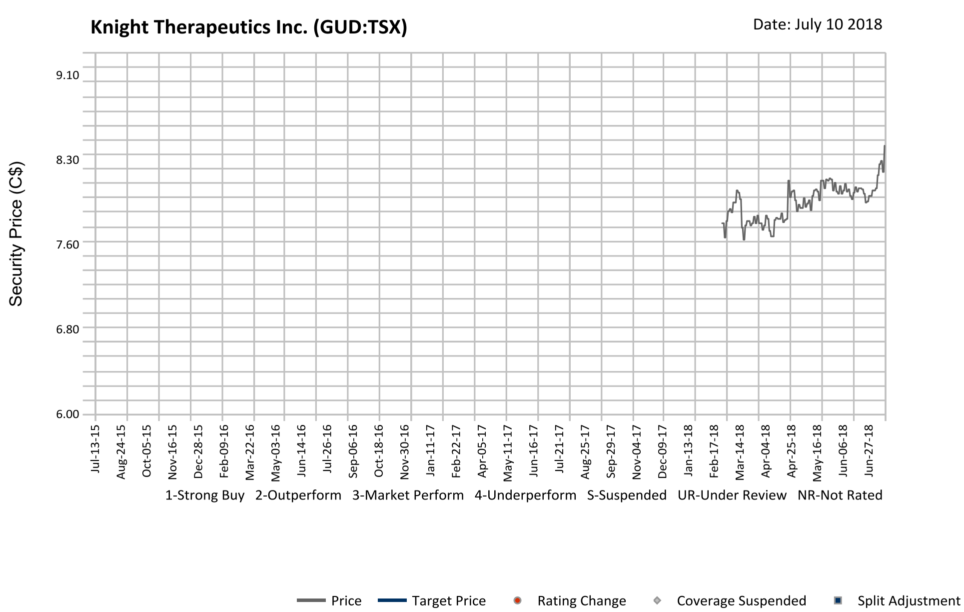
Target Prices: The information below indicates our target price and rating changes for GUD stock over the past three years.



Valuation Methodology: We value Knight Therapeutics Inc. utilizing a Price-to-book multiple.

RISK FACTORS

General Risk Factors: Following are some general risk factors that pertain to the businesses of the subject companies and the projected target prices and recommendations included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation.

Risks - Knight Therapeutics Inc.

Key Personnel Risk

Our thesis is heavily dependent on our confidence in Mr. Goodman's continuing ability to execute as per his historical precedence. If he is unable to operate Knight as effectively as he did Paladin, or should a scenario arise which would demand that he step down as CEO, this would materially impact our outlook. However, that said, we believe it is worth noting that Mr. Goodman, to date, has assembled an outstanding team supporting him, led by Jeffrey Kadanoff and Amal Khouri, which could somewhat mitigate this risk.

Impavido Generic Competition Risk

Impavido is currently under generic threat. Given that buyers of Impavido are typically the WHO and developing nations, we do not believe there is much safety afforded by brand loyalty. We anticipate that Impavido sales in markets ex-US will face pressure. However, given that Impavido's royalty will become immaterial to Knight's top line as it develops the business, we do not find this risk significant.

Inside Ownership Risk

Mr. Goodman is currently the largest shareholder of Knight, owning 15.3% of the company. It is possible that his interest may diverge from those of other shareholders at some point in the future.

Tax Structure Risk

Knight currently utilizes a Barbados corporate tax structure through one of its subsidiaries. Changes to relevant tax laws in the future may impair Knight's tax strategy.

Competition Risk

Paladin's success has spurred an abundance of new Canadian specialty pharmaceutical companies. As a result, the demand for Canadian rights to pharmaceutical assets is at a historic high and acquisition price multiples are expanded in response. There is no guarantee that the market will indeed shift, resulting in a valuation corrections, and as such Knight may be forced to amend its strategy. Acquiring products for price multiples at the high end of historical precedent will materially impact our future forecasts and valuation due to slower growth rates or reduced profitability estimates.

Lending Risk

Part of Knight's strategy includes lending capital to life science companies. While all of Knight's loans are fully secured, it is possible that a scenario will manifest where Knight is unable to recuperate its investment. Such a scenario would negatively impact the company's valuation and furthermore would cast doubt on its ability to structure similar transaction in the future.

Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available for Raymond James at rjcapitalmarkets.com/Disclosures/index and for Raymond James Limited at www.raymondjames.ca/researchdisclosures.

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RAYMOND JAMES LTD. CANADIAN INSTITUTIONAL EQUITY TEAM WWW.RAYMONDJAMES.CA

EQUITY RESEARCH

HEAD OF EQUITY RESEARCH	
Daryl Swetlishoff, CFA	604.659.8246
CONSUMER	
CONSUMER & RETAIL	
Kenric Tyghe, MBA	416.777.7188
Joanna Chmiel (Associate)	416.777.7060
ENERGY	
OIL & GAS ENERGY SERVICES, HEAD OF ENERGY RESEARCH	
Andrew Bradford, CFA	403.509.0503
Michael Shaw, CFA (Sr Associate)	403.509.0534
Hailey Doney (Jr Associate)	403.509.0377
OIL & GAS PRODUCERS	
Kurt Molnar	403.221.0414
Gordon Steppan, CFA (Sr Associate)	403.221.0411
OIL & GAS PRODUCERS	
Jeremy McCrea, CFA	403.509.0518
Rahul Pandey (Associate)	403.509.0562
SR. OIL & GAS PRODUCERS | ENERGY INFRASTRUCTURE	
Chris Cox, CFA	416.777.7175
George Huang (Associate)	416.777.7180
POWER & UTILITIES	
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FINANCIAL SERVICES	
DIVERSIFIED FINANCIALS	
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FOREST PRODUCTS	
Daryl Swetlishoff, CFA	604.659.8246
Bryan Fast, CFA (Sr Associate)	604.659.8262
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BIOTECHNOLOGY, HEALTHCARE	
David Novak	416.777.7029
INDUSTRIAL & TRANSPORTATION	
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Mark Begert (Associate)	604.659.8380
INFRASTRUCTURE & CONSTRUCTION	
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TRANSPORTATION | CHEMICALS & AGRIBUSINESS	
Steve Hansen, CFA, CPA, CMA	604.659.8208
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Chris Law (Associate)	416.777.7144
BASE & PRECIOUS METALS	
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Brandon Throop (Sr Associate)	416.777.7165
PRECIOUS METALS	
Tara Hassan, P.Eng	604.659.8064
Jeremy Poon (Associate)	604.659.8294
REAL ESTATE	
REAL ESTATE & REITS	
Ken Avalos, MBA	727.567.1756
Johann Rodrigues	416.777.7189
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TECHNOLOGY	
Steven Li, CFA	416.777.4918
Anshu Deora (Associate)	416.777.6414

EQUITY RESEARCH PUBLISHING

SENIOR SUPERVISORY ANALYST	
Heather Herron	403.509.0509
HEAD OF PUBLISHING | SUPERVISORY ANALYST	
Cynthia Lui	604.659.8210
Tyler Bos (Supervisory Analyst | Editor)	647.624.1596
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INSTITUTIONAL EQUITY SALES

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Scot Atkinson, CFA	604.659.8225
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Nick Pocrnic	604.659.8230
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John Hart	514.350.4462
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Adam Wood	0.207.426.5612

INSTITUTIONAL EQUITY TRADING

CO-HEAD OF TRADING	
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Pam Banks	416.777.4923
Oliver Herbst	416.777.4947
Andy Herrmann	416.777.4937
Matt Malowney	416.777.4941
Eric Munro, CFA	416.777.4983
Peter Mason (ECM Trading Systems)	416.777.7195
VANCOUVER (1.800.667.2899)	
Nav Cheema	604.659.8224
Fraser Jefferson	604.659.8218
Derek Oram	604.659.8223
MONTREAL (514.350.4450 | 1.866.350.4455)	
Joe Clement	514.350.4470
Patrick Sanche	514.350.4465

INSTITUTIONAL EQUITY OFFICES

Calgary	Montreal	Vancouver
Suite 4250	Suite 3000	Suite 2100
525 8th Avenue SW	1800 McGill College	925 West Georgia Street
Calgary, AB T2P 1G1	Montreal, PQ H3A 3J6	Vancouver, BC V6C 3L2
403.509.0500	514.350.4450	604.659.8000
	Toll Free: 1.866.350.4455	Toll Free: 1.800.667.2899

Toronto	International Headquarters
Suite 5400, Scotia Plaza 40 King Street West	The Raymond James Financial Center
Toronto, ON M5H 3Y2	880 Carillon Parkway
416.777.4900	St.Petersburg, FL
Toll Free Canada: .888.601.6105	USA 33716
Toll Free USA: 1.800.290.4847	727.567.1000