KNIGHT THERAPEUTICS INC.

Management's Discussion and Analysis

For the quarter ended September 30, 2016

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

This discussion and analysis was prepared by management from information available as at November 9, 2016. Further information about Knight Therapeutics Inc., including the Annual Information Form, may be found online on SEDAR at www.sedar.com.

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

Cautionary note regarding forward-looking statements

This document contains forward-looking statements for the Company and its subsidiaries. These forward looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements.

The Company considers the assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared, but cautions the reader that these assumptions regarding future events, many of which are beyond the control of the Company and its subsidiaries, may ultimately prove to be incorrect. 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, 2015. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information or future events, except as required by law.

Glossary of abbreviations

Abbreviation	Description
AFS	Available for sale
CAD	Canadian Dollar
EPS	Earnings per share to common shareholders
EUR	Euro
IFRS	International Financial Reporting Standards
ILS	New Israeli Shekels
MD&A	Management's Discussion and Analysis
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
Q4-14	Fourth quarter of 2014
Rx	Prescription pharmaceutical product
U.S.	United States of America
USD	U.S. dollar
YTD-16	January 1, 2016 – September 30, 2016
YTD-15	January 1, 2015 – September 30, 2015

OVERVIEW

Section 1 – About Knight Therapeutics Inc.

- Specialty pharmaceutical company, headquartered in Westmount, 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 used to treat neglected tropical diseases and rare pediatric diseases.

Section 2 – Quarter 3-2016 Highlights

- Revenues reached $1,892, an increase of $1,778 over the same period last year.
- Net income was $5,698, a decrease of $579 over the same period last year.
- Received dividends of $2,414 [ILS7,068] from strategic partner Medison Biotech (1995) Ltd.
- Samira Sakhia, former CFO of Paladin Labs Inc., joined Knight as President and member of the Board of Directors.
- Entered into an exclusive Canadian distribution and licensing agreement with Società Industria Farmaceutica Italiana S.p.A. ("SIFI") to commercialize NETILDEX™.
- Expanded existing distribution agreement with Ember Therapeutics Inc. ("Ember") to include the territories of Romania and the Caribbean, and acquired the distribution rights to two newly-acquired Ember products: Migralex™ and RHY/Vavelta®.
- Entered into a licensing and distribution agreement with 3D Signatures Inc. ("3D") for its diagnostic and prognostic products in Canada and select international territories.
- Invested $1,000 of equity in 3D pursuant to a business combination and public listing transaction between 3D and Plicit Capital Corp.
- Strategic partner, INTEGA Skin Sciences Inc. ("Intega"), acquired by Crescita Therapeutics Inc. ("Crescita").
- Acquired 11,470,920 common shares of Pediapharm Inc. ("Pediapharm") in exchange for 221,126 common shares and 221,126 four-year warrants of Knight with an exercise price of $10.
- Committed to invest $1,000 in the Genesys Ventures III LP, a Canadian-based life sciences venture capital fund managed by Genesys Capital Management, Inc.
- Invested $1,000 in the Bloom Burton Healthcare Lending Trust II managed by Stratigis Capital Advisors Inc.

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

FINANCIAL RESULTS

Section 3 – Results of operations

	Q3-16	Q3-15	Change $[1]	Change %[2]	YTD-16	YTD-15	Change $[1]	Change %[2]
Revenues	**1,892**	114	1,778	1560%	**4,095**	694	3,401	490%
Cost of goods sold	**296**	18	(278)	1544%	**1,077**	376	(701)	186%
Gross margin	**1,596**	96	1500	1563%	**3,018**	318	2,700	849%
Expenses								
Selling and marketing	**94**	—	(94)	—	**262**	—	(262)	—
General and administrative	**2,358**	2,123	(235)	11%	**6,592**	7,247	655	9%
Research and development	**436**	1,819	1,383	76%	**1,243**	2,453	1,210	49%
	(1,292)	(3,846)	2,554	66%	**(5,079)**	(9,382)	4,303	46%
Depreciation of property and equipment	**—**	7	7	—	**18**	22	4	18%
Amortization of intangible assets	**100**	22	(78)	355%	**263**	64	(199)	311%
Interest income	**(7,375)**	(4,297)	3,078	72%	**(18,315)**	(11,858)	6,457	54%
Other income	**(2,081)**	(376)	1,705	453%	**(3,534)**	(1,343)	2,191	163%
Net loss (gain) on financial assets	**2,914**	(1,965)	(4,879)	—	**402**	(15,989)	(16,391)	—
Purchase gain on business combination	**—**	—	—	—	**—**	(550)	(550)	—
Gain on settlement of loan receivable	**—**	—	—	—	**—**	(358)	(358)	—
Share of net income of associate	**(1,096)**	(95)	1,001	1,054%	**(2,755)**	(95)	2,660	2800%
Foreign exchange (gain) loss	**(1,132)**	(3,658)	(2,526)	69%	**2,995**	(7,476)	(10,471)	—
Income before income taxes	**7,378**	6,516	862	13%	**15,847**	28,201	(12,354)	44%
Income tax expense (recovery)	**1,288**	143	(1,145)	801%	**4,407**	(911)	(5,318)	—
Deferred income tax expense	**392**	96	(296)	308%	**819**	499	(320)	64%
Net income for the period	**5,698**	6,277	(579)	9%	**10,621**	28,613	(17,992)	63%
Attributable to shareholders of the Company								
Basic EPS	**0.04**	0.07	(0.03)	43%	**0.09**	0.31	(0.22)	71%
Diluted EPS	**0.04**	0.07	(0.03)	43%	**0.09**	0.30	(0.21)	70%

[1] A positive variance represents a positive impact to net income and a negative variance represents a negative impact to net income
[2] Percentage change is presented in absolute values

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

<table>
<tr><th></th><th>Q3-16 vs Q3-15</th><th>YTD-16 vs YTD-15</th></tr>
<tr><td rowspan="2">Revenues</td><td colspan="2">The growth in revenues is attributable to following:</td></tr>
<tr><td>• Rx: Impavido® revenues increased by $1,445 primarily due to full recognition of revenues post termination of the distribution and sale agreement with our partner, and the U.S. commercial launch both in March 2016.
• Consumer Products: Revenues increased by $333 due to two launches in June and November 2015.</td><td>• Rx: Impavido® revenues increased by $2,497 primarily due to full recognition of revenues of Impavido® post termination of the distribution and sale agreement with our partner, and the U.S. commercial launch both in March 2016.
• Consumer Products: Revenues increased by $904 due to two launches in June and November 2015.</td></tr>
<tr><td>Cost of goods sold</td><td colspan="2">• The increase is attributable to the growth in revenues.</td></tr>
<tr><td>Selling and marketing</td><td colspan="2">• The increase is related to the launch of new products.</td></tr>
<tr><td>General and administrative</td><td>• No significant variance.</td><td>• Decrease is mainly related to lower expense on stock options issued to management in 2014.</td></tr>
<tr><td>Research and development expenses</td><td colspan="2">• Decrease is due to upfront payments on the acquisition of certain pharmaceutical product rights (Advaxis, Akorn and Alimera) in 2015.</td></tr>
<tr><td rowspan="2">Interest income</td><td colspan="2">• Derived primarily from interest earned on loans, cash and cash equivalents, marketable securities, and accretion on loans receivable.</td></tr>
<tr><td>Interest Income
• Interest Income in Q3-16 at $5,246, increase of 67% or $2,103 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 public offering in June 2016.

Accretion
• Accretion of $2,129 in Q3-16, increase of 85% or $975 driven by loan deals closed in 2016.</td><td>Interest Income
• Interest income for YTD-16 $13,340, increase of 57% or $4,856 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 public offering in June 2016.

Accretion
• Accretion of $4,975 in YTD-16, increase of 48% or 1,602 driven by loan deals closed in 2016.</td></tr>
</table>

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

	Q3-16 vs Q3-15	YTD-16 vs YTD-15
Other income	• Increase is primarily driven by the value of additional shares of Intega received prior to the close of the Crescita Transaction.	
Net loss (gain) on financial assets	• Loss is primarily explained by the loss on revaluation of the Synergy warrants in Q3-16 compared to realized gains on NEMO II and the sale of certain publicly traded shares in Q3-15.	• Loss is primarily explained by realized gains during YTD-15 on the sale of CRH shares [$9,888] and NEMO II [$6,979].
Purchase gain on business combination	• Relates to the excess of the fair value of the assets acquired over the consideration paid upon the acquisition of NeurAxon on January 1, 2015.	
Gain on settlement of loan receivable	• Relates to the acquisition of assets related to Neuragen® upon impairment of the Origin loan in June 2015.	
Share of income of associate	• The strategic collaboration with Medison closed on September 9, 2015 explaining the increase in the equity income in 2016.	
Foreign exchange (gain) loss	• Explained by gains on U.S. dollar denominated financial assets as the Canadian dollar weakened against the U.S. dollar during the period.	• Explained by losses on U.S. dollar denominated financial assets as the Canadian dollar strengthened against the U.S. dollar during the period.
Income tax expense	• Increase due to gains on investment in financial assets and amortization of deferred income taxes related to the Company's financings.	

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

FINANCIAL CONDITION

Section 4 – Balance Sheet

	Q3-16	Q4-15	Change $	Change %
ASSETS				
Current				
Cash and cash equivalents	**389,402**	237,481	151,921	64%
Marketable securities	**255,652**	233,726	21,926	9%
Trade and other receivables	**5,758**	2,994	2,764	92%
Inventories	**785**	1,460	(675)	(46)%
Other current financial assets	**34,193**	23,588	10,605	45%
Income taxes receivable	**3,237**	231	3,006	1301%
Total current assets	**689,027**	499,480	189,547	38%
Property and equipment	**—**	18	(18)	—
Intangible assets	**6,276**	3,320	2,956	89%
Other financial assets	**98,112**	62,616	35,496	57%
Investment in associate	**80,075**	81,027	(952)	(1)%
Deferred income tax assets	**4,414**	2,527	1,887	75%
Total assets	**877,904**	648,988	228,916	35%
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	**1,870**	2,416	(546)	(23)%
Income taxes payable	**5,587**	4,031	1,556	39%
Deferred other income	**369**	293	76	26%
Total current liabilities	**7,826**	6,740	1,086	16%
Deferred other income	**479**	—	479	—
Deferred income tax liabilities	**—**	186	(186)	—
Total liabilities	**8,305**	6,926	1,379	20%
Shareholders' equity				
Share capital	**664,561**	439,148	225,413	51%
Warrants	**785**	161	624	388%
Contributed surplus	**8,477**	6,772	1,705	25%
Accumulated other comprehensive income	**25,129**	35,955	(10,826)	(30)%
Retained earnings	**170,647**	160,026	10,621	7%
Total shareholders' equity	**869,599**	642,062	227,537	35%
Total liabilities and shareholders' equity	**877,904**	648,988	228,916	35%

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

Q3-16 vs Q4-15	
Cash and cash equivalents and Marketable securities	• Refer to Section 5 – Liquidity and Capital Resources for further details.
Trade and other receivables	• Increase due to growth in revenues and interest receivable. Refer to Section 3 Revenues and Interest Income for further details.
Inventories	• Decrease due to growth in revenues and a provision for inventory recorded in Q2-16.
Other Financial Assets (Current and Long Term)	• Increase of $46,101 driven by: **Funds:** increase of $8,800 due to investments in new funds of $1,003 and capital calls of $11,194 offset by distributions and mark-to-market adjustments of $3,397 in 2016. **Loans and Debentures:** increase of $27,091 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. **Equities, Warrants and Derivatives:** increase of $10,210 driven mainly by the assets received through the loan transactions closed in 2016 and the investments in Pediapharm and 3D offset by the revaluation of the Synergy warrants.
Intangible assets	• Increase due to termination of the distribution and sale agreement of Impavido® and the in-licensing of the Canadian distribution rights of NETILDEX™.
Investment in associate	• Decrease due to dividends received from Medison offset by Knight's share of net income. Refer to Section 9 for further details.
Share capital	• Refer to note 7 in the interim condensed consolidated financial statements for details.
Warrants	• Increase due to issuance of warrants upon investment in Pediapharm.
Contributed surplus	• Increase related to share-based compensation expense offset by the issuance of shares to associate. • Refer to the statement of changes in shareholder's equity in the interim condensed consolidated financial statements for further details.
Accumulated other comprehensive income	• Refer to the statement of changes in shareholder's equity in the interim condensed consolidated financial statements.
Retained earnings	• Refer to the statement of changes in shareholder's equity in the interim condensed consolidated financial statements.

Section 5 – Liquidity and Capital Resources

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 in 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.

As at September 30, 2016, the Company had $645,054 of cash, cash equivalents and marketable securities.

The table below sets forth a summary of cash flow activity and should be read in conjunction with our interim condensed consolidated statements of cash flows.

All figures are reflected in thousands of Canadian dollars.

	Nine-months ended September 30	
	2016	2015
Net cash generated (used) by operating activities	**12,005**	(2,697)
Net cash used in investing activities	**(77,167)**	(51,328)
Net cash generated by financing activities	**218,410**	13,841
Increase (decrease) in cash and cash equivalents during the period	**153,248**	(40,184)
Net foreign exchange difference	**(1,327)**	3,345
Cash and cash equivalents, beginning of year	**237,481**	283,445
Cash and cash equivalents, end of period	**389,402**	246,606
Marketable securities, end of period	**255,652**	199,283
Cash, cash equivalents, and marketable securities, end of period	**645,054**	445,889

The company's cash, cash equivalents and marketable securities increased by $199,165 or 45% to $645,054 at September 30, 2016 from $445,889 at September 30, 2015.

Cash flows generated by operating activities for the nine-month period ended September 30, 2016 were $12,005 compared to cash used in operating activities of $2,697 for the comparative period last year. Cash flows for operating activities for the nine-month period ended September 30, 2016 primarily relate to cash generated through sales of Rx and consumer products, dividends from associate of $4,837, and interest received of $10,492 (2015: $7,518) 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 $77,167 for the nine-month period ended September 30, 2016 due to the issuance net of repayments of secured loans of $30,537, net investment in marketable securities of $28,038, net investment in life sciences funds of $12,168, net purchase of financial assets of $3,133 and the acquisition of intangibles of $3,291. For the nine-month period ended September 30, 2015, cash flows used in investing activities were $51,328 due to the net investment in marketable securities of $48,425, net issuance of secured loans and debentures issued of $20,818, investment in funds of $9,032, the purchase of $2,356 of equity securities and disbursement of $1,750 for the acquisition of NeurAxon. The outflows for the nine-month period ended September 30, 2015 were offset by the proceeds from the disposal of financial assets and proceeds from funds of $31,265 related to distributions from NEMO II and the sale of CRH shares. Cash flows generated from financing activities were $218,410 for the nine-month period ended September 30, 2016 were mainly due to the completion of a bought deal agreement on June 2, 2016. For the nine-month period ended September 30, 2015, cash flows generated from financing activities of $13,841 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

Section 6 – Products

Knight pursues opportunities to acquire or in-license pharmaceutical and consumer products as well as 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.

Q3-16 Highlights

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. Under the terms of this agreement, Knight will also handle all ongoing regulatory and commercial activities for NETILDEX™ in Canada.

Section 7 – 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, are fully-secured and 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.

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

	Nominal loan balance as at September 30, 2016	
Entity	**In Source Currency**	**In Canadian Dollars[1]**
Medimetriks Pharmaceuticals, Inc.	USD $20,000	$26,234
Pro Bono Bio PLC	USD $14,063	$18,446
Synergy CHC Corp.	USD $8,188	$10,740
Apicore Inc.	USD $6,158	$8,077
Crescita Therapeutics Inc.	CAD $6,841	$6,841
Profound Medical Inc.	CAD $4,862	$4,862
60° Pharmaceuticals LLC	USD $2,142	$2,809
Pediapharm Inc. [2]	CAD $1,250	$1,250
Ember Therapeutics.	USD $500	$656
Antibe Therapeutics Inc.	CAD $534	$534
Total		**$80,449**

[3] Converted at the Bank of Canada closing exchange rates on September 30, 2016
[4] Pediapharm debenture is held indirectly through the Bloom Burton Healthcare Lending Trust

Q3-16 Highlights

Intega Skin Sciences Inc. and Crescita Therapeutics Inc.

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 Skin Sciences Inc. ("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 Therapeutics Inc. ("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 remaining Intega loan of $6,000 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 5 in the interim condensed consolidated financial statements.

Ember

Knight's territorial rights to Ember's Bone Morphogenetic Protein-7 ("BMP-7") pipeline, which originally included Canada, Israel, Russia and sub-Saharan Africa, have been expanded to include Romania and the Caribbean.

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

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, in all of the above-mentioned territories.

Section 8 – Strategic 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 $134,806 as at September 30, 2016, of which approximately 22% 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 September 30, 2016, is $34,359.

	Fund Commitment	
Equity Fund Manager	**In Source Currency**	**In Canadian Dollars[1]**
Domain Associates LLC	USD $25,000	$32,793
Teralys Capital	CAD $30,000	$30,000
Forbion Capital Partners	EUR €19,500	$28,745
Sectoral Asset Management	USD $13,000	$17,052
Sanderling Ventures LLC	USD $10,000	$13,117
HarbourVest Partners LLC	CAD $10,000	$10,000
TVM Capital Life Science	USD $1,600	$2,099
Genesys Ventures III	CAD $1,000	$1,000
Total		**$134,806**

[1] Converted at the Bank of Canada closing rate at September 30, 2016

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.

Section 9 – Rest of World Strategy

Knight's international strategy is focused on identifying potential products and companies that fit within our existing business model, but that are located 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 Biotech Ltd.

On September 9, 2015, Knight acquired a 28.3% ownership interest in Medison Biotech (1995) Ltd. ("Medison"), a privately-owned specialty pharmaceutical company based in Israel. The interest in Medison is accounted for using the equity method of accounting. The investment was originally recorded at fair value 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, except for share and per share amounts)

This selected information is derived from the interim condensed consolidated financial statements.

	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15[1]
Carrying value of investment	**80,075**	81,393	79,458	81,027	82,096
Share of net income	**1,096**	805	854	946	95
Dividends received	**2,414**	—	2,423	2,015	—

[1]From September 9, 2015 to September 30, 2015

RISK MANAGEMENT

Section 10

10.1 Foreign Exchange Risk

Knight holds a significant portion of its financial assets in USD, 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 U.S. dollar, EUR and ILS would have resulted in a change in the statement of income and comprehensive income of $11,393, $344 and $257, respectively.

10.2 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 $22,215 as at September 30, 2016 (December 31, 2015: $8,479). The Company monitors its equity investments for impairment on a periodic basis and at least every reporting period. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold. The Company's Board of Directors regularly reviews and approves equity investment decisions.

10.3 Interest Rate Risk

The Company is subject to interest rate risk on its cash, cash equivalents and marketable securities. Details regarding maturity dates and effective interest rates are described in notes 3 and 4 of the interim condensed 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.

10.4 Liquidity Risk

All of the Company's financial liabilities are short term in nature. The Company generates sufficient cash from operating activities to fund its operations and 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. As at September 30, 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 17.

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

10.5 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, 2015 on SEDAR at www.sedar.com.

ADDITIONAL INFORMATION

Section 11 – Selected Quarterly Financial Information

This selected information is derived from our quarterly financial statements.

	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15	Q2-15	Q1-15	Q4-14
Revenues	**1,892**	1,135	1,068	343	114	333	247	110
Net income	**5,698**	4,446	477	5,554	6,277	8,520	13,816	124,981
EPS								
Basic	**0.04**	0.04	0.005	0.05	0.07	0.09	0.15	1.58
Diluted	**0.04**	0.04	0.005	0.05	0.07	0.09	0.15	1.57
Cash, cash equivalents and marketable securities	**645,054**	638,423	426,235	471,207	445,889	436,997	452,186	416,857
Total assets	**877,904**	867,999	638,336	648,988	627,821	530,136	525,424	486,614
Total liabilities	**8,305**	6,034	5,663	6,926	2,372	3,797	5,973	7,623

Section 12 – Outstanding Share Data

The table below summarizes the share data:

As at	**November 9, 2016**
Common Shares	132,704,437
Stock Options	3,133,526
Warrants	816,126

Section 13 – Use of Proceeds from Financing

To date, Knight has raised net proceeds of approximately $558,000 from four public offerings, including approximately $218,000 from the public offering completed during the nine-month period ended September 30, 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 September 30, 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.

Section 14 – Payment of Dividends

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

Section 15 – Financial Instruments

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

Knight has not entered into any currency or other hedging instrument contracts during the period ended September 30, 2016.

Section 16 – 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 22 of the annual audited consolidated financial statements for the year ended December 31, 2015 and to note 11 to the interim condensed consolidated statements for the period ended September 30, 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.

Section 17 – 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, and revenue and milestone commitments related to product distribution, license and supply agreements which are reported in note 11 of our interim condensed consolidated financial statements for the period ended September 30, 2016.

Section 18 – 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.

Section 19 – Significant Accounting Estimates and Assumptions

Our significant accounting estimates and assumptions are reported in note 3 of our annual consolidated financial statements for the year ended December 31, 2015.

Section 20 – 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 is currently assessing the potential impact of this standard on its consolidated financial statements.

Section 21 – Disclosure Controls and Procedures and Internal Control Over Financial Reporting

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 a formal corporate disclosure policy for the purposes of communicating the Company's approach to disclosure among the members of the Board of Directors, senior management and employees.

The Company has evaluated the effectiveness of its designed disclosure controls and procedures ("DC&P"). Based on the evaluation of its DC&P, management has concluded that they are effective as of September 30, 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.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting ("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. The Company did not make any material changes in the ICFR during the quarter ended September 30, 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.

KNIGHT THERAPEUTICS INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

INTERIM CONSOLIDATED BALANCE SHEETS

[Unaudited] [In thousands of Canadian dollars]

As at	*Notes*	**September 30, 2016**	December 31, 2015
ASSETS			
Current			
Cash and cash equivalents	*3*	**389,402**	237,481
Marketable securities	*4*	**255,652**	233,726
Trade and other receivables		**5,758**	2,994
Inventories		**785**	1,460
Other current financial assets	*5*	**34,193**	23,588
Income taxes receivable		**3,237**	231
Total current assets		**689,027**	499,480
Property and equipment		**—**	18
Intangible assets		**6,276**	3,320
Other financial assets	*5*	**98,112**	62,616
Investment in associate	*6*	**80,075**	81,027
Deferred income tax assets		**4,414**	2,527
Total assets		**877,904**	648,988
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		**1,870**	2,416
Income taxes payable		**5,587**	4,031
Deferred other income		**369**	293
Total current liabilities		**7,826**	6,740
Deferred other income		**479**	—
Deferred income tax liabilities		**—**	186
Total liabilities		**8,305**	6,926
Shareholders' equity			
Share capital	*7 [i]*	**664,561**	439,148
Warrants	*5 [ii]*	**785**	161
Contributed surplus		**8,477**	6,772
Accumulated other comprehensive income	*8*	**25,129**	35,955
Retained earnings		**170,647**	160,026
Total shareholders' equity		**869,599**	642,062
Total liabilities and shareholders' equity		**877,904**	648,988

Commitments *[note 11]*

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

	Notes	Three-months ended September 30 2016	Three-months ended September 30 2015	Nine-months ended September 30 2016	Nine-months ended September 30 2015
Revenues		**1,892**	114	**4,095**	694
Cost of goods sold		**296**	18	**1,077**	376
Gross margin		**1,596**	96	**3,018**	318
Expenses					
Selling and marketing		**94**	—	**262**	—
General and administrative		**2,358**	2,123	**6,592**	7,247
Research and development		**436**	1,819	**1,243**	2,453
		(1,292)	(3,846)	**(5,079)**	(9,382)
Depreciation of property and equipment		**—**	7	**18**	22
Amortization of intangible assets		**100**	22	**263**	64
Interest income		**(7,375)**	(4,297)	**(18,315)**	(11,858)
Other income		**(2,081)**	(376)	**(3,534)**	(1,343)
Net loss (gain) on financial assets		**2,914**	(1,965)	**402**	(15,989)
Purchase gain on business combination		**—**	—	**—**	(550)
Gain on settlement of loan receivable		**—**	—	**—**	(358)
Share of net income of associate	*6*	**(1,096)**	(95)	**(2,755)**	(95)
Foreign exchange (gain) loss		**(1,132)**	(3,658)	**2,995**	(7,476)
Income before income taxes		**7,378**	6,516	**15,847**	28,201
Income tax expense (recovery)		**1,288**	143	**4,407**	(911)
Deferred income tax expense		**392**	96	**819**	499
Net income for the period		**5,698**	6,277	**10,621**	28,613
Attributable to shareholders of the Company					
Basic earnings per share	*9*	**0.04**	0.07	**0.09**	0.31
Diluted earnings per share	*9*	**0.04**	0.07	**0.09**	0.30
Weighted average number of common shares outstanding					
Basic		**132,668,637**	95,570,089	**116,334,998**	93,744,281
Diluted		**133,198,829**	95,737,299	**116,746,093**	93,961,953

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[Unaudited] [In thousands of Canadian dollars]

	Three-months ended September 30		Nine-months ended September 30	
	2016	2015	**2016**	2015
Net income for the period	**5,698**	6,277	**10,621**	28,613
Realized gain reclassified to statement of income net of tax of $32 and $97 for the three and nine-month periods ended September 30, 2016 (net of tax of $109 and $1,368 for the three and nine-month periods ended September 30, 2015)	**(207)**	(755)	**(623)**	(8,805)
Other comprehensive (loss) income to be reclassified to statement of income in subsequent periods:				
Unrealized (loss) gain on available-for-sale financial instruments net of tax of $140 and $287 for the three and nine-month periods ended September 30, 2016 (net of tax of $70 and $482 for the three and nine-month periods ended September 30, 2015)	**(3,683)**	125	**(1,135)**	3,125
Unrealized gain (loss) on translation of foreign operations	**2,563**	10,557	**(9,068)**	21,410
Other comprehensive (loss) income for the period	**(1,327)**	9,927	**(10,826)**	15,730
Total comprehensive income (loss) for the period	**4,371**	16,204	**(205)**	44,343

See accompanying notes

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

[Unaudited] [In thousands of Canadian dollars]

	Notes	**Share capital**	**Warrants**	**Contributed surplus**	**Accumulated other comprehensive income**	**Retained earnings**	**Total shareholders' equity**
Balance as at January 1, 2015		**341,065**	**—**	**2,100**	**9,967**	**125,859**	**478,991**
Net income for the period		—	—	—	—	28,613	**28,613**
Realized gain reclassified to statement of income, net of tax of $1,368		—	—	—	(8,805)	—	**(8,805)**
Change in fair value of available-for-sale financial instruments, net of deferred tax of $482		—	—	—	3,125	—	**3,125**
Unrealized gain on translation of foreign operations		—	—	—	21,410	—	**21,410**
Comprehensive income		—	—	—	15,730	28,613	**44,343**
Share-based compensation expense	*7 [ii]*	—	—	3,808	—	—	**3,808**
Issuance of shares upon financing, net of costs and deferred tax of $2,200		14,573	—	—	—	—	**14,573**
Issuance upon investments in associate	*6*	80,684	—	1,100	—	—	**81,784**
Issuance due to share-based payment		165	—	—	—	—	**165**
Exercise of stock options		1,487	—	(553)	—	—	**934**
Issuance of warrants		—	161	—	—	—	**161**
Exercise of compensation warrants		930	—	(295)	—	—	**635**
Issuance under share purchase plan		56	—	—	—	—	**56**
Balance as at September 30, 2015		**438,960**	**161**	**6,160**	**25,697**	**154,472**	**625,450**
Balance as at January 1, 2016		**439,148**	**161**	**6,772**	**35,955**	**160,026**	**642,062**
Net income for the period		—	—	—	—	10,621	**10,621**
Realized gain reclassified to statement of income, net of tax for $97		—	—	—	(623)	—	**(623)**
Change in fair value of available-for-sale financial instruments, net of deferred tax of $287		—	—	—	(1,135)	—	**(1,135)**
Unrealized loss on translation of foreign operations		—	—	—	(9,068)	—	**(9,068)**
Comprehensive (loss) income		—	—	—	(10,826)	10,621	**(205)**
Share-based compensation expense	*7 [ii]*	—	—	2,648	—	—	**2,648**
Issuance upon bought deal, net of costs and including deferred tax of $3,083	*7 [i] [a]*	221,620	—	—	—	—	**221,620**
Issuance of shares to associate	*7 [i] [b]*	2,073	—	(943)	—	—	**1,130**
Issuance upon investment	*7 [i] [c]*	1,846	624				**2,470**
Share purchase loans	*7 [i] [d]*	(200)	—	—	—	—	**(200)**
Issuance under share purchase plan		74	—	—	—		**74**
Balance as at September 30, 2016		**664,561**	**785**	**8,477**	**25,129**	**170,647**	**869,599**

See accompanying notes

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

[Unaudited] [In thousands of Canadian dollars]

		Three-month period ended September 30		Nine-month period ended September 30	
	Notes	**2016**	2015	**2016**	2015
OPERATING ACTIVITIES					
Net income for the period		**5,698**	6,277	**10,621**	28,613
Adjustments reconciling net income to operating cash flows:					
Deferred tax		**392**	96	**819**	499
Share-based compensation expense	*7 [ii]*	**765**	943	**2,648**	3,808
Depreciation and amortization		**100**	29	**281**	86
Accretion of interest	*5 [i]*	**(2,129)**	(1,154)	**(4,975)**	(3,373)
Other income		**(1,271)**	—	**(1,271)**	—
Realized gain on financial assets		**(367)**	(1,575)	**(509)**	(15,376)
Unrealized loss (gain) on financial assets		**3,281**	(390)	**911**	(615)
Gain on settlement of loan receivable		—	—	—	(358)
Foreign exchange (gain) loss		**(1,132)**	(3,282)	**2,995**	(7,426)
Purchase gain on business combination		—	—	—	(550)
Share of net income from associate	*6*	**(1,096)**	(95)	**(2,755)**	(95)
Dividends from associate	*6*	**2,414**	—	**4,837**	—
Deferred other income		**848**	200	**555**	(510)
		7,503	1,049	**14,157**	4,703
Changes in non-cash working capital related to operations	*12*	**(3,115)**	(2,024)	**(2,152)**	(7,400)
Cash inflow (outflow) from operating activities		**4,388**	(975)	**12,005**	(2,697)
INVESTING ACTIVITIES					
Purchase of marketable securities		**(161,913)**	(76,790)	**(445,038)**	(460,369)
Purchase of financial assets		**(5,073)**	—	**(10,496)**	(2,356)
Purchase of intangibles		**(367)**	—	**(3,291)**	—
Investment in funds		**(4,917)**	(738)	**(14,142)**	(9,032)
Issuance of loans receivable		**(1,027)**	(583)	**(38,476)**	(31,929)
Proceeds from repayments of loans receivable		**5,916**	1,083	**7,939**	11,111
Proceeds from sale of marketable securities		**182,896**	(8,746)	**417,000**	411,944
Proceeds from distribution of funds		**1,974**	2,023	**1,974**	19,038
Proceeds from disposal of financial assets		**3,337**	—	**7,363**	12,227
Consideration paid on business combination		—	—	—	(1,750)
Investment in associate	*6*	—	(212)	—	(212)
Cash inflow (outflow) from investing activities		**20,826**	(83,963)	**(77,167)**	(51,328)
FINANCING ACTIVITIES					
Issuance of shares upon bought deal	*7 [i] [a]*	**(16)**	—	**218,536**	—
Proceeds from exercise of compensation warrants		—	—	—	635
Proceeds from exercise of an over-allotment option		—	—	—	12,424
Share option plan		—	—	—	934
Share purchase plan		**24**	13	**74**	55
Share purchase loans	*7 [i] [d]*	—	—	**(200)**	—
Cost related to prior period share issuance		—	—	—	(207)
Cash inflow from financing activities		**8**	13	**218,410**	13,841
Increase (decrease) in cash during the period		**25,222**	(84,295)	**153,248**	(40,184)
Cash and cash equivalents, beginning of the period		**363,713**	329,047	**237,481**	283,445
Net foreign exchange difference		**467**	2,484	**(1,327)**	3,345
Cash and cash equivalents, end of the period		**389,402**	246,606	**389,402**	246,606
Supplemental cash flow information:					
Interest received		**3,671**	2,527	**10,492**	7,518
Income taxes paid		**3,531**	—	**5,865**	—

See accompanying notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

1. NATURE OF OPERATIONS

Description of business

Knight Therapeutics Inc. ("Knight" or 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 headquartered in Westmount, Quebec.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with the accounting policies set out in note 2 "Summary of significant accounting policies", of the Company's consolidated financial statements for the year ended December 31, 2015. These interim condensed consolidated financial statements have been prepared in accordance with International Financial Accounting Standard 34 "Interim Financial Reporting". Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed.

The preparation of the Company's interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets 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 financial statements have been set out in note 3 of the Company's annual audited consolidated financial statements for the year ended December 31, 2015. These interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2015, which are included in the Company's 2015 annual report.

These interim condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on November 9, 2016.

3. CASH AND CASH EQUIVALENTS

As at	**September 30, 2016** **$**	December 31, 2015 $
Cash in bank	**389,180**	235,484
Interest savings account of US$103 earning an interest rate of 0.30%	**135**	—
Monthly renewable term deposit of ILS250 earning an interest rate of 0.05% (December 31, 2015: ILS5,624 earning an interest rate of 0.05%)	**87**	1,997
	389,402	237,481

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

4. MARKETABLE SECURITIES

As at	September 30, 2016 $	December 31, 2015 $
Guaranteed investment certificates earning interest rates ranging from 0.95% to 1.90% and maturing from December 2016 to April 2018 (December 31, 2015: earning interest rates ranging from 1.30% to 1.76% and maturing from January 2016 to December 2016)	**130,895**	100,000
Term deposits of US$85,612 earning interest rates ranging from 1.09% to 1.49% and maturing from March 2017 to August 2017 (December 31, 2015: US$86,864 earning an interest rate of 0.60% and maturing from January 2016 to June 2016)	**112,296**	120,219
Guaranteed investment certificate of US$9,500 earning an interest rate of 1.21% and maturing November 2016	**12,461**	—
Term deposits earning interest at rates ranging from 0.20% to 0.50% and matured from March 2016 to June 2016	—	13,507
	255,652	233,726

5. FINANCIAL INSTRUMENTS

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, debt funds, equity or liquid investment securities with varying terms to maturity, selected with regard to the expected timing of investments and expenditures for continuing operations and prevailing interest rates.

	Carrying amount	
	September 30, 2016 **$**	December 31, 2015 $
Financial assets		
Cash and cash equivalents	**389,402**	237,481
Marketable securities	**255,652**	233,726
Other financial assets		
Loans and other receivables *[i]*	**72,636**	45,545
Available-for-sale equity investments *[ii]*	**22,215**	8,479
Available-for-sale fund investments *[iii]*	**34,359**	25,559
Derivatives *[iv]*	**3,095**	6,621
Total financial assets	**777,359**	557,411

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

Fair value hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at	**September 30, 2016**	**Level 1**	**Level 2**	**Level 3**
	$	**$**	**$**	**$**
Recurring fair value measurements				
Marketable securities	255,652	—	255,652	—
Available-for-sale equity investments *[ii]*	19,355	13,528	5,827	—
Available-for-sale fund investments *[iii]*	34,359	—	—	34,359
Derivatives *[iv]*	1,858	—	—	1,858
Measured at cost or amortized cost				
Loans and other receivables *[i]*	72,636	—	—	72,636
Available-for-sale equity investments *[ii]*	2,860	—	—	2,860
Derivatives *[iv]*	1,237	—	—	1,237
Total	**387,957**	**13,528**	**261,479**	**112,950**

[i] Loans and other receivables

60º Pharmaceuticals LLC

On December 10, 2015 Knight issued a first tranche of $685 [US$500] of a loan of up to $5,440 [US$4,000] to 60º Pharmaceuticals LLC (“60P”). The second tranche of $2,096 [US$1,500] was issued on January 4, 2016. On July 15, 2016, the loan was amended to increase the commitment by an additional $1,705 [US$1,300] to a total remaining commitment of $4,328 [US$3,300] as of the date thereof. On September 16, 2016, Knight issued a third tranche of $188 [US$142]. The loan bears interest at 15% per annum and will mature on December 31, 2020.

INTEGA Skin Sciences Inc. and Crescita Therapeutics Inc.

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 Skin Sciences Inc. (“Intega”) to support a business acquisition. The Company issued a loan of $6,000 (“Intega Loan”) at an interest rate of 13% per year and maturing on January 22, 2022. A bridge loan of $3,000 (“Intega Bridge Loan”) with a one-year term was also issued bearing interest at a minimum of 16% per annum. The loans were recorded at a fair value of $7,730 upon initial measurement and subsequently accounted for at amortized cost using effective interest rates ranging from 19.8% to 44.1%.

On September 1, 2016, Crescita Therapeutics Inc. ("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 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 Pharmaceuticals, Inc.

On February 17, 2016, Knight entered into a secured loan agreement ("Medimetriks loan") of up to $27,368 [US$20,000] with Medimetriks Pharmaceuticals, Inc. ("Medimetriks") to support Medimetriks' acquisition of the exclusive U.S. development and commercialization rights of certain pharmaceutical products. Knight issued an initial tranche of $24,631 [US$18,000], bearing interest of 13% per annum and maturing on February 17, 2019. The loan was recorded at a relative fair value of $21,087 [US$15,410] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 19.7%. A second tranche of $2,598 [US$2,000] was issued by Knight on June 29, 2016, upon the U.S. Food and Drug Administration filing by Medimetriks of a New Drug Application for a certain pharmaceutical product.

[ii] Available-for-sale equity investments

Intega Skin Sciences Inc. and Crescita Therapeutics Inc.

As consideration for the Intega Loan Transaction, Knight was issued 780,574 ("Intega Shares") or 8% of the fully diluted common shares of Intega 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 September 30, 2016, Knight held an aggregate of 1,513,502 shares of Crescita representing approximately 10.9% of its outstanding common shares.

Medimetriks Pharmaceuticals, Inc.

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.

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

Pediapharm Inc.

On July 15, 2016, the Company acquired 11,470,920 common shares of Pediapharm Inc. ("Pediapharm") in exchange of 221,126 common shares and 221,126 warrants of Knight ("Pediapharm Transaction"). 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 the third quarter of 2016, Knight disposed of 1,142,500 Pediapharm shares for total proceeds of $308 and realized a gain of $70.

The fair value of each Knight warrant issued in the Pediapharm Transaction was valued at $2.82 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

3D Signatures Inc.

On September 9, 2016, Knight invested $1,000 in the equity of 3D Signatures Inc. ("3D"), a biotechnology company with a technology platform for personalized medical diagnostics and prognostics, following the completion of a business combination and public listing transaction between 3D and Plicit Capital Corp. As at September 30, 2016 Knight held 2,857,140 or approximately 6.2% of the common shares of 3D.

Other publicly-traded equities

The following table summarizes the purchases, disposals, realized gain recorded in the statement of income and unrealized loss recorded in the statement of comprehensive income.

	Three month ended September 30		**Nine month ended September 30**	
	2016	2015	**2016**	2015
Purchases	4,074	5,615	9,497	7,971
Disposals	3,029	6,236	7,055	18,463
Realized gain	—	(621)	(626)	(8,405)
Unrealized loss	6,627	954	2,338	1,297

[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.

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

	Three month ended September 30		Nine month ended September 30	
	2016	2015	**2016**	2015
Investments	4,917	738	14,142	9,032
Distributions received	1,974	2,023	1,974	19,038
Realized gain	(513)	(953)	(513)	(6,979)
Unrealized (gain) loss	(786)	(1,173)	1,109	(4,319)

[iv] Derivatives

Medicure

During the three-month period ended September 30, 2016, the Company exercised its 480,000 Medicure Inc. warrants for $1,056 and disposed of the common shares for net cash proceeds of $3,029.

Synergy

On January 22, 2015, the Company entered into a loan agreement with Synergy, and as part of the transaction, Knight was issued ten-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. As at September 30, 2016, the fair value of the warrants was determined using the Black-Scholes model based on the following assumptions and inputs:

Assumptions	**September 30, 2016**
Risk-free interest rate	1.51%
Expected remaining term	5 years
Expected volatility	50%

Inputs	**September 30, 2016**
Value per common share	$0.46 [US$0.35]
Exercise price	$0.45 [US$0.34]

On November 16, 2015, the Company entered into a second loan agreement with Synergy where, as part of the transaction, Knight received 4,547,243 ten-year warrants entitling the Company to purchase 4,547,243 additional common shares of Synergy at $0.65 [US$0.49] per share. As at September 30, 2016, the fair value of the warrants was determined using the Black-Scholes model based on the following assumptions and inputs:

Assumptions	**September 30, 2016**
Risk-free interest rate	1.51%
Expected remaining term	5 years
Expected volatility	50%

Inputs	**September 30, 2016**
Value per common share	$0.46 [US$0.35]
Exercise price	$0.65 [US$0.49]

On December 14, 2015, Knight received 1,000,000 ten-year stock options entitling the Company to purchase 1,000,000 common shares of Synergy at $0.34 [US$0.25] per share. As at September 30, 2016, one third of the options had vested and the fair value of the stock options was determined using the Black-Scholes model based on the following assumptions and inputs:

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

Assumptions	September 30, 2016
Risk-free interest rate	0.88%
Expected remaining term	3 years
Expected volatility	50%

Inputs	September 30, 2016
Value per common share	$0.46 [US$0.35]
Exercise price	$0.33 [US$0.25]

Intega Skin Sciences Inc. and Crescita Therapeutics Inc.

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 to purchase up to 293,153 additional common shares at $2.44 per share 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 based on the following assumptions and inputs:

Assumptions	September 1, 2016
Risk-free interest rate	0.76%
Expected remaining term	5 years
Expected volatility	50%

Inputs	September 1, 2016
Value per common share	$1.66
Exercise price	$2.44

In addition, Knight received a price protection on a portion of the Additional Intega Shares which is considered to be a derivative. The derivative was assigned a fair value of $538 which was recorded in other income.

Apicore Inc.

In 2014, the Company also received 812,500 warrants of both Apicore Inc. and Apigen Investments Limited (collectively "Apicore") Inc. at an exercise price of $0.01 per warrant. The warrants were initially recognized at their relative fair value of $1,017 [US$952] and categorized in Level 3 of the fair value hierarchy.

Unrealized net loss on derivatives

The Company recorded in net loss on financial assets on all derivatives, an unrealized loss of $3,281 (2015: $390) and $1,706 (2015: $615) for the three-month and nine-month periods ended September 30, 2016.

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

6. INVESTMENT IN ASSOCIATE

On September 9, 2015, Knight acquired a 28.3% ownership interest in Medison Biotech (1995) Ltd. ("Medison"), a privately-owned specialty pharmaceutical company based in Israel. The interest in Medison is accounted for using the equity method of accounting. The investment was originally recorded at fair value and subsequently adjusted to include the Company's share of Medison's net income and any dividends issued to the Company. The net income is adjusted to reflect the amortization of the fair value adjustments related to the Company's share of the net identifiable assets of Medison acquired and their tax impact.

As at	*Notes*	**September 30, 2016** **$**	December 31, 2015 $	
Carrying value, beginning of the period		**81,027**	—	
Additions in the period		**—**	82,001	
Change in contingent consideration	*7 [i] [b]*	**1,130**	—	
Share of net income for the period before adjustments		6,176	2,634	*[i]*
Amortization of fair value adjustments		(3,421)	(1,593)	*[i]*
Share of net income for the period		**2,755**	1,041	
Dividends *[ii]*		**(4,837)**	(2,015)	
Carrying value, end of the period		**80,075**	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]

7. SHAREHOLDERS' EQUITY

[i] Share Capital

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

	Notes	**Number of common shares**	**$**
Balance as at January 1, 2016		**103,474,367**	**439,148**
Issuance of shares upon bought deal, net of costs and including deferred tax of $3,083	*[a]*	28,750,000	221,620
Issuance of shares to associate	*[b]*	250,000	2,073
Issuance of shares upon investment in Pediapharm Inc.	*[c]*	221,126	1,846
Issuance of shares under share purchase plan		8,944	74
Share purchase loans	*[d]*	—	(200)
Balance at September 30, 2016		**132,704,437**	**664,561**

[a] Issuance of shares upon bought deal

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 (including deferred tax of $3,083) for the period ended September 30, 2016. Long Zone Holdings, 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.

[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.

[c] Issuance of shares upon investment in Pediapharm Inc.

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] Share purchase loans

On June 2, 2016, certain participating employees were granted $200 in share purchase loans bearing an interest rate of 1% per annum to help fund the acquisition of 25,000 common shares from the Share 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 compensation expense of $765 and $2,648 (2015: $943 and $3,808) for the three and nine-month periods ended September 30, 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: $3.86) under the Black-Scholes option pricing model using the following assumptions:

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

	Period ended September 30	
	2016	2015
Weighted average risk-free interest rate	**1.43%**	1.58%
Dividend yield	**Nil**	Nil
Weighted average volatility factor [i]	**54.8%**	58.2%
Annualized forfeiture rate	**2.3%**	3.3%
Weighted average expected life	**7.3 years**	7 years

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

	For the nine-month period ended September 30			
	2016		2015	
	Number of share options #	**Weighted average exercise price $**	Number of share options #	Weighted average exercise price $
Balance beginning of period	**2,815,483**	**6.89**	1,644,720	5.62
Options granted	**323,043**	**9.23**	722,718	8.69
Options exercised	—	—	(170,000)	5.49
Options expired/forfeited	**(5,000)**	**5.65**	—	—
Balance at end of the period	**3,133,526**	**7.13**	2,197,438	6.64
Options exercisable at end of period	**1,319,053**	**6.34**	562,407	5.56

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

As at	**September 30, 2016** $	December 31, 2015 $
Realized gains reclassified to statement of income, net of tax of $1,442 ($1,345 as at December 31, 2015)	**(9,277)**	(8,654)
Net unrealized gains in available-for-sale investments, net of tax of $1,916 ($1,629 as at December 31, 2015)	**12,716**	13,851
Unrealized gain on translating financial statements of foreign operations	**21,690**	30,758
	25,129	35,955

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

9. EARNINGS PER SHARE

Basic

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

	Three-month period ended		Nine-month period ended	
	September 30, 2016 $	September 30, 2015 $	**September 30, 2016** $	September 30, 2015 $
Net income	**5,698**	6,277	**10,621**	28,613
Weighted average of shares outstanding	**132,668,637**	95,570,089	**116,334,998**	93,744,281
Basic earnings per share	**$0.04**	$0.07	**$0.09**	$0.31

Diluted

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

	Three-month period ended		Nine-month period ended	
	September 30, 2016 $	September 30, 2015 $	**September 30, 2016** $	September 30, 2015 $
Net income	**5,698**	6,277	**10,621**	28,613
Weighted average shares outstanding	**132,668,637**	95,570,089	**116,334,998**	93,744,281
Adjustment for compensation warrants and share options	**530,192**	167,210	**411,095**	217,672
Weighted average shares outstanding (diluted)	**133,198,829**	95,737,299	**116,746,093**	93,961,953
Diluted earnings per share	**$0.04**	$0.07	**$0.09**	$0.30

10. 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.

11. 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 four major categories: fund commitments, revenue, milestone and purchase commitments, equity and loan commitments and other commitments. The commitments of the Company as at September 30, 2016 are as follows.

[i] Fund commitments

As at September 30, 2016, under the terms of Company's agreements with life sciences venture capital funds, $105,335 (2015: $122,266), including $42,836 [US$32,657] and $22,687 [€15,391], may be called over the life of the funds which is based on the closing foreign exchange rates.

[ii] 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 $28,465 including $17,053 [US$13,000] and $663 [€450] upon achieving certain sales volumes, regulatory or other milestones related to specific products.

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

[iii] Equity and loan commitments

Subject to a loan agreement with one its borrowers, Knight has committed up to a maximum of $3,279 [US$2,500] to participate in the initial public offering of equity interests of the borrower.

Subject to a loan agreement with one of its borrowers, Knight has committed to loan an additional $4,140 [US$3,158] should the borrower meet certain conditions.

[iv] Other commitments

As at September 30, 2016, the Company is committed to approximately $83 over the next three years under two operating leases of its premises. Furthermore, the Company is committed to pay $113 [US$86] within the year towards a real property.

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

12. STATEMENT OF CASH FLOWS

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

As at	**Three-month period ended**		**Nine-month period ended**	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
	$	$	**$**	$
Decrease (increase) in				
Trade and other receivables	(1,253)	(187)	**(2,764)**	(1,249)
Inventories	48	(59)	**675**	(986)
Other financial assets	(227)	(153)	**375**	(424)
Income taxes receivable	(3,091)	—	**(3,006)**	—
Increase (decrease) in				
Accounts payable and accrued liabilities	565	(702)	**1,012**	(1,289)
Income taxes payable	843	(923)	**1,556**	(3,452)
	(3,115)	(2,024)	**(2,152)**	(7,400)

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