KNIGHT THERAPEUTICS INC.

Management's Discussion and Analysis

For the quarter ended June 30, 2017

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

This discussion and analysis was prepared by management from information available as at August 9, 2017. Further information about Knight Therapeutics Inc., including the Annual Information Form, is available online on SEDAR at www.sedar.com.

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Cautionary note regarding forward-looking statements

This Management's Discussion and Analysis may contain certain "forward-looking statements" and certain "forward-looking information" as defined under applicable Canadian securities laws. Forward-looking statements and information can generally be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue", "plans" or similar terminology. Forward-looking statements and information are subject to various known and unknown risks and uncertainties, many of which are beyond the ability of the Company to control or predict, that may cause the Company's actual results, performance or achievements to be materially different from those expressed or implied thereby, and are developed based on assumptions about such risks, uncertainties and other factors set out herein. Factors and risks which could cause actual results to differ materially from current expectations are discussed in the Company's Annual Report and in the Company's Annual Information Form for the year ended December 31, 2016. The Company undertakes no obligation to update forward-looking information except as required by applicable law. Such forward-looking information represents management's best judgment based on information currently available. No forward-looking statement can be guaranteed and actual future results may vary materially. Accordingly, readers are advised not to place undue reliance on forward-looking statements or information.

(In thousands, except for share and per share amounts)

GLOSSARY OF ABBREVIATIONS

Calendar	
Abbreviation	**Description**
Q2-17	Second quarter of 2017
Q1-17	First quarter of 2017
Q4-16	Fourth quarter of 2016
Q3-16	Third quarter of 2016
Q2-16	Second quarter of 2016
Q1-16	First quarter of 2016
Q4-15	Fourth quarter of 2015
Q3-15	Third quarter of 2015
Q2-15	Second quarter of 2015

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

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

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

Other	
Abbreviation	**Description**
Interim financial statements	Unaudited interim condensed consolidated financial statements
NDS	New Drug Submission
OIC	Opioid-induced constipation
PMPRB	Patented Medicine Prices Review Board
Rx	Prescription pharmaceutical product

OVERVIEW

Section 1 – About Knight Therapeutics Inc.

- Specialty pharmaceutical company, headquartered in Montreal, Canada, and listed on Toronto Stock Exchange under the ticker symbol "GUD".
- Principal business activity is developing, acquiring, in-licensing, out-licensing, marketing and distributing 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 securing product distribution rights for Canada and select international markets, earning interest income and strengthening relationships in the life sciences industry.
- 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 pharmaceutical products including those to treat neglected tropical and rare pediatric diseases.

Section 2 – Q2-17 Highlights

Financial Results

- Revenues reached $2,480, an increase of $1,345 or 119% over the same period in prior year.
- Net income was $459, a decrease of $3,987 or 90% over the same period in prior year.
- Cash flows from operations at $3,371, an increase of $289 or 9% over the same period in prior year.

Products

- Submitted Probuphine™, indicated for the treatment of opioid drug dependence, for approval by Health Canada.

Strategic Lending

- Issued additional tranches of $1,807 [US$1,356] to 60P.
- Received additional 365,492 common shares of Medimetriks valued at $936 [US$720].

Strategic Investments

- Received distributions of $1,222 from strategic fund investments and realized a gain of $176.

Subsequent Events

- Realized gain of $1,457 on disposal of common shares of Merus upon the close of its acquisition by Norgine B.V.
- Medison's board of directors declared and approved dividends of $2,466 [ILS7,068].
- Issued an additional loan of $12,705 [US$10,000] to Synergy.

(In thousands, except for share and per share amounts)

FINANCIAL RESULTS

Section 3 – Results of Operations

	Q2-17	Q2-16	Change $[1]	Change %[2]	YTD-17	YTD-16	Change $[1]	Change %[2]
Revenues	**2,480**	1,135	1,345	119%	**4,230**	2,203	2,027	92%
Cost of goods sold	**472**	535	63	12%	**760**	781	21	3%
Gross margin	**2,008**	600	1,408	235%	**3,470**	1,422	2,048	144%
Gross margin (%)	***81%***	*53%*	*28%*	*53%*	***82%***	*65%*	*17%*	*26%*
Expenses								
Selling and marketing	**1,050**	154	(896)	582%	**1,413**	168	(1,245)	741%
General and administrative	**2,329**	2,055	(274)	13%	**4,797**	4,234	(563)	13%
Research and development	**867**	524	(343)	65%	**1,283**	807	(476)	59%
	(2,238)	(2,133)	(105)	5%	**(4,023)**	(3,787)	(236)	6%
Depreciation of property and equipment	**—**	10	10	100%	**—**	18	18	100%
Amortization of intangible assets	**320**	122	(198)	162%	**646**	163	(483)	296%
Interest income	**(5,698)**	(6,124)	(426)	7%	**(11,558)**	(10,940)	618	6%
Other income	**(334)**	(354)	(20)	6%	**(642)**	(1,453)	(811)	56%
Net loss (gain) on financial assets	**1,056**	(783)	(1,839)	N/A	**(2,319)**	(2,512)	(193)	8%
Share of net income of associate	**(96)**	(805)	(709)	88%	**(415)**	(1,659)	(1,244)	75%
Foreign exchange loss	**1,306**	357	(949)	266%	**1,549**	4,127	2,578	62%
Income before income taxes	**1,208**	5,444	(4,236)	78%	**8,716**	8,469	247	3%
Income tax expense								
Current	**628**	578	(50)	9%	**1,108**	3,119	2,011	64%
Deferred	**121**	420	299	71%	**1,102**	427	(675)	158%
Net income for the period	**459**	4,446	(3,987)	90%	**6,506**	4,923	1,583	32%
Attributable to shareholders of the Company								
Basic EPS	**0.003**	0.039	**(0.036)**	**92%**	**0.046**	0.046	—	—
Diluted EPS	**0.003**	0.039	**(0.036)**	**92%**	**0.045**	0.045	—	—

[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, except for share and per share amounts)

	Q2-17 vs Q2-16	YTD-17 vs YTD-16
Revenues	The increase is mainly attributable to: • Increase of Impavido® revenues and recognition of Movantik® revenues as of December 15th, 2016, upon in-license from AstraZeneca.	• Full recognition of Impavido® revenues post termination of the distribution and sale agreement with Paladin, and the U.S. commercial launch, both in March 2016. • Recognition of Movantik® revenues as of December 15th, 2016, upon in-license from AstraZeneca.
Gross Margin	• Increase in gross margin ($) mainly attributable to increase in revenues. • Increase in gross margin (%) mainly attributable to higher COGS in 2016 due to inventory provisions recorded.	
Selling and marketing	• Increase due to commercial activities including sales force promotion of Movantik®.	
General and administrative	• Increase explained by growth in the number of employees due to commercialization of Movantik® and preparation to launch additional products in Canada.	
Research and development expenses	• Increase due to growth of the Company's scientific affairs department and the submission of Probuphine™ for regulatory approval by Health Canada.	
Interest income	• Derived primarily from interest earned on loans, cash and cash equivalents, marketable securities and accretion on loans receivable. • Total interest income of $5,698 includes accretion of $1,106 (2016: $1,741). ***Interest Income*** • Interest income (excluding accretion) for Q2-17 at $4,592, decreased by 5% or $209 compared to prior year driven by a lower average loan balance outstanding, offset by an increase in the average cash, cash equivalents and marketable securities balances due to proceeds from equity raises in June and December 2016.	• Total interest income of $11,558 includes accretion of $2,184 (2016: $2,846). • Interest income (excluding accretion) for YTD-17 at $9,374, increased by 16% or $1,280 compared to prior year driven by an increase in the average cash, cash equivalents and marketable securities balances due to proceeds from equity raises in June and December 2016, offset by an overall lower average loan balance outstanding.
Other income[1]	• No significant variance.	• Decrease is primarily driven by certain non-recurring fees earned from strategic partners in Q1-16.
Net loss (gain) on financial assets[2]	• Net loss driven by fair value revaluation of derivatives offset by realized gains on funds and equities.	• Net gain due to realized gains on the sale of equities, gains on distributions of strategic funds and recognition of derivatives.
Share of income of associate	• Decrease due to decline in Medison's net income as a result of increased promotion expenses related to new product launches and an increase in the amortization expense related to fair value adjustments on intangibles recorded by Knight.	
Foreign exchange loss (gain)	• Explained by relative losses on certain U.S. dollar denominated financial assets as Canadian dollar strengthened.	
Income tax expense	• Decrease due to lower activity in 2017.	

[1] *Other income includes income earned for advisory and other services, gains from early loan repayments and income from strategic lending deals*

[2] *Net gain on financial assets includes unrealized gains and losses on revaluation of derivatives and realized gains and losses on equities, derivatives and distributions from funds*

(In thousands, except for share and per share amounts)

FINANCIAL CONDITION

Section 4 – Balance Sheet

	June 30, 2017	December 31, 2016	Change $	Change %[1]
ASSETS				
Current				
Cash and cash equivalents	**527,879**	514,942	12,937	3%
Marketable securities	**233,282**	221,108	12,174	6%
Trade and other receivables	**7,598**	6,440	1,158	18%
Inventories	**839**	790	49	6%
Other current financial assets	**35,779**	51,789	(16,010)	31%
Income taxes receivable	**5,456**	4,683	773	17%
Total current assets	**810,833**	799,752	11,081	1%
Property and equipment	**68**	32	36	113%
Intangible assets	**13,482**	14,153	(671)	5%
Other financial assets	**84,073**	90,643	(6,570)	7%
Investment in associate	**78,003**	80,113	(2,110)	3%
Deferred income tax assets	**5,521**	6,077	(556)	9%
Total assets	**991,980**	990,770	1,210	0%
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	**3,123**	3,207	(84)	3%
Income taxes payable	**6,617**	5,659	958	17%
Other balances payable	**610**	537	73	14%
Deferred other income	**250**	355	(105)	30%
Total current liabilities	**10,600**	9,758	842	9%
Deferred other income	**292**	417	(125)	30%
Other balances payable	**908**	877	31	4%
Total liabilities	**11,800**	11,052	748	7%
Shareholders' equity				
Share capital	**761,063**	760,447	616	0%
Warrants	**785**	785	—	—
Contributed surplus	**11,138**	9,469	1,669	18%
Accumulated other comprehensive income	**22,102**	30,431	(8,329)	27%
Retained earnings	**185,092**	178,586	6,506	4%
Total shareholders' equity	**980,180**	979,718	462	0%
Total liabilities and shareholders' equity	**991,980**	990,770	1,210	0%

[1] *Percentage change is presented in absolute values*

(In thousands, except for share and per share amounts)

June 30, 2017 vs December 31, 2016	
Cash and cash equivalents and marketable securities	• Refer to Section 5 – Liquidity and Capital Resources for further information.
Trade and other receivables	• Increase due to higher revenues and an advance made to associate. • Refer to note 6 in the Interim financial statements for additional information.
Inventories	• No significant variance.
Other financial assets (current and long term)	• Decrease of $22,580 driven by: **Funds:** increase of $7,297 due to capital calls of $10,331 offset by distributions and mark-to-market adjustments of $3,034. For further information on Knight's strategic investments, refer to Section 8. **Loans and other receivables:** decrease of $27,506 mainly due to full repayment of the Apicore and PBB loans. For further information on Knight's strategic lending, refer to Section 7. **Equities, Warrants and Derivatives:** decrease of $2,371 driven by revaluation of strategic investments in equities, warrants and derivatives. Refer to note 8 in the Interim financial statements for further information.
Intangible assets	• Decrease due to amortization of intangible assets.
Investment in associate	• Decrease due to dividends paid by Medison offset by Knight's share of net income. • Refer to Section 9 for further information.
Accounts payable and accrued liabilities	• No significant variance.
Share capital	• Refer to note 11 in the Interim financial statements for information.
Contributed surplus	• Increase related to share-based compensation expense offset by exercise of stock options. • Refer to the statement of changes in shareholders' equity in the Interim financial statements for further information.
Accumulated other comprehensive income	• Refer to the statement of changes in shareholders' equity in the Interim financial statements for further information.
Retained earnings	• Refer to the statement of changes in shareholders' equity in the Interim financial statements for further information.

Section 5 – Liquidity and Capital Resources

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

The Company believes that its existing cash, cash equivalents and marketable securities as well as cash generated from operations are sufficient to finance its current operations, working capital requirements and future product acquisitions. At present, the Company is actively pursuing acquisitions that may require the use of substantial capital resources. There are no present agreements or commitments with respect to such acquisitions.

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

All figures are reflected in thousands of Canadian dollars.

	Six months ended June 30,	
	2017	2016
Net cash generated by operating activities	**7,607**	7,617
Net cash generated by (used in) investing activities	**6,224**	(97,821)
Net cash generated by financing activities	**438**	218,402
Increase in cash and cash equivalents during the period	**14,269**	128,198
Net foreign exchange difference	**(1,332)**	(1,966)
Cash and cash equivalents, beginning of the period	**514,942**	237,481
Cash and cash equivalents, end of the period	**527,879**	363,713
Marketable securities, end of the period	**233,282**	274,710
Cash, cash equivalents, and marketable securities, end of the period	**761,161**	638,423

The company's cash, cash equivalents and marketable securities increased by $122,738 or 19% to $761,161 as at June 30, 2017 from $638,423 as at June 30, 2016.

Cash flows generated by operating activities for the six-month period ended June 30, 2017 were $7,607 compared to cash generated in operating activities of $7,617 for the comparative period last year. Cash flows for operating activities for the six-month period ended June 30 primarily relate to cash generated through revenues and interest received, offset by operating expenses including salaries, research and development expenses, professional fees, and office expenses. Cash flows provided by operating activities exclude revenues and expenses not affecting cash, such as unrealized and realized gains on financial assets, accretion of interest, share based compensation expense, depreciation and amortization, and net changes in non-cash balances relating to operations.

Cash flows generated by investing activities were $6,224 for the six-month period ended June 30, 2017 due to proceeds from repayments of loan receivables net of loan issuances of $28,517 and net disposals of equities of $576, offset by net investments of marketable securities of $15,914, net investments in life sciences funds of $6,955. For the same period in 2016, cash flows used in investing activities were $97,821 due to net investments in marketable securities of $49,021, issuance of loans receivable net of principal repayments of $35,426, investments in life science funds of $9,225, purchases of intangibles of $2,924 and net purchases of equities of $1,225.

Cash flows generated by financing activities of $438 for the six-month period ended June 30, 2017 were due to the participation of employees and directors in the Company's share purchase and option plans. For the same period on 2016, cash flows generated by financing activities of $218,402 were mainly due to the completion of a bought deal.

PRODUCT ACQUISITION STRATEGY

Section 6 – Products

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

Prescription Pharmaceutical Products

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

[1] Not yet submitted for approval to Health Canada or other relevant health regulatory entity

(In thousands, except for share and per share amounts)

Consumer Health Products

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

Medical Devices

Product	Indication	Licensor	Status in Territory	Territory Rights
TULSA-PRO®	Prostate ablation	Profound	Pre-Registration[1]	CAN
3D family	Diagnostic and prognostic tools to improve treatment outcomes	3D	In Development	CAN, CAR, ISR, RUS, ZAF

[1] *Not yet submitted for approval to Health Canada or other relevant health regulatory entity*
[2] *Approved and marketed in Canada only*

Highlights

ILUVIEN® – Regulatory Approval

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

Movantik®

In December 2016, Knight entered into an agreement with AstraZeneca for the rights to Movantik® in Canada and Israel under which Knight is responsible for all commercial, regulatory and certain supply chain activities. Movantik® is the first once-daily oral peripherally-acting mu-opioid receptor antagonist for the treatment of OIC in adult patients with non-cancer pain who have had an inadequate response to laxatives. According to the Canadian Family Physician Practice Guideline, it is estimated that at least 26% of chronic opioid users suffer from OIC. According to IMS data, Movantik® sales in Canada were $213 and $381 for the three and six-month periods ended June 30, 2017 (2016: $132 and $233).

(In thousands, except for share and per share amounts)

Probuphine™ – Regulatory Approval

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

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

	Nominal loan balance as at June 30, 2017	
Entity	**In Source Currency**	**In Canadian Dollars[1]**
Medimetriks	US$22,750	$29,523
Synergy	US$3,406	$4,420
Crescita	C$6,718	$6,718
Profound	C$4,000	$4,000
60P	US$4,197	$5,447
Pediapharm[2]	C$1,250	$1,250
Ember	US$500	$649
Antibe	C$546	$546
Total		**$52,553**

[1] *Converted at the Bank of Canada closing exchange rates on June 30, 2017*
[2] *Pediapharm debenture is held indirectly through the Bloom Burton Healthcare Lending Trust*

The following table summarizes the activities of the strategic lending portfolio during the six-month period ended June 30, 2017.

	Carrying value beginning of year[1] $	Additions $	Accretion[2] $	Loan repayments $	Other[3] $	Carrying value end of period $	Current other financial assets $	Non-current other financial assets $
Q2-17	**75,731**	**2,171**	**2,184**	**(30,324)**	**(1,537)**	**48,225**	**6,952**	**41,273**

[1] *Refer to the 2016 audited annual consolidated financial statements for additional information*
[2] *Accretion of interest income based on the effective interest rate method*
[3] *Net changes related to foreign currency revaluations*

During the three-month period ended June 30, 2017, the Company recorded accretion of $1,106 (2016: $1,741) in the statement of income as interest income and a foreign exchange loss of $889 (2016: $550) in the statement of income.

Highlights

Apicore

On January 6, 2017, Apicore repaid the remaining principal of its loan of $8,137 [US$6,158] and all remaining accrued interest as at the date thereof.

PBB

On March 28, 2017, Knight assigned its PBB loan in exchange for payment of the principal balance of $17,450 [US$13,125] and all remaining accrued interest as at the date thereof.

60P

During the three-month period ended June 30, 2017, Knight issued an additional $1,807 [US$1,356] to 60P. As at June 30, 2017, Knight had issued a total of $5,592 [US$4,197] to 60P as part of a secured loan agreement. The loan bears interest at 15% per annum and matures on December 31, 2020. As part of the agreement, Knight entered an exclusive license agreement with an option to develop and commercialize all of 60P's products in Canada, Israel and Russia.

Medimetriks

On February 17, 2016, Knight issued a secured loan of up to $27,368 [US$20,000] to Medimetriks, a private company, to support its acquisition of the exclusive U.S. development and commercialization rights for OPA-15406 from Otsuka. On December 23, 2016, Knight amended its initial loan and issued an additional $4,061 [US$3,000] ("Second Loan") to Medimetriks.

As consideration for the Second Loan, Knight received a derivative in the form of an equity kicker for an additional 2.7% of Medimetriks ("Additional Common Shares"). The Additional Common Shares were issued to Knight on May 31, 2017 and the derivative was derecognized. The Additional Common Shares were recorded at fair value of $2.56 [US$1.97] per common share derived using the income approach valuation technique.

Section 8 – Strategic Investments

Fund Investments

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

The fair value of the AFS funds held by Knight, as at June 30, 2017, is $41,873.

(In thousands, except for share and per share amounts)

Entity	Fund Commitments In Source Currency	In Canadian Dollars[1]
Teralys Capital	C$30,000	$30,000
Domain Associates LLC	US$25,000	$29,063
Forbion Capital Partners	€19,500	$27,550
Sectoral Asset Management[2]	US$13,000	$13,919
Sanderling Ventures LLC	US$10,000	$11,625
HarbourVest Partners LLC	C$10,000	$10,000
TVM Capital GmbH	US$1,600	$1,996
Genesys Capital Management (Fund III) Inc.	C$1,000	$1,000
Total		**$125,153**

[1] *Converted at the Bank of Canada noon exchange rates as of the commitment date (using the June 30, 2017 closing rates total fund commitment would be $134,251)*

[2] *Knight received a full return of capital from its US$13,000 investment in Sectoral's NEMO II and subsequently committed to reinvest US$10,000 into Sectoral's NEMO III*

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

The following table summarizes the activities of the strategic fund investments during the six-month period ended June 30, 2017.

	Carrying value beginning of year[1] $	Additions $	Distributions $	Realized gain $	Other[2] $	Carrying value end of period $	Current other financial assets $	Non-current other financial assets $
Q2-17	**34,576**	**10,331**	**(3,376)**	**828**	**(486)**	**41,873**	**-**	**41,873**

[1] *Refer to the 2016 audited annual consolidated financial statements for additional information*

[2] *Net changes due to revaluation to fair market value, foreign currency revaluations, and realized gains reclassified from other comprehensive income to consolidated statement of income upon distribution or disposal*

During the three-month period ended June 30, 2017, the Company recorded a gain of $176 (2016: $0) related to the realized gain on distributions received in the statement of income as net gain on financial assets. Furthermore, the Company recorded a net increase of $392 (2016: decrease of $1,061) in other comprehensive income due to foreign currency revaluation and mark-to-market adjustments.

Other investments

Merus

As at June 30, 2017, the company held a strategic equity interest of 4.7% of the outstanding common shares of Merus. On July 17, 2017, upon the close of the acquisition of Merus by Norgine B.V., the Company realized a gain of $1,457 upon the disposal of its 5,460,200 common shares of Merus.

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

(In thousands, except for share and per share amounts)

Section 9 – Rest of World Strategy

Knight's international strategy is focused on identifying potential products and companies that fit within its existing business model, but that are located in select areas such as Israel, Australia, Latin America, Romania, Russia, Sub-Saharan Africa, the Caribbean and other countries excluding the U.S. and Western Europe. Knight intends to continue its growth by becoming an international specialty pharmaceutical company and believes that these countries provide potentially significant growth and value opportunities.

Investment in Medison

On September 9, 2015, Knight acquired a 28.3% ownership interest in Medison, a privately-owned specialty pharmaceutical company based in Israel. The consideration given for the equity interest in Medison amounted to $82,001, which includes the fair value of 10,330,884 common shares of Knight issued to Medison and its controlling shareholder and a contingent consideration of $1,100. In addition, the Company incurred $217 of transaction costs which were capitalized with the investment. On June 16, 2016, the Company issued 250,000 common shares at a price of $8.29 per share for $2,073 and reduced the amount of contingent consideration recorded in contributed surplus upon the initial investment in Medison by $943. Consequently, the Company recorded an increase of $1,130 in the investment in associate. There is no further contingent consideration payable to Medison.

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

This selected information is derived from our financial statements.

	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15[1]
Carrying value of investment	**78,003**	77,907	80,113	80,075	81,393	79,458	81,027	82,096
Amortization of FMV adjustments	**(1,503)**	(1,503)	(1,749)	(1,207)	(1,208)	(1,006)	(1,260)	(333)
Share of net income, net of FMV adjustment	**96**	319	38	1,096	805	854	946	95
Dividends	—	2,525[2]	—	2,414	—	2,423	2,015	—

[1]From September 9, 2015 to September 30, 2015
[2] Medison's board of directors declared and approved dividends of $2,525 [ILS7,068] in February 2017 (paid in April 2017).

RISK MANAGEMENT

Section 10

10.1 Currency Risk

Knight holds a significant portion of its net financial assets in US$, EUR and ILS which results in financial risk due to fluctuations in the value of the currencies relative to the Canadian dollar. Assuming that all other variables remain constant, a 5% change in the Canadian dollar against the US$, EUR and ILS would have resulted in a change in the statement of income and comprehensive income of $11,952, $551 and $407, respectively.

10.2 Equity Price Risk

Equity price risk arises from changes in market prices of the AFS investments and derivatives. The carrying values of investments subject to equity price risk are $71,627 as at June 30, 2017 (December 31, 2016: $66,701). The Company monitors its equity investments for impairment on a periodic basis and at least every reporting period. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold. The Company’s Board of Directors regularly reviews and approves equity investment decisions.

10.3 Interest Rate Risk

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

10.4 Liquidity Risk

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

10.5 Credit Risk

The Company considers its maximum credit risk to be $96,738 (December 31, 2016: $117,209) which is the total of the following assets: trade and accounts receivable, interest receivable, loans receivable, investment in funds and derivatives. The marketable securities and cash equivalent balances are subject to minimal risk of changes in value. They are invested within two large Canadian financial institutions, two Canadian credit unions guaranteed by provincial governments, two foreign affiliates of large Canadian financial institutions and one Israeli financial institution, comprised of thirteen guaranteed investment certificate investments and five term deposits.

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

10.6 Risk Factors

For a detailed discussion of additional risk factors, please refer to the Company’s Annual Information Form for the year ended December 31, 2016 on SEDAR at www.sedar.com.

(In thousands, except for share and per share amounts)

ADDITIONAL INFORMATION

Section 11 – Selected Quarterly Financial Information

This selected information is derived from our financial statements.

	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15
Revenues	**2,480**	1,750	1,845	1,892	1,135	1,068	343	114
Net income	**459**	6,047	7,939	5,698	4,446	477	5,554	6,277
EPS								
Basic	**0.003**	0.042	0.059	0.043	0.039	0.005	0.054	0.066
Diluted	**0.003**	0.042	0.059	0.043	0.039	0.005	0.054	0.066
Cash, cash equivalents and marketable securities	**761,161**	763,778	736,050	645,054	638,423	426,235	471,207	445,889
Total assets	**991,980**	994,293	990,770	877,904	867,999	638,336	648,988	627,821
Total liabilities	**11,800**	10,998	11,052	8,305	6,034	5,663	6,926	2,372

Section 12 – Outstanding Share Data

The table below summarizes the share data:

As at	**August 9, 2017**
Common Shares	142,765,432
Stock Options	3,613,571
Warrants	406,126

Section 13 – Use of Proceeds from Financing

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

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

Section 14 – Payment of Dividends

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

Section 15 – Product Pricing Regulation on Certain Patented Drug Products

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

Section 16 – Financial Instruments

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

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

Section 17 – Off-balance Sheet Arrangements

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

Section 18 – Commitments

Knight has financial commitments with respect to operating leases, a real property, equity, loans, contributions of capital to funds, purchase and milestone commitments related to product distribution, license and supply agreements which are reported in note 15 of our Interim financial statements for the quarter ended June 30, 2017.

Section 19 – Related Party Transactions

Pharmascience Inc., a company related to the Company's CEO provided administrative services of approximately $8 to the Company for the six-month period ended June 30, 2017.

Furthermore, in January 2017, the Company entered into an agreement with its associate resulting in the recognition of a derivative of $1,282 [US$964], with an equivalent gain recorded in the statement of income as gain on financial assets. As at June 30, 2017, the derivative was revalued at $306 [US$236], with the difference recorded in net loss (gain) on financial assets.

As part of this transaction, the Company has advanced $764 [ILS1,968], to its associate, recorded in trade and other receivables.

Section 20 – Segment Reporting

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

Section 21 – Significant Accounting Estimates and Assumptions

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

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

Section 22 – Recent Accounting Pronouncements

IFRS 9 – Financial Instruments

In July 2014, the IASB amended IFRS 9 – Financial Instruments, to bring together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 – Financial Instruments: Recognition and Measurement. The standard supersedes all previous versions of IFRS 9 and will be effective on January 1, 2018 for the Company with earlier application permitted. There will be no impact on financial liabilities as the Company does not currently hold any such liabilities. The Company continues to evaluate the impact of the new standard on its financial assets.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers, to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. The standard supersedes IAS 18 – Revenue, IAS 11 – Construction Contracts, and other revenue related interpretations. The standard will be effective on January 1, 2018 for the Company, with earlier application permitted. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Company is developing its future IFRS 15 revenue recognition policies and continues to evaluate the impact of the new 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. The Company is currently assessing the potential impact of this standard on its consolidated financial statements.

Section 23 – Disclosure Controls and Procedures

The Company is committed to providing timely, accurate and balanced disclosure of all material information about the Company and to providing fair and equal access to such information. Management is responsible for establishing and maintaining its DC&P to ensure that information used internally and disclosed externally is complete and reliable. Due to the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute assurance, that all control issues and instances of fraud or error, if any, within the Company have been detected. Management continues to evolve and enhance its system of controls and procedures.

Section 24 – Internal Control Over Financial Reporting

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

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

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

Section 25 – Subsequent Events

[i] Disposal of Merus Shares

As at June 30, 2017, the company held a strategic equity interest of 4.7% of the outstanding common shares of Merus. On July 17, 2017, upon the close of the acquisition of Merus by Norgine B.V., the Company realized a gain of $1,457 upon the disposal of its 5,460,200 common shares of Merus.

[ii] Dividends from Medison

On August 7, 2017, Medison's board of directors declared and approved dividends of $2,466 [ILS7,068].

[iii] Additional loan to Synergy

On August 9, 2017, Knight issued an additional $12,705 [US$10,000] to Synergy. The loan bears interest at 10.5% per annum and matures on August 9, 2020. As part of the transaction, Knight will receive a success fee paid at maturity, plus other consideration.

KNIGHT THERAPEUTICS INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

NOTICE TO READER OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements of Knight Therapeutics Inc. ("Knight" or the "Company") which comprise the interim condensed consolidated balance sheet as at June 30, 2017, the interim condensed consolidated statements of income and comprehensive income, and the cash flows for the three and six-month periods ended June 30, 2017 and the interim condensed consolidated statement of changes in shareholders' equity for the six-month period ended June 30, 2017, are the responsibility of the Company's management. These interim condensed consolidated financial statements have not been audited or reviewed on behalf of the shareholders by the independent external auditors, Ernst & Young LLP.

The interim condensed consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with International Financial Reporting Standards. Management has determined such amounts on a reasonable basis in order to ensure that the interim condensed consolidated financial statements are presented fairly in all material respects. The Company's accounting procedures and related systems of internal controls are designed to provide a reasonable assurance that its assets are safeguarded and its financial records are reliable. Readers are cautioned that these interim condensed consolidated financial statements may not be appropriate for their purposes.

Jonathan Ross Goodman	Jeffrey Kadanoff
Chief Executive Officer	Chief Financial Officer
Montreal, Canada	Montreal, Canada
August 9, 2017	August 9, 2017

INTERIM CONSOLIDATED BALANCE SHEETS

[In thousands of Canadian dollars]

[Unaudited]

As at	*Notes*	June 30, 2017	December 31, 2016
ASSETS			
Current			
Cash and cash equivalents	*4*	**527,879**	514,942
Marketable securities	*5*	**233,282**	221,108
Trade and other receivables	*6*	**7,598**	6,440
Inventories		**839**	790
Other current financial assets	*8, 9*	**35,779**	51,789
Income taxes receivable		**5,456**	4,683
Total current assets		**810,833**	799,752
Property and equipment		**68**	32
Intangible assets	*7*	**13,482**	14,153
Other financial assets	*8, 9*	**84,073**	90,643
Investment in associate	*10*	**78,003**	80,113
Deferred income tax assets		**5,521**	6,077
Total assets		**991,980**	990,770
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		**3,123**	3,207
Income taxes payable		**6,617**	5,659
Other balances payable		**610**	537
Deferred other income		**250**	355
Total current liabilities		**10,600**	9,758
Deferred other income		**292**	417
Other balances payable		**908**	877
Total liabilities		**11,800**	11,052
Shareholders' equity			
Share capital	*11 [i]*	**761,063**	760,447
Warrants		**785**	785
Contributed surplus		**11,138**	9,469
Accumulated other comprehensive income	*12*	**22,102**	30,431
Retained earnings		**185,092**	178,586
Total shareholders' equity		**980,180**	979,718
Total liabilities and shareholders' equity		**991,980**	990,770

Commitments *[note 15]*

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

[Unaudited]

		Three months ended June 30		Six months ended June 30	
	Notes	**2017**	2016	**2017**	2016
Revenues		**2,480**	1,135	**4,230**	2,203
Cost of goods sold		**472**	535	**760**	781
Gross margin		**2,008**	600	**3,470**	1,422
Expenses					
Selling and marketing		**1,050**	154	**1,413**	168
General and administrative		**2,329**	2,055	**4,797**	4,234
Research and development		**867**	524	**1,283**	807
		(2,238)	(2,133)	**(4,023)**	(3,787)
Depreciation of property and equipment		**—**	10	**—**	18
Amortization of intangible assets		**320**	122	**646**	163
Interest income		**(5,698)**	(6,124)	**(11,558)**	(10,940)
Other income		**(334)**	(354)	**(642)**	(1,453)
Net loss (gain) on financial assets		**1,056**	(783)	**(2,319)**	(2,512)
Share of net income of associate	*10*	**(96)**	(805)	**(415)**	(1,659)
Foreign exchange loss		**1,306**	357	**1,549**	4,127
Income before income taxes		**1,208**	5,444	**8,716**	8,469
Income tax expense					
Current		**628**	578	**1,108**	3,119
Deferred		**121**	420	**1,102**	427
Net income for the period		**459**	4,446	**6,506**	4,923
Attributable to shareholders of the Company					
Basic earnings per share	*13*	**0.003**	0.039	**0.046**	0.046
Diluted earnings per share	*13*	**0.003**	0.039	**0.045**	0.045
Weighted average number of common shares outstanding					
Basic		**142,760,357**	112,681,825	**142,740,562**	108,078,434
Diluted		**143,557,171**	113,112,999	**143,177,337**	108,410,280

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[In thousands of Canadian dollars]

[Unaudited]

	Three months ended June 30		Six months ended June 30	
	2017	2016	**2017**	2016
Net income for the period	**459**	4,446	**6,506**	4,923
Realized gain reclassified to statement of income net of tax of $58 and $122 ($1 and $65 for the three and six-month periods ended June 30, 2016)	**(452)**	(6)	**(1,425)**	(416)
Other comprehensive (loss) income to be reclassified to statement of income in subsequent periods:				
Unrealized gain (loss) on available-for-sale financial instruments net of tax of $178 and $434 ($75 and $147 for the three and six-month periods ended June 30, 2016)	**159**	2,127	**(887)**	2,548
Unrealized loss on translation of foreign operations	**(4,359)**	(668)	**(6,017)**	(11,646)
Other comprehensive (loss) income for the period	**(4,652)**	1,453	**(8,329)**	(9,514)
Total comprehensive (loss) income for the period	**(4,193)**	5,899	**(1,823)**	(4,591)

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[In thousands of Canadian dollars]

[Unaudited]

	Notes	**Share capital**	**Warrants**	**Contributed surplus**	**Accumulated other comprehensive income**	**Retained earnings**	**Total shareholders' equity**
Balance as at January 1, 2016		439,148	161	6,772	35,955	160,026	642,062
Net income for the period		—	—	—	—	4,923	4,923
Other comprehensive loss for the period		—	—	—	(9,514)	—	(9,514)
Comprehensive (loss) income		—	—	—	(9,514)	4,923	(4,591)
Share-based compensation expense	*11 [ii]*	—	—	1,883	—	—	1,883
Issuance upon bought deal, net of costs and includes deferred tax of $3,080		221,631	—	—	—	—	221,631
Issuance of shares to associate	*10*	2,073	—	(943)	—	—	1,130
Share purchase loans		(200)	—	—	—	—	(200)
Issuance under share purchase plan		50	—	—	—		50
Balance as at June 30, 2016		662,702	161	7,712	26,441	164,949	861,965
Balance as at January 1, 2017		**760,447**	**785**	**9,469**	**30,431**	**178,586**	**979,718**
Net income for the period		—	—	—	—	6,506	**6,506**
Other comprehensive loss for the period		—	—	—	(8,329)	—	**(8,329)**
Comprehensive (loss) income		—	—	—	(8,329)	6,506	**(1,823)**
Share-based compensation expense	*11 [ii]*	—	—	1,864	—	—	**1,864**
Issuance under share option plan	*11*	513	—	(195)	—	—	**318**
Issuance under share purchase plan	*11*	103	—	—	—	—	**103**
Balance as at June 30, 2017		**761,063**	**785**	**11,138**	**22,102**	**185,092**	**980,180**

See accompanying notes

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

[In thousands of Canadian dollars]

[Unaudited]

	Notes	Three months ended June 30		Six months ended June 30	
		2017	2016	**2017**	2016
OPERATING ACTIVITIES					
Net income for the period		**459**	4,446	**6,506**	4,923
Adjustments reconciling net income to operating cash flows:					
Deferred tax		**121**	420	**1,102**	427
Share-based compensation expense	*11 [ii]*	**1,018**	810	**1,864**	1,883
Depreciation and amortization		**320**	132	**646**	181
Accretion of interest	*8 [i]*	**(1,106)**	(1,741)	**(2,184)**	(2,846)
Realized (gain) loss on financial assets		**(665)**	514	**(1,641)**	(142)
Unrealized loss (gain) on financial assets		**1,721**	(1,297)	**(678)**	(2,370)
Foreign exchange loss		**1,344**	367	**1,549**	4,127
Share of net income from associate	*10*	**(96)**	(805)	**(415)**	(1,659)
Other adjustments		**71**	(151)	**(231)**	(293)
		3,187	2,695	**6,518**	4,231
Changes in non-cash working capital related to operations	*16*	**(2,341)**	387	**(1,436)**	963
Dividends from associate	*10*	**2,525**	—	**2,525**	2,423
Cash inflow from operating activities		**3,371**	3,082	**7,607**	7,617
INVESTING ACTIVITIES					
Purchase of marketable securities		**(98,182)**	(135,726)	**(142,473)**	(283,125)
Purchase of intangibles		**—**	—	**—**	(2,924)
Issuance of loans receivables		**(1,807)**	(2,598)	**(1,807)**	(37,449)
Purchase of equities		**(120)**	(3,999)	**(2,939)**	(7,460)
Investment in funds		**(6,190)**	(3,392)	**(10,331)**	(9,225)
Proceeds from sale of marketable securities		**106,073**	81,878	**126,559**	234,104
Proceeds from repayments of loans receivable		**2,266**	1,005	**30,324**	2,023
Proceeds from disposal of equities		**2,806**	616	**3,515**	6,235
Proceeds from distribution of funds		**1,222**	—	**3,376**	—
Cash inflow (outflow) from investing activities		**6,068**	(62,216)	**6,224**	(97,821)
FINANCING ACTIVITIES					
Issuance of shares upon bought deal		**—**	218,552	**—**	218,552
Proceeds from share option plan		**—**	—	**345**	—
Proceeds from share purchase plan		**50**	22	**93**	50
Issuance of share purchase loans		**—**	(200)	**—**	(200)
Cash inflow from financing activities		**50**	218,374	**438**	218,402
Increase in cash during the period		**9,489**	159,240	**14,269**	128,198
Cash and cash equivalents, beginning of the period		**519,522**	204,785	**514,942**	237,481
Net foreign exchange difference		**(1,132)**	(312)	**(1,332)**	(1,966)
Cash and cash equivalents, end of the period		**527,879**	363,713	**527,879**	363,713
Supplemental cash flow information:					
Interest received		**5,988**	3,048	**10,006**	6,821
Income taxes paid		**744**	—	**1,030**	2,334

See accompanying notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

GLOSSARY OF ABBREVIATIONS

Abbreviation	Company
3D	3D Signatures Inc.
60P	60º Pharmaceuticals LLC
Antibe	Antibe Therapeutics Inc.
Apicore	Apicore Inc. and Apigen Investments Limited
Crescita	Crescita Therapeutics Inc.
Knight or the Company	Knight Therapeutics Inc.
Medimetriks	Medimetriks Pharmaceuticals Inc.
Medison	Medison Biotech (1995) Ltd.
Merus	Merus Labs International Inc.
Otsuka	Otsuka Pharmaceutical Co., Ltd.
PBB	Pro Bono Bio PLC
Pediapharm	Pediapharm Inc.
Synergy	Synergy CHC Corp.

Abbreviation	Calendar
Q1-17	First quarter of 2017
Q2-17	Second quarter of 2017

1. NATURE OF OPERATIONS

Description of business

The Company was incorporated on November 1, 2013 under the *Canada Business Corporations Act.* The Company is a specialty pharmaceutical company and its principal business activity is developing, acquiring, in-licensing, out-licensing, marketing and distributing pharmaceutical products, consumer health products and medical devices in Canada and select international markets. The Company is located at 3400 de Maisonneuve Boulevard West, Suite 1055, Montreal, Quebec, H3Z 3B8. Knight is listed on Toronto Stock Exchange under the ticker symbol “GUD”.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and statement of compliance

These 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, 2016. 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, 2016. 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, 2016.

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

These interim condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on August 9, 2017.

3. 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. There will be no impact on financial liabilities as the Company does not currently hold any such liabilities. The Company continues to evaluate the impact of the new standard on its financial assets.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers, to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. The standard supersedes IAS 18 – Revenue, IAS 11 – Construction Contracts, and other revenue related interpretations. The standard will be effective on January 1, 2018 for the Company, with earlier application permitted. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Company is developing its future IFRS 15 revenue recognition policies and continues to evaluate the impact of the new 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. The Company is currently assessing the potential impact of this standard on its consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

As at	**June 30, 2017** **$**	December 31, 2016 $
Cash in bank	**527,879**	490,435
Term deposit of US$18,252 earning interest at 0.80% and maturing January 2017	**—**	24,507
	527,879	514,942

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

5. MARKETABLE SECURITIES

As at	June 30, 2017 $	December 31, 2016 $
Guaranteed investments earning interest rates ranging from 0.95% to 1.85% and maturing from December 2017 to June 2019 (December 31, 2016: earned interest ranging from 0.95% to 1.90% and maturing from January 2017 to April 2018)	**100,674**	110,890
Term deposits of US$84,012 earning interest rates ranging from 1.23% to 1.70% and maturing from August 2017 to February 2018 (December 31, 2016: US$67,470 earned interest ranging from 1.29% to 1.70% and maturing from May 2017 to December 2017)	**109,022**	90,592
Guaranteed investment certificates of US$12,807 earning interest rates ranging from 1.42% to 1.55% and maturing from August 2017 to May 2018 (December 31, 2016: US$9,607 earning interest rates ranging from 1.34% to 1.51% and maturing from May 2017 to November 2017)	**16,620**	12,900
Term deposit of ILS18,750 earning interest at 0.08% and maturing November 2017 (December 31, 2016: ILS19,250)	**6,966**	6,726
	233,282	221,108

6. TRADE AND OTHER RECEIVABLES

As at	June 30, 2017 $	December 31, 2016 $
Trade and accounts receivable	**3,350**	2,606
Interest receivable	**2,348**	3,107
Advance to associate	**764**	—
Commodity taxes receivable	**373**	102
Prepaid expenses and other receivable	**763**	625
	7,598	6,440

7. INTANGIBLE ASSETS

	$
Cost as at January 1, 2017	**14,754**
Additions	**91**
Foreign exchange translation	**(144)**
Cost as at June 30, 2017	**14,701**
Accumulated amortization as at January 1, 2017	**601**
Amortization charge	**646**
Foreign exchange translation	**(28)**
Accumulated amortization as at June 30, 2017	**1,219**
Net book value as at June 30, 2017	**13,482**

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

8. OTHER FINANCIAL ASSETS

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

	Carrying amount	
As at	**June 30, 2017**	December 31, 2016
	$	$
Other Financial assets		
Loans and other receivables *[i]*	48,225	75,731
Available-for-sale equity investments *[ii]*	28,812	30,936
Available-for-sale fund investments *[iii]*	41,873	34,576
Derivatives *[iv]*	942	1,189
Total	**119,852**	142,432

[i] Loans and other receivables

The following table summarizes the movement in loans and other receivables for the six-month period ended June 30, 2017.

	Carrying value beginning of year [1]	Additions	Accretion[2]	Loan repayments	Other[3]	Carrying value end of period	Current other financial assets	Non-current other financial assets
	$	$	$	$	$	$	$	$
Q2-17	**75,731**	**2,171**	**2,184**	**(30,324)**	**(1,537)**	**48,225**	**6,952**	**41,273**

[1] Refer to the 2016 audited annual consolidated financial statements for additional information
[2] Accretion of interest income based on the effective interest rate method
[3] Net changes related to foreign currency revaluations

During the six-month period ended June 30, 2017, the Company recorded accretion of $2,184 (2016: $2,846) in the statement of income as interest income and a foreign exchange loss of $1,537 (2016: $4,441) in the statement of income.

During the three-month period ended June 30, 2017, the Company recorded accretion of $1,106 (2016: $1,741) in the statement of income as interest income and a foreign exchange loss of $889 (2016: $550) in the statement of income.

Apicore

On January 6, 2017, Apicore repaid the remaining principal of its loan of $8,137 [US$6,158] and all remaining accrued interest as at the date thereof.

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

PBB

On March 28, 2017, Knight assigned its PBB loan in exchange for payment of the principal balance of $17,450 [US$13,125] and all remaining accrued interest as at the date thereof were repaid.

60P

During the three-month period ended June 30, 2017, Knight issued an additional $1,807 [US$1,356] to 60P. The loan bears interest at 15% per annum and matures on December 31, 2020.

[ii] Available-for-sale equity investments

The following table summarizes the movement in available-for-sale equity investments during the six-month period ended June 30, 2017.

	Carrying value beginning of year[1] $	Additions[2] $	Disposals[3] $	Realized gain[4] $	Other[5] $	Carrying value end of period $	Current other financial assets $	Non-current other financial assets $
Q2-17	**30,936**	**3,957**	**(3,516)**	**816**	**(3,381)**	**28,812**	**28,097**	**715**

[1] Refer to the 2016 audited annual consolidated financial statements for additional information
[2] Equities purchased or received as consideration with the strategic lending transactions
[3] Cash received upon disposal of equities during the period
[4] Realized gain on the disposals of equities
[5] Net changes due to revaluation of equities to fair value, foreign currency translation, realized gains or losses reclassified from other comprehensive income to consolidated statement of income upon disposal and other adjustments

During the six-month period ended June 30, 2017, the Company recorded a realized gain of $816 (2016: $722) in the statement of income as net gain on financial assets. In addition, the Company recorded an unrealized loss of $3,381 (2016: unrealized loss of $702) related to changes due to revaluation of equities to fair value, foreign currency translation, and realized gains or losses reclassified from other comprehensive income to consolidated statement of income upon disposal in the statement of comprehensive income.

During the three-month period ended June 30, 2017, the Company recorded a realized gain of $492 (2016: $53) in the statement of income as net gain on financial assets. In addition, the Company recorded an unrealized loss of $1,478 (2016: unrealized gain of $141) related to changes due to revaluation of equities to fair value, foreign currency translation, and realized gains or losses reclassified from other comprehensive income to consolidated statement of income upon disposal in the statement of comprehensive income.

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

[iii] Available-for-sale fund investments

The following table summarizes the movement in available-for-sale fund investments during the six-month period ended June 30, 2017.

	Carrying value beginning of year [1] $	Additions $	Distributions $	Realized gain $	Other [2] $	Carrying value end of period $	Current other financial assets $	Non-current other financial assets $
Q2-17	**34,576**	**10,331**	**(3,376)**	**828**	**(486)**	**41,873**	**-**	**41,873**

[1] Refer to the 2016 audited annual consolidated financial statements for additional information
[2] Net changes due to revaluation to fair market value, foreign currency revaluations, and realized gains reclassified from other comprehensive income to consolidated statement of income upon distribution or disposal

During the six-month period ended June 30, 2017, the Company recorded a gain of $828 (2016: $0) related to the realized gain on distributions received in the statement of income as net gain on financial assets. Furthermore, the Company recorded a net decrease of $486 (2016: $1,895) in other comprehensive income due to foreign currency revaluation and mark-to-market adjustments.

During the three-month period ended June 30, 2017, the Company recorded a gain of $176 (2016: $0) related to the realized gain on distributions received in the statement of income as net gain on financial assets. Furthermore, the Company recorded a net increase of $392 (2016: decrease of $1,061) in other comprehensive income due to foreign currency revaluation and mark-to-market adjustments.

[iv] Derivatives

The following table summarizes the movement in derivatives during the six-month period ended June 30, 2017.

	Carrying value beginning of year [1] $	Additions $	Disposals $	Realized gain $	Other [2] $	Carrying value end of period $	Current other financial assets $	Non-current other financial assets $
Q2-17	**1,189**	**2,459**	**(972)**	**-**	**(1,734)**	**942**	**730**	**212**

[1] Refer to the 2016 audited annual consolidated financial statements for additional information
[2] Changes due to revaluation to fair market value and foreign currency revaluations on derivatives held throughout the period

During the six-month period ended June 30, 2017, the Company recorded an unrealized loss of $1,734 (2016: unrealized gain of $2,064) related to revaluation to fair value and foreign currency translation in the statement of income as net gain on financial assets.

For the three-month period ended June 30, 2017, the Company recorded an unrealized loss of $1,704 (2016: unrealized gain of $1,281) related to revaluation to fair value and foreign currency translation in the statement of income as net gain on financial assets.

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

Medimetriks

On February 17, 2016, Knight issued a secured loan of up to $27,368 [US$20,000] to Medimetriks, a private company, to support its acquisition of the exclusive U.S. development and commercialization rights for OPA-15406 from Otsuka. On December 23, 2016, Knight amended its initial loan and issued an additional $4,061 [US$3,000] ("Second Loan") to Medimetriks.

As consideration for the Second Loan, Knight received a derivative in the form of an equity kicker for an additional 2.7%, or 365,492 common shares, of Medimetriks ("Additional Common Shares"). The Additional Common Shares were issued to Knight on May 31, 2017 and the derivative was derecognized. The Additional Common Shares were recorded at fair value of $2.56 [US$1.97] per common share derived using the income approach valuation technique.

Other

During Q1-17, the Company entered into an agreement with its associate resulting in the recognition of a derivative of $1,282 [US$964], with an equivalent gain recorded in the statement of income in net loss (gain) on financial assets. During the three-month period ended June 30, 2017, the Company recorded a loss of $976 [US$728] on this derivative in the statement of income in net loss (gain) on financial assets. The fair value of the derivative of $306 [US$236] as at June 30, 2017 was determined based on the market price of its underlying variable.

The remaining derivatives held by Knight were revalued as at June 30, 2017 using the Black-Scholes model based on the following inputs and assumptions.

Crescita

Inputs	**June 30, 2017**	December 31, 2016	September 1, 2016[1]
Number of warrants	293,153	293,153	293,153
Value per common share	$0.75	$1.18	$1.66
Exercise price	$2.44	$2.44	$2.44

Assumptions			
Risk-free interest rate	1.25%	1.11%	0.76%
Expected remaining term	4.3 years	4.7 years	5 years
Expected volatility	55%	50%	50%

[1] Transaction date

3D

Inputs	**June 30, 2017**	December 31, 2016	December 16, 2016[1]
Number of warrants	240,000	240,000	240,000
Value per common share	$0.46	$0.91	$0.83
Exercise price	$0.92	$0.92	$0.92

Assumptions			
Risk-free interest rate	1.02%	0.74%	0.63%
Expected remaining term	1.4 years	1 year	1 year
Expected volatility	80%	80%	80%

[1] Transaction date

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

Pediapharm

Inputs	**June 30, 2017**	December 31, 2016	March 30, 2015[1]
Number of warrants	757,500	757,500	757,500
Value per common share	$0.28	$0.30	$0.23
Exercise price	$0.33	$0.33	$0.33

Assumptions			
Risk-free interest rate	1.08%	0.79%	0.64%
Expected remaining term	1.8 years	2.2 years	4 years
Expected volatility	72%	72%	100%

[1] Transaction date

Antibe

Inputs	**June 30, 2017**	December 31, 2016	November 13, 2015[1]
Number of warrants	1,000,000	1,000,000	1,000,000
Value per common share	$0.09	$0.17	$0.17
Exercise price	$0.31	$0.31	$0.31

Assumptions			
Risk-free interest rate	1.02%	0.74%	0.69%
Expected remaining term	1.4 years	1.9 years	3 years
Expected volatility	121%	120%	180%

[1] Transaction date

Inputs	**June 30, 2017**	March 27, 2017[1]
Number of warrants	120,000	120,000
Value per common share	$0.09	$0.19
Exercise price	$0.22	$0.22

Assumptions		
Risk-free interest rate	1.08%	0.75%
Expected remaining term	1.7 years	2 years
Expected volatility	121%	121%

[1] Transaction date

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

9. MEASURMENT OF FINANCIAL ASSETS

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

Levels	Description	Type of financial instruments normally classified as such
Level 1	Quoted (unadjusted) prices in active markets for identical assets or liabilities.	• Investments in equities[1]
Level 2	Other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.	• Cash equivalents • Marketable securities • Investments in equities[2]
Level 3	Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.	• Investments in equities[3] • Investments in funds • Loans and receivables[4] • Derivatives

[1] Publicly-traded equities in active markets
[2] Publicly-traded equities in inactive markets
[3] Privately-held equities
[4] Initially measured at fair value and subsequently measured at amortized cost using the effective interest method

Fair value hierarchy

As at	June 30, 2017	Level 1	Level 2	Level 3
	$	$	$	$
Recurring fair value measurements				
Marketable securities	233,282	—	233,282	—
Available-for-sale equity investments	28,812	21,069	5,882	1,861
Available-for-sale fund investments	41,873	—	—	41,873
Derivatives	942	—	—	942
Total	**304,909**	**21,069**	**239,164**	**44,676**

There were no transfers between levels of the fair value hierarchy for the three and six-month periods ended June 30, 2017.

10. INVESTMENT IN ASSOCIATE

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

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

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

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

As at	June 30, 2017 $
Carrying value, beginning of the year	**80,113**
Share of net income for the period before adjustments	3,421
Amortization of fair value adjustments	(3,006)
Share of net income for the six-month period	**415**
Dividends *[i]*	**(2,525)**
Carrying value, end of the period	**78,003**

[i] Medison's board of directors declared and approved dividends of $2,525 [ILS7,068] in February 2017 (paid in April 2017).

11. 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:

	Number of common shares	$
Balance as at January 1, 2017	**142,713,489**	**760,447**
Issuance under share option plan	41,667	513
Issuance under share purchase plan	10,276	103
Balance at June 30, 2017	**142,765,432**	**761,063**

[ii] Share option plan

The Company has an equity-settled Share Option Plan in place for employees, directors, officers and consultants of the Company. A new Share Option Plan ('the Plan") was approved by the Board of Directors and the shareholders on May 9, 2017. All options issued under the legacy plan roll into the Plan. The aggregate maximum number of stock options outstanding under the Plan at any given time shall not exceed 10% of the outstanding shares of the Company as of the grant date. 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. If no specific determination is made, the stock options vest in equal tranches of 25% per annum on each anniversary date. Stock options that have been exercised, expired, cancelled, forfeited or terminated become available for re-issuance under the Plan. Generally, the stock options have a seven-year or ten-year term and vest over a one-year period for directors and a three or four-year period for employees.

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

The Company recorded compensation expense of $1,018 and $1,864 (2016: $810 and $1,883) for the three and six - month periods ended June 30, 2017 with corresponding credits to contributed surplus related to the issuance of stock options. The Company determined the weighted average fair value of the options to be $4.07 (2016: $3.94) under the Black-Scholes option pricing model using the following assumptions:

	Six months ended June 30	
	2017	2016
Weighted average risk-free interest rate	**1.45%**	1.47%
Dividend yield	**Nil**	Nil
Weighted average volatility factor [i]	**52.95%**	56.2%
Annualized forfeiture rate	**2.6%**	3.6%
Weighted average expected life	**7.3 years**	7 years

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

	Six months ended June 30			
	2017		2016	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
	#	$	#	$
Balance beginning of the period	**3,147,111**	**7.14**	2,815,483	6.89
Options granted	**515,920**	**10.13**	40,380	7.60
Options exercised	**(41,667)**	**8.27**	—	—
Options expired/forfeited	**(4,815)**	**8.45**	(5,000)	5.65
Balance at end of the period	**3,616,549**	**7.55**	2,850,863	6.90
Options exercisable at end of period	**2,210,512**	**6.63**	1,280,719	6.36

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

As at	**June 30, 2017**	December 31, 2016
	$	$
Net realized gains reclassified to statement of income, net of tax of $1,715 ($1,592 as at December 31, 2016)	**(11,671)**	(10,246)
Net unrealized gains in available-for-sale investments, net of tax of $1,450 ($1,879 as at December 31, 2016)	**14,110**	14,997
Unrealized gain on translation of foreign operations	**19,663**	25,680
	22,102	30,431

13. 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.

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

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
	$	$	$	$
Net income	**459**	4,446	**6,506**	4,923
Weighted average of shares outstanding	**142,760,357**	112,681,825	**142,740,562**	108,078,434
Basic earnings per share	**$0.003**	$0.039	**$0.046**	$0.046

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 months ended		Six months ended	
	June 30, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
	$	$	$	$
Net income	**459**	4,446	**6,506**	4,923
Weighted average shares outstanding	**142,760,357**	112,681,825	**142,740,562**	108,078,434
Adjustment for warrants and share options	**796,804**	431,174	**436,776**	331,846
Weighted average shares outstanding (diluted)	**143,557,171**	113,112,999	**143,177,337**	108,410,280
Diluted earnings per share	**$0.003**	$0.039	**$0.045**	$0.045

14. 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.

15. COMMITMENTS

In the normal course of business, the Company secures development, sales, marketing and distribution rights to innovative drug products requiring royalties or product payments considered normal operating commitments and as such not included herein. The Company has entered into various agreements which include contractual obligations extending beyond the current year. These obligations are classified into five major categories: operating lease, fund commitments, milestones and purchase commitments, equity and loan commitments and other commitments. The commitments of the Company as at June 30, 2017 are as follows:

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

[i] Operating Lease

The Company is committed under operating leases for the lease of its premises. Future minimum annual payments are as follows:

	$
2017	67
2018	184
2019	167
2020	167
2021	167
Thereafter	111
	863

[ii] Fund commitments

As at June 30, 2017, under the terms of Company's agreements with life sciences venture capital funds, $92,336 (2016: $122,266), including $33,900 [US$26,123] and $19,488 [€13,156], may be called over the life of the funds (based on the closing foreign exchange rates).

[iii] Milestones and purchase commitments

Under certain agreements, Knight may have to pay additional consideration should the Company achieve certain sales volumes or if certain milestones are met, such as regulatory approval in Canada. The Company may have to pay up to $36,332 including $24,916 [US$19,200] and $667 [€450] upon achieving certain sales volumes, regulatory or other milestones related to specific products.

In addition, Knight has a commitment to purchase up to $1,093 [€738] of inventory for a pharmaceutical product during the five-year period after its commercial launch.

[iv] Equity and loan commitments

Subject to a loan agreement with one of its borrowers, Knight has committed up to a maximum of $3,244 [US$2,500] to participate in the initial public offering of the borrower. In addition, Knight committed to invest up to $2,660 [US$2,000] towards the purchase of common shares of Synergy if it meets certain fundraising targets in 2017.

Subject to a loan agreement with one of its borrowers, Knight has committed to loan up to an additional $1,430 [US$1,102] should the borrower meet certain conditions.

[v] Other commitments

As at June 30, 2017 the Company is committed to pay $112 [US$86] within the year towards a real property.

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

16. STATEMENT OF CASH FLOWS

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

	Three months ended June 30		**Six months ended June 30**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Decrease (increase) in				
Trade and other receivables	**(2,146)**	(1,522)	**(1,158)**	(1,511)
Inventories	**(150)**	506	**(49)**	627
Other financial assets	**(175)**	830	**(330)**	602
Income taxes receivable	**(671)**	51	**(773)**	85
Increase (decrease) in				
Accounts payable and accrued liabilities	**191**	(5)	**(84)**	447
Income taxes payable	**610**	527	**958**	713
	(2,341)	387	**(1,436)**	963

17. RELATED PARTY TRANSACTIONS

Pharmascience Inc., a company related to the Company's CEO provided administrative services of approximately $8 to the Company for the six-month period ended June 30, 2017.

Furthermore, in January 2017, the Company entered into an agreement with its associate resulting in the recognition of a derivative of $1,282 [US$964], with an equivalent gain recorded in the statement of income as gain on financial assets. As at June 30, 2017, the derivative was revalued at $306 [US$236], with the difference recorded in net loss (gain) on financial assets. As part of this transaction, the Company has advanced $764 [ILS1,968], to its associate, recorded in trade and other receivables.

18. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative amounts in the condensed interim consolidated statements of cash flows have been reclassified to conform to the presentation adopted in the current period.

19. SUBSEQUENT EVENTS

[i] Disposal of Merus Shares

As at June 30, 2017, the company held a strategic equity interest of 4.7% of the outstanding common shares of Merus. On July 17, 2017, upon the close of the acquisition of Merus by Norgine B.V., the Company realized a gain of $1,457 upon the disposal of its 5,460,200 common shares of Merus.

[ii] Dividends from Medison

On August 7, 2017, Medison's board of directors declared and approved dividends of $2,466 [ILS7,068].

[iii] Additional loan to Synergy

On August 9, 2017, Knight issued an additional $12,705 [US$10,000] to Synergy. The loan bears interest at 10.5% per annum and matures on August 9, 2020. As part of the transaction, Knight will receive a success fee paid at maturity plus certain other consideration.

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