KNIGHT THERAPEUTICS INC.

Management's Discussion and Analysis

For the quarter ended September 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 three and nine months ended September 30, 2017. This document should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto for the three and nine months ended September 30, 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 three and nine months ended September 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 November 8, 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 found on SEDAR at www.sedar.com. 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 of Canadian dollars, except for share and per share amounts)

GLOSSARY OF ABBREVIATIONS

Calendar	
Abbreviation	**Description**
YTD	Year to date
Q3-17	Third quarter of 2017
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

Company	
Abbreviation	**Description**
3D	3D Signatures Inc.
60P	60^{o} 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.
Forbion	Forbion Capital Fund III CV
Knight or the Company	Knight Therapeutics Inc.
Medimetriks	Medimetriks Pharmaceuticals Inc.
Medison	Medison Biotech (1995) Ltd.
Merck	Merck & Co.
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.
Sectoral	Sectoral Asset Management Inc.
SIFI	Società Industria Farmaceutica Italiana S.p.A.
Synergy	Synergy CHC Corp.

Financial	
Abbreviation	**Description**
AFS	Available for sale
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
US$	U.S. Dollar

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

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

OVERVIEW

Section 1 – About Knight Therapeutics

Knight Therapeutics Inc. is a specialty pharmaceutical company, headquartered in Montreal, Canada, and listed on Toronto Stock Exchange under the ticker symbol "GUD". Activities performed by the Company are as follows:

- 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 ultimate goal of strengthening relationships in the life science industry and securing product distribution rights for Canada and select international markets.
- Invests in life sciences venture capital funds whereby the Company 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 – Q3-17 Highlights

Financial Results

- Revenues were $1,860, a decrease of $32 or 2% over the same period in prior year.
- Net income was $3,593, a decrease of $2,105 or 37% over the same period in prior year.
- Cash flows from operations at $10,736, an increase of $6,348 or 145% over the same period in prior year.

Strategic Lending

- Issued an additional loan of $12,705 [US$10,000] to Synergy.
- Issued additional loans of $3,138 [US$2,504] to 60P.
- Amended loan with Crescita resulting in an early repayment of $2,488.
- Received additional 286,955 common shares of Medimetriks valued at $686 [US$565].

Strategic Investments

- Realized gain of $1,457 on disposal of common shares of Merus upon the close of its acquisition by Norgine B.V.
- Received dividends of $2,459 [ILS7,068] from Medison.
- Received distributions of $1,063 [EUR723] from a strategic fund investment and realized a gain of $276 [EUR187].
- Recorded an unrealized gain of $3,049 [EUR2,070] on Forbion upon announcement of Merck to acquire Rigontec.

Subsequent Events

- Received 566,471 common shares of Crescita pursuant to a share transfer agreement.
- Accepted the resignation of Jeffrey Kadanoff and appointed Samira Sakhia as CFO.
- Received a distribution of $3,168 [EUR2,144] from Forbion upon close of the acquisition of Rigontec.

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

FINANCIAL RESULTS

Section 3 – Results of Operations

	Q3-17	Q3-16	Change $[1]	Change %[2]	YTD-17	YTD-16	Change $[1]	Change %[2]
Revenues	**1,860**	1,892	(32)	2%	**6,090**	4,095	1,995	49%
Cost of goods sold	**337**	296	(41)	14%	**1,097**	1,077	(20)	2%
Gross margin	**1,523**	1,596	(73)	5%	**4,993**	3,018	1,975	65%
Gross margin (%)	***82%***	*84%*	*(2%)*	*2%*	***82%***	*74%*	*8%*	*11%*
Expenses								
Selling and marketing	**834**	94	(740)	787%	**2,247**	262	(1,985)	758%
General and administrative	**2,147**	2,358	211	9%	**6,944**	6,592	(352)	5%
Research and development	**586**	436	(150)	34%	**1,869**	1,243	(626)	50%
	(2,044)	(1,292)	(752)	58%	**(6,067)**	(5,079)	(988)	19%
Depreciation of property and equipment	**—**	—	—	0%	**—**	18	18	100%
Amortization of intangible assets	**539**	100	(439)	439%	**1,185**	263	(922)	351%
Interest income	**(6,959)**	(7,375)	(416)	6%	**(18,517)**	(18,315)	202	1%
Other income	**(871)**	(2,081)	(1,210)	58%	**(1,513)**	(3,534)	(2,021)	57%
Net (gain) loss on financial assets	**(1,317)**	2,914	4,231	145%	**(3,636)**	402	4,038	1004%
Share of net income of associate	**(98)**	(1,096)	(998)	91%	**(513)**	(2,755)	(2,242)	81%
Foreign exchange loss (gain)	**2,695**	(1,132)	(3,827)	338%	**4,244**	2,995	(1,249)	42%
Income before income taxes	**3,967**	7,378	(3,411)	46%	**12,683**	15,847	(3,164)	20%
Income tax expense (recovery)								
Current	**490**	1,288	798	62%	**1,598**	4,407	2,809	64%
Deferred	**(116)**	392	508	130%	**986**	819	(167)	20%
Net income for the period	**3,593**	5,698	(2,105)	37%	**10,099**	10,621	(522)	5%
Attributable to shareholders of the Company								
Basic EPS	**0.03**	0.04	**(0.01)**	**25%**	**0.07**	0.09	**(0.02)**	**22%**
Diluted EPS	**0.03**	0.04	**(0.01)**	**25%**	**0.07**	0.09	**(0.02)**	**22%**

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

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

	Q3-17 vs Q3-16	YTD-17 vs YTD-16
Revenues	• No significant variance.	Increase is mainly attributable to: • 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	• No significant variance.	• Increase in gross margin ($) mainly attributable to increase in revenues. • Increase in gross margin (%) mainly attributable to higher COGS in YTD-16 due to inventory provisions recorded.
Selling and marketing	• Increase due to commercial activities including sales force promotion of Movantik®.	
General and administrative	• No significant variance.	• Increase explained by growth in the number of employees as the Company prepares 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 $6,959 includes accretion of $1,197 (2016: $2,129). ***Interest Income*** • Interest income (excluding accretion) for Q3-17 was $5,762, a decrease of 2% or $126 compared to prior year.	• Total interest income of $18,517 includes accretion of $3,381 (2016: $4,975). ***Interest Income*** • Interest income (excluding accretion) for YTD-17 was $15,136, a decrease of 2% or $333 compared to prior year.
Other income[1]	• In 2017, other income was primarily driven by the value of additional shares of Medimetriks received. Refer to Section 9 for further information. • In 2016, other income was primarily driven by the value of additional shares of Intega received prior to the close of the acquisition of Intega by Crescita.	
Net (gain) loss on financial assets[2]	• Net gain driven by realized gain of $1,457 upon the disposal of common shares of Merus and a realized gain of $276 on distributions of a strategic fund, offset by fair value revaluation of derivatives.	• 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 or loss 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 of Canadian dollars, except for share and per share amounts)

FINANCIAL CONDITION

Section 4 – Balance Sheet

	September 30, 2017	December 31, 2016	Change $	Change %[1]
ASSETS				
Current				
Cash and cash equivalents	**506,839**	514,942	(8,103)	2%
Marketable securities	**218,248**	221,108	(2,860)	1%
Trade and other receivables	**8,123**	6,440	1,683	26%
Inventories	**653**	790	(137)	17%
Other current financial assets	**30,960**	51,789	(20,829)	40%
Income taxes receivable	**2,448**	4,683	(2,235)	48%
Total current assets	**767,271**	799,752	(32,481)	4%
Marketable securities	**36,000**	—	36,000	100%
Property and equipment	**60**	32	28	88%
Intangible assets	**12,713**	14,153	(1,440)	10%
Other financial assets	**95,725**	90,643	5,082	6%
Investment in associate	**75,642**	80,113	(4,471)	6%
Deferred income tax assets	**6,056**	6,077	(21)	0%
Total assets	**993,467**	990,770	2,697	0%
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	**4,146**	3,207	939	29%
Income taxes payable	**7,008**	5,659	1,349	24%
Other balances payable	**587**	537	50	9%
Deferred other income	**250**	355	(105)	30%
Total current liabilities	**11,991**	9,758	2,233	23%
Deferred other income	**229**	417	(188)	45%
Other balances payable	**799**	877	(78)	9%
Total liabilities	**13,019**	11,052	1,967	18%
Shareholders' equity				
Share capital	**761,127**	760,447	680	0%
Warrants	**785**	785	—	—
Contributed surplus	**11,900**	9,469	2,431	26%
Accumulated other comprehensive income	**17,951**	30,431	(12,480)	41%
Retained earnings	**188,685**	178,586	10,099	6%
Total shareholders' equity	**980,448**	979,718	730	0%
Total liabilities and shareholders' equity	**993,467**	990,770	2,697	0%

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

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

September 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 primarily due to an advance made to associate and a distribution receivable from a strategic fund. • Refer to notes 6 and 17 in the Interim financial statements for additional information.
Inventories	• No significant variance.
Other financial assets (current and long term)	• Decrease of $15,747 driven by: **Funds:** increase of $14,069 due to capital calls of $15,620 offset by distributions and mark-to-market adjustments of $1,551. Refer to Section 8 for further information on Knight's strategic investments. **Loans and other receivables:** decrease of $19,047 mainly due to full repayment of the Apicore and PBB loans, partial repayment of the Crescita loan offset by additional loans to Synergy and 60P. Refer to Section 7 for further information on Knight's strategic lending portfolio. **Equities, Warrants and Derivatives:** decrease of $10,769 driven by the sale of equities and 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	• Increase due to timing of purchases and payments.
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	• Decrease primarily related to an unrealized loss on translation of foreign operations as the Canadian dollar strengthened. • 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.

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

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

	Nine months ended September 30	
	2017	2016
Net cash generated by operating activities	**18,343**	12,005
Net cash used in investing activities	**(24,178)**	(77,167)
Net cash generated by financing activities	**499**	218,410
Increase in cash and cash equivalents during the period	**(5,336)**	153,428
Net foreign exchange difference	**(2,767)**	(1,327)
Cash and cash equivalents, beginning of the period	**514,942**	237,481
Cash and cash equivalents, end of the period	**506,839**	389,402
Marketable securities, end of the period	**254,248**	255,652
Cash, cash equivalents, and marketable securities, end of the period	**761,087**	645,054

The company's cash, cash equivalents and marketable securities increased by $116,033 or 18% to $761,087 as at September 30, 2017 from $645,054 as at September 30, 2016.

Cash flows generated by operating activities for the nine-month period ended September 30, 2017 were $18,343 compared to cash generated in operating activities of $12,005 for the comparative period last year. Cash flows for operating activities 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 or losses on financial assets, accretion of interest, share based compensation expense, depreciation and amortization, foreign exchange gains or losses, share of net income and dividends from associate, other income, deferred other income, and net changes in non-cash balances relating to operations.

Cash flows used in investing activities were $24,178 for the nine-month period ended September 30, 2017 due to net investments of marketable securities of $42,017, net investments in life sciences funds of $11,432, offset by proceeds from repayments of loan receivables net of loan issuances of $19,338 and net disposals of equities of $9,933. For the same period in 2016, cash flows used in investing activities were $77,167 due to net investments in marketable securities of $28,038, issuance of loans receivable net of principal repayments of $30,537, investments in life science funds of $12,168, purchases of intangibles of $3,291 and net purchases of equities of $3,133.

Cash flows generated by financing activities of $499 for the nine-month period ended September 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 $218,410 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 of Canadian dollars, 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)
Synergy Family	N/A (consumer products)	N/A	Marketed[3]	CAN, ISR, ROM, RUS, ZAF
FLEXISEQ™	Pain and joint stiffness associated with osteoarthritis	PBB	Not Yet Marketed	QUE, ISR
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 products for cancers and neurological disorders	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*
[3] *Select products marketed*

Highlights for the nine months ended September 30, 2017

ILUVIEN®

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 $255 and $634 for the three and nine-month periods ended September 30, 2017 (2016: $156 and $389).

Probuphine™

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.

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

Section 7 – Strategic Lending

Knight finances other life sciences companies in all geographic markets with the goal of 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 September 30, 2017	
Entity	**In Source Currency**	**In Canadian Dollars[1]**
Medimetriks	US$22,250	$27,768
Synergy	US$11,813	$14,743
60P	US$6,700	$8,362
Profound	C$3,714	$3,714
Crescita	C$3,636	$3,636
Pediapharm[2]	C$1,250	$1,250
Ember	US$500	$624
Antibe	C$548	$548
Total		**$60,645**

[1] *Converted at the Bank of Canada closing exchange rates on September 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 nine-month period ended September 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 $
75,731	**16,898**	**3,381**	**(36,309)**	**(3,017)**	**56,684**	**10,888**	**45,796**

[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 nine-month period ended September 30, 2017, the Company recorded interest accretion of $3,381 (2016: $4,975) in the statement of income as interest income and a foreign exchange loss of $3,017 (2016: $4,889) in the statement of income.

During the three-month period ended September 30, 2017, the Company recorded interest accretion of $1,197 (2016: $2,129) in the statement of income as interest income and a foreign exchange loss of $1,480 (2016: $448) in the statement of income.

Highlights for the nine months ended September 30, 2017

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 nine-month period ended June 30, 2017, Knight issued an additional $4,945 [US$3,860] to 60P. Since December 10, 2015, Knight has issued a total of $8,730 [US$6,700] 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 into 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 at December 31, 2016, Knight owned 5.4% of the fully diluted common shares of Medimetriks, received as consideration for the loans.

As consideration for the Second Loan, Knight also 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.

During Q3-17, pursuant to its loan agreements with Medimetriks, Knight received 286,955 common shares increasing its ownership to 10% on a fully diluted basis. As a result, the Company recorded $686 [US$565] in other income in the statement of income. The additional common shares were recorded at fair value of $2.46 [US$1.97] per common share derived using the income approach valuation technique.

Synergy

On August 9, 2017, Knight issued an additional secured loan of $12,705 [US$10,000] with an annual interest rate of 10.5% for a three-year term to Synergy ("Additional Synergy Loan"). The funds of the loan will be used for acquisitions and general working capital purposes. Additionally, Knight provided an ongoing credit facility of up to $24,960 [US$20,000] to be granted at Knight's sole discretion. As part of the transaction, the Company received a success fee payable at maturity of the loan. The success fee is a derivative as its value will fluctuate with the changes in market price of Synergy common shares. The fair value of the success fee of $870 [US$685] was determined based on the present value of the expected payment.

Crescita

On August 14, 2017, Knight amended its loan with Crescita ("Amended Crescita Loan). The amendment resulted in an early repayment of $2,488 reducing the principal balance to $4,100. Furthermore, the collateral on the loan was amended with the release of a letter of credit in exchange for a general security interest over Crescita's assets. The interest rate of 9% per annum and maturity date of January 22, 2022 remain unchanged. In addition, Knight surrendered its 293,163 warrants of Crescita exercisable at $2.44 per share and was issued 216,000 warrants exercisable at a price of $0.75 per share and 180,000 warrants exercisable at a price of $1.00 per share, in each case for a term of six years.

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

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 September 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 September 30, 2017, is $48,645.

	Fund Commitments	
Entity	**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 September 30, 2017 closing rates total fund commitment would be $131,648)*

[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 nine-month period ended September 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 $
34,576	**15,620**	**(4,710)**	**1,104**	**2,055**	**48,645**	**–**	**48,645**

[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 nine-month period ended September 30, 2017, the Company recorded a net gain of $1,104 on financial assets (2016: $513) related to the realized gain on distributions in the statement of income. Furthermore, the Company recorded a net increase of $2,055 (2016: increase of $1,109) in other comprehensive income due to foreign currency revaluation, mark-to-market adjustments 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 September 30, 2017, the Company recorded a net gain of $276 on financial assets (2016: $513) related to the realized gain on distributions in the statement of income. Furthermore, the Company recorded a net increase of $2,541 (2016: decrease of $786) in other comprehensive income due to foreign currency revaluation, mark-to-market adjustments and realized gains or losses reclassified from other comprehensive income to consolidated statement of income upon disposal in the statement of comprehensive income.

Forbion

In September 2017, Merck announced that it will acquire Rigontec, an investment held by Forbion. The transaction closed in October 2017 for an upfront cash payment of $169,533 [€115,000] and up to $514,496 [€349,000] in contingent payments. As a result, Knight recorded an unrealized gain of $3,049 [€2,070], related to its investment in Forbion, in the statement of comprehensive income.

Other investments

Merus

On July 17, 2017, on 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. Prior to the sale, the company held a strategic equity interest of 4.7% of the outstanding 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.

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

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

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.

	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15
Carrying value of investment	**75,642**	78,003	77,907	80,113	80,075	81,393	79,458	81,027
Amortization of FMV adjustments	**(1,572)**	(1,503)	(1,503)	(1,749)	(1,207)	(1,208)	(1,006)	(1,260)
Share of net income, net of FMV adjustment	**98**	96	319	38	1,096	805	854	946
Dividends	**2,459[2]**	—	2,525[1]	—	2,414	—	2,423	2,015

[1]Medison's board of directors declared and approved dividends of $2,525 [ILS7,068] in February 2017
[2]Medison's board of directors declared and approved dividends of $2,459 [ILS7,068] in August 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 $11,451, $746 and $670, 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 $70,001 as at September 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 September 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.

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

10.5 Credit Risk

The Company considers its maximum credit risk to be $111,389 (December 31, 2016: $116,020) which is the total of the following assets: trade and accounts receivable, interest receivable, loans receivable and investment in funds. 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.

ADDITIONAL INFORMATION

Section 11 – Selected Quarterly Financial Information

This selected information is derived from our financial statements.

	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15
Revenues	1,860	2,480	1,750	1,845	1,892	1,135	1,068	343
Net income	3,593	459	6,047	7,939	5,698	4,446	477	5,554
EPS								
Basic	0.025	0.003	0.042	0.059	0.043	0.039	0.005	0.054
Diluted	0.025	0.003	0.042	0.059	0.043	0.039	0.005	0.054
Cash, cash equivalents and marketable securities	761,087	761,161	763,778	736,050	645,054	638,423	426,235	471,207
Total assets	993,467	991,980	994,293	990,770	877,904	867,999	638,336	648,988
Total liabilities	13,019	11,800	10,998	11,052	8,305	6,034	5,663	6,926

Section 12 – Outstanding Share Data

The table below summarizes the share data:

As at	**November 8, 2017**
Common Shares	142,806,138
Stock Options	3,446,030
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 September 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 September 30, 2017. Refer to note 8 of the Interim financial statements for the quarter ended September 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 September 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.

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

Section 18 – Commitments

In the normal course of business, the Company secures development, sales, marketing and distribution rights to innovative drug products requiring royalties or product payments considered normal operating commitments and as such not included herein. The Company has entered into various agreements which include contractual 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 November 8, 2017 are as follows:

[i] Operating Lease

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

	$
2017	3
2018	191
2019	175
2020	175
2021	175
Thereafter	117
	836

[ii] Fund commitments

As at November 8, 2017, under the terms of Company's agreements with life sciences venture capital funds, $88,021, including $30,321 [US$24,296] and $17,876 [€12,126], may be called over the life of the funds (based on the September 30, 2017 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 $35,625 including $24,211 [US$19,400] and $663 [€450] upon achieving certain sales volumes, regulatory or other milestones related to specific products.

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

[iv] Equity and loan commitments

Subject to a loan agreement with one of its borrowers, Knight has committed up to a maximum of $3,120 [US$2,500] to participate in the initial public offering of the borrower. In addition, Knight committed to invest up to $2,496 [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 $794 [US$636] should the borrower meet certain conditions.

[v] Other commitments

As at September 30, 2017 the Company is committed to pay $107 [US$86] within the year towards a real property.

Section 19 – Related Party Transactions

Pharmascience Inc., a company related to the Company's CEO, provided administrative services of approximately $12 to the Company for the nine-month period ended September 30, 2017.

Furthermore, in January 2017, the Company entered into an agreement with its associate resulting in the recognition of a derivative. As at September 30, 2017, the derivative was valued at $11 [US$9]. The Company recorded a loss of $284 [US$227] and a net gain of $11 [US$9] on this derivative in the statement of income in net loss (gain) on financial assets for the three and nine-month periods ended September 30, 2017. As part of this transaction, the Company has advanced $733 [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 with earlier application permitted.

IFRS 9 contains a new classification and measurement approach for financial assets. The classification determines how the financial assets are categorized and measured in the financial statements and therefore is the foundation for its accounting. IFRS 9 contains three principal classification categories for financial assets, namely: amortized cost; FVOCI; and, FVPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and AFS. The Company will adopt IFRS 9 effective January 1, 2018 and expects the standard to have the following impact on the classification and measurement of certain of its financial assets and liabilities.

Financial Assets

Strategic Loans

The Company currently classifies its loans receivable under the "loans and receivables" category which is initially measured at fair value and subsequently at amortized cost using the effective interest rate method under IAS 39. Under IFRS 9, there are three possible measurement and classification categories for a loan receivable as following:

1. Amortized cost

The amortized cost method can be used if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

2. FVOCI

The FVOCI method can be used if both of the following conditions are met:

- The asset is held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. FVPL

All loans receivable not measured at amortized cost or at FVOCI must be measured at FVPL. Furthermore, the Company may irrevocably designate a loan receivable as FVTPL at initial recognition.

The Company has completed the following preliminary assessment:

- The loans receivable will be measured and classified as either amortized cost or FVPL.
- Under the amortized cost classification, IFRS 9 requires the application of an expected credit loss model. Based on the past, current and expected future conditions as at November 8, 2017, the credit loss provision is not expected to be significant.
- Under the FVPL policy, the changes to fair value of the loans receivable will be recorded as a gain or loss in the statement of income therefore increasing volatility in net income.

Investments in equity instruments

The Company currently records its investments in equities as AFS financial assets at fair value with changes in value recorded in the statement of comprehensive income. Under IFRS 9, investments in equity instruments will continue to be measured at fair value and can be classified in one of the following two categories:

1. FVPL

Investments in equity instruments held for trading are classified at FVPL with dividend income recognized in profit or loss. The financial asset is classified as held for trading if it was acquired with the purpose of sale or if there is evidence of historical short-term profit making on similar instruments.

2. FVOCI

On initial recognition, an entity may make an irrevocable election on an instrument-by-instrument basis to present in OCI the subsequent changes in the fair value of an investment which was made primarily for non-financial benefits such as strategic alliances and strategic investments. For investments classified as FVOCI there is no recycling of amounts from the statement of comprehensive income to the statement of income upon the disposal of the financial asset.

The Company has completed the following preliminary assessment:

- The equity investments acquired in strategic transactions will be recorded at FVOCI. The fair value gains and losses will be recognized in the statement of comprehensive income and realized gains or losses will not be reclassified to statement of income on disposal.
- The equity investments acquired for sale will be mandatorily classified and measured FVPL. The fair value gains and losses on those equities will be recognized in the statement of income.

Investment in Funds

The Company's strategic investments in funds are currently classified as AFS financial assets with changes in fair value recognized in the statement of comprehensive income. Under IFRS 9, investments in funds will be classified and measured at FVPL. The changes in fair value of the strategic investments in funds will be recognized as gains or losses in the statement of income therefore increasing volatility in net income.

Derivatives

The Company does not expect any material measurement or classification change under IFRS 9.

<u>Financial Liabilities</u>

There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVPL and the Company does not have any such liabilities.

Transition

IFRS 9 contains a general requirement that it should be applied retrospectively and an entity may restate prior periods if it is possible without the use of hindsight. The Company does not expect to restate prior periods and any adjustments to the carrying amount of financial assets as at January 1, 2018 will be reflected in retained earnings.

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 standard outlines the principles that must be applied to measure and recognize revenue and the related cash flows. Revenue is recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 will be applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The Company has preliminary concluded that the sale of products in most contracts is generally expected to be consistent with current revenue recognition practice. Furthermore, IFRS 15 provides presentation and disclosure requirements which are more detailed than under the current standard. The Company is currently assessing the impact of the disclosure requirements on its 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 third quarter of 2017 that have materially affected, or are reasonably likely to materially affect the Company's ICFR.

Section 25 – Subsequent Events

[i] Increased ownership in Crescita

On October 6, 2017, Knight received 566,471 common shares of Crescita pursuant to a share transfer agreement with a shareholder. As at November 8, 2017, Knight owns an aggregate of 2,079,973 common shares of Crescita representing approximately 14.9% of its outstanding common shares.

[ii] Resignation of CFO

Jeffrey Kadanoff resigned as CFO of the Company effective October 13, 2017 and Knight's Board of Directors approved the following resignation agreement.

Long term incentive plan: stock options

Effective October 13, 2017, the Board of Directors approved the accelerated vesting of 105,168 stock options and modified the expiry date of all stock options held by Mr. Kadanoff to June 1, 2020. As at October 13, 2017, Mr. Kadanoff holds 321,835 vested stock options with exercise prices ranging from $5.65 to $10.10.

Short term incentive plan: annual bonus

A bonus of up to $45, calculated based on the number of days Mr. Kadanoff was employed with the Company in 2017, is payable subject to the approval by the Board of Directors in 2018.

Employee share purchase plan

On a quarterly basis up to September 15, 2019, Mr. Kadanoff will continue to be eligible for the employer contributions under Knight's employee share purchase plan.

Share purchase loans

During his employment with the Company, Mr. Kadanoff was granted $425 in share purchase loans bearing an interest rate of 1% to fund the acquisition of Knight's common shares on multiple offerings. The share purchase loans are secured by an agreement of pledge of securities granted in favour of the Company and will be repaid the earlier of September 30, 2019 or the sale of the securities under the loans.

[iii] Forbion distribution

On November 8, 2017, Knight received a distribution of $3,168 [EUR2,144] from Forbion upon close of the acquisition of Rigontec.

KNIGHT THERAPEUTICS INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

NOTICE TO READER

The interim condensed consolidated financial statements of Knight Therapeutics Inc. (“Knight” or the “Company”) which comprise the interim condensed consolidated balance sheet as at September 30, 2017, the interim condensed consolidated statements of income and comprehensive income, and the cash flows for the three and nine-month periods ended September 30, 2017 and the interim condensed consolidated statement of changes in shareholders’ equity for the nine-month period ended September 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
Chief Executive Officer

Montreal, Canada
November 8, 2017

Samira Sakhia
President and Chief Financial Officer

Montreal, Canada
November 8, 2017

INTERIM CONSOLIDATED BALANCE SHEETS

[In thousands of Canadian dollars]

[Unaudited]

As at	Notes	September 30, 2017	December 31, 2016
ASSETS			
Current			
Cash and cash equivalents	*4*	**506,839**	514,942
Marketable securities	*5*	**218,248**	221,108
Trade and other receivables	*6*	**8,123**	6,440
Inventories		**653**	790
Other current financial assets	*8, 9*	**30,960**	51,789
Income taxes receivable		**2,448**	4,683
Total current assets		**767,271**	799,752
Marketable securities	*5*	**36,000**	—
Property and equipment		**60**	32
Intangible assets	*7*	**12,713**	14,153
Other financial assets	*8, 9*	**95,725**	90,643
Investment in associate	*10*	**75,642**	80,113
Deferred income tax assets		**6,056**	6,077
Total assets		**993,467**	990,770
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		**4,146**	3,207
Income taxes payable		**7,008**	5,659
Other balances payable		**587**	537
Deferred other income		**250**	355
Total current liabilities		**11,991**	9,758
Deferred other income		**229**	417
Other balances payable		**799**	877
Total liabilities		**13,019**	11,052
Shareholders' equity			
Share capital	*11 [i]*	**761,127**	760,447
Warrants		**785**	785
Contributed surplus		**11,900**	9,469
Accumulated other comprehensive income	*12*	**17,951**	30,431
Retained earnings		**188,685**	178,586
Total shareholders' equity		**980,448**	979,718
Total liabilities and shareholders' equity		**993,467**	990,770

Commitments *[note 15]*
Subsequent events *[note 18]*

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

[Unaudited]

	Notes	Three months ended September 30 **2017**	2016	Nine months ended September 30 **2017**	2016
Revenues		**1,860**	1,892	**6,090**	4,095
Cost of goods sold		**337**	296	**1,097**	1,077
Gross margin		**1,523**	1,596	**4,993**	3,018
Expenses					
Selling and marketing		**834**	94	**2,247**	262
General and administrative		**2,147**	2,358	**6,944**	6,592
Research and development		**586**	436	**1,869**	1,243
		(2,044)	(1,292)	**(6,067)**	(5,079)
Depreciation of property and equipment		**—**	—	**—**	18
Amortization of intangible assets		**539**	100	**1,185**	263
Interest income		**(6,959)**	(7,375)	**(18,517)**	(18,315)
Other income		**(871)**	(2,081)	**(1,513)**	(3,534)
Net (gain) loss on financial assets		**(1,317)**	2,914	**(3,636)**	402
Share of net income of associate	*10*	**(98)**	(1,096)	**(513)**	(2,755)
Foreign exchange loss (gain)		**2,695**	(1,132)	**4,244**	2,995
Income before income taxes		**3,967**	7,378	**12,683**	15,847
Income tax expense (recovery)					
Current		**490**	1,288	**1,598**	4,407
Deferred		**(116)**	392	**986**	819
Net income for the period		**3,593**	5,698	**10,099**	10,621
Attributable to shareholders of the Company					
Basic earnings per share	*13*	**0.03**	0.04	**0.07**	0.09
Diluted earnings per share	*13*	**0.03**	0.04	**0.07**	0.09
Weighted average number of common shares outstanding					
Basic		**142,766,634**	132,668,637	**142,749,348**	116,334,998
Diluted		**143,350,059**	133,198,829	**143,469,168**	116,746,093

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[In thousands of Canadian dollars]

[Unaudited]

	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
Net income for the period	**3,593**	5,698	**10,099**	10,621
Realized gain reclassified to statement of income net of tax of $198 and $320 ($32 and $97 for the three and nine-month periods ended September 30, 2016)	**(1,524)**	(207)	**(2,949)**	(623)
Other comprehensive income (loss) to be reclassified to statement of income in subsequent periods:				
Unrealized gain (loss) on available-for-sale financial assets net of tax of $250 and $684 ($140 and $287 for the three and nine-month periods ended September 30, 2016)	**4,064**	(3,683)	**3,177**	(1,135)
Unrealized (loss) gain on translation of foreign operations	**(6,691)**	2,563	**(12,708)**	(9,068)
Other comprehensive loss for the period	**(4,151)**	(1,327)	**(12,480)**	(10,826)
Total comprehensive (loss) income for the period	**(558)**	4,371	**(2,381)**	(205)

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		—	—	—	—	10,621	10,621
Other comprehensive loss for the period		—	—	—	(10,826)	—	(10,826)
Comprehensive (loss) income		—	—	—	(10,826)	10,621	(205)
Share-based compensation expense	*11 [ii]*	—	—	2,648	—	—	2,648
Issuance upon bought deal, net of costs and includes deferred tax of $3,083		221,620	—	—	—	—	221,620
Issuance of shares to associate	*10*	2,073	—	(943)	—	—	1,130
Issuance upon investment		1,846	624				2,470
Share purchase loans		(200)	—	—	—	—	(200)
Issuance under share purchase plan		74	—	—	—		74
Balance as at September 30, 2016		664,561	785	8,477	25,129	170,647	869,599
Balance as at January 1, 2017		**760,447**	**785**	**9,469**	**30,431**	**178,586**	**979,718**
Net income for the period		—	—	—	—	10,099	**10,099**
Other comprehensive loss for the period		—	—	—	(12,480)	—	**(12,480)**
Comprehensive (loss) income		—	—	—	(12,480)	10,099	**(2,381)**
Share-based compensation expense	*11 [ii]*	—	—	2,626	—	—	**2,626**
Issuance under share option plan	*11*	513	—	(195)	—	—	**318**
Issuance under share purchase plan	*11*	167	—	—	—	—	**167**
Balance as at September 30, 2017		**761,127**	**785**	**11,900**	**17,951**	**188,685**	**980,448**

See accompanying notes

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

[In thousands of Canadian dollars]

[Unaudited]

	Notes	Three months ended September 30 2017	Three months ended September 30 2016	Nine months ended September 30 2017	Nine months ended September 30 2016
OPERATING ACTIVITIES					
Net income for the period		**3,593**	5,698	**10,099**	10,621
Adjustments reconciling net income to operating cash flows:					
Deferred tax		**(116)**	392	**986**	819
Share-based compensation expense	*11 [ii]*	**762**	765	**2,626**	2,648
Depreciation and amortization		**539**	100	**1,185**	281
Accretion of interest	*8 [i]*	**(1,197)**	(2,129)	**(3,381)**	(4,975)
Realized gain on financial assets		**(1,761)**	(367)	**(3,402)**	(509)
Unrealized loss (gain) on financial assets		**444**	3,281	**(234)**	911
Foreign exchange loss (gain)		**2,695**	(1,132)	**4,244**	2,995
Share of net income from associate	*10*	**(98)**	(1,096)	**(513)**	(2,755)
Other income		**(871)**	(1,271)	**(872)**	(1,271)
Deferred other income		**(63)**	848	**(293)**	555
		3,927	5,089	**10,445**	9,320
Changes in non-cash working capital related to operations	*16*	**4,350**	(3,115)	**2,914**	(2,152)
Dividends from associate	*10*	**2,459**	2,414	**4,984**	4,837
Cash inflow from operating activities		**10,736**	4,388	**18,343**	12,005
INVESTING ACTIVITIES					
Purchase of marketable securities		**(103,273)**	(161,913)	**(245,746)**	(445,038)
Purchase of intangibles		**—**	(367)	**—**	(3,291)
Issuance of loans receivables		**(15,164)**	(1,027)	**(16,971)**	(38,476)
Purchase of equities		**—**	(5,073)	**(2,939)**	(10,496)
Investment in funds		**(4,987)**	(4,917)	**(15,318)**	(14,142)
Proceeds from sale of marketable securities		**77,170**	182,896	**203,729**	417,000
Proceeds from repayments of loans receivable		**5,985**	5,916	**36,309**	7,939
Proceeds from disposal of equities		**9,357**	3,337	**12,872**	7,363
Proceeds from distribution of funds		**510**	1,974	**3,886**	1,974
Cash (outflow) inflow from investing activities		**(30,402)**	20,826	**(24,178)**	(77,167)
FINANCING ACTIVITIES					
Proceeds from share issuance, net of costs		**—**	(16)	**—**	218,536
Proceeds from exercise of stock options		**—**	—	**345**	—
Proceeds from contributions to share purchase plan		**61**	24	**154**	74
Issuance of share purchase loans		**—**	—	**—**	(200)
Cash inflow from financing activities		**61**	8	**499**	218,410
(Decrease) increase in cash during the period		**(19,605)**	25,222	**(5,336)**	153,248
Cash and cash equivalents, beginning of the period		**527,879**	363,713	**514,942**	237,481
Net foreign exchange difference		**(1,435)**	467	**(2,767)**	(1,327)
Cash and cash equivalents, end of the period		**506,839**	389,402	**506,839**	389,402
Supplemental cash flow information:					
Interest received		**5,305**	3,671	**15,311**	10,492
Income taxes (refunded) paid		**(2,891)**	3,531	**(1,861)**	5,865

See accompanying notes

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

GLOSSARY OF ABBREVIATIONS

Abbreviation	Company
3D	3D Signatures Inc.
60P	60º Pharmaceuticals LLC
AFS	Available-for-sale
Antibe	Antibe Therapeutics Inc.
Apicore	Apicore Inc. and Apigen Investments Limited
Crescita	Crescita Therapeutics Inc.
CFO	Chief Financial Officer
Forbion	Forbion Capital Fund III CV
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
Knight or the Company	Knight Therapeutics Inc.
Medimetriks	Medimetriks Pharmaceuticals Inc.
Medison	Medison Biotech (1995) Ltd.
Merck	Merck & Co., Inc.
Merus	Merus Labs International Inc.
Otsuka	Otsuka Pharmaceutical Co., Ltd.
PBB	Pro Bono Bio PLC
Pediapharm	Pediapharm Inc.
Synergy	Synergy CHC Corp.

Abbreviation	Calendar
Q3-17	Third quarter of 2017

1. NATURE OF OPERATIONS

Description of business

The Company was incorporated on November 1, 2013 under the *Canada Business Corporations Act.* Knight 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, 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.

These interim condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on November 8, 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 with earlier application permitted.

IFRS 9 contains a new classification and measurement approach for financial assets. The classification determines how the financial assets are categorized and measured in the financial statements and therefore is the foundation for its accounting. IFRS 9 contains three principal classification categories for financial assets, namely: amortized cost; FVOCI; and, FVPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and AFS. The Company will adopt IFRS 9 effective January 1, 2018 and expects the standard to have the following impact on the classification and measurement of certain of its financial assets and liabilities.

<u>Financial Assets</u>

Strategic Loans

The Company currently classifies its loans receivable under the "loans and receivables" category which is initially measured at fair value and subsequently at amortized cost using the effective interest rate method under IAS 39. Under IFRS 9, there are three possible measurement and classification categories for a loan receivable as following:

1. Amortized cost

The amortized cost method can be used if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

2. FVOCI

The FVOCI method can be used if both of the following conditions are met:

- The asset is held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. FVPL

All loans receivable not measured at amortized cost or at FVOCI must be measured at FVPL. Furthermore, the Company may irrevocably designate a loan receivable as FVTPL at initial recognition.

The Company has completed the following preliminary assessment:

- The loans receivable will be measured and classified as either amortized cost or FVPL.
- Under the amortized cost classification, IFRS 9 requires the application of an expected credit loss model. Based on the past, current and expected future conditions as at November 8, 2017, the credit loss provision is not expected to be significant.
- Under the FVPL policy, the changes to fair value of the loans receivable will be recorded as a gain or loss in the statement of income therefore increasing volatility in net income.

Investments in equity instruments

The Company currently records its investments in equities as AFS financial assets at fair value with changes in value recorded in the statement of comprehensive income. Under IFRS 9, investments in equity instruments will continue to be measured at fair value and can be classified in one of the following two categories:

1. FVPL

Investments in equity instruments held for trading are classified at FVPL with dividend income recognized in profit or loss. The financial asset is classified as held for trading if it was acquired with the purpose of sale or if there is evidence of historical short-term profit making on similar instruments.

2. FVOCI

On initial recognition, an entity may make an irrevocable election on an instrument-by-instrument basis to present in OCI the subsequent changes in the fair value of an investment which was made primarily for non-financial benefits such as strategic alliances and strategic investments. For investments classified as FVOCI there is no recycling of amounts from the statement of comprehensive income to the statement of income upon the disposal of the financial asset.

The Company has completed the following preliminary assessment:

- The equity investments acquired in strategic transactions will be recorded at FVOCI. The fair value gains and losses will be recognized in the statement of comprehensive income and realized gains or losses will not be reclassified to statement of income on disposal.
- The equity investments acquired for sale will be mandatorily classified and measured FVPL. The fair value gains and losses on those equities will be recognized in the statement of income.

Investment in Funds

The Company's strategic investments in funds are currently classified as AFS financial assets with changes in fair value recognized in the statement of comprehensive income. Under IFRS 9, investments in funds will be classified and measured at FVPL. The changes in fair value of the strategic investments in funds will be recognized as gains or losses in the statement of income therefore increasing volatility in net income.

Derivatives

The Company does not expect any material measurement or classification change under IFRS 9.

Financial Liabilities

There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVPL and the Company does not have any such liabilities.

Transition

IFRS 9 contains a general requirement that it should be applied retrospectively and an entity may restate prior periods if it is possible without the use of hindsight. The Company does not expect to restate prior periods and any adjustments to the carrying amount of financial assets as at January 1, 2018 will be reflected in retained earnings.

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 standard outlines the principles that must be applied to measure and recognize revenue and the related cash flows. Revenue is recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 will be applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The Company has preliminary concluded that the sale of products in most contracts is generally expected to be consistent with current revenue recognition practice. Furthermore, IFRS 15 provides presentation and disclosure requirements which are more detailed than under the current standard. The Company is currently assessing the impact of the disclosure requirements on its 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.

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

4. CASH AND CASH EQUIVALENTS

As at	September 30, 2017 $	December 31, 2016 $
Cash in bank	**501,375**	490,435
Term deposit of US$4,378 earning interest at 1.23% and maturing November 2017 (December 31, 2016: US$18,252 earning interest at 0.80% and matured January 2017)	**5,464**	24,507
	506,839	514,942

5. MARKETABLE SECURITIES

As at	September 30, 2017 $	December 31, 2016 $
Current		
Guaranteed investments earning interest rates ranging from 1.10% to 1.91% and maturing from December 2017 to August 2019 (December 31, 2016: earning interest ranging from 0.95% to 1.90% and maturing from January 2017 to April 2018)	**114,697**	110,890
Term deposits of US$68,073 earning interest rates ranging from 1.23% to 1.70% and maturing from December 2017 to February 2018 (December 31, 2016: US$67,470 earning interest ranging from 1.29% to 1.70% and maturing from May 2017 to December 2017)	**84,956**	90,592
Guaranteed investment certificates of US$9,607 earning interest rates ranging from 1.50% to 1.55% and maturing from November 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)	**11,990**	12,900
Term deposit of ILS18,750 earning interest at 0.08% and maturing November 2017 (December 31, 2016: ILS19,250 earning interest at 0.08% and maturing November 2017)	**6,605**	6,726
Total Current	**218,248**	221,108
Long-Term		
Guaranteed investments earning interest rates ranging from 1.82% to 2.06% and maturing from June 2019 to August 2019	**36,000**	—
Total Long-Term	**36,000**	—
Total Marketable Securities	**254,248**	221,108

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

6. TRADE AND OTHER RECEIVABLES

As at	September 30, 2017	December 31, 2016
	$	$
Trade and accounts receivable	3,117	2,606
Interest receivable	2,943	3,107
Advance to associate	733	—
Commodity taxes receivable	110	102
Prepaid expenses and other receivable	1,220	625
	8,123	6,440

7. INTANGIBLE ASSETS

	$
Cost as at January 1, 2017	14,754
Additions	91
Disposals and write-offs	(111)
Foreign exchange translation	(290)
Cost as at September 30, 2017	**14,444**
Accumulated amortization as at January 1, 2017	601
Amortization charge	1,185
Foreign exchange translation	(55)
Accumulated amortization as at September 30, 2017	**1,731**
Net book value as at September 30, 2017	**12,713**

8. OTHER FINANCIAL ASSETS

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	**September 30, 2017**	December 31, 2016
	$	$
Other Financial assets		
Loans and other receivables *[i]*	56,684	75,731
AFS equity investments *[ii]*	19,758	30,936
AFS fund investments *[iii]*	48,645	34,576
Derivatives *[iv]*	1,598	1,189
Total	**126,685**	142,432

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

[i] Loans and other receivables

The following table summarizes the movement in loans and other receivables for the nine-month period ended September 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 $
75,731	**16,898**	**3,381**	**(36,309)**	**(3,017)**	**56,684**	**10,888**	**45,796**

[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 nine-month period ended September 30, 2017, the Company recorded interest accretion of $3,381 (2016: $4,975) in the statement of income as interest income and a foreign exchange loss of $3,017 (2016: $4,889) in the statement of income.

During the three-month period ended September 30, 2017, the Company recorded interest accretion of $1,197 (2016: $2,129) in the statement of income as interest income and a foreign exchange loss of $1,480 (2016: $448) 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.

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 nine-month period ended September 30, 2017, Knight issued an additional $4,945 [US$3,860] to 60P. The loan bears interest at 15% per annum and matures on December 31, 2020.

Synergy

On August 9, 2017, Knight issued an additional secured loan of $12,705 [US$10,000] with an annual interest rate of 10.5% for a three-year term to Synergy ("Additional Synergy Loan"). The proceeds of the loan will be used to fund acquisitions and general working capital purposes. The loan was recorded at relative fair value of $11,835 [US$9,315] upon initial measurement and subsequently accounted for at amortized cost using effective interest rate of 16.12%. Additionally, Knight provided an ongoing credit facility of up to $24,960 [US$20,000] to be disbursed at Knight's sole discretion.

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

Crescita

On August 14, 2017, Knight amended its loan with Crescita ("Amended Crescita Loan). The amendment resulted in an early repayment of $2,488 reducing the principal balance to $4,100. Furthermore, the collateral on the loan was amended with the release of a letter of credit in exchange for a general security interest over Crescita's assets. The interest rate of 9% per annum and maturity date of January 22, 2022 remain unchanged.

[ii] AFS equity investments

The following table summarizes the movement in AFS equity investments during the nine-month period ended September 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 $
30,936	**4,643**	**(12,872)**	**2,342**	**(5,291)**	**19,758**	**19,561**	**197**

[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 nine-month period ended September 30, 2017, the Company recorded a net realized gain on financial assets of $2,342 (2016: $2,765) in the statement of income. In addition, the Company recorded an unrealized loss of $5,291 (2016: unrealized gain of $195) 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 September 30, 2017, the Company recorded a net realized gain on financial assets of $1,526 (2016: $2,043) in the statement of income. In addition, the Company recorded an unrealized loss of $1,910 (2016: unrealized gain of $897) 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.

Merus

On July 17, 2017, on 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. Prior to the sale, the company held a strategic equity interest of 4.7% of the outstanding common shares of Merus.

Medimetriks

During Q3-17, pursuant to its loan agreements with Medimetriks, Knight received 286,955 common shares increasing its ownership to 10% on a fully diluted basis. As a result, the Company recorded $686 [US$565] in other income in the statement of income. The additional common shares were recorded at fair value of $2.46 [US$1.97] per common share derived using the income approach valuation technique.

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

[iii] AFS fund investments

The following table summarizes the movement in AFS fund investments during the nine-month period ended September 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 $
34,576	**15,620**	**(4,710)**	**1,104**	**2,055**	**48,645**	**—**	**48,645**

[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 nine-month period ended September 30, 2017, the Company recorded a net gain of $1,104 on financial assets (2016: $513) related to the realized gain on distributions in the statement of income. Furthermore, the Company recorded a net increase of $2,055 (2016: increase of $1,109) in other comprehensive income due to foreign currency revaluation, mark-to-market adjustments 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 September 30, 2017, the Company recorded a net gain of $276 on financial assets (2016: $513) related to the realized gain on distributions in the statement of income. Furthermore, the Company recorded a net increase of $2,541 (2016: decrease of $786) in other comprehensive income due to foreign currency revaluation, mark-to-market adjustments and realized gains or losses reclassified from other comprehensive income to consolidated statement of income upon disposal in the statement of comprehensive income.

Forbion

In September 2017, Merck announced that it will acquire Rigontec, an investment held by Forbion. The transaction closed in October 2017 for an upfront cash payment of $169,533 [€115,000] and up to $514,496 [€349,000] in contingent payments. As a result, Knight recorded an unrealized gain of $3,049 [€2,070], related to its investment in Forbion, in the statement of comprehensive income.

[iv] Derivatives

The following table summarizes the movement in derivatives during the nine-month period ended September 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 $
1,189	**3,610**	**(1,009)**	**—**	**(2,192)**	**1,598**	**511**	**1,087**

[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

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

During the nine-month period ended September 30, 2017, the Company recorded an unrealized net loss on financial assets of $2,192 (2016: realized loss of $2,740 and unrealized loss of $1,483) related to revaluation to fair value and foreign currency translation in the statement of income.

For the three-month period ended September 30, 2017, the Company recorded an unrealized net loss on financial assets of $458 (2016: realized loss of $2,740 and unrealized loss of $3,547) related to revaluation to fair value and foreign currency translation in the statement of income.

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.

Synergy

During Q3-17, as consideration for the Additional Synergy Loan, the Company received a success fee payable at maturity of the loan. The success fee is a derivative as its value will fluctuate with the changes in market price of Synergy common shares. The fair value of the success fee of $870 [US$685] was determined based on the present value of the expected payment.

Crescita

Concurrent with the closing of the Amended Crescita Loan, Knight surrendered its 293,163 warrants of Crescita exercisable at $2.44 per share and was issued 396,000 new warrants for a term of six years.

Inputs	**September 30, 2017**	August 14, 2017[1]
Number of warrants	180,000	180,000
Value per common share	$0.62	$0.79
Exercise price	$1.00	$1.00

Assumptions		
Risk-free interest rate	1.75%	1.48%
Expected remaining term	5 years	5 years
Expected volatility	55%	55%

[1] *Transaction date*

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

Inputs	September 30, 2017	August 14, 2017[1]
Number of warrants	216,000	216,000
Value per common share	$0.62	$0.79
Exercise price	$0.75	$0.75

Assumptions		
Risk-free interest rate	1.75%	1.48%
Expected remaining term	5 years	5 years
Expected volatility	55%	55%

[1] *Transaction date*

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

3D

Inputs	September 30, 2017	December 31, 2016	December 16, 2016[1]
Number of warrants	240,000	240,000	240,000
Value per common share	$0.23	$0.91	$0.83
Exercise price	$0.92	$0.92	$0.92

Assumptions			
Risk-free interest rate	1.40%	0.74%	0.63%
Expected remaining term	1.2 years	1 year	1 year
Expected volatility	80%	80%	80%

[1] *Transaction date*

Pediapharm

Inputs	September 30, 2017	December 31, 2016	March 30, 2015[1]
Number of warrants	757,500	757,500	757,500
Value per common share	$0.31	$0.30	$0.23
Exercise price	$0.33	$0.33	$0.33

Assumptions			
Risk-free interest rate	1.46%	0.79%	0.64%
Expected remaining term	1.5 years	2.2 years	4 years
Expected volatility	72%	72%	100%

[1] *Transaction date*

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

Antibe

Inputs	September 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	$0.08	$0.17	$0.17
Exercise price	$0.31	$0.31	$0.31

Assumptions			
Risk-free interest rate	1.40%	0.74%	0.69%
Expected remaining term	1.1 years	1.9 years	3 years
Expected volatility	100%	120%	180%

[1] Transaction date

Inputs	September 30, 2017	March 27, 2017[1]
Number of warrants	120,000	120,000
Value per common share	$0.08	$0.19
Exercise price	$0.22	$0.22

Assumptions		
Risk-free interest rate	1.46%	0.75%
Expected remaining term	1.5 years	2 years
Expected volatility	100%	121%

[1] Transaction date

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

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

Fair value hierarchy

As at	September 30, 2017	Level 1	Level 2	Level 3
	$	$	$	$
Recurring fair value measurements				
Marketable securities	254,248	—	254,248	—
AFS equity investments	19,758	10,273	6,978	2,507
AFS fund investments	48,645	—	—	48,645
Derivatives	1,598	—	—	1,598
Total	**324,249**	**10,273**	**261,226**	**52,750**

There were no transfers between levels of the fair value hierarchy for the three and nine-month periods ended September 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.

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	September 30, 2017
	$
Carrying value, beginning of the year	**80,113**
Share of net income for the period before adjustments	5,091
Amortization of fair value adjustments	(4,578)
Share of net income for the nine-month period	**513**
Dividends *[i]*	**(4,984)**
Carrying value, end of the period	**75,642**

[i] Medison's board of directors declared and approved dividends of $2,525 [ILS7,068] in February 2017 and $2,459 [ILS7,068] in August 2017.

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

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	17,649	167
Balance at September 30, 2017	**142,772,805**	**761,127**

[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.

The Company recorded compensation expense of $762 and $2,626 (2016: $765 and $12,648) for the three and nine-month periods ended September 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: $4.01) under the Black-Scholes option pricing model using the following assumptions:

	Nine months ended September 30	
	2017	2016
Weighted average risk-free interest rate	**1.45%**	1.43%
Dividend yield	**Nil**	Nil
Weighted average volatility factor *[i]*	**52.9%**	54.8%
Annualized forfeiture rate	**2.6%**	2.3%
Weighted average expected life	**7.3 years**	7.3 years

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

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

	Nine months ended September 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	**530,554**	**10.08**	323,043	9.23
Options exercised	**(41,667)**	**8.27**	—	—
Options expired/forfeited	**(7,793)**	**9.08**	(5,000)	5.65
Balance at end of the period	**3,628,205**	**7.55**	3,133,526	7.13
Options exercisable at end of period	**2,343,066**	**6.73**	1,319,053	6.34

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

As at	September 30, 2017	December 31, 2016
	$	$
Net realized gains reclassified to statement of income, net of tax of $1,912 ($1,592 as at December 31, 2016)	**(13,195)**	(10,246)
Net unrealized gains in available-for-sale investments, net of tax of $1,200 ($1,879 as at December 31, 2016)	**18,174**	14,997
Unrealized gain on translation of foreign operations	**12,972**	25,680
	17,951	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.

As at	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
	$	$	**$**	$
Net income	**3,593**	5,698	**10,099**	10,621
Weighted average shares outstanding	**142,766,634**	132,668,637	**142,749,348**	116,334,998
Basic earnings per share	**$0.03**	$0.04	**$0.07**	$0.09

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.

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

As at	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
	$	$	**$**	$
Net income	**3,593**	5,698	**10,099**	10,621
Weighted average shares outstanding	**142,766,634**	132,668,637	**142,749,348**	116,334,998
Adjustment for warrants and share options	**583,425**	530,192	**719,820**	411,095
Weighted average shares outstanding	**143,350,059**	133,198,829	**143,469,168**	116,746,093
Diluted earnings per share	**$0.03**	$0.04	**$0.07**	$0.09

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 September 30, 2017 are as follows:

[i] Operating Lease

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

	$
2017	9
2018	191
2019	175
2020	175
2021	175
Thereafter	117
	842

[ii] Fund commitments

As at September 30, 2017, under the terms of Company’s agreements with life sciences venture capital funds, $89,325 (2016: $103,096), including $30,346 [US$24,316] and $18,918 [€12,833], may be called over the life of the funds (based on the closing foreign exchange rates).

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

[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 $35,625 including $24,211 [US$19,400] and $663 [€450] upon achieving certain sales volumes, regulatory or other milestones related to specific products.

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

[iv] Equity and loan commitments

Subject to a loan agreement with one of its borrowers, Knight has committed up to a maximum of $3,120 [US$2,500] to participate in the initial public offering of the borrower. In addition, Knight committed to invest up to $2,496 [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 $794 [US$636] should the borrower meet certain conditions.

[v] Other commitments

As at September 30, 2017 the Company is committed to pay $107 [US$86] within the year towards a real property.

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 September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
	$	$	**$**	$
Decrease (increase) in				
Trade and other receivables	**(2)**	(1,253)	**(1,160)**	(2,764)
Inventories	**186**	48	**137**	675
Other financial assets	**(256)**	(227)	**(586)**	375
Income taxes receivable	**3,008**	(3,091)	**2,235**	(3,006)
Increase in				
Accounts payable and accrued liabilities	**1,023**	565	**939**	1,012
Income taxes payable	**391**	843	**1,349**	1,556
	4,350	(3,115)	**2,914**	(2,152)

17. RELATED PARTY TRANSACTIONS

Pharmascience Inc., a company related to the Company's CEO, provided administrative services of approximately $12 to the Company for the nine-month period ended September 30, 2017.

Furthermore, in January 2017, the Company entered into an agreement with its associate resulting in the recognition of a derivative. As at September 30, 2017, the derivative was valued at $11 [US$9]. The Company recorded a loss of $284 [US$227] and a net gain of $11 [US$9] on this derivative in the statement of income in net (gain) loss on financial assets for the three and nine-month periods ended September 30, 2017. As part of this transaction, the Company has advanced $733 [ILS1,968] to its associate, recorded in trade and other receivables.

18. SUBSEQUENT EVENTS

[i] Increased ownership in Crescita

On October 6, 2017, Knight received 566,471 common shares of Crescita pursuant to a share transfer agreement with a shareholder. As at November 8, 2017, Knight owns an aggregate of 2,079,973 common shares of Crescita representing approximately 14.9% of its outstanding common shares.

[ii] Resignation of CFO

Jeffrey Kadanoff resigned as CFO of the Company effective October 13, 2017 and Knight's Board of Directors approved the following resignation agreement.

Long term incentive plan: stock options

Effective October 13, 2017, the Board of Directors approved the accelerated vesting of 105,168 stock options and modified the expiry date of all stock options held by Mr. Kadanoff to June 1, 2020. As at October 13, 2017, Mr. Kadanoff holds 321,835 vested stock options with exercise prices ranging from $5.65 to $10.10.

Short term incentive plan: annual bonus

A bonus of up to $45, calculated based on the number of days Mr. Kadanoff was employed with the Company in 2017, is payable subject to the approval by the Board of Directors in 2018.

Employee share purchase plan

On a quarterly basis up to September 15, 2019, Mr. Kadanoff will continue to be eligible for the employer contributions under Knight's employee share purchase plan.

Share purchase loans

During his employment with the Company, Mr. Kadanoff was granted $425 in share purchase loans bearing an interest rate of 1% to fund the acquisition of Knight's common shares on multiple offerings. The share purchase loans are secured by an agreement of pledge of securities granted in favour of the Company and will be repaid the earlier of September 30, 2019 or the sale of the securities under the loans.

[iii] Forbion distribution

On November 8, 2017, Knight received a distribution of $3,168 [EUR2,144] from Forbion upon close of the acquisition of Rigontec.

Stock Exchange Listing
Toronto Stock Exchange
Trading Symbol: GUD

Transfer Agent
AST Trust Company
2001, boul. Robert-Bourassa, Bureau 1600
Montreal, Quebec H3A 2A6
T: 1 (800) 387-0825

Investor Relations
Samira Sakhia
President and Chief Financial Officer
T: (514) 484-4483
E-mail: info@gudknight.com

Head Office and Registered Office
Knight Therapeutics Inc.
3400 De Maisonneuve W., Suite 1055
Montreal, Quebec H3Z 3B8
T: (514) 484-4483
F. (514) 481-4116

Knight