KNIGHT THERAPEUTICS INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

The following is Management's Discussion and Analysis of the financial condition and operating results of Knight Therapeutics Inc. ("Knight" or the "Company") for the six months ended June 30, 2018. This document should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto for the six months ended June 30, 2018 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, 2017. Knight's unaudited interim condensed consolidated financial statements as at and for the six months ended June 30, 2018 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". All amounts herein are expressed in thousands of Canadian dollars (unless otherwise indicated) except for share and per share amounts. All other currencies are in thousands.

This discussion and analysis was prepared by management from information available as at August 8, 2018. Further information about Knight Therapeutics Inc., including the Annual Information Form, is available online on SEDAR at www.sedar.com.

Cautionary note regarding forward-looking statements

This Management's Discussion and Analysis may contain certain "forward-looking statements" and certain "forward-looking information" as defined under applicable Canadian securities laws. Forward-looking statements and information can generally be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue", "plans" or similar terminology. Forward-looking statements and information are subject to various known and unknown risks and uncertainties, many of which are beyond the ability of the Company to control or predict, that may cause the Company's actual results, performance or achievements to be materially different from those expressed or implied thereby, and are developed based on assumptions about such risks, uncertainties and other factors set out herein. Factors and risks which could cause actual results to differ materially from current expectations are discussed in the Company's Annual Report and in the Company's Annual Information Form for the year ended December 31, 2017 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.

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

GLOSSARY OF ABBREVIATIONS

Abbreviation	Calendar
YTD-18	Six-month period ended June 30, 2018
YTD-17	Six-month period ended June 30, 2017
Q2-18	Second quarter of 2018
Q1-18	First quarter of 2018
Q4-17	Fourth quarter of 2017
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

Abbreviation	Company
60P	60º Pharmaceuticals LLC
Advaxis	Advaxis Pharmaceuticals Inc.
Akorn	Akorn Inc.
Alimera	Alimera Sciences Inc.
Antibe	Antibe Therapeutics Inc.
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.
Lundbeck	H. Lundbeck A/S
Medimetriks	Medimetriks Pharmaceuticals Inc.
Medison	Medison Biotech (1995) Ltd.
NEMO II	New Emerging Medical Opportunities Fund II Ltd.
NEMO III	New Emerging Medical Opportunities Fund III Ltd.
NeurAxon	NeurAxon Pharma Inc.
PBB	Pro Bono Bio PLC
Pediapharm	Pediapharm Inc.
Prexton	Prexton Therapeutics SA
Profound	Profound Medical Inc.
Sectoral	Sectoral Asset Management Inc.
SIFI	Società Industria Farmaceutica Italiana S.p.A.
Synergy	Synergy CHC Corp.
TherapeuticsMD	TherapeuticsMD, Inc.

Abbreviation	Financial
AOCI	Accumulated other comprehensive income
C$ or $	Canadian Dollar
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
Interim Financial Statements	Unaudited interim condensed consolidated financial statements
OCI	Other comprehensive income
US$	U.S. Dollar

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

Abbreviation	Other
IBS-C	Irritable Bowel Syndrome with Constipation
IQVIA	IQVIA Incorporated, a leading pharmaceutical market research organization
NDS	New Drug Submission
OIC	Opioid-induced constipation
PMPRB	Patented Medicine Prices Review Board

OVERVIEW

Section 1 – About Knight Therapeutics Inc.

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 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 – Q2-18 Highlights

Financial Results

- Revenues were $2,238, a decrease of $242 or 10% over prior year.
- Net income was $4,019, an increase of $3,560 or 776% over prior year.
- Cash flows from operations at $4,059, an increase of $688 or 20% over prior year.

Product

- Received regulatory approval from Health Canada for Probuphine™ for the treatment of opioid drug dependence.

Strategic Lending

- Amended loan with 60P and loaned an additional $830 [US$647] out of a commitment of up to $2,694 [US$2,100].
- Converted $500 Antibe debenture into 2,489,899 common shares sold for proceeds of $1,011.

Strategic Investments

- Received distributions of $1,856 from strategic fund investments.

Subsequent Events

- Received notice of reassessment from CRA.
- Received $3,188 representing full loan repayment and early payment fee from Profound.
- Entered into a licensing agreement with ThereapeuticsMD to commercialize TX-004HR and TX-001HR in Canada and Israel.
- Invested $26,028 [USD$20,000] in common shares of TherapeuticsMD, Inc. at a price of US$5.10 per share.
- Accepted the resignation of Dr. Sarit Assouline and appointed Nancy Harrison on the Board of Directors.

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

FINANCIAL RESULTS

Section 3 – Results of Operations

	Q2-18	Q2-17	Change $[1]	Change %[2]	YTD-18	YTD-17	Change $[1]	Change %[2]
Revenues	**2,238**	2,480	(242)	10%	**5,392**	4,230	1,162	27%
Cost of goods sold	**338**	472	134	28%	**1,172**	760	(412)	54%
Gross margin	**1,900**	2,008	(108)	5%	**4,220**	3,470	750	22%
Gross margin (%)	***85%***	*81%*	*4%*	*5%*	***78%***	*82%*	*4%*	*5%*
Expenses								
Selling and marketing	**892**	1,050	158	15%	**1,681**	1,413	(268)	19%
General and administrative	**1,937**	2,329	392	17%	**4,032**	4,797	765	16%
Research and development	**572**	867	295	34%	**1,061**	1,283	222	17%
	(1,501)	(2,238)	737	33%	**(2,554)**	(4,023)	1,469	37%
Depreciation of property and equipment	**19**	—	(19)	100%	**35**	—	(35)	100%
Amortization of intangible assets	**445**	320	(125)	39%	**886**	646	(240)	37%
Interest income	**(4,746)**	(5,698)	(952)	17%	**(10,034)**	(11,558)	(1,524)	13%
Other income	**(37)**	(334)	(297)	89%	**(1,388)**	(642)	746	116%
Net loss (gain) on financial assets	**—**	1,056	1,056	N/A	**—**	(2,319)	(2,319)	N/A
Net gain on financial assets measured at fair value through profit or loss	**(2,884)**	—	2,884	100%	**(3,425)**	—	3,425	100%
Share of net loss (income) of associate	**151**	(96)	(247)	N/A	**(352)**	(415)	(63)	15%
Foreign exchange loss (gain)	**49**	1,306	1,257	96%	**(2,548)**	1,549	4,097	N/A
Income before income taxes	**5,502**	1,208	4,294	355%	**14,272**	8,716	5,556	64%
Income tax expense								
Current	**911**	628	(283)	45%	**1,552**	1,108	(444)	40%
Deferred	**572**	121	(451)	373%	**1,792**	1,102	(690)	63%
Net income for the period	**4,019**	459	3,560	776%	**10,928**	6,506	4,422	68%
Attributable to shareholders of the Company								
Basic EPS	**0.028**	0.003	0.025	833%	**0.077**	0.046	0.031	67%
Diluted EPS	**0.028**	0.003	0.025	833%	**0.076**	0.045	0.031	69%

[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)

	Q2-18 vs Q2-17	YTD-18 vs YTD-17
Revenues	• Decrease in revenues mainly attributable to timing of sales of Impavido® offset by growth in Movantik® sales.	• Increase in revenues mainly attributable to timing of sales of Impavido® and growth in Movantik® sales.
Gross Margin	• No significant variance.	• Increase in gross margin ($) attributable to increase in revenues. • Decrease in gross margin (%) attributable to change in product mix.
Selling and marketing	• No significant variance.	• Increase due to commercial activities including sales force promotion of Movantik® and preparation of the launch of new products.
General and administrative	• Decrease mainly related to lower stock based compensation expense.	
Research and development expenses	• No significant variance.	
Depreciation and Amortization	• No significant variance.	
Interest income	• Primarily from interest earned on loans, cash and cash equivalents, marketable securities and accretion on loans receivable.	
	Interest Income • Interest income (excluding accretion) for Q2-18 was $4,746, an increase of 3% or $154 compared to prior year due to an increase in the average cash, cash equivalents and marketable securities balances and an increase in interest rates, offset by a lower average loan balance.	***Interest Income*** • Interest income (excluding accretion) for YTD-18 was $10,034, an increase of 7% or $660 compared to prior year due to an increase in the average cash, cash equivalents and marketable securities balances and an increase in interest rates, offset by a lower average loan balance.
	Interest Accretion • No significant interest accretion in Q2-18 compared to $1,106 in prior year due to the adoption of IFRS 9.	***Interest Accretion*** • No significant interest accretion in YTD-18 compared to $2,184 in prior year due to the adoption of IFRS 9.
Other income[1]	• Amount in Q2-17 mainly due to gains related to an agreement with its associate.	• Amount in YTD-18 driven by the early repayment fees on the Medimetriks loan.
Net gain on financial assets	• Loss in Q2-17 due to the revaluation of derivatives.	• Gain in YTD-17 due to the revaluation of derivatives and realized gains on distributions from funds.
Net gain on financial assets measured at fair value through profit or loss	• As a result of the revaluation of financial assets measured at FVPL. • Net gain mainly attributed to the fair value revaluation of strategic funds and loans.	
Share of net loss (income) of associate	• No significant variance.	
Foreign exchange loss (gain)	• Loss in 2017 explained by relative losses on certain U.S. dollar denominated financial assets as Canadian dollar strengthened.	• Due to relative gains on certain U.S. dollar denominated financial assets as Canadian dollar weakened.
Income tax expense	• Variance due to gains on investments in financial assets and amortization of deferred income taxes related to the Company's financing.	

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

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

FINANCIAL CONDITION

Section 4 – Balance Sheet

	June 30, 2018	December 31, 2017	Change $	Change %[1]
ASSETS				
Current				
Cash and cash equivalents	**418,358**	496,460	(78,102)	16%
Marketable securities	**318,388**	232,573	85,815	37%
Trade and other receivables	**6,298**	9,176	(2,878)	31%
Inventories	**966**	1,224	(258)	21%
Other current financial assets	**25,438**	58,848	(33,410)	57%
Income taxes receivable	**1,002**	792	210	27%
Total current assets	**770,450**	799,073	(28,623)	4%
Marketable securities	**70,000**	36,000	34,000	94%
Property and equipment	**710**	633	77	12%
Intangible assets	**15,506**	12,576	2,930	23%
Other financial assets	**90,676**	76,988	13,688	18%
Investment in associate	**78,990**	75,983	3,007	4%
Deferred income tax assets	**2,801**	4,730	(1,929)	41%
Total assets	**1,029,133**	1,005,983	23,150	2%
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	**4,100**	5,025	(925)	18%
Income taxes payable	**8,911**	7,599	1,312	17%
Other balances payable	**1,418**	1,354	64	5%
Deferred other income	**268**	282	(14)	5%
Total current liabilities	**14,697**	14,260	437	3%
Deferred other income	**42**	167	(125)	75%
Other balances payable	**1,085**	348	737	212%
Total liabilities	**15,824**	14,775	1,049	7%
Shareholders' equity				
Share capital	**761,595**	761,490	105	0%
Warrants	**785**	785	—	—
Contributed surplus	**13,383**	12,196	1,187	10%
Accumulated other comprehensive income	**18,575**	20,907	(2,332)	11%
Retained earnings	**218,971**	195,830	23,141	12%
Total shareholders' equity	**1,013,309**	991,208	22,101	2%
Total liabilities and shareholders' equity	**1,029,133**	1,005,983	23,150	2%

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

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

June 30, 2018 vs December 31, 2017	
Cash and cash equivalents and marketable securities	• Refer to Section 5 – Liquidity and Capital Resources for further information.
Trade and other receivables	• Decrease due timing of collection of payments. • Refer to note 6 in the Interim Financial Statements for further details.
Inventories	• No significant variance.
Other financial assets (current and long term)	• Decrease of $19,722 driven by: **Loans and other receivables:** decrease of $30,527 mainly attributable to repayment of $25,894 [US$20,000] of the Medimetriks loan and $5,613 [US$4,460] of the 60P loan. Refer to Section 7 for further information on Knight's strategic lending portfolio. **Equities, Warrants and Derivatives:** decrease of $1,113 driven by the revaluation of strategic investments in equities, warrants and derivatives. Refer to note 8 in the Interim Financial Statements for further information. **Funds:** increase of $11,918 due to capital calls of $14,202, mark-to-market adjustments of $1,559 and foreign exchange gains of $2,256 offset by distributions of $6,099. Refer to Section 8 for further information on Knight's strategic investments.
Income Tax Receivable	• No significant variance.
Property and Equipment	• No significant variance.
Intangible assets	• Increase due to an acquisition in 2018, offset by amortization. • Refer to note 7 in the Interim Financial Statements for further details.
Investment in associate	• Increase related to Knight's share of net income and other comprehensive income. • Refer to Section 9 for further information.
Accounts payable and accrued liabilities	• Decrease due to timing of purchases and payments.
Income Tax Payable	• Increase due to gains on investments in financial assets and foreign exchange.
Deferred other income	• No significant variance.
Other balances payable (current and long term)	• Increase due to a milestone recorded during 2018.
Share capital	• Refer to note 11 in the Interim Financial Statements for further information.
Contributed surplus	• Increase related to share-based compensation expense. • Refer to the statement of changes in shareholders' equity in the Interim Financial Statements for further information.
Accumulated other comprehensive income	• Decrease related to the IFRS 9 transition adjustment of $11,692, offset by other comprehensive income of $9,360 for the period. • Refer to the statement of changes in shareholders' equity and note 2 in the Interim Financial Statements for further information.
Retained earnings	• Increase due to net income of $10,928 in YTD-2018 and the IFRS 9 transition adjustment of $12,213. • Refer to note 2 in the Interim Financial Statements for further details.

(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 and corporate 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.

	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2018	2017	**$**	**%**	**2018**	2017	**$**	**%**
Net cash from operating activities	**4,059**	3,371	688	20%	**10,923**	7,607	3,316	44%
Net cash from investing activities	**(171,416)**	6,068	(177,484)	N/A	**(94,789)**	6,224	(101,013)	N/A
Net cash from financing activities	**42**	50	(8)	16%	**91**	438	(347)	79%
(Decrease) Increase in cash and cash equivalents during the period	**(167,315)**	9,489	(176,804)	N/A	**(83,775)**	14,269	(98,044)	N/A
Net foreign exchange difference	**2,265**	(1,132)	3,397	N/A	**5,673**	(1,332)	7,005	N/A
Cash and cash equivalents, beginning of the period	**583,408**	519,522	63,886	12%	**496,460**	514,942	(18,482)	4%
Cash and cash equivalents, end of the period	**418,358**	527,879	(109,521)	21%	**418,358**	527,879	(109,521)	21%
Marketable securities, end of the period	**388,388**	233,282	155,106	66%	**388,388**	233,282	155,106	66%
Cash, cash equivalents, and marketable securities, end of the period	**806,746**	761,161	45,585	6%	**806,746**	**761,161**	45,585	6%

Net cash from operating activities	Primarily relates to cash generated through revenues and interest received, offset by operating expenses including salaries, research and development expenses, advertising and promotion costs, and other corporate expenses. Cash flows from 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.	
Net cash from investing activities	For the three-month period ended June 30, 2018, cash flows were due to: • net purchases of marketable securities of $168,671; • net investments in life sciences funds of $4,169; • acquisition of property and equipment of $44, offset by • net proceeds from repayments of loan receivables of $763; • net proceeds from disposals of equities of $705.	For the six-month period ended March 30, 2018, cash flows were due to: • net purchases of marketable securities of $118,108 • net investments in life sciences funds of $8,103, • acquisition of intangibles and property and equipment of $3,086, offset by • net proceeds from repayments of loan receivables of $34,203, and • net proceeds from disposals of equities of $305.
Net cash from financing activities	Cash flows from financing activities were due to the participation of employees and directors in the Company's share purchase and option plans.	

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/Potential Indication	Licensor	Status in Territory	Territory Rights
Pain/Gastrointestinal				
Movantik®	OIC	AstraZeneca	Marketed in CAN and approved in ISR	CAN, ISR
Probuphine™	Opioid addiction	Braeburn	Approved	CAN
Tenapanor	IBS-C and hyperphosphatemia	Ardelyx	Phase 3 – Pending submission	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	Submitted	CAN
Netildex™	Ocular inflammation	SIFI	Submitted	CAN
Women's Health				
TX-004HR	Moderate-to-severe dyspareunia	TherapeuticsMD	Pending submission	CAN, ISR
TX-001HR	Moderate-to-severe vasomotor symptoms due to menopause	TherapeuticsMD	Pending submission	CAN, ISR
Other				
Impavido®	Leishmaniasis	N/A	Marketed	Global
60P family	Tropical diseases	60P	Phase 2 - Pending submission	CAN, ISR, RUS, LATAM[1]
Advaxis family	HPV-associated cancers and others	Advaxis	Phase 1 – Phase 3	CAN

[1] *Select products only for LATAM*

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

Consumer Health Products and Medical Devices

Product	Description	Licensor	Status in Territory	Territory Rights
Neuragen®	Pain associated with diabetic and peripheral neuropathy	N/A	Marketed[1]	Global (Ex. U.S)
Synergy Family	Various consumer health products	Synergy	Marketed[2]	CAN, ISR, ROM, RUS, ZAF
FLEXISEQ™	Pain and joint stiffness associated with osteoarthritis	PBB	Submitted	QUE, ISR
Crescita family	Dermo-cosmetic line of products	Crescita	Not Yet Marketed	ISR, ROM, RUS, ZAF, CAR
TULSA-PRO®	Prostate ablation	Profound	Pending submission	CAN

[1] *Approved and marketed in Canada and the UAE*
[2] *Select products marketed*

Highlights

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 IQVIA data, Movantik® sales in Canada were $319 and $620 for the three and six-month periods ended June 30, 2018 (2017: $213 and $381).

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. Health Canada approved Probuphine™ on April 18, 2018. Knight expects to launch Probuphine™ by the end of 2018.

Tenapanor

On March 16, 2018, Knight entered into an exclusive licensing agreement to commercialize tenapanor in Canada. Tenapanor is a first-in-class small molecule treatment that has completed Phase 3 development for IBS-C and is being evaluated in a second Phase 3 study for hyperphosphatemia. Knight expects to submit a NDS for tenapanor for IBS-C in 2019.

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. On March 13, 2018, Knight was advised by Health Canada that the NDS for Iluvien® will not be approved at this time. Knight received a Notice of Non-Compliance and responded to Health Canada's issues within the prescribed 90-day window.

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

Netildex™

On August 2, 2016, Knight entered into a license agreement for the exclusive rights in Canada to commercialize Netildex™, a fixed combination of netilmicin and dexamethasone for the treatment of inflammatory ocular conditions of the anterior segment of the eye, in presence or at risk of bacterial infection. On February 15, 2018, Netildex™ was accepted for review by Health Canada.

TherapeuticsMD

On July 31, 2018, Knight entered into an exclusive licensing agreement for the commercial rights of TX-004HR and TX-001HR in Canada and Israel. TX-004HR is TherapeuticsMD's FDA-approved product, marketed as Imvexxy™ (estradiol vaginal inserts) in the U.S., for the treatment of moderate-to-severe dyspareunia (vaginal pain associated with sexual activity), a symptom of vulvar and vaginal atrophy (VVA), due to menopause. TX-001HR is TherapeuticsMD's investigational bio-identical hormone therapy combination of estradiol and progesterone in a single, oral softgel for the treatment of moderate-to-severe vasomotor symptoms due to menopause. Knight expects to submit a NDS for TX-004HR and TX-001HR in 2019.

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 seven secured loans outstanding to life sciences companies as outlined in the table below. To date, the strategic lending portfolio has led to the acquisition or in-licensing of Knight's consumer health products (as described in Section 6), the Antibe family, the 60P family and TULSA-PRO®.

	Nominal loan balance as at June 30, 2018	
Entity	**In Source Currency**	**In Canadian Dollars[1]**
Synergy	US$8,500	$11,193
60P[3]	US$5,333	$7,022
Crescita	C$3,639	$3,639
Profound	C$2,857	$2,857
Medimetriks	US$1,500	$1,975
Pediapharm[2]	C$1,250	$1,250
Ember	US$500	$658
Total		**$28,594**

[1] *Converted at the Bank of Canada closing exchange rates on June 30, 2018*
[2] *Pediapharm debenture is held indirectly through the Bloom Burton Healthcare Lending Trust*
[3] *Excludes 60P Convertible Debenture received as consideration for loans issued to 60P*

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

The following table summarizes the movement in loans and other receivables during the six-month period ended June 30, 2018.

	Carrying value beginning of period	Additions	Loan repayments	Change in fair Value[1]	Foreign exchange[2]	Carrying value end of period	Current other financial assets	Non-current other financial assets
	$	$	$	$	$	$	$	$
Amortized Cost	3,370	703	(595)	—	115	3,593	—	3,593
FVPL	56,970	831	(35,034)	1,185	1,747	25,699	7,341	18,358
Total	**60,340**	**1,534**	**(35,629)**	**1,185**	**1,862**	**29,292**	**7,341**	**21,951**

[1] Net changes related to change in the fair value of loan receivables and recognition of day 1 gains
[2] Net changes due to foreign currency translation recorded in the statement of income or statement of other comprehensive income

During the six-month period ended June 30, 2018, as result of changes in fair value and recognition of deferred day 1 gains, the Company recorded $1,185 in the statement of income as net gain on financial assets measured at fair value through profit and loss. In addition, the Company recorded $1,862 due to foreign currency revaluation of which $917 is recorded in the statement of income as foreign exchange gain and $945 recorded in the statement of other comprehensive income as unrealized gain on translation of foreign operations.

During the three-month period ended June 30, 2018, as result of changes in fair value and recognition of deferred day 1 gains, the Company recorded $929 in the statement of income as net gain on financial assets measured at fair value through profit and loss. In addition, the Company recorded $461 due to foreign currency revaluation of which $42 is recorded in the statement of income as foreign exchange gain and $419 recorded in the statement of other comprehensive income as unrealized gain on translation of foreign operations.

Highlights

Loans and other receivables measured at amortized cost

Antibe

On November 13, 2015, Knight invested $500 in senior secured convertible debentures offered by Antibe. As consideration for the debenture, the Company received a conversion feature whereby up to the maturity date, the debenture can be converted into common shares of Antibe at $0.22 per share ("Antibe Conversion Option"). On March 27, 2018, Knight exercised its Antibe Conversion Option and was issued 2,489,889 common shares. As a result, Knight derecognized the loan and derivative and recognized an equity investment measured at FVPL of $996.

Loans and other receivables measured at FVPL

Medimetriks

During 2016, Knight issued $31,290 [US$23,000] to Medimetriks in secured loans to support its acquisition of the exclusive U.S. development and commercialization rights of OPA-15406 from Otsuka. On March 7, 2018, Knight received an early repayment of principal of $25,894 [US$20,000] and interest and fees of $3,569 [US$2,757].

60P

On December 10, 2015, the Company entered into a loan agreement with 60P ("60P Loan") for the development of tafenoquine ("Product") for the prevention of malaria in adults. The Product was submitted for regulatory approval on December 18, 2017 to the U.S. Food Drug and Administration. If approved, the Company will receive a success fee of $774

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

[US$600] which will be recorded by Knight upon approval. As at December 31, 2017, the nominal loan balance was $11,472 [US$9,145]. On February 8, 2018, 60P repaid $5,613 [US$4,460] reducing the nominal loan balance to $5,859 [US$4,685].

On April 24, 2018, Knight amended its loan agreement with 60P and committed to lend up to an additional $2,694 [US$2,100] at an interest rate of 15%, to support the regulatory approval and commercialization of tafenoquine ("60P Amendment"). As consideration for the 60P Amendment, 60P committed to pay Knight an additional $3,848 [US$3,000] plus annual interest of 9% on April 23, 2023 ("60P Debenture"). Under the terms of the 60P Convertible Debenture, Knight has the right to convert the 60P Convertible Debenture into common shares of 60P at a pre-determined exercise price at any time prior to the maturity date ("60P Conversion Feature"). Furthermore, 60P and Knight entered into an exclusive license agreement granting Knight the right to commercialize tafenoquine in Latin America. As at June 30, 2018, Knight disbursed $830 [US$647] ("Additional 60P Loan") under the 60P Amendment increasing the nominal loan balance to $7,021 [US$5,332] ("60P Loan").

As a result of the 60P Amendment, the Company recorded the Additional 60P Loan and a hybrid financial instrument representing the 60P Debenture and the 60P Conversion Feature ("60P Hybrid Instrument") at their respective relative fair values of $452 [US$352] and $380 [US$296]. At the date of the transaction, the fair value of the 60P Loan was $6,304 [US$4,914] determined using the discounted cash flow approach with a discount rate of 20.01%. The fair value of the 60P Hybrid Instrument was $1,958 [US$1,526] determined by the sum of the fair values of the 60P Debenture and 60P Conversion Feature derived respectively using the discounted cash flow approach and the Black-Scholes model.

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. Since inception of the fund strategy, Knight has committed to invest with the following capital fund managers for approximately $126,653. 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 funds held by Knight, as at June 30, 2018, is $66,886.

	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	EUR 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
Bloom Burton Healthcare Lending Trust[3]	C$1,500	$1,500
Genesys Capital Management (Fund III) Inc.	C$1,000	$1,000
Total		**$126,653**

[1] *Converted at the Bank of Canada noon exchange rates as of the commitment date (using the June 30, 2018 closing rates total fund commitment would be $137,765)*

[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*

[3] *Represents investments in debt funds with Bloom Burton Healthcare Lending Trust I and II, managed by Stratigis Capital Advisors Inc.*

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

The following table summarizes the movement in fund investments during the six-month period ended June 30, 2018.

	Carrying value beginning of period $	Additions[1] $	Distributions[2] $	Change in fair value $	Foreign exchange[3] $	Carrying value end of period $	Current other financial assets $	Non-current other financial assets $
2018	**54,968**	**14,202**	**(6,099)**	**1,559**	**2,256**	**66,886**	**—**	**66,886**

[1] *Investments in equity or debt funds*

[2] *Distributions received from funds in the six-month period ended June 30, 2018 generated realized gain of $1,811 (three-month period ended June 30, 2018: $505) (recorded in the current and historical consolidated statements of income through revaluation of the fund investments)*

[3] *Net changes due to foreign currency translation, recorded in the statement of income or statement of other comprehensive income*

During the six-month period ended June 30, 2018, Knight invested $14,202 [including US$3,441 and EUR 1,865] and received distributions of $6,099 [including US$1,275 and EUR 2,586]. The Company recorded a net increase of $1,559 in the statement of income due to mark to market adjustments. Furthermore, the Company recorded a net increase of $2,256 due to foreign currency revaluation, of which $471 is recorded in the statement of income as foreign exchange gain, and $1,785 is recorded in the statement of other comprehensive income as unrealized gain on translation of foreign operations.

During the three-month period ended June 30, 2018, Knight invested $8,579 [including US$2,795 and EUR 1,017] and received distributions of $1,856 [including US$1,275 and EUR 128]. The Company recorded a net increase of $2,088 in the statement of income due to mark to market adjustments. Furthermore, the Company recorded a net increase of $427 due to foreign currency revaluation, of which $322 is recorded in the statement of income as foreign exchange loss, and $749 is recorded in the statement of other comprehensive income as unrealized gain on translation of foreign operations.

Forbion

In March 2018, it was announced that Lundbeck acquired Prexton, an investment held by Forbion. The transaction closed for an upfront cash payment of $158,670 [EUR 100,000] and up to $1,277,294 [EUR 805,000] in contingent payments. On March 29, 2018, Knight received a distribution of $3,168 [EUR 1,609] from Forbion upon close of the acquisition of Prexton.

Other investments

Increased ownership in Crescita

Knight received 2,079,973 rights (the "Rights") issued under the terms of Crescita's Rights Offering Circular dated February 2, 2018 (the "Rights Offering"). Each two Rights entitled Knight to subscribe for one common share of Crescita at $0.53 per share. On March 9, 2018, the Company exercised its Rights and invested $400 and received 754,716 common shares of Crescita under the Rights Offering.

Antibe

On March 27, 2018, Knight exercised its Antibe Conversion Option and converted its $500 debenture into 2,489,889 common shares, which were all sold during the quarter ended June 30, 2018 for $1,011.

For additional details regarding the movement in equities or derivatives held by Knight throughout the quarter, refer tonote 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

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

Caribbean and other countries excluding the U.S., Western Europe, Japan and China. Knight intends to continue its growth by becoming an international specialty pharmaceutical company and believes that these countries provide potentially significant growth and value opportunities.

Investment in Medison

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

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

This selected information is derived from our financial statements.

	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16
Carrying value of investment	**78,990**	77,697	75,983	75,642	78,003	77,907	80,113	80,075
Amortization of FMV adjustments	**(1,378)**	(1,378)	(1,529)	(1,572)	(1,503)	(1,503)	(1,749)	(1,207)
Share of net (loss) income, net of FMV adjustment	**(151)**	503	341	98	96	319	38	1,096
Dividends	**—**	—	—	2,459	—	2,525	—	2,414

The Company is presenting select financial information derived from Medison's consolidated financial statements, excluding amortization of fair value adjustments on acquisition in ILS using Israeli GAAP converted into IFRS in CAD for information purposes:

	Q2-18	**Q1-18**	Q4-17	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16
Revenues	**64,260**	**60,259**	57,399	56,030	51,749	51,264	52,115	53,269
Net income	**4,352**	**6,653**	6,614	5,906	5,655	6,445	6,321	8,146

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 $12,669, $648 and $139, respectively.

10.2 Equity Price Risk

Equity price risk arises from changes in market prices of the equity and fund investments and derivatives. The carrying values of investments subject to equity price risk are $85,796 as at June 30, 2018 (December 31, 2017: $75,130). The Company monitors its equity investments for impairment on a periodic basis and at least every reporting period. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold. The Company's Board of Directors regularly reviews and approves equity investment decisions.

10.3 Interest Rate Risk

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

10.4 Liquidity Risk

The majority of the Company's financial liabilities are short term in nature. The Company generates sufficient cash from operating activities to fund its operations and fulfil its obligations as they become due. The Company has sufficient funds available through its cash, cash equivalents and marketable securities, should its cash requirements exceed cash generated from operations to cover all financial liability obligations. As at June 30, 2018, 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 18 of the Interim Financial Statements.

10.5 Credit Risk

The Company considers its maximum credit risk to be $101,541 (December 31, 2017: $122,490) 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 four large Canadian financial institutions, two Canadian credit unions, two Canadian credit unions guaranteed by provincial governments, two foreign affiliates of large Canadian financial institutions, and one Canadian insurance company, comprised of twenty eight guaranteed investment certificates, one guaranteed investment fund 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, 2017 on SEDAR at www.sedar.com.

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

ADDITIONAL INFORMATION

Section 11 – Selected Quarterly Financial Information

This selected information is derived from our Interim Financial Statements.

	Q2-18	**Q1-18**	Q4-17	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16
Revenues	**2,238**	**3,154**	2,544	1,860	2,480	1,750	1,845	1,892
Net income	**4,019**	**6,909**	7,145	3,593	459	6,047	7,939	5,698
EPS								
Basic	**0.028**	**0.048**	0.050	0.025	0.003	0.042	0.059	0.043
Diluted	**0.028**	**0.048**	0.050	0.025	0.003	0.042	0.059	0.043
Cash, cash equivalents and marketable securities	**806,746**	**802,425**	765,033	761,087	761,161	763,778	736,050	645,054
Total assets	**1,029,133**	**1,016,853**	1,005,983	993,467	991,980	994,293	990,770	877,904
Total non-current liabilities	**1,127**	**1,171**	515	1,028	1,200	1,263	1,294	479

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

Section 12 – Outstanding Share Data

The table below summarizes the share data:

As at	**August 8, 2018**
Common Shares	142,825,006
Stock Options	4,054,448
Warrants	406,126

Section 13 – Use of Proceeds from Financing

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

As at June 30, 2018, 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

All patented drug products that form part of Knight's portfolio of products are subject to pricing regulation by the PMPRB, a federal agency tasked with ensuring that prices of patented medicines are not excessive. For new patented products, the maximum non-excessive price in Canada is limited to a range with a lower bound set by the prices of existing comparable drugs sold in Canada and an upper bound set by the median prices for the same drug sold in a specified set of developed comparator countries. For existing patented products, prices cannot be increased annually by more than a factor based on Statistics Canada's Consumer Price Index. The PMPRB monitors compliance through a review of the average transaction price of each patented drug product as reported by pharmaceutical companies like Knight on a semi-annual basis. The PMPRB may from time to time deem certain of Knight's existing or future patented products to be excessively priced based on the application of its empowering legislation and regulations, including those related to price increases, the comparative assessment of new products and reductions in the highest price in international reference countries. Such determinations by the PMPRB may have a material adverse effect on Knight's financial condition and results of operations or cash flows.

The Canadian federal government has made a commitment to reduce the cost of prescription drug pending in Canada. On December 2, 2017, Health Canada published the following proposed key changes:

- changes in the comparator countries used to determine price ceilings. The changes include removal of the US (which generally has the highest international drug prices) and Switzerland and addition of seven new countries judged to have similar consumer protection-oriented mandates and relative wealth as Canada;
- new, economics-based price regulatory factors to allow the PMPRB to regulate based on the value of a medicine and its impact on the health care system; and,
- changes to certain reporting requirements, including reporting all discounts and rebates provided to third-party payers, such as provincial drug plans.

The proposed amendments, if enacted, are expected to result in a decrease in the prices of patented drugs in Canada. While the proposed regulations are expected to come into force on January 1, 2019, the precise nature and timing of these changes (including the potential retroactive application of some) will not be known until the full consultation and Canada Gazette publication processes are completed. On June 25, 2018, the PMPRB presented a draft guidelines implementation framework which is intended to give effect of the proposed changes.

The final form of regulatory changes to the PMPRB may have a significant adverse effect on the price of patented drugs sold by the Corporation in Canada and may limit the Corporation's ability to in-license and launch products in Canada due to more restrictive pricing regulations

Section 16 – Financial Instruments

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

Knight has not entered into any currency or other hedging instrument contracts during the period ended June 30, 2018. Refer to notes 8 and 9 of the Interim Financial Statements for the quarter ended June 30, 2018 for additional information.

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

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 18 of the Interim Financial Statements for the period ended June 30, 2018 for additional information. Other than these contractual obligations and commitments, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

Section 18 – Commitments

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

[i] Operating Lease

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

	$
2018	145
2019	294
2020	294
2021	282
2022	215
Total	**1,230**

As at August 8, 2018, the operating lease commitment has decreased by $47.

[ii] Fund commitments

As at June 30, 2018, under the terms of Company's agreements with life sciences venture capital funds, $72,715 (2017: $92,336), including $23,593 [US$17,917] and $16,109 [EUR 10,487], may be called over the life of the funds (based on the closing foreign exchange rates).

As at August 8, 2018, $69,423 remains to be called by life science venture capital funds.

[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. As at August 8, 2018, the Company may have to pay up to $78,772 including $25,546 [US$19,400] and $538 [EUR 350] upon achieving certain sales volumes, regulatory or other milestones related to specific products.

In addition, Knight has a commitment to purchase up to $2,082 [EUR 738 and US$721], of inventory for pharmaceutical products during the five-year period after their respective commercial launch. Furthermore, Knight has committed to certain sales force and marketing spend obligations during the five-year period after the commercial launch of one of its products.

[iv] Equity and loan commitments

Subject to loan agreements with its borrowers, Knight has committed to the following:

a) up to a maximum of $3,292 [US$2,500] to participate in the initial public offering of the borrower
b) up to an additional $1,913 [US$1,453] should the borrower meet certain conditions.

Section 19 – Related Party Transactions

Pharmascience Inc., a company related to the Company's CEO, provided administrative services of approximately $5 to the Company for the six-month period ended June 30, 2018.

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.

From time to time, the Company is subject to tax audits. While the Company believes that its filing positions are appropriate and supportable, periodically, certain matters are challenged by tax authorities. On January 30, 2018, the Company received a proposed reassessment with respect to an ongoing audit by a taxation authority. On July 4, Knight received a notice of reassessment ("CRA Notice") from the Canada Revenue Agency for its fiscal year ended December 31, 2014. The CRA Notice provides that Knight is liable to pay to the CRA an aggregate of $23,300 in additional taxes and interest. It is likely that the Quebec Revenue Agency ("QRA") will propose a similar adjustment which will result in an estimated additional tax liability of $19,000 increasing the total additional taxes, interest and penalties to $42,300 ("Total Tax Liability").

Knight believes that the CRA Notice is unfounded and intends to contest vigorously the CRA Notice by filing a notice of objection to start the appeals process. However, there can be no assurance regarding the outcome of the appeals process or when a resolution may be reached. In connection with the appeals process, Knight has made a deposit of $23,300 to the CRA and will make an estimated deposit of $19,000 to QRA. Knight has not recorded any tax provision for the Total Tax Liability in its financial statements. Although Knight believes its tax provisions are adequate, the final determination of tax audits and any related disputes could be materially different from historical income tax provisions and accruals.

Our significant accounting estimates and assumptions are reported in note 3 of our 2017 Annual Financial Statements and note 2.2 of our Interim Financial Statements.

Section 22 –Accounting Pronouncements Adopted in 2018

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2017 except for IFRS 9 and IFRS 15 adopted on January 1, 2018. Refer to note 2.2 of the Interim Financial

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

Statements for further details on the new accounting standards adopted. The Company has not adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Impact of transition to IFRS 9

Upon adoption of IFRS 9, the Company has not restated prior periods and the impact of the transition is as follows:

	As at December 31, 2017			As at January 1, 2018			
	IAS 39 Classification	**IAS 39 Measurement**	**IAS 39 Carrying amount**	**IFRS 9 Classification & Measurement**	**IFRS 9 Carrying amount**	**Impact on Opening RE**	**Impact on AOCI**
Cash	FVPL	FVPL	490,951	Amortized Cost	490,951	—	—
Cash Equivalents	FVPL	FVPL	5,509	Amortized Cost	5,509	—	—
Marketable securities	FVPL	FVPL	268,573	Amortized Cost	268,573	—	—
Loans and other receivables	Loans and receivables	Amortized Cost	59,819	Amortized Cost[1]	3,370	—	—
		FVPL	n/a	FVPL[2]	56,970	521	—
Equity investments	AFS	FVOCI	19,425	FVOCI	13,050	1,403	(1,403)
		FVPL	n/a	FVPL	6,375	670	(670)
Derivatives	FVPL	FVPL	1,624	FVPL	1,624	—	—
Fund investments	AFS	FVOCI	54,968	FVPL	54,968	9,619	(9,619)
Transition impact						**12,213**	**(11,692)**

[1] Strategic loans to Antibe and Pediapharm and other long-term receivables classified as amortized cost
[2] On transition, a Deferred day 1 gain of $1,125 remains to be recognized over term of loans. Refer to note 9 for additional details.

The impact on opening retained earnings and accumulated other comprehensive income is summarized below:

	RE	**AOCI**
Closing balance under IAS 39 (December 31, 2017)	195,830	20,907
Transition impact	12,213	(11,692)
Opening balance under IFRS 9 (January 1, 2018)	**208,043**	**9,215**

Impact of transition to IFRS 15

The transition to the new standard resulted in no adjustment to opening retained earnings as at January 1, 2018.

Section 23 – Recent Accounting Pronouncements

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 24 – 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 25 – 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.

During 2018, there was no significant changes in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect the Company's internal controls over financial reporting.

Section 26 – Subsequent Events

[i] Notice of Reassessment from CRA

Knight received a notice of reassessment ("CRA Notice") from the Canada Revenue Agency ("CRA") for its fiscal year ended December 31, 2014. The CRA Notice relates to the disposition of the Priority Review Voucher ("PRV") granted on March 19, 2014, upon the US Food & Drug Administration's ("FDA") approval of Impavido®. The PRV was disposed of by Knight's wholly-owned subsidiary, Knight Therapeutics (Barbados) Inc., to a third party in November 2014 for gross proceeds of US$125,000. The CRA Notice provides that Knight is liable to pay to the CRA an aggregate of $23,300 in additional taxes and interest. It is likely that the Quebec Revenue Agency ("QRA") will propose a similar adjustment which will result in an estimated additional tax liability of $19,000 increasing the total additional taxes, interest and penalties to $42,300 ("Total Tax Liability").

Knight believes that the CRA Notice is unfounded and intends to contest vigorously the CRA Notice by filing a notice of objection to start the appeals process. However, there can be no assurance regarding the outcome of the appeals process or when a resolution may be reached. In connection with the appeals process, Knight has made a deposit of $23,300 to the CRA and will make an estimated deposit of $19,000 to QRA. Knight has not recorded any tax provision for the Total Tax Liability in its financial statements. Although Knight believes its tax provisions are adequate, the final determination of tax audits and any related disputes could be materially different from historical income tax provisions and accruals.

[ii] Repayment of Profound loan

On July 26, 2018, Knight received an early repayment of $3,188 from Profound, including payment of principal of $2,857 and interest and fees.

[iii] TherapeuticsMD

On July 31, 2018, Knight entered into an exclusive licensing agreement for the commercial rights of TX-004HR and TX-001HR in Canada and Israel. Furthermore, Knight has invested $26,028 [USD$20,000] in common shares of TherapeuticsMD, Inc. at a price of US$5.10 per share.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

KNIGHT THERAPEUTICS INC.

June 30, 2018

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 June 30, 2018, the interim condensed consolidated statements of income and comprehensive income, the interim condensed consolidated statement of changes in shareholders' equity and the interim consolidated statement of cash flows for the three and six-month periods ended June 30, 2018, 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	Samira Sakhia
Chief Executive Officer	President and Chief Financial Officer
Montreal, Canada	Montreal, Canada
August 8, 2018	August 8, 2018

INTERIM CONSOLIDATED BALANCE SHEETS

[In thousands of Canadian dollars]

[Unaudited]

As at	*Notes*	**June 30,2018**	December 31, 2017
ASSETS			
Current			
Cash and cash equivalents	*4*	**418,358**	496,460
Marketable securities	*5*	**318,388**	232,573
Trade and other receivables	*6*	**6,298**	9,176
Inventories		**966**	1,224
Other current financial assets	*8, 9*	**25,438**	58,848
Income taxes receivable		**1,002**	792
Total current assets		**770,450**	799,073
Marketable securities	*5*	**70,000**	36,000
Property and equipment		**710**	633
Intangible assets	*7*	**15,506**	12,576
Other financial assets	*8, 9*	**90,676**	76,988
Investment in associate	*10*	**78,990**	75,983
Deferred income tax assets		**2,801**	4,730
Total assets		**1,029,133**	1,005,983
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		**4,100**	5,025
Income taxes payable		**8,911**	7,599
Other balances payable		**1,418**	1,354
Deferred other income		**268**	282
Total current liabilities		**14,697**	14,260
Deferred other income		**42**	167
Other balances payable		**1,085**	348
Total liabilities		**15,824**	14,775
Shareholders' equity			
Share capital	*11 [i]*	**761,595**	761,490
Warrants		**785**	785
Contributed surplus		**13,383**	12,196
Accumulated other comprehensive income	*12*	**18,575**	20,907
Retained earnings		**218,971**	195,830
Total shareholders' equity		**1,013,309**	991,208
Total liabilities and shareholders' equity		**1,029,133**	1,005,983

Commitments *[note 18]*

Subsequent events *[note 20]*

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 June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Revenues		**2,238**	2,480	**5,392**	4,230
Cost of goods sold		**338**	472	**1,172**	760
Gross margin		**1,900**	2,008	**4,220**	3,470
Expenses					
Selling and marketing		**892**	1,050	**1,681**	1,413
General and administrative		**1,937**	2,329	**4,032**	4,797
Research and development		**572**	867	**1,061**	1,283
		(1,501)	(2,238)	**(2,554)**	(4,023)
Depreciation of property and equipment		**19**	—	**35**	—
Amortization of intangible assets		**445**	320	**886**	646
Interest income		**(4,746)**	(5,698)	**(10,034)**	(11,558)
Other income		**(37)**	(334)	**(1,388)**	(642)
Net loss (gain) on financial assets		**—**	1,056	**—**	(2,319)
Net gain on financial assets measured at fair value through profit or loss		**(2,884)**	—	**(3,425)**	—
Share of net loss (income) of associate	*10*	**151**	(96)	**(352)**	(415)
Foreign exchange loss (gain)		**49**	1,306	**(2,548)**	1,549
Income before income taxes		**5,502**	1,208	**14,272**	8,716
Income tax expense					
Current		**911**	628	**1,552**	1,108
Deferred		**572**	121	**1,792**	1,102
Net income for the period		**4,019**	459	**10,928**	6,506
Attributable to shareholders of the Company					
Basic earnings per share	*13*	**0.028**	0.003	**0.077**	0.046
Diluted earnings per share	*13*	**0.028**	0.003	**0.076**	0.045
Weighted average number of common shares outstanding					
Basic	*13*	**142,819,960**	142,760,357	**142,816,677**	142,740,562
Diluted	*13*	**143,270,324**	143,557,171	**143,247,377**	143,177,337

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[In thousands of Canadian dollars]

[Unaudited]

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Net income for the period	**4,019**	459	**10,928**	6,506
Realized gain reclassified to statement of income net of tax of $58 and $122 for the three and six-month periods ended June 30, 2017	**—**	(452)	**—**	(1,425)
Other comprehensive income (loss), net of taxes				
Items that may be reclassified subsequently to net income:				
Net unrealized gain (loss) on available-for-sale financial instruments net of tax of $178 and $434 for the three and six-month periods ended June 30, 2017	**—**	159	**—**	(887)
Unrealized gain (loss) on translation of foreign operations	**4,015**	(4,359)	**9,136**	(6,017)
Items permanently in other comprehensive income or loss:				
Net gain (loss) on equity investments at fair value through other comprehensive income net of tax of $89 and $118 for the three and six-month periods ended June 30, 2018	**1,657**	—	**(2,431)**	—
Share of other comprehensive income of associate net of tax of $456 and $838 for the three and six-month periods ended June 30, 2018	**1,444**	—	**2,655**	—
Other comprehensive income (loss) for the period	**7,116**	(4,652)	**9,360**	(8,329)
Total comprehensive income (loss) for the period	**11,135**	(4,193)	**20,288**	(1,823)

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, 2017		760,447	785	9,469	30,431	178,586	979,718
Net income for the period		—	—	—	—	6,506	6,506
Other comprehensive loss for the period		—	—	—	(8,329)	—	(8,329)
Comprehensive (loss) income		—	—	—	(8,329)	6,506	(1,823)
Share-based compensation expense	*11 [ii]*	—	—	1,864	—	—	1,864
Issuance under share option plan	*11 [ii]*	513	—	(195)	—	—	318
Issuance under share purchase plan	*11 [iii]*	103	—	—	—	—	103
Balance as at June 30, 2017		761,063	785	11,138	22,102	185,092	980,180
Balance as at December 31, 2017		**761,490**	**785**	**12,196**	**20,907**	**195,830**	**991,208**
Impact of adopting IFRS 9	*2*	—	—	—	(11,692)	12,213	**521**
Restated opening balance under IFRS 9		**761,490**	**785**	**12,196**	**9,215**	**208,043**	**991,729**
Net income for the period		—	—	—	—	10,928	**10,928**
Other comprehensive income for the period		—	—	—	9,360	—	**9,360**
Comprehensive income		—	—	—	9,360	10,928	**20,288**
Share-based compensation expense	*11 [ii]*	—	—	1,187	—	—	**1,187**
Issuance under share purchase plan	*11 [iii]*	105	—	—	—	—	**105**
Balance as at June 30, 2018		**761,595**	**785**	**13,383**	**18,575**	**218,971**	**1,013,309**

See accompanying notes

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

[In thousands of Canadian dollars]

[Unaudited]

	Notes	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
OPERATING ACTIVITIES					
Net income for the period		**4,019**	459	**10,928**	6,506
Adjustments reconciling net income to operating cash flows:					
Deferred tax		**572**	121	**1,792**	1,102
Share-based compensation expense	*11 [ii]*	**642**	1,018	**1,187**	1,864
Depreciation and amortization		**464**	320	**921**	646
Accretion of interest		**—**	(1,106)	**—**	(2,184)
Net (gain) loss on financial assets		**(2,884)**	1,056	**(3,425)**	(2,319)
Foreign exchange loss (gain)		**49**	1,344	**(2,548)**	1,549
Share of net loss (income) of associate	*10*	**151**	(96)	**(352)**	(415)
Other income		**—**	155	**—**	—
Deferred other income		**(45)**	(84)	**(139)**	(231)
		2,968	3,187	**8,364**	6,518
Changes in non-cash working capital related to operations	*15*	**1,091**	(2,341)	**2,559**	(1,436)
Dividends from associate		**—**	2,525	**—**	2,525
Cash inflow from operating activities		**4,059**	3,371	**10,923**	7,607
INVESTING ACTIVITIES					
Purchase of marketable securities		**(232,762)**	(98,182)	**(283,517)**	(142,473)
Purchase of intangible		**—**	—	**(3,000)**	—
Purchase of property and equipment		**(44)**	—	**(86)**	—
Issuance of loans receivables		**(831)**	(1,807)	**(831)**	(1,807)
Purchase of equities		**(310)**	(120)	**(710)**	(2,939)
Investment in funds		**(9,925)**	(6,190)	**(14,202)**	(10,331)
Proceeds on maturity of marketable securities		**64,091**	106,073	**165,409**	126,559
Proceeds from repayments of loans receivable		**1,594**	2,266	**35,034**	30,324
Proceeds from disposal of equities		**1,015**	2,806	**1,015**	3,515
Proceeds from distribution of funds		**5,756**	1,222	**6,099**	3,376
Cash (outflow) inflow from investing activities		**(171,416)**	6,068	**(94,789)**	6,224
FINANCING ACTIVITIES					
Proceeds from exercise of stock options		**—**	—	—	345
Proceeds from contributions to share purchase plan	*11 [iii]*	**42**	50	**91**	93
Cash inflow from financing activities		**42**	50	**91**	438
(Decrease) Increase in cash during the period		**(167,315)**	9,489	**(83,775)**	14,269
Cash and cash equivalents, beginning of the period		**583,408**	519,522	**496,460**	514,942
Net foreign exchange difference		**2,265**	(1,132)	**5,673**	(1,332)
Cash and cash equivalents, end of the period		**418,358**	527,879	**418,358**	527,879
Supplemental cash flow information:					
Interest received		**4,785**	5,988	**11,663**	10,006
Net income taxes paid		**147**	744	**403**	1,030

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

[Unaudited]

GLOSSARY OF ABBREVIATIONS

Abbreviation	Company
60P	60º Pharmaceuticals LLC
Antibe	Antibe Therapeutics Inc.
Crescita	Crescita Therapeutics Inc.
Knight or the Company	Knight Therapeutics Inc.
Medimetriks	Medimetriks Pharmaceuticals Inc.
Medison	Medison Biotech (1995) Ltd.
Pediapharm	Pediapharm Inc.
Synergy	Synergy CHC Corp.
TherapeuticsMD	TherapeuticsMD, Inc

Abbreviation	Financial
EUR	Euro
US$	U.S. Dollar

Abbreviation	Other
AFS	Available-for-sale
AOCI	Accumulated other comprehensive income
CEO	Chief Executive Officer
FV	Fair value
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
n/a	Not applicable (due to adoption of IFRS 9)
RE	Retained earnings

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

2.1 Basis of presentation

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, 2017, except for changes in accounting policies described in note 2.2. 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.

2.2 New standards adopted

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2017 except for IFRS 9 and IFRS 15 adopted on January 1, 2018. The Company has not adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Financial Instruments

IFRS 9 replaces IAS 39 and 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 four principal classification categories for financial assets, namely: amortized cost, FVOCI with gains or losses recycled to profit or loss on derecognition, FVOCI with no recycling of gains or losses to profit or loss on derecognition and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and AFS. The following summarizes the accounting policies used by the Company upon adoption of IFRS 9.

Initial classification

The classification of the Company's financial instruments is as following:

Classification	Financial instruments	Description
Financial assets measured at amortized cost	Cash	Cash balances with banks.
	Cash equivalents	Highly liquid investments that are readily convertible into a known amount of cash.
	Marketable securities	Liquid investments that are readily convertible into a known amount of cash.
	Trade and other receivables	Amounts receivable from customers and third parties.
	Loans and other receivables	Loans receivable, debentures and long-term receivables.
Financial assets measured at FVTPL	Derivatives	Warrants, stock options, conversion features on debentures and other.
	Investments in funds	Life sciences venture capital equity funds and debt funds.
	Investments in equities	Equities of publicly-traded and private entities.
	Loans and receivables	Loans receivable, debentures, hybrid instruments and long-term receivables.
Financial assets measured at FVOCI (with no recycling)	Investments in equities	Equities of publicly-traded and private entities.
Financial liabilities	Accounts payable and accrued liabilities	Amounts payable to suppliers and third parties.

Criteria for classification

Under IFRS 9 the Company can classify, measure and account for its loans and other receivables as amortized cost, FVOCI (with recycling) and FVTPL while equity investments can be classified as FVOCI (with no recycling) or FVTPL. The Company analyzes each loan receivable and equity investment on an individual basis. The analysis and classification is driven by the following criteria:

Classification	Criteria
Loans and other receivables and investments in funds	
Amortized cost	• Held within a business model whose objective is to hold assets in order to collect contractual cash flows and; • 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.
FVOCI (with recycling)	• 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 and; • 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.

Classification	Criteria
Loans and other receivables and investments in funds (continued)	
FVTPL	• All loans receivable and investments in funds not measured at amortized cost or at FVOCI must be measured at FVTPL.

Classification	Criteria
Investments in equity instruments	
FVTPL	• Investment acquired with the purpose of sale or, • Evidence of historical short-term profit making on similar instruments.
FVOCI (with no recycling)	• Investment made primarily for non-financial benefits such as strategic alliances and strategic investments.

Measurement

After classification as amortized cost, FVTPL or FVOCI, the Company uses the following policy for initial measurement and subsequent measurement at each reporting period:

Classification	Initial measurement	Subsequent measurement	Changes in fair value
Financial assets			
Amortized Cost	Fair value less expected credit loss	Amortized cost using the effective interest method.	Reported in consolidated statement of income when realized or impaired. Interest accretion on loans is recorded in “Interest income” on the consolidated statement of income.
FVTPL	Fair value	Re-measured at subsequent reporting dates to fair value using quoted market prices, if available. Re-measured using the Black-Scholes option pricing valuation model or other techniques if quoted market prices are not available.	Reported in “Net gain on financial assets measured at FVTPL” on the consolidated statement of income.
FVOCI (with no recycling)	Fair value	Re-measured at subsequent reporting dates to fair value using quoted market prices, if available. Re-measured using the Black-Scholes option pricing valuation model or other techniques if quoted market prices are not available.	Reported in consolidated statement of other comprehensive income. There is no recycling of amounts from the statement of comprehensive income to the statement of income upon the disposal of the financial asset.

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

Classification	Initial measurement	Subsequent measurement	Changes in fair value
Financial liabilities			
Other financial liabilities	Fair value	Amortized cost using the effective interest method.	Reported in consolidated statement of income when liability is extinguished. The interest accretion is recorded in "Interest expense" on the consolidated statement of income.

Use of Judgment and Estimates

The fair value of each strategic loan is determined using the discounted future cash flow of the principal and interest payments and the discount rate used is the fair value interest rate ("FV Interest Rate") of the loan. The Company estimates the FV Interest Rate through the following steps which involves use of significant judgement and estimates:

Assignment of credit rating: There is no reliable third-party credit rating on any of the strategic partners from which the Company has a loan outstanding balance. Therefore, the Company judgmentally assigns a credit rating to each loan based on quantitative and qualitative factors which include but are not limited to review of borrower's business plan, cash flow forecasts and financial standing.

Interest rate of comparable financial instruments: The Company reviews the interest rates of publicly-traded debt instruments with similar maturity term and credit rating as the loan being analysed. Based on the review the Company assigns a FV Interest Rate to each of its loan receivable. The Company may judgmentally exclude certain outliers in this analysis.

Impact of transition to IFRS 9

Upon adoption of IFRS 9, the Company has not restated prior periods and therefore the comparative information for 2017 is reported under IAS 39 and is not comparable to information presented for 2018. The impact of the transition is as follows:

	As at December 31, 2017			As at January 1, 2018			
	IAS 39 Classification	**IAS 39 Measurement**	**IAS 39 Carrying amount**	**IFRS 9 Classification & Measurement**	**IFRS 9 Carrying amount**	**Impact on Opening RE**	**Impact on AOCI**
Cash	FVTPL	FVTPL	490,951	Amortized Cost	490,951	—	—
Cash Equivalents	FVTPL	FVTPL	5,509	Amortized Cost	5,509	—	—
Marketable securities	FVTPL	FVTPL	268,573	Amortized Cost	268,573	—	—
Loans and other receivables	Loans and receivables	Amortized Cost	59,819	Amortized Cost[1]	3,370	—	—
		FVTPL	n/a	FVTPL[2]	56,970	521	—
Equity investments	AFS	FVOCI	19,425	FVOCI	13,050	1,403	(1,403)
		FVTPL	n/a	FVTPL	6,375	670	(670)
Derivatives	FVTPL	FVTPL	1,624	FVTPL	1,624	—	—
Fund investments	AFS	FVOCI	54,968	FVTPL	54,968	9,619	(9,619)
Transition impact						**12,213**	**(11,692)**

[1] Strategic loans to Antibe and Pediapharm and other long-term receivables classified as amortized cost
[2] On transition, a Deferred day 1 gain of $1,125 remains to be recognized over term of loans. Refer to note 9 for additional details.

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

The impact on opening retained earnings and accumulated other comprehensive income is summarized below:

	RE	AOCI
Closing balance under IAS 39 (December 31, 2017)	195,830	20,907
Transition impact	12,213	(11,692)
Opening balance under IFRS 9 (January 1, 2018)	**208,043**	**9,215**

Revenue Recognition

IFRS 15 supersedes IAS 18 Revenue, IAS 11 Construction Contracts, and other revenue related interpretations. The Company adopted IFRS 15 using the modified retrospective method of adoption in its consolidated financial statements for the annual period beginning on January 1, 2018.

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 are 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

Impact of transition to IFRS 15

The transition to the new standard resulted in no adjustment to opening retained earnings as at January 1, 2018.

2.3 Statement of compliance

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, 2017 and in note 2.2 of these interim condensed consolidated financial statements. 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, 2017.

These interim condensed consolidated financial statements were approved by the Company’s Board of Directors on August 8, 2018.

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

3. RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 16 Leases

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

4. CASH AND CASH EQUIVALENTS

As at	**June 30, 2018** **$**	December 31, 2017 $
Cash in bank	**313,413**	490,951
Term deposits of US$79,697 earning interest at rates ranging from 1.33% to 1.55% and maturing in July 2018 (December 31, 2017: US$4,391 earned interest at 1.23% and matured February 2018)	**104,945**	5,509
Total	**418,358**	496,460

5. MARKETABLE SECURITIES

As at	**June 30, 2018** **$**	December 31, 2017 $
Current		
Guaranteed investments earning interest at rates ranging from 1.25% to 2.76% and maturing from October 2018 to June 2021 (December 31, 2017: 1.10% to 2.14%; April 2018 to August 2019)	**298,100**	134,696
Term deposits of nil (December 31, 2017: US$68,413 earned interest ranging from 1.23% to 1.48%)	**—**	85,825
Guaranteed investment certificates of US$15,407 earning interest rates ranging from 1.90% to 2.88% and maturing from October 2018 to May 2019 (December 31, 2017: US$9,607 earning interest ranging from 1.50% to 1.90% and maturing from February 2018 to November 2018)	**20,288**	12,052
Total current	**318,388**	232,573
Non-current		
Guaranteed investments earning interest at rates ranging from 1.82% to 2.87% and maturing from July 2019 to June 2020 (December 31, 2017: 1.82% to 2.06%; June 2019 to August 2019)	**70,000**	36,000
Total non-current	**70,000**	36,000
Total	**388,388**	268,573

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

6. TRADE AND OTHER RECEIVABLES

As at	June 30, 2018	December 31, 2017
	$	$
Interest receivable[1]	**3,586**	5,587
Trade and accounts receivable	**1,777**	2,116
Commodity taxes receivable	**341**	392
Prepaid expenses and other receivable	**594**	1,081
Total	**6,298**	9,176

[1] Interest income earned during the six-month period ended June 30, 2018 was $10,034 (three-month period ended June 30, 2018: $4,746), of which $7,092 (three-month period ended June 30, 2018: $3,604) was earned from financial assets measured at amortized cost and $2,942 (three-month period ended June 30, 2018: $1,148) from financial assets measured at FVTPL.

7. INTANGIBLE ASSETS

	$
Cost as at January 1, 2018	**14,751**
Additions	**3,700**
Foreign exchange	**200**
Cost as at June 30, 2018	**18,651**
Accumulated amortization as at January 1, 2018	**2,175**
Amortization charge	**886**
Foreign exchange	**84**
Accumulated amortization as at June 30, 2018	**3,145**
Net book value as at June 30, 2018	**15,506**

8. OTHER FINANCIAL ASSETS

	Carrying amount[1]	
As at	**June 30, 2018**	December 31, 2017
	$	$
Loans and other receivables *[i]*		
Measured at amortized cost	**3,593**	59,819
Measured at FVTPL	**25,699**	n/a
Equity Investments *[ii]*		
AFS	**n/a**	19,425
Measured at FVTPL	**6,725**	n/a
Measured at FVOCI	**11,346**	n/a
Derivatives *[iii]*		
Measured at FVTPL	**1,865**	1,624
Fund Investments *[iv]*		
AFS	**n/a**	54,968
Measured at FVTPL	**66,886**	n/a
Total	**116,114**	135,836

[1] Balances as at June 30, 2018 are prepared in accordance with IFRS 9. Prior period comparatives have not been restated.

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

[i] Loans and other receivables

The following table summarizes the movement in loans and other receivables during the six-month period ended June 30, 2018.

	Carrying value beginning of period $	Additions $	Loan repayments $	Change in fair Value[1] $	Foreign exchange[2] $	Carrying value end of period $	Current other financial assets $	Non-current other financial assets $
Amortized Cost	3,370	703	(595)	—	115	3,593	—	3,593
FVTPL	56,970	831	(35,034)	1,185	1,747	25,699	7,341	18,358
Total	**60,340**	**1,534**	**(35,629)**	**1,185**	**1,862**	**29,292**	**7,341**	**21,951**

[1] Net changes related to change in the fair value of loan receivables and recognition of day 1 gains
[2] Net changes due to foreign currency translation recorded in the statement of income or statement of other comprehensive income

2018

During the six-month period ended June 30, 2018, as result of changes in fair value and recognition of deferred day 1 gains, the Company recorded $1,185 in the statement of income as net gain on financial assets measured at fair value through profit and loss. In addition, the Company recorded $1,862 due to foreign currency revaluation of which $917 is recorded in the statement of income as foreign exchange gain and $945 recorded in the statement of other comprehensive income as unrealized gain on translation of foreign operations.

During the three-month period ended June 30, 2018, as result of changes in fair value and recognition of deferred day 1 gains, the Company recorded $929 in the statement of income as net gain on financial assets measured at fair value through profit and loss. In addition, the Company recorded $461 due to foreign currency revaluation of which $42 is recorded in the statement of income as foreign exchange gain and $419 recorded in the statement of other comprehensive income as unrealized gain on translation of foreign operations.

2017

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

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

Loans and other receivables measured at amortized cost

Antibe

On November 13, 2015, Knight invested $500 in senior secured convertible debentures offered by Antibe. As consideration for the debenture, the Company received a conversion feature whereby up to the maturity date, the debenture can be converted into common shares of Antibe at $0.22 per share ("Antibe Conversion Option"). On March 27, 2018, Knight exercised its Antibe Conversion Option and was issued 2,489,889 common shares. As a result, Knight derecognized the loan and derivative and recognized an equity investment measured at FVPL of $996.

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

Loans and other receivables measured at FVTPL

Medimetriks

During 2016, Knight issued $31,290 [US$23,000] to Medimetriks in secured loans to support its acquisition of the exclusive U.S. development and commercialization rights of OPA-15406 from Otsuka. On March 7, 2018, Knight received an early repayment of principal of $25,894 [US$20,000] and interest and fees of $3,569 [US$2,757].

60P

On December 10, 2015, the Company entered into a loan agreement with 60P ("60P Loan") for the development of tafenoquine ("Product") for the prevention of malaria in adults. The Product was submitted for regulatory approval on December 18, 2017 to the U.S. Food Drug and Administration. If approved, the Company will receive a success fee of $774 [US$600] which will be recorded by Knight upon approval. As at December 31, 2017, the nominal loan balance was $11,472 [US$9,145]. On February 8, 2018, 60P repaid $5,613 [US$4,460] reducing the nominal loan balance to $5,859 [US$4,685].

On April 24, 2018, Knight amended its loan agreement with 60P and committed to lend up to an additional $2,694 [US$2,100] at an interest rate of 15%, to support the regulatory approval and commercialization of tafenoquine ("60P Amendment"). As consideration for the 60P Amendment, 60P committed to pay Knight an additional $3,848 [US$3,000] plus annual interest of 9% on April 23, 2023 ("60P Debenture"). Under the terms of the 60P Convertible Debenture, Knight has the right to convert the 60P Convertible Debenture into common shares of 60P at a pre-determined exercise price at any time prior to the maturity date ("60P Conversion Feature"). Furthermore, 60P and Knight entered into an exclusive license agreement granting Knight the right to commercialize tafenoquine in Latin America. As at June 30, 2018, Knight disbursed $830 [US$647] ("Additional 60P Loan") under the 60P Amendment increasing the nominal loan balance to $7,021 [US$5,332] ("60P Loan").

As a result of the 60P Amendment, the Company recorded the Additional 60P Loan and a hybrid financial instrument representing the 60P Debenture and the 60P Conversion Feature ("60P Hybrid Instrument") at their respective relative fair values of $452 [US$352] and $380 [US$296]. At the date of the transaction, the fair value of the 60P Loan was $6,304 [US$4,914] determined using the discounted cash flow approach with a discount rate of 20.01%. The fair value of the 60P Hybrid Instrument was $1,958 [US$1,526] determined by the sum of the fair values of the 60P Debenture and 60P Conversion Feature derived respectively using the discounted cash flow approach and the Black-Scholes model.

[ii] Equity investments

The following table summarizes the movement in equity investments during the six-month period ended June 30, 2018.

	Carrying value beginning of period	Additions[1]	Disposals[2]	Change in Fair value[3]	Foreign exchange[4]	Carrying value end of period	Current other financial assets	Non-current other financial assets
	$	$	$	$	$	$	$	$
FVTPL	6,375	1,396	(996)	(50)	—	6,725	6,725	—
FVOCI	13,050	400	(19)	(2,392)	307	11,346	11,346	—
Total	**19,425**	**1,796**	**(1,015)**	**(2,442)**	**307**	**18,071**	**18,071**	—

[1] Equities purchased or received as consideration with the strategic lending transactions
[2] Cash received upon disposal of equities during the period
[3] Net changes due to revaluation to fair market value recorded in the statement of income (FVTPL) or statement of other comprehensive income (FVOCI)
[4] Net changes due to foreign currency translation recorded in the statement of income (FVTPL) or statement of other comprehensive income (FVOCI)

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

2018

During the six-month period ended June 30, 2018, the Company recorded an unrealized loss of $50 related to changes due to revaluation of equities measured at FVTPL in the statement of income. In addition, the Company recorded an unrealized loss of $2,085 related to changes due to revaluation of equities measured at FVOCI in the statement of other comprehensive income, of which $152 is recorded as unrealized gain on translation of foreign operations.

During the three-month period ended June 30, 2018, the Company recorded an unrealized loss of $203 related to changes due to revaluation of equities measured at FVTPL in the statement of income. In addition, the Company recorded an unrealized gain of $1,872 related to changes due to revaluation of equities measured at FVOCI in the statement of other comprehensive income, of which $64 is recorded as unrealized gain on translation of foreign operations.

2017

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

During the three-month period ended June 30, 2017, the Company recorded a realized gain of $492 in the statement of income as net gain on financial assets. In addition, the Company recorded an unrealized loss of $1,478 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.

Equity investments measured at FVTPL

Antibe

On March 27, 2018, Knight exercised its Antibe Conversion Option and converted its $500 debenture into 2,489,889 common shares, which were all sold during the quarter ended June 30, 2018 for $1,011.

Equity investments measured at FVOCI

The Company has designated the following strategic investments as equity investments measured at FVOCI.

As at June 30, 2018	**Number of common shares owned**	**FV $**
Crescita	2,834,689	1,899
Profound	2,990,150	2,871
Synergy[1]	17,645,812	3,180
Medimetriks[2]	2,315,007	3,396
Total		**11,346**

[1] Valued using the quoted market price (closing share price on the OTCXD) less the day 1 gain on initial measurement that the Company deferred. FMV in original currency is US$2,415.
[2] Valued using the income approach valuation technique less the day 1 gain on initial measurement that the Company deferred. FMV in original currency is US$2,581.

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

Crescita

Knight received 2,079,973 rights (the "Rights") issued under the terms of Crescita's Rights Offering Circular dated February 2, 2018 (the "Rights Offering"). Each two Rights entitled Knight to subscribe for one common share of Crescita at $0.53 per share. On March 9, 2018, the Company exercised its Rights and invested $400 and received 754,716 common shares of Crescita under the Rights Offering.

[iii] Derivatives

The following table summarizes the movement in derivatives during the six-month period ended June 30, 2018.

	Carrying value beginning of period	Additions[1]	Disposals[2]	Change in fair value	Foreign exchange[3]	Carrying value end of period	Current other financial assets	Non-current other financial assets
	$	$	$	$	$	$	$	$
2018	**1,624**	**—**	**(732)**	**902**	**71**	**1,865**	**26**	**1,839**

[1] Derivatives recognized during the period
[2] Derivatives derecognized or disposed of during the period.
[3] Net changes due to foreign currency translation, recorded in the statement of income or statement of other comprehensive income

2018

During the six-month period ended June 30, 2018, the Company recorded a change in fair value of $902 in the statement of income as net gain on financial assets measured at FVTPL. In addition, the Company recorded $71 due to foreign currency revaluation, of which $25 is recorded in the statement of income as foreign exchange gain, and $46 is recorded in the statement of other comprehensive income as unrealized gain on translation of foreign operations.

During the three-month period ended June 30, 2018, the Company recorded a change in fair value of $171 in the statement of income as net gain on financial assets measured at FVTPL. In addition, the Company recorded $32 due to foreign currency revaluation, of which $11 is recorded in the statement of income as foreign exchange gain, and $21 is recorded in the statement of other comprehensive income as unrealized gain on translation of foreign operations.

2017

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

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

Medimetriks

During 2017, pursuant to its loan agreement with Medimetriks, the Company recorded $496 [US$395] as a derivative for the right to obtain a cash payment subject to a future event. The cash payment fluctuates with the value of the common shares of Medimetriks which was determined using an income approach valuation technique. As at June 30, 2018, the derivative was recorded at a fair value of $519 [US$395].

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

Synergy

During 2017, as consideration for a $12,705 [US$10,000] loan issued to Synergy, the Company received a success fee payable at maturity. The success fee is a derivative as its value fluctuates with the changes in market price of Synergy's common shares. The initial fair value of the success fee of $870 [US$685] was determined based on the present value of the expected payment. As at June 30, 2018, the derivative was recorded at a fair value of $1,026 [US$779].

[iv] Fund investments

The following table summarizes the movement in fund investments during the six-month period ended June 30, 2018.

	Carrying value beginning of period	Additions[1]	Distributions[2]	Change in fair value	Foreign exchange[3]	Carrying value end of period	Current other financial assets	Non-current other financial assets
	$	$	$	$	$	$	$	$
2018	**54,968**	**14,202**	**(6,099)**	**1,559**	**2,256**	**66,886**	**—**	**66,886**

[1] *Investments in equity or debt funds*
[2] *Distributions received from funds in the six-month period ended June 30, 2018 generated realized gain of $1,811 (three-month period ended June 30, 2018: $505) (recorded in the current and historical consolidated statements of income through revaluation of the fund investments)*
[3] *Net changes due to foreign currency translation, recorded in the statement of income or statement of other comprehensive income*

2018

During the six-month period ended June 30, 2018, Knight invested $14,202 [including US$3,441 and EUR 1,865] and received distributions of $6,099 [including US$1,275 and EUR 2,586]. The Company recorded a net increase of $1,559 in the statement of income due to mark to market adjustments. Furthermore, the Company recorded a net increase of $2,256 due to foreign currency revaluation, of which $471 is recorded in the statement of income as foreign exchange gain, and $1,785 is recorded in the statement of other comprehensive income as unrealized gain on translation of foreign operations.

During the three-month period ended June 30, 2018, Knight invested $8,579 [including US$2,795 and EUR 1,017] and received distributions of $1,856 [including US$1,275 and EUR 128]. The Company recorded a net increase of $2,088 in the statement of income due to mark to market adjustments. Furthermore, the Company recorded a net increase of $427 due to foreign currency revaluation, of which $322 is recorded in the statement of income as foreign exchange loss, and $749 is recorded in the statement of other comprehensive income as unrealized gain on translation of foreign operations.

2017

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

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

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

9. MEASURMENT OF FINANCIAL ASSETS

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

Levels	Description	Type of financial instruments normally classified as such
Level 1	Quoted (unadjusted) prices in active markets for identical assets or liabilities.	• Investments in equities[1]
Level 2	Other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.	• 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 measured at FVTPL • Loans and receivables measured at Amortized Cost[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*

[i] Fair value hierarchy

As at	June 30, 2018	Level 1	Level 2	Level 3
	$	$	$	$
Recurring fair value measurements				
Loans measured at FVTPL	25,699	—	—	25,699
Equity investments measured at FVTPL	6,725	6,725	—	—
Equity investments measured at FVOCI	11,346	4,770	3,180	3,396
Derivatives	1,865	—	—	1,865
Fund investments measured at FVTPL	66,886	—	—	66,886
Total	**112,521**	**11,495**	**3,180**	**97,846**

There were no transfers between levels of the fair value hierarchy for the period ended June 30, 2018.

[ii] Day 1 Gains

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

- in the income statement on a straight-line basis over the term for financial assets classified as FVTPL;
- in the statement of comprehensive income for equity investments when there is a change in a factor that market participants would consider when pricing the asset.

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

The Company has the following deferred day 1 gains:

As at	June 30, 2018	December 31, 2017
	$	$
Loans measured at FVTPL		
Medimetriks[1]	**675**	n/a
Profound	—	n/a
60P Additional Loan[2]	**882**	n/a
60P Hybrid Instrument[3]	**744**	n/a
Equity investments measured at FVOCI		
Medimetriks[4]	**961**	915
Synergy[5]	**4,956**	4,721
Total	**8,218**	5,636

[1] *Day 1 gain in original currency is US$513*
[2] *Day 1 gain in original currency is US$670*
[3] *Day 1 gain in original currency is US$565*
[4] *Day 1 gain in original currency is US$730*
[5] *Day 1 gain in original currency is US$3,764*

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	June 30, 2018
	$
Carrying value, beginning of the period	**75,983**
Share of net income for the period before adjustments	3,108
Amortization of fair value adjustments	(2,756)
Share of net income for the period	**352**
Share of other comprehensive income	**2,655**
Carrying value, end of the period	**78,990**

[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:

	Notes	**Number of common shares**	**$**
Balance as at January 1, 2018		**142,811,861**	**761,490**
Issuance under share purchase plan	*[iii]*	**13,145**	**105**
Balance as at June 30, 2018		**142,825,006**	**761,595**

[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 $642 and $1,187 (2017: $1,018 and $1,864) for the three and six-month periods ended June 30, 2018 with corresponding credits to contributed surplus related to the issuance of stock options. The weighted average fair value of the options granted during the period, estimated by using the Black-Scholes option pricing model, was $3.14 (2017: $4.71). The fair value of the options was estimated on the date of grant based on the following weighted average assumptions:

	Six months ended June 30,	
	2018	2017
Weighted average risk-free interest rate	**2.13%**	1.45%
Dividend yield	**Nil**	Nil
Weighted average volatility factor *[i]*	**40%**	40%
Unvested forfeiture rate	**2%**	2%
Weighted average expected life	**6.4 years**	7.7 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]

	Six months ended June 30,			
	2018		2017	
	Number of share options #	**Weighted average exercise price $**	Number of share options #	Weighted average exercise price $
Balance beginning of the period	**3,447,659**	**7.50**	3,147,111	7.14
Options granted	**616,750**	**8.44**	515,920	10.13
Options exercised	**—**	**—**	(41,667)	8.27
Options expired/forfeited	**(9,961)**	**8.74**	(4,815)	8.45
Balance at end of the period	**4,054,448**	**7.64**	3,616,549	7.55
Options exercisable at the end of the period	**2,856,340**	**7.12**	2,210,512	6.63

[iii] Share purchase plan

The Company has a Share Purchase Plan ("Purchase Plan") allowing employees and directors of the Company to purchase common shares at listed market prices from treasury. The plan allows for employees to contribute up to a maximum of 10% of their salary and directors to contribute up to $10 per year. Under the Purchase Plan, the Company will contribute 25% of employees' or directors' contributions in the form of common shares if the employee remains employed by the Company or director remains on the Board, and has held the original shares for two years from the original purchase date. The Company's contribution in common shares is calculated using the lesser of the original common share value at the original purchase date and at the date of the Company's contribution. During the six-month period ended June 30, 2018, 13,145 shares (2017: 10,276 shares) were issued under the Purchase Plan for a total of $105 (2017: $103).

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

	June 30, 2018 $	December 31, 2017 $
Net realized gains reclassified to statement of income, net of tax of $1,913	**n/a**	(14,160)
Impairment reclassified to statement of income net of tax of $218	**n/a**	1,403
Net unrealized gains on AFS financial instruments net of tax of $1,323	**n/a**	19,856
Net unrealized losses on equities at FVOCI net of tax of $825	**(7,024)**	—
Share of other comprehensive income of an associate net of tax of $382	**2,655**	—
Unrealized gain on translation of foreign operations	**22,944**	13,808
Total	**18,575**	20,907

13. EARNINGS PER SHARE

Basic

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

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

As at	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Net income	**4,019**	459	**10,928**	6,506
Weighted average shares outstanding	**142,819,960**	142,760,357	**142,816,677**	142,740,562
Basic earnings per share	**$0.028**	$0.003	**$0.077**	$0.046

Diluted

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

As at	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Net income	**4,019**	459	**10,928**	6,506
Weighted average shares outstanding	**142,819,960**	142,760,357	**142,816,677**	142,740,562
Adjustment for warrants and share options	**450,364**	796,804	**430,700**	436,776
Weighted average shares outstanding	**143,270,324**	143,557,171	**143,247,377**	143,177,337
Diluted earnings per share	**$0.028**	$0.003	**$0.076**	$0.045

14. SEGMENT REPORTING

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

15. STATEMENT OF CASH FLOWS

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Decrease (increase) in				
Trade and other receivables	**1,194**	(2,146)	**2,878**	(1,158)
Inventories	**28**	(150)	**258**	(49)
Income taxes receivable	**(183)**	(671)	**(210)**	(773)
Long term interest receivable[1]	**(405)**	(175)	**(754)**	(330)
Increase (decrease) in				
Accounts payable and accrued liabilities	**(492)**	191	**(925)**	(84)
Income taxes payable	**949**	610	**1,312**	958
	1,091	(2,341)	**2,559**	(1,436)

[1] Refer to Note 6 for further details Recorded in other financial assets on the balance sheet.

16. PRODUCT PRICING REGULATION ON CERTAIN PATENTED DRUG PRODUCTS

All patented drug products that form part of Knight's portfolio of products are subject to pricing regulation by the PMPRB, a federal agency tasked with ensuring that prices of patented medicines are not excessive. For new patented products, the maximum non-excessive price in Canada is limited to a range with a lower bound set by the prices of existing comparable drugs sold in Canada and an upper bound set by the median prices for the same drug sold in a specified set of developed comparator countries. For existing patented products, prices cannot be increased annually by more than a factor based on Statistics Canada's Consumer Price Index. The PMPRB monitors compliance through a review of the average transaction price of each patented drug product as reported by pharmaceutical companies like Knight on a semi-annual basis. The PMPRB may from time to time deem certain of Knight's existing or future patented products to be excessively priced based on the application of its empowering legislation and regulations, including those related to price increases, the comparative assessment of new products and reductions in the highest price in international reference countries. Such determinations by the PMPRB may have a material adverse effect on Knight's financial condition and results of operations or cash flows.

The Canadian federal government has made a commitment to reduce the cost of prescription drug pending in Canada. On December 2, 2017, Health Canada published the following proposed key changes:

- changes in the comparator countries used to determine price ceilings. The changes include removal of the US (which generally has the highest international drug prices) and Switzerland and addition of seven new countries judged to have similar consumer protection-oriented mandates and relative wealth as Canada;
- new, economics-based price regulatory factors to allow the PMPRB to regulate based on the value of a medicine and its impact on the health care system; and,
- changes to certain reporting requirements, including reporting all discounts and rebates provided to third-party payers, such as provincial drug plans.

The proposed amendments, if enacted, are expected to result in a decrease in the prices of patented drugs in Canada. While the proposed regulations are expected to come into force on January 1, 2019, the precise nature and timing of these changes (including the potential retroactive application of some) will not be known until the full consultation and Canada Gazette publication processes are completed. On June 25, 2018, the PMPRB presented a draft guidelines implementation framework which is intended to give effect of the proposed changes.

The final form of regulatory changes to the PMPRB may have a significant adverse effect on the price of patented drugs sold by the Corporation in Canada and may limit the Corporation's ability to in-license and launch products in Canada due to more restrictive pricing regulations.

17. RELATED PARTY TRANSACTIONS

Pharmascience Inc., a company related to the Company's CEO, provided administrative services of approximately $5 to the Company for the six-month period ended June 30, 2018.

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 four major categories: operating lease, fund commitments, milestones and purchase commitments, and equity and loan commitments. The commitments of the Company as at June 30, 2018 are as follows:

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

[i] Operating Lease

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

	$
2018	145
2019	294
2020	294
2021	282
2022	215
Total	**1,230**

[ii] Fund commitments

As at June 30, 2018, under the terms of Company's agreements with life sciences venture capital funds, $72,715 (2017: $92,336), including $23,593 [US$17,917] and $16,109 [EUR 10,487], may be called over the life of the funds (based on the closing foreign exchange rates).

[iii] Milestones and purchase commitments

Under certain agreements, Knight may have to pay additional consideration should the Company achieve certain sales volumes or if certain milestones are met, such as regulatory approval in Canada. The Company may have to pay up to $57,522 including $25,546 [US$19,400] and $538 [EUR 350] upon achieving certain sales volumes, regulatory or other milestones related to specific products.

In addition, Knight has a commitment to purchase up to $2,082 [EUR 738 and US$721], of inventory for pharmaceutical products during the five-year period after their respective commercial launch. Furthermore, Knight has committed to certain sales force and marketing spend obligations during the five-year period after the commercial launch of one of its products.

[iv] Equity and loan commitment

Subject to loan agreements with its borrowers, Knight has committed to the following:

a) up to a maximum of $3,292 [US$2,500] to participate in the initial public offering of the borrower
b) up to an additional $1,913 [US$1,453] should the borrower meet certain conditions.

19. RECLASSIFICATION OF COMPARATIVE FIGURES

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

20. SUBSEQUENT EVENTS

[i] Notice of Reassessment from CRA

Knight received a notice of reassessment ("CRA Notice") from the Canada Revenue Agency ("CRA") for its fiscal year ended December 31, 2014. The CRA Notice relates to the disposition of the Priority Review Voucher ("PRV") granted on March 19, 2014, upon the US Food & Drug Administration's ("FDA") approval of Impavido®. The PRV was disposed of by Knight's wholly-owned subsidiary, Knight Therapeutics (Barbados) Inc., to a third party in November 2014 for gross proceeds of

US$125,000. The CRA Notice provides that Knight is liable to pay to the CRA an aggregate of $23,300 in additional taxes and interest. It is likely that the Quebec Revenue Agency ("QRA") will propose a similar adjustment which will result in an estimated additional tax liability of $19,000 increasing the total additional taxes, interest and penalties to $42,300 ("Total Tax Liability").

Knight believes that the CRA Notice is unfounded and intends to contest vigorously the CRA Notice by filing a notice of objection to start the appeals process. However, there can be no assurance regarding the outcome of the appeals process or when a resolution may be reached. In connection with the appeals process, Knight has made a deposit of $23,300 to the CRA and will make an estimated deposit of $19,000 to QRA. Knight has not recorded any tax provision for the Total Tax Liability in its financial statements. Although Knight believes its tax provisions are adequate, the final determination of tax audits and any related disputes could be materially different from historical income tax provisions and accruals.

[ii] Repayment of Profound loan

On July 26, 2018, Knight received an early repayment of $3,188 from Profound, including payment of principal of $2,857 and interest and fees.

[iii] TherapeuticsMD

On July 31, 2018, Knight entered into an exclusive licensing agreement for the commercial rights of TX-004HR and TX-001HR in Canada and Israel. TX-004HR is TherapeuticsMD's FDA-approved product, marketed as Imvexxy™ (estradiol vaginal inserts) in the U.S., for the treatment of moderate-to-severe dyspareunia (vaginal pain associated with sexual activity), a symptom of vulvar and vaginal atrophy (VVA), due to menopause. TX-001HR is TherapeuticsMD's investigational bio-identical hormone therapy combination of estradiol and progesterone in a single, oral softgel for the treatment of moderate-to-severe vasomotor symptoms due to menopause. Furthermore, Knight has invested $26,028 [USD$20,000] in common shares of TherapeuticsMD at a price of US$5.10 per share.

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