KNIGHT THERAPEUTICS INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

INTERIM CONSOLIDATED BALANCE SHEETS

[Unaudited] [In thousands of Canadian dollars]

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

Commitments *[note 11]*

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

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

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[Unaudited] [In thousands of Canadian dollars]

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

See accompanying notes

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

[Unaudited] [In thousands of Canadian dollars]

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

See accompanying notes

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

[Unaudited] [In thousands of Canadian dollars]

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

See accompanying notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

1. NATURE OF OPERATIONS

Description of business

Knight Therapeutics Inc. ("Knight" or the "Company") was incorporated on November 1, 2013 under the *Canada Business Corporations Act.* The Company is a specialty pharmaceutical company and its principal business activity is developing, acquiring, in-licensing, out-licensing, marketing and distributing innovative pharmaceutical products, consumer health products and medical devices in Canada and select international markets. The Company is headquartered in Westmount, Quebec.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and statement of compliance

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

The preparation of the Company's interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 3 of the Company's annual audited consolidated financial statements for the year ended December 31, 2015. These interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2015, which are included in the Company's 2015 annual report.

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

3. CASH AND CASH EQUIVALENTS

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

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

4. MARKETABLE SECURITIES

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

5. FINANCIAL INSTRUMENTS

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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Fair value hierarchy

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

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

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

[i] Loans and other receivables

60º Pharmaceuticals LLC

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

INTEGA Skin Sciences Inc. and Crescita Therapeutics Inc.

On January 22, 2016, Knight entered into a secured loan agreement ("Intega Loan Transaction") whereby it issued an aggregate amount of $9,000 to INTEGA Skin Sciences Inc. ("Intega") to support a business acquisition. The Company issued a loan of $6,000 ("Intega Loan") at an interest rate of 13% per year and maturing on January 22, 2022. A bridge loan of $3,000 ("Intega Bridge Loan") with a one-year term was also issued bearing interest at a minimum of 16% per annum. The loans were recorded at a fair value of $7,730 upon initial measurement and subsequently accounted for at amortized cost using effective interest rates ranging from 19.8% to 44.1%.

On September 1, 2016, Crescita Therapeutics Inc. ("Crescita") acquired Intega for $8,000 plus up to an additional $2,000 in milestones payable in Crescita shares valued at $2.44 each ("Crescita Transaction"). Subsequent to the close of the Crescita Transaction, the Intega Bridge Loan was fully repaid and Knight recognized a gain of $233 on de-recognition of financial asset. The Intega Loan was amended and restated ("Crescita Loan"), matures on January 22, 2022, has a carrying and fair value of $6,841, earns interest at 9% per annum and is secured against a letter of credit. Since the economic characteristics of the Crescita Loan are substantially different from the Intega Loan, the Company recognized a gain of $1,089 on the financial asset related to the de-recognition of the Intega Loan and subsequent recognition of the Crescita loan.

Medimetriks Pharmaceuticals, Inc.

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

[ii] Available-for-sale equity investments

Intega Skin Sciences Inc. and Crescita Therapeutics Inc.

As consideration for the Intega Loan Transaction, Knight was issued 780,574 ("Intega Shares") or 8% of the fully diluted common shares of Intega which were assigned a relative fair value of $680 using a fair value of $1 per share. Prior to the Crescita Transaction, on August 31, 2016, Knight was issued an additional 1,609,555 Intega shares ("Additional Intega Shares").

As consideration for the Crescita Transaction, Knight was issued 297,707 Crescita shares valued at $1.66 based on the September 1, 2016 closing price, in exchange for the Intega Shares resulting in a realized loss of $186. In addition, Knight received a total of 347,295 Crescita common shares and recorded a balance of sale receivable of $384 in exchange for the Additional Intega Shares resulting in other income of $968.

As at September 30, 2016, Knight held an aggregate of 1,513,502 shares of Crescita representing approximately 10.9% of its outstanding common shares.

Medimetriks Pharmaceuticals, Inc.

As part of the Medimetriks loan transaction, Knight was issued 455,219 or 3.6% of the fully diluted common shares in the capital of Medimetriks. As at February 17, 2016, the common shares were assigned a relative fair value of $2,983 [US$2,180] using a fair value of $7.39 [US$5.40] per share.

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

Pediapharm Inc.

On July 15, 2016, the Company acquired 11,470,920 common shares of Pediapharm Inc. ("Pediapharm") in exchange of 221,126 common shares and 221,126 warrants of Knight ("Pediapharm Transaction"). Combined with previously purchased shares, Knight owned a total of 13,418,920 or approximately 18.5% of the common shares of Pediapharm as at July 15, 2016. During the third quarter of 2016, Knight disposed of 1,142,500 Pediapharm shares for total proceeds of $308 and realized a gain of $70.

The fair value of each Knight warrant issued in the Pediapharm Transaction was valued at $2.82 determined using the Black-Scholes model with the following assumptions and inputs:

Assumptions	**July 15, 2016**
Risk-free interest rate	0.62%
Expected remaining term	4 years
Expected volatility	50%

Inputs	**July 15, 2016**
Value per common share	$8.35
Exercise price	$10

3D Signatures Inc.

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

Other publicly-traded equities

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

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

[iii] Available-for-sale fund investments

The following table summarizes the investments, distributions received, realized gain recorded in the statement of income and unrealized gain or loss recorded in the statement of comprehensive income.

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

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

[iv] Derivatives

Medicure

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

Synergy

On January 22, 2015, the Company entered into a loan agreement with Synergy, and as part of the transaction, Knight was issued ten-year warrants entitling the Company to purchase up to 3,584,759 additional common shares of Synergy at $0.42 [US$0.34] per share. As at September 30, 2016, the fair value of the warrants was determined using the Black-Scholes model based on the following assumptions and inputs:

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

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

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

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

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

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

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

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

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

Intega Skin Sciences Inc. and Crescita Therapeutics Inc.

As consideration for the Intega Loan Transaction, the Company was issued ten-year warrants to purchase up to 762,711 ("Intega Warrants") additional common shares at $1.18 per share. The Intega Warrants were assigned a relative fair value of $590 using the Black-Scholes model based on the fair value of $1 per share.

As consideration for the Crescita Transaction, the Intega Warrants were exchanged for 293,153 seven-year Crescita warrants to purchase up to 293,153 additional common shares at $2.44 per share resulting in a realized loss of $431. As at September 1, 2016, the fair value of $0.54 for each Crescita warrant was determined using the Black-Scholes model based on the following assumptions and inputs:

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

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

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

Apicore Inc.

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

Unrealized net loss on derivatives

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

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

6. INVESTMENT IN ASSOCIATE

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

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

[i] For the period from September 9, 2015 to December 31, 2015

[ii] The Company has received dividends from Medison as follows:

On December 7, 2015, received $2,015 [ILS5,654]
On March 15, 2016, received $2,423 [ILS7,068]
On August 11, 2016, received $2,414 [ILS7,068]

7. SHAREHOLDERS' EQUITY

[i] Share Capital

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

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

[a] Issuance of shares upon bought deal

On June 2, 2016, the Company completed a bought deal (the "Offering") for gross proceeds of $230,000 of common shares of Knight at a price of $8.00 per common share. An aggregate of 28,750,000 common shares including underwriters' over-allotment option of 3,750,000 common shares were issued. Issue costs related to the Offering were $11,463 (including deferred tax of $3,083) for the period ended September 30, 2016. Long Zone Holdings, a company controlled by Mr. Jonathan Ross Goodman, Chief Executive Officer of the Company, purchased 45,000 common shares under the Offering, and Jeffrey Kadanoff, Chief Financial Officer of the Company and Amal Khouri, Vice President of Business Development of the Company each purchased 12,500 common shares.

[b] Issuance of shares to associate

On June 16, 2016, the Company issued 250,000 common shares at a price of $8.29 per share for $2,073 and reduced the amount of contingent consideration recorded in contributed surplus upon the initial investment in Medison by $943. Consequently, the Company recorded an increase of $1,130 in the investment in associate.

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

On July 15, 2016, the Company issued 221,126 common shares at a price of $8.35 per share as consideration in the Pediapharm Transaction.

[d] Share purchase loans

On June 2, 2016, certain participating employees were granted $200 in share purchase loans bearing an interest rate of 1% per annum to help fund the acquisition of 25,000 common shares from the Share Offering. The obligations of the employees are secured by an agreement of pledge of securities granted by the employees in favour of the Company until such time as the individual loans are repaid. The share purchase loans are due and payable to the Company upon the sale of the common shares or upon the termination of employment, subject to certain conditions being met. These loans have been recorded against the share capital.

[ii] Share option plan

The Company has an equity-settled Share Option Plan ("the Plan") in place for the benefit of employees, directors and officers of the Company. The aggregate maximum number of shares reserved for issuance under the Plan at any given time shall not exceed 10% of the outstanding shares as of the grant date of an option and the option period may be up to ten years from the date the option is granted. The Board of Directors or its designated committee may determine when an option will become exercisable and may determine that the option will be exercisable immediately upon the date of grant, in instalments or pursuant to a vesting schedule. Generally, the options have a seven-year or ten-year term and vest over a one-year period for directors and a three-year period for employees.

The Company recorded compensation expense of $765 and $2,648 (2015: $943 and $3,808) for the three and nine-month periods ended September 30, 2016 with a corresponding credit to contributed surplus related to the issuance of stock options. The Company determined the weighted average fair value of the options to be $4.01 (2015: $3.86) under the Black-Scholes option pricing model using the following assumptions:

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

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

9. EARNINGS PER SHARE

Basic

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

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

Diluted

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

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

10. SEGMENT REPORTING

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

11. COMMITMENTS

In the normal course of business, the Company secures development, sales, marketing and distribution rights to innovative drug products requiring royalties or product payments considered normal operating commitments and as such not included herein. The Company has entered into various agreements which include contractual obligations extending beyond the current year. These obligations are classified into four major categories: fund commitments, revenue, milestone and purchase commitments, equity and loan commitments and other commitments. The commitments of the Company as at September 30, 2016 are as follows.

[i] Fund commitments

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

[ii] Revenue, milestone and purchase commitments

Under certain agreements, Knight may have to pay additional consideration should the Company achieve certain sales volumes or if certain milestones are met, such as regulatory approval in Canada. The Company may have to pay up to $28,465 including $17,053 [US$13,000] and $663 [€450] upon achieving certain sales volumes, regulatory or other milestones related to specific products.

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

[iii] Equity and loan commitments

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

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

[iv] Other commitments

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

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

12. STATEMENT OF CASH FLOWS

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

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

Stock Exchange Listing
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