

**KNIGHT THERAPEUTICS INC.**

**Management's Discussion and Analysis**  
**For the quarter ended September 30, 2016**



**KNIGHT THERAPEUTICS INC.**

**Management's Discussion and Analysis for the third quarter of 2016**

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

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

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

## KNIGHT THERAPEUTICS INC.

### Management's Discussion and Analysis for the third quarter of 2016

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**Cautionary note regarding forward-looking statements**

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

The Company considers the assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared, but cautions the reader that these assumptions regarding future events, many of which are beyond the control of the Company and its subsidiaries, may ultimately prove to be incorrect. Factors and risks which could cause actual results to differ materially from current expectations are discussed in the Company's Annual Report and in the Company's Annual Information Form for the year ended December 31, 2015. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information or future events, except as required by law.

## Glossary of abbreviations

Abbreviation	Description
AFS	Available for sale
CAD	Canadian Dollar
EPS	Earnings per share to common shareholders
EUR	Euro
IFRS	International Financial Reporting Standards
ILS	New Israeli Shekels
MD&A	Management's Discussion and Analysis
Q3-16	Third quarter of 2016
Q2-16	Second quarter of 2016
Q1-16	First quarter of 2016
Q4-15	Fourth quarter of 2015
Q3-15	Third quarter of 2015
Q2-15	Second quarter of 2015
Q1-15	First quarter of 2015
Q4-14	Fourth quarter of 2014
Rx	Prescription pharmaceutical product
U.S.	United States of America
USD	U.S. dollar
YTD-16	January 1, 2016 – September 30, 2016
YTD-15	January 1, 2015 – September 30, 2015

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## **OVERVIEW**

### **Section 1 – About Knight Therapeutics Inc.**

- Specialty pharmaceutical company, headquartered in Westmount, Canada, and listed on Toronto Stock Exchange under the ticker symbol "GUD".
- Principal business activity is developing, acquiring, in-licensing, out-licensing, marketing and distributing innovative pharmaceutical products, consumer health products and medical devices in Canada and select international markets.
- Finances other life sciences companies in Canada and internationally with the goal of earning interest income, strengthening relationships in the life sciences industry, and securing product distribution rights for Canada and select international markets.
- Invests in life sciences venture capital funds whereby the Company earns a return similar to any other limited partner in the fund and receives preferential access to innovative healthcare products from around the world for Canada and select international markets.
- Develops innovative pharmaceuticals including those used to treat neglected tropical diseases and rare pediatric diseases.

### **Section 2 – Quarter 3-2016 Highlights**

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

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**FINANCIAL RESULTS**

**Section 3 – Results of operations**

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

<sup>1</sup> A positive variance represents a positive impact to net income and a negative variance represents a negative impact to net income

<sup>2</sup> Percentage change is presented in absolute values

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

	Q3-16 vs Q3-15	YTD-16 vs YTD-15
<b>Revenues</b>	The growth in revenues is attributable to following:	
	<ul style="list-style-type: none"> <li>• <b>Rx:</b> Impavido® revenues increased by \$1,445 primarily due to full recognition of revenues post termination of the distribution and sale agreement with our partner, and the U.S. commercial launch both in March 2016.</li> <li>• <b>Consumer Products:</b> Revenues increased by \$333 due to two launches in June and November 2015.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Rx:</b> Impavido® revenues increased by \$2,497 primarily due to full recognition of revenues of Impavido® post termination of the distribution and sale agreement with our partner, and the U.S. commercial launch both in March 2016.</li> <li>• <b>Consumer Products:</b> Revenues increased by \$904 due to two launches in June and November 2015.</li> </ul>
<b>Cost of goods sold</b>	<ul style="list-style-type: none"> <li>• The increase is attributable to the growth in revenues.</li> </ul>	
<b>Selling and marketing</b>	<ul style="list-style-type: none"> <li>• The increase is related to the launch of new products.</li> </ul>	
<b>General and administrative</b>	<ul style="list-style-type: none"> <li>• No significant variance.</li> </ul>	<ul style="list-style-type: none"> <li>• Decrease is mainly related to lower expense on stock options issued to management in 2014.</li> </ul>
<b>Research and development expenses</b>	<ul style="list-style-type: none"> <li>• Decrease is due to upfront payments on the acquisition of certain pharmaceutical product rights (Advaxis, Akorn and Alimera) in 2015.</li> </ul>	
<b>Interest income</b>	<ul style="list-style-type: none"> <li>• Derived primarily from interest earned on loans, cash and cash equivalents, marketable securities, and accretion on loans receivable.</li> </ul>	
	<p><b>Interest Income</b></p> <ul style="list-style-type: none"> <li>• Interest Income in Q3-16 at \$5,246, increase of 67% or \$2,103 compared to prior year driven by loan deals closed in 2016 (Medimetriks, Intega/Crescita) and an increase in the average cash, cash equivalents and marketable securities balances due to proceeds raised in public offering in June 2016.</li> </ul> <p><b>Accretion</b></p> <ul style="list-style-type: none"> <li>• Accretion of \$2,129 in Q3-16, increase of 85% or \$975 driven by loan deals closed in 2016.</li> </ul>	<p><b>Interest Income</b></p> <ul style="list-style-type: none"> <li>• Interest income for YTD-16 \$13,340, increase of 57% or \$4,856 compared to prior year driven by loan deals closed in 2016 (Medimetriks, Intega/Crescita) and an increase in the average cash, cash equivalents and marketable securities balances due to proceeds raised in public offering in June 2016.</li> </ul> <p><b>Accretion</b></p> <ul style="list-style-type: none"> <li>• Accretion of \$4,975 in YTD-16, increase of 48% or 1,602 driven by loan deals closed in 2016.</li> </ul>

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	<b>Q3-16 vs Q3-15</b>	<b>YTD-16 vs YTD-15</b>
<b>Other income</b>	<ul style="list-style-type: none"> <li>• Increase is primarily driven by the value of additional shares of Intega received prior to the close of the Crescita Transaction.</li> </ul>	
<b>Net loss (gain) on financial assets</b>	<ul style="list-style-type: none"> <li>• Loss is primarily explained by the loss on revaluation of the Synergy warrants in Q3-16 compared to realized gains on NEMO II and the sale of certain publicly traded shares in Q3-15.</li> </ul>	<ul style="list-style-type: none"> <li>• Loss is primarily explained by realized gains during YTD-15 on the sale of CRH shares [\$9,888] and NEMO II [\$6,979].</li> </ul>
<b>Purchase gain on business combination</b>	<ul style="list-style-type: none"> <li>• Relates to the excess of the fair value of the assets acquired over the consideration paid upon the acquisition of NeurAxon on January 1, 2015.</li> </ul>	
<b>Gain on settlement of loan receivable</b>	<ul style="list-style-type: none"> <li>• Relates to the acquisition of assets related to Neuragen® upon impairment of the Origin loan in June 2015.</li> </ul>	
<b>Share of income of associate</b>	<ul style="list-style-type: none"> <li>• The strategic collaboration with Medison closed on September 9, 2015 explaining the increase in the equity income in 2016.</li> </ul>	
<b>Foreign exchange (gain) loss</b>	<ul style="list-style-type: none"> <li>• Explained by gains on U.S. dollar denominated financial assets as the Canadian dollar weakened against the U.S. dollar during the period.</li> </ul>	<ul style="list-style-type: none"> <li>• Explained by losses on U.S. dollar denominated financial assets as the Canadian dollar strengthened against the U.S. dollar during the period.</li> </ul>
<b>Income tax expense</b>	<ul style="list-style-type: none"> <li>• Increase due to gains on investment in financial assets and amortization of deferred income taxes related to the Company's financings.</li> </ul>	

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**FINANCIAL CONDITION**

**Section 4 – Balance Sheet**

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

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Q3-16 vs Q4-15	
<b>Cash and cash equivalents and Marketable securities</b>	<ul style="list-style-type: none"> <li>Refer to Section 5 – Liquidity and Capital Resources for further details.</li> </ul>
<b>Trade and other receivables</b>	<ul style="list-style-type: none"> <li>Increase due to growth in revenues and interest receivable. Refer to Section 3 Revenues and Interest Income for further details.</li> </ul>
<b>Inventories</b>	<ul style="list-style-type: none"> <li>Decrease due to growth in revenues and a provision for inventory recorded in Q2-16.</li> </ul>
<b>Other Financial Assets (Current and Long Term)</b>	<ul style="list-style-type: none"> <li>Increase of \$46,101 driven by: <ul style="list-style-type: none"> <li><b>Funds:</b> increase of \$8,800 due to investments in new funds of \$1,003 and capital calls of \$11,194 offset by distributions and mark-to-market adjustments of \$3,397 in 2016.</li> <li><b>Loans and Debentures:</b> increase of \$27,091 due to loans issued in 2016 to Crescita, Medimetriks and 60P offset by principal repayments. For further details on Knight's strategic lending refer to Section 7.</li> <li><b>Equities, Warrants and Derivatives:</b> increase of \$10,210 driven mainly by the assets received through the loan transactions closed in 2016 and the investments in Pediapharm and 3D offset by the revaluation of the Synergy warrants.</li> </ul> </li> </ul>
<b>Intangible assets</b>	<ul style="list-style-type: none"> <li>Increase due to termination of the distribution and sale agreement of Impavido® and the in-licensing of the Canadian distribution rights of NETILDEX™.</li> </ul>
<b>Investment in associate</b>	<ul style="list-style-type: none"> <li>Decrease due to dividends received from Medison offset by Knight's share of net income. Refer to Section 9 for further details.</li> </ul>
<b>Share capital</b>	<ul style="list-style-type: none"> <li>Refer to note 7 in the interim condensed consolidated financial statements for details.</li> </ul>
<b>Warrants</b>	<ul style="list-style-type: none"> <li>Increase due to issuance of warrants upon investment in Pediapharm.</li> </ul>
<b>Contributed surplus</b>	<ul style="list-style-type: none"> <li>Increase related to share-based compensation expense offset by the issuance of shares to associate.</li> <li>Refer to the statement of changes in shareholder's equity in the interim condensed consolidated financial statements for further details.</li> </ul>
<b>Accumulated other comprehensive income</b>	<ul style="list-style-type: none"> <li>Refer to the statement of changes in shareholder's equity in the interim condensed consolidated financial statements.</li> </ul>
<b>Retained earnings</b>	<ul style="list-style-type: none"> <li>Refer to the statement of changes in shareholder's equity in the interim condensed consolidated financial statements.</li> </ul>

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**Section 5 – Liquidity and Capital Resources**

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

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

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

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

All figures are reflected in thousands of Canadian dollars.

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

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

Cash flows generated by operating activities for the nine-month period ended September 30, 2016 were \$12,005 compared to cash used in operating activities of \$2,697 for the comparative period last year. Cash flows for operating activities for the nine-month period ended September 30, 2016 primarily relate to cash generated through sales of Rx and consumer products, dividends from associate of \$4,837, and interest received of \$10,492 (2015: \$7,518) offset by operating expenses including salaries, research and development expenses, professional fees, and office expenses. Cash flows provided by operating activities excludes revenues and expenses not affecting cash, such as deferred income taxes, share-based compensation expense, depreciation and amortization, accretion of interest on loans receivable, foreign exchange loss, deferred revenues, deferred other income and net changes in non-cash balances relating to operations.

Cash flows used in investing activities were \$77,167 for the nine-month period ended September 30, 2016 due to the issuance net of repayments of secured loans of \$30,537, net investment in marketable securities of \$28,038, net investment in life sciences funds of \$12,168, net purchase of financial assets of \$3,133 and the acquisition of intangibles of \$3,291. For the nine-month period ended September 30, 2015, cash flows used in investing activities were \$51,328 due to the net investment in marketable securities of \$48,425, net issuance of secured loans and debentures issued of \$20,818, investment in funds of \$9,032, the purchase of \$2,356 of equity securities and disbursement of \$1,750 for the acquisition of NeurAxon. The outflows for the nine-month period ended September 30, 2015 were offset by the proceeds from the disposal of financial assets and

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proceeds from funds of \$31,265 related to distributions from NEMO II and the sale of CRH shares. Cash flows generated from financing activities were \$218,410 for the nine-month period ended September 30, 2016 were mainly due to the completion of a bought deal agreement on June 2, 2016. For the nine-month period ended September 30, 2015, cash flows generated from financing activities of \$13,841 were mainly due to the exercise in full of an over-allotment option and the exercise of compensation warrants and participation of employees and directors in the Company's share option plan.

## **PRODUCT ACQUISITION STRATEGY**

### **Section 6 – Products**

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

#### ***Q3-16 Highlights***

Knight entered into a license agreement for the exclusive rights in Canada to commercialize NETILDEX™, a fixed combination of netilmicin and dexamethasone for the treatment of ocular inflammation of the anterior segment of the eye, in presence or at risk of bacterial infection. Under the terms of this agreement, Knight will also handle all ongoing regulatory and commercial activities for NETILDEX™ in Canada.

### **Section 7 – Strategic Lending**

Knight finances other life sciences companies in all geographic markets with the goal of earning interest income, strengthening relationships in the life sciences industry and securing product distribution rights for Canada and select international markets. Typically, loans have low double digit interest rates, are fully-secured and come with additional consideration to the Company. Loans often come with product rights or product options for Canada and select international markets. These loans strengthen Knight's ties within the life sciences industry and, in doing so, help to secure product rights for Knight either on a direct or indirect basis. As of the date hereof, Knight has 10 secured loans outstanding to life sciences companies as outlined in the table below.

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

<sup>3</sup> Converted at the Bank of Canada closing exchange rates on September 30, 2016

<sup>4</sup> Pediapharm debenture is held indirectly through the Bloom Burton Healthcare Lending Trust

### Q3-16 Highlights

#### Intega Skin Sciences Inc. and Crescita Therapeutics Inc.

On January 22, 2016, Knight entered into a secured loan agreement ("Intega Loan Transaction") whereby it issued an aggregate amount of \$9,000 to INTEGA Skin Sciences Inc. ("Intega") to support a business acquisition. As consideration for the Intega Loan Transaction, Knight was issued 780,574 ("Intega Shares") or 8% of the fully diluted common shares of Intega, and was issued 10-year warrants to purchase up to 762,711 ("Intega Warrants") additional common shares at \$1.18 per share.

On September 1, 2016, Crescita Therapeutics Inc. ("Crescita") acquired Intega for \$8,000 plus up to an additional \$2,000 in milestones payable in Crescita shares valued at \$2.44 each ("Crescita Transaction"). Subsequent to the close of the Crescita Transaction, the \$3,000 Intega bridge loan was repaid, while the remaining Intega loan of \$6,000 was amended and restated. As consideration for the Crescita Transaction, Knight was issued 297,707 Crescita shares in exchange for the Intega Shares. In addition, Knight received a total of 347,295 common shares and recorded a balance of sale receivable of \$384 in exchange for additional Intega shares. The Intega Warrants were exchanged for 293,153, seven-year Crescita warrants to purchase up to 293,153 additional common shares at \$2.44 each. In addition, Knight received an embedded derivative as a price protection on a portion of the additional Intega shares.

For more details on the Crescita Transaction, refer to note 5 in the interim condensed consolidated financial statements.

#### Ember

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

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Additionally, Knight has acquired the exclusive distribution rights for two diversified products recently acquired by Ember: Migralex™, a commercially-available over-the-counter medication for treating pain, and ICX-RHY/Vavelta®, a development stage regenerative medicine asset, in all of the above-mentioned territories.

### Section 8 – Strategic Fund Investments

Knight invests in life sciences venture capital funds in which the Company earns a return similar to any other limited partner in the fund and receives preferential access to innovative healthcare products from around the world for Canada and select international markets. Knight has committed to invest with the following capital fund managers for approximately \$134,806 as at September 30, 2016, of which approximately 22% has been funded. To date, the investments in venture capital funds have led to the Canadian in-license of Iluvien® from Alimera and a portfolio of products from Advaxis.

The fair value of the AFS funds held by Knight, as at September 30, 2016, is \$34,359.

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

<sup>1</sup> Converted at the Bank of Canada closing rate at September 30, 2016

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

### Section 9 – Rest of World Strategy

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

#### Investment in Medison Biotech Ltd.

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

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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 the interim condensed consolidated financial statements.

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

<sup>1</sup>From September 9, 2015 to September 30, 2015

## RISK MANAGEMENT

### Section 10

#### 10.1 Foreign Exchange Risk

Knight holds a significant portion of its financial assets in USD, EUR and ILS which results in financial risk due to fluctuations in the value of the currencies relative to the CAD. Assuming that all other variables remain constant, a 5% change in the Canadian dollar against the U.S. dollar, EUR and ILS would have resulted in a change in the statement of income and comprehensive income of \$11,393, \$344 and \$257, respectively.

#### 10.2 Equity Price Risk

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

#### 10.3 Interest Rate Risk

The Company is subject to interest rate risk on its cash, cash equivalents and marketable securities. Details regarding maturity dates and effective interest rates are described in notes 3 and 4 of the interim condensed consolidated financial statements. The Company does not believe that the results of operations or cash flows would be materially affected to any significant degree by a sudden change in market interest rates relative to interest rates on the investments, owing to the relatively short-term nature of the marketable securities and currently low market yields.

#### 10.4 Liquidity Risk

All of the Company's financial liabilities are short term in nature. The Company generates sufficient cash from operating activities to fund its operations and fulfill its obligations as they become due. The Company has sufficient funds available through its cash, cash equivalents and marketable securities, should its cash requirements exceed cash generated from operations to cover all financial liability obligations. As at September 30, 2016, there were no restrictions on the flow of these funds nor have any of these funds been committed in any way, except as set out in Section 17.

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#### 10.5 Risk Factors

For a detailed discussion of additional risk factors, please refer to the Company's Annual Information Form for the year ended December 31, 2015 on SEDAR at [www.sedar.com](http://www.sedar.com).

## ADDITIONAL INFORMATION

### Section 11 – Selected Quarterly Financial Information

This selected information is derived from our quarterly financial statements.

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

### Section 12 – Outstanding Share Data

The table below summarizes the share data:

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

### Section 13 – Use of Proceeds from Financing

To date, Knight has raised net proceeds of approximately \$558,000 from four public offerings, including approximately \$218,000 from the public offering completed during the nine-month period ended September 30, 2016.

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

As at September 30, 2016, Knight had deployed or invested or committed to deploy or invest over \$300,000 for the purposes disclosed in the prospectuses, as described above. Pending the application of the remainder of the net proceeds, Knight has invested part of the net proceeds in short-term investment-grade securities and bank deposits, and holds the remainder in cash. Knight anticipates that it has sufficient funds available to achieve its business objectives and milestones as listed in the prospectuses.

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**Section 14 – Payment of Dividends**

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

**Section 15 – Financial Instruments**

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

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

**Section 16 – Off-balance Sheet Arrangements**

The Company's off-balance sheet arrangements consist of contractual obligations and agreements for development, sales, marketing and distribution rights to innovative drug products. The effect of terminating these arrangements under normal operating circumstances consists of an effective transaction of the remaining responsibilities and obligations to the licensor under agreed upon time frames and conditions. Please refer to note 22 of the annual audited consolidated financial statements for the year ended December 31, 2015 and to note 11 to the interim condensed consolidated statements for the period ended September 30, 2016 for additional details. Other than these contractual obligations and commitments, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

**Section 17 – Commitments**

Knight has financial commitments with respect to operating leases, a real property, equity and loans, contributions of additional capital to our AFS investments in funds, and revenue and milestone commitments related to product distribution, license and supply agreements which are reported in note 11 of our interim condensed consolidated financial statements for the period ended September 30, 2016.

**Section 18 – Segment Reporting**

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

**Section 19 – Significant Accounting Estimates and Assumptions**

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

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**Section 20 – Recent Accounting Pronouncements**

**IFRS 9 – Financial Instruments**

In July 2014, the IASB amended IFRS 9 – Financial Instruments, to bring together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 – Financial Instruments: Recognition and Measurement. The standard supersedes all previous versions of IFRS 9 and will be effective on January 1, 2018 for the Company with earlier application permitted. The Company is currently assessing the impact of this standard and amendments on its consolidated financial statements.

**IFRS 15 – Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers, to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. The standard supersedes IAS 18 – Revenue, IAS 11 – Construction Contracts, and other revenue related Interpretations.

The standard will be effective on January 1, 2018 for the Company, with earlier application permitted. The Company is currently assessing the potential impact of this standard on its consolidated financial statements.

**IFRS 16 - Leases**

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

**IAS 12 - Income taxes**

In January 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses as an amendment to IAS 12 – Income Taxes. These amendments address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company is currently assessing the potential impact of this standard on its consolidated financial statements.

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

The Company's management is responsible for the existence of appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable.

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

The Company has evaluated the effectiveness of its designed disclosure controls and procedures (“DC&P”). Based on the evaluation of its DC&P, management has concluded that they are effective as of September 30, 2016 to provide reasonable assurance that material information relating to the Company is made known to management and that information required to be disclosed in the Company's annual and interim filings and other reports are reported within the timeliness specified by securities legislation.

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The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). The Company has designed ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with IFRS. The Company did not make any material changes in the ICFR during the quarter ended September 30, 2016.

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