MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SECOND QUARTER 2016

In thousands of Canadian dollars (unless otherwise indicated) except for share and per share amounts. All other currencies are in thousands.

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 six months ended June 30, 2016. This document should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto for the three and six months ended June 30, 2016. Knight's unaudited interim condensed consolidated financial statements as at and for the three and six months ended June 30, 2016 have been prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting".

This discussion and analysis was prepared by management from information available as at August 10, 2016.

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.

Overview & Overall Performance

Knight 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. Knight 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. Additionally, Knight 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. Headquartered in Montreal, Canada, Knight is a public company listed on Toronto Stock Exchange under the ticker symbol "GUD".

Key Events in Q2, 2016

- Announced and completed a bought deal at $8.00 per common share for gross proceeds of $230,000 including over-allotment exercise;
- Received a Notice of Deficiency from Health Canada for ATryn®;
- Entered into a distribution agreement with EMPA Healthcare LLC to commercialize Neuragen® in the United Arab Emirates and Kuwait.

Subsequent to the quarter ended June 30, 2016

- Acquired 11,470,920 common shares of Pediapharm Inc. in exchange for 221,126 common shares and 221,126 four-year warrants of Knight with an exercise price of $10.00;
- Entered into a distribution agreement with Società Industria Farmaceutica Italiana S.p.A. ("SIFI") to commercialize NETILDEX™ in Canada;
- Entered into a licensing and distribution agreement with 3D Signatures Inc. ("3D Signatures") and Plicit Capital Corp. ("Plicit"). Knight also committed to a minimum equity investment of $1,000 pursuant to a business combination and public listing transaction between 3D Signatures and Plicit;
- Expanded distribution agreement with Ember Therapeutics Inc. ("Ember") to include the territories of Romania and the Caribbean and acquired the rights to two newly-acquired Ember products: Migralex™ and RHY/Vavelta®.

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 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.

IFRS 16 will be applied retrospectively for annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 – Revenue Recognition has also been applied. 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.

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.

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 internationally.

Selected Quarterly Financial Information

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

This selected information is derived from our unaudited quarterly financial statements.

	Q2, F2016	Q1, F2016	Q4, F2015	Q3, F2015	Q2, F2015	Q1, F2015	Q4, F2014	Q3, F2014
Revenues	**1,135**	1,068	343	114	333	247	110	7
Net income	**4,446**	477	5,554	6,277	8,520	13,816	124,981	563
Earnings per share								
Basic	**0.04**	0.005	0.05	0.07	0.09	0.15	1.58	0.007
Diluted	**0.04**	0.005	0.05	0.07	0.09	0.15	1.57	0.007
Cash and marketable securities	**638,423**	426,235	471,207	445,889	436,997	452,186	416,857	227,223
Total assets	**867,999**	638,336	648,988	627,821	530,136	525,424	486,614	261,614
Total liabilities	**6,034**	5,663	6,926	2,372	3,797	5,973	7,623	1,036

Results of Operations

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

	Three-months ended June 30		Six-months ended June 30	
	2016	2015	**2016**	2015
Revenues	**1,135**	333	**2,203**	580
Cost of goods sold	**535**	272	**781**	358
Gross margin	**600**	61	**1,422**	222
Expenses				
Selling and marketing	**154**	—	**168**	—
General and administrative	**2,055**	2,446	**4,234**	5,123
Research and development	**524**	301	**807**	635
	(2,133)	(2,686)	**(3,787)**	(5,536)
Depreciation of property and equipment	**10**	7	**18**	15
Amortization of intangible assets	**122**	21	**163**	42
Interest income	**(6,124)**	(3,596)	**(10,940)**	(7,562)
Other income	**(354)**	(525)	**(1,453)**	(966)
Net gain on financial assets	**(783)**	(6,495)	**(2,512)**	(14,024)
Purchase gain on business combination	**—**	—	**—**	(550)
Gain on settlement of loan receivable	**—**	(358)	**—**	(358)
Share of net income of associate	**(805)**	—	**(1,659)**	—
Foreign exchange loss (gain)	**357**	592	**4,127**	(3,818)
Income before income taxes	**5,444**	7,668	**8,469**	21,685
Income tax expense (recovery)	**578**	(1,053)	**3,119**	(1,053)
Deferred income tax expense	**420**	201	**427**	402
Net income for the period	**4,446**	8,520	**4,923**	22,336
Attributable to shareholders of the Company				
Basic earnings per share	**0.04**	0.09	**0.05**	0.24
Diluted earnings per share	**0.04**	0.09	**0.05**	0.24

Revenues

Revenues increased by $802 or 241% to $1,135 for the three-month period ended June 30, 2016 from $333 for the comparative period last year. For the six-month period ended June 30, 2016, revenues increased by $1,623 or 280% to $2,203 from $580 for the same period last year.

The increases over the comparative periods are explained primarily by the launch of Neuragen® and Flat Tummy Tea in the second half of 2015 and the launch of Impavido® in the US during the quarter ended June 30, 2016.

Cost of goods sold

Cost of goods sold was $535 for the three-month period ended June 30, 2016 as compared to $272 for the comparative quarter last year. For the six-month period ended June 30, 2016, cost of goods sold was $781 as compared to $358 for the same period last year. The increases are attributable to the product launches described in the revenues section above.

Selling and marketing

Selling and marketing expenses related to the launch of new products were $154 and $168 for the three and six months ended June 30, 2016, respectively.

General and administrative

General and administrative expenses decreased by $391 or 16% to $2,055 for the three-month period ended June 30, 2016 from $2,446 for the same period last year. For the six-month period ended June 30, 2016, general and administrative expenses decreased by $889 or 17% to $4,234 from $5,123 for the same period last year. The decrease is mainly due to the lower expense on the stock options issued to the management team in June 2014.

Research and development expenses

Research and development expenses increased by $223 or 74% to $524 for the three-month period ended June 30, 2016 from $301 for the same period last year. For the six-month period ended June 30, 2016, research and development expenses increased by $172 or 27% to $807 from $635 for the comparative period last year.

The Company's research and development expenditures relates primarily to patent, regulatory and consulting expenses related to its product pipeline, which may fluctuate from quarter to quarter.

Interest income

Interest income increased by $2,528 or 70% to $6,124 for the three-month period ended June 30, 2016 from $3,596 for the three-month period ended June 30, 2015. For the six-month period ended June 30, 2016, interest income increased by $3,378 or 45% to $10,940 from $7,562 for the same period last year.

The increase is explained by an increase in the weighted average loan receivable balance to the Company in the three-month and six-month periods ended June 30, 2016 relative to the weighted average balance in the comparative prior year periods.

Other income

Other income earned was $354 for the three-month period ended June 30, 2016 versus $525 for the same period last year. For the six-month period ended June 30, 2016, other income earned was $1,453 as compared to $966 for the comparative period. Other income earned includes fees received from related loans which may fluctuate from period to period.

Net gain on financial assets

The Company's net gain on financial assets was $783 for the three-month period ended June 30, 2016 compared to $6,495 for the same period last year. The decrease is due to the realized gain of $6.0 million during the three-month ended June 30, 2015 related to Knight's investment in NEMO II. For the six-month period ended June 30, 2016, the net gain on financial assets was $2,512 versus $14,024 for the comparative period. The decrease is primarily explained by the realized gain during the six-month period ended June 30, 2015 from NEMO II described above and the sale of CRH shares for a realized gain of $9.9 million offset by the revaluation of warrants held by the Company during the six-months period ended June 30, 2016.

Foreign exchange loss

For the three-month period ended June 30, 2016, Knight had a foreign exchange loss of $357 versus a loss of $592 for the comparative period last year. For the six-month period ended June 30, 2016 Knight had a foreign exchange loss of $4,127 as compared to a foreign exchange gain of $3,818 for the comparative period last year. The fluctuation is due to losses on U.S. dollar denominated financial assets as the Canadian dollar strengthened against the U.S. dollar during the period.

Share of income of 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.

For the three and six-month periods ended June 30, 2016, Knight's share of income from Medison was $805 and $1,659. The investment in associate was acquired in the third quarter of 2015. For more information, please refer to note 6 of the Company's unaudited interim condensed consolidated financial statements for the period ended June 30, 2016.

Income tax expense

The total income tax expense increased by $1,850 to $998 for the quarter ended June 30, 2016 from an income tax recovery of $852 for the quarter ended June 30, 2015. For the six-month period ended June 30, 2016, total income tax expense increased by $4,197 to $3,546 from an income tax recovery of $651 for the same period last year. The increase over the comparative periods is due to gains on investment in funds and amortization of deferred income taxes related to the Company's financings. Furthermore, the prior year income tax expense was offset by an adjustment to reflect the final income taxes payable of one of the Company's subsidiaries due upon filing of its corporate income tax returns.

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, 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 June 30, 2016, the Company had $638,423 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 unaudited interim condensed consolidated statements of cash flows.

All figures are reflected in thousands of Canadian dollars.

	Six months ended June 30	
	2016	2015
Net cash provided (used) by operating activities	**5,194**	(1,722)
Net cash provided (used) in investing activities	**(95,570)**	32,635
Net cash provided by financing activities	**218,402**	13,828
Increase in cash and cash equivalents during the period	**128,026**	44,741
Net foreign exchange difference	**(1,794)**	861
Cash and cash equivalents, beginning of year	**237,481**	283,445
Cash and cash equivalents, end of period	**363,713**	329,047
Marketable securities, end of period	**274,710**	107,950
Cash, cash equivalents, and marketable securities, end of period	**638,423**	436,997

The company's cash, cash equivalents and marketable securities increased by $201,426 or 46% to $638,423 at June 30, 2016 from $436,997 at June 30, 2015.

Cash flows provided by operating activities for the three-month period ended June 30, 2016 were $5,194. Cash flows provided by operating activities primarily relate to interest received of $6,821 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 revenue and net changes in non-cash balances relating to operations.

Cash flows used in investing activities were $95,570 for the period ended June 30, 2016. Cash outflows primarily relate to purchase of marketable securities, net of disposals of $49,021, the issuance of secured loans totalling $37,449, and the investment in life sciences funds of $9,225. The cash outflows were partially offset by the disposition of financial assets of $4,026 net of purchases, the dividend of $2,423 received from Medison and repayments of $2,023 on the loans receivable.

Cash flows generated from financing activities were $218,402 for the period ended June 30, 2016 due to the completion of a bought deal agreement on June 2, 2016. Refer to significant transaction below for further information.

Significant Transaction

On May 11, 2016, Knight entered into a bought deal agreement ("Share Offering") whereby a syndicate of underwriters led by GMP Securities L.P. (the "Underwriters") agreed to purchase 25,000,000 common shares of Knight at a price of $8.00 per common share for gross proceeds to Knight of $200,000. In addition, the Underwriters had the option, exercisable for a period of 30 days after June 2, 2016, to acquire up to an aggregate of 3,750,000 additional common shares at $8.00 per share for gross proceeds of $30,000 to cover over-allotments, if any and for market stabilization purposes (the "Over-Allotment Option"). On June 2, 2016 the Share Offering was completed and the Over-Allotment Option was exercised in full.

Use of Proceeds from Financing

Knight has raised net proceeds of approximately $559,000 from four public offerings since fiscal 2014, including approximately $218,000 from the public offering completed during the three-month period ended June 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 June 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.

Outstanding share data

The table below summarizes the share data:

As at	August 10, 2016
Common Shares[1]	132,701,834
Stock Options[2]	3,666,989

[1] On July 15, 2016 the Company issued 221,126 common shares pursuant to a share for share exchange transaction.

On June 16, 2016, the Company issued 250,000 common shares to Medison's controlling shareholder.

On June 2, 2016, the Company issued 28,750,000 shares pursuant to the equity raise.

[2] On July 15, 2016 the Company issued 221,126 warrants pursuant to a share for share exchange transaction.

On March 30, 2016, the Company issued 30,380 share-based compensation options to employees, officers and directors at an exercise price of $7.55 per share and 10,000 at an exercise price of $7.76.

There were 5,000 options forfeited as at August 10, 2016.

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.

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 and note 11 to the unaudited interim condensed consolidated statements 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.

Commitments

Knight has financial commitments with respect to operating leases, a real property, equity and debt, contributions of additional capital to our available-for-sale investments in funds, and revenue and milestone commitments related to product distribution, license and supply agreements which are reported in notes 11 and 13 of our unaudited interim condensed consolidated financial statements for the period ended June 30, 2016.

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, 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.

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

Foreign Exchange Risk

Knight holds a significant portion of its cash in United States dollars ("USD"). This results in financial risk due to fluctuations in the value of the USD relative to the Canadian dollar ("CAD"). Knight also holds a small portion of its cash in New Israeli Shekels ("ILS"); this amount may increase over time. This results in financial risk due to fluctuations in the value of the ILS relative to CAD. Additionally, Knight has investments denominated in Euros. This results in financial risk due to fluctuations in the value of the Euro relative to CAD. Any significant fluctuation in the USD, Euro or ILS relative to the CAD could have a significant effect on Knight's cash position.

Equity Price Risk

Equity price risk arises from changes in market prices of the available-for-sale investments. The carrying values of investments subject to equity price risk are $18,225 at June 30, 2016 (December 31, 2015: $8,479). The Company monitors its equity investments for impairment on a periodic basis and at least at 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 manages the equity price risk through the use of strict investment policies approved by the Board of Directors. The Company's Board of Directors regularly reviews and approves equity investment decisions.

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 unaudited 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.

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 June 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 the "Commitments" section above.

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.

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 June 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.

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 June 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.

KNIGHT THERAPEUTICS INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

INTERIM CONSOLIDATED BALANCE SHEETS

[Unaudited] [In thousands of Canadian dollars]

As at	*Notes*	**June 30, 2016**	December 31, 2015
ASSETS			
Current			
Cash and cash equivalents	*3*	**363,713**	237,481
Marketable securities	*4*	**274,710**	233,726
Trade and other receivables		**4,505**	2,994
Inventories		**833**	1,460
Other current financial assets	*5*	**36,763**	23,588
Income taxes receivable		**146**	231
Total current assets		**680,670**	499,480
Property and equipment		—	18
Intangible assets		**5,956**	3,320
Other financial assets	*5*	**95,076**	62,616
Investment in associate	*6*	**81,393**	81,027
Deferred income tax assets		**4,904**	2,527
Total assets		**867,999**	648,988
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		**1,289**	2,416
Income taxes payable		**4,745**	4,031
Deferred other income		—	293
Total current liabilities		**6,034**	**6,740**
Deferred income tax liabilities		—	186
Total liabilities		**6,034**	6,926
Shareholders' equity			
Share capital	*7 [i]*	**662,702**	439,148
Warrants		**161**	161
Contributed surplus		**7,712**	6,772
Accumulated other comprehensive income	*8*	**26,441**	35,955
Retained earnings		**164,949**	160,026
Total shareholders' equity		**861,965**	642,062
Total liabilities and shareholders' equity		**867,999**	648,988

Commitments *[note 11]*

Subsequent events *[note 13]*

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 June 30 2016	Three-months ended June 30 2015	Six-months ended June 30 2016	Six-months ended June 30 2015
Revenues		**1,135**	333	**2,203**	580
Cost of goods sold		**535**	272	**781**	358
Gross margin		**600**	61	**1,422**	222
Expenses					
Selling and marketing		**154**	—	**168**	—
General and administrative		**2,055**	2,446	**4,234**	5,123
Research and development		**524**	301	**807**	635
		(2,133)	(2,686)	**(3,787)**	(5,536)
Depreciation of property and equipment		**10**	7	**18**	15
Amortization of intangible assets		**122**	21	**163**	42
Interest income		**(6,124)**	(3,596)	**(10,940)**	(7,562)
Other income		**(354)**	(525)	**(1,453)**	(966)
Net gain on financial assets		**(783)**	(6,495)	**(2,512)**	(14,024)
Purchase gain on business combination		**—**	—	**—**	(550)
Gain on settlement of loan receivable		**—**	(358)	**—**	(358)
Share of net income of associate	*6*	**(805)**	—	**(1,659)**	—
Foreign exchange loss (gain)		**357**	592	**4,127**	(3,818)
Income before income taxes		**5,444**	7,668	**8,469**	21,685
Income tax expense (recovery)		**578**	(1,053)	**3,119**	(1,053)
Deferred income tax expense		**420**	201	**427**	402
Net income for the period		**4,446**	8,520	**4,923**	22,336
Attributable to shareholders of the Company					
Basic earnings per share	*9*	**0.04**	0.09	**0.05**	0.24
Diluted earnings per share	*9*	**0.04**	0.09	**0.05**	0.24
Weighted average number of common shares outstanding					
Basic		**112,681,825**	93,089,609	**108,078,434**	92,816,245
Diluted		**113,112,999**	93,222,325	**108,410,280**	93,028,011

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[Unaudited] [In thousands of Canadian dollars]

	Three-months ended June 30		Six-months ended June 30	
	2016	2015	**2016**	2015
Net income for the period	**4,446**	8,520	**4,923**	22,336
Realized gain reclassified to statement of income net of tax of $1 and $65 for the three and six-month period ended June 30, 2016 (net of tax of $810 and $1,300 for the three and six-month period ended June 30, 2015)	**(6)**	(5,206)	**(416)**	(8,050)
Other comprehensive income (loss) to be reclassified to income or loss in subsequent periods:				
Unrealized gain on available-for-sale financial instruments net of tax of $75 and $147 for the three and six-month period ended June 30, 2016 (net of tax of $72 and $404 for the three and six-month period ended June 30, 2015)	**2,127**	898	**2,548**	3,000
Unrealized (loss) gain on translating financial statements of foreign operations	**(668)**	(2,065)	**(11,646)**	10,852
Other comprehensive income (loss) for the period	**1,453**	(6,373)	**(9,514)**	5,802
Total comprehensive income (loss) for the period	**5,899**	2,147	**(4,591)**	28,138

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		—	—	—	—	22,336	**22,336**
Realized gain reclassified to statement of income, net of tax of $1,300		—	—	—	(8,050)	—	**(8,050)**
Change in fair value of available-for-sale financial instruments, net of deferred tax of $404		—	—	—	3,000	—	**3,000**
Change in unrealized gain on translating financial statements of foreign operations		—	—	—	10,852	—	**10,852**
Comprehensive income		—			5,802	22,336	**28,138**
Share-based compensation expense		—	—	2,865	—	—	**2,865**
Issuance of shares upon financing, net of costs and deferred tax of $2,200		14,573	—	—	—	—	**14,573**
Issuance of shares upon exercise of stock options		1,487	—	(553)	—	—	**934**
Issuance of warrants		—	161	—	—	—	**161**
Exercise of compensation warrants		930	—	(295)	—	—	**635**
Issuance of shares under share purchase plan		42	—	—	—	—	**42**
Balance as at June 30, 2015		**358,097**	**161**	**4,117**	**15,769**	**148,195**	**526,339**
Balance as at January 1, 2016		**439,148**	**161**	**6,772**	**35,955**	**160,026**	**642,062**
Net income for the period		—	—	—	—	4,923	**4,923**
Realized gain reclassified to statement of income, net of tax for $65		—	—	—	(416)	—	**(416)**
Change in fair value of available-for-sale financial instruments, net of deferred tax of $147					2,548		**2,548**
Change in unrealized loss on translating financial statements of foreign operations		—	—	—	(11,646)	—	**(11,646)**
Comprehensive income (loss)		—		—	(9,514)	4,923	**(4,591)**
Share-based compensation expense	*7 [ii]*	—	—	1,883	—	—	**1,883**
Issuance of shares upon bought deal, net of costs and deferred tax of $3,080	*7 [i] [a]*	221,631	—	—	—	—	**221,631**
Issuance of shares to associate	*7 [i] [b]*	2,073	—	(943)	—	—	**1,130**
Share purchase loans	*7 [i] [c]*	(200)	—	—	—	—	**(200)**
Issuance of shares under share purchase plan		50	—	—	—		**50**
Balance as at June 30, 2016		**662,702**	**161**	**7,712**	**26,441**	**164,949**	**861,965**

See accompanying notes

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

[Unaudited] [In thousands of Canadian dollars]

	Notes	Six-month period ended June 30 2016	2015
OPERATING ACTIVITIES			
Net income for the period		**4,923**	22,336
Adjustments reconciling net income to operating cash flows:			
Deferred tax		**427**	403
Share-based compensation expense	*7 [ii]*	**1,883**	2,865
Depreciation and amortization		**181**	57
Accretion of interest	*5 [i]*	**(2,846)**	(2,220)
Realized gain on sale of other financial assets		**(142)**	(13,799)
Unrealized gain on financial assets		**(2,370)**	(225)
Gain on settlement of loan receivable		—	(358)
Foreign exchange loss (gain)		**4,127**	(4,146)
Purchase gain on business combination		—	(550)
Share of net income from associate	*6*	**(1,659)**	—
Changes in non-cash working capital related to operations	*12*	**963**	(5,376)
Deferred other income		**(293)**	(709)
Cash inflow (outflow) from operating activities		**5,194**	(1,722)
INVESTING ACTIVITIES			
Purchase of marketable securities		**(283,125)**	(383,578)
Purchase of financial assets		**(5,423)**	(2,356)
Purchase of intangibles		**(2,924)**	—
Investment in funds		**(9,225)**	(8,295)
Issuance of loans receivable		**(37,449)**	(31,347)
Proceeds from repayments of loans receivable		**2,023**	10,028
Proceeds from disposal of financial assets		**4,026**	29,242
Proceeds from sale of marketable securities		**234,104**	420,691
Dividend income from associate	*6*	**2,423**	—
Consideration paid on business combination		—	(1,750)
Cash (outflow) inflow from investing activities		**(95,570)**	32,635
FINANCING ACTIVITIES			
Issuance of shares upon bought deal	*7 [i] [a]*	**218,552**	—
Proceeds from exercise of compensation warrants		—	635
Proceeds from exercise of an over-allotment option		—	12,424
Share option plan		—	934
Share purchase plan		**50**	42
Share purchase loans	*7 [i] [c]*	**(200)**	—
Cost related to prior period share issuance		—	(207)
Cash inflow from financing activities		**218,402**	13,828
Increase in cash during the period		**128,026**	44,741
Cash and cash equivalents, beginning of the period		**237,481**	283,445
Net foreign exchange difference		**(1,794)**	861
Cash and cash equivalents, end of the period		**363,713**	329,047
Supplemental cash flow information:			
Interest received		**6,821**	4,991
Income taxes paid		**2,334**	2,068

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. The Company is located at 376 Victoria Avenue, Suite 220, Westmount, Quebec, H3Z 1C3.

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 August 10, 2016.

3. CASH AND CASH EQUIVALENTS

As at	**June 30, 2016** **$**	December 31, 2015 $
Cash in bank	**360,902**	235,484
High interest savings accounts of US$2,111 earning interest rates ranging from 0.30% to 0.55%	**2,727**	—
Monthly renewable term deposit of ILS250 earning interest rate of 0.05% (December 31, 2015: ILS5,624 earning interest rate of 0.05%)	**84**	1,997
	363,713	237,481

4. MARKETABLE SECURITIES

As at	June 30, 2016 $	December 31, 2015 $
Guaranteed investment certificates earning interest rates ranging from 0.95% to 1.90% and maturing on various dates from September 2016 to April 2018 (December 31, 2015: earning interest rates ranging from 1.30% to 1.76% and maturing on various dates from January 2016 to December 2016)	**150,895**	100,000
Term deposits of US$86,354 earning interest rates ranging from 0.94% to 1.34% and maturing on various dates from October 2016 to January 2017 (December 31, 2015: US$86,864 earning interest rate of 0.60% and maturing on various dates from January 2016 to June 2016)	**111,544**	120,219
Guaranteed investment certificates of US$9,500 earning interest rate of 1.21% and maturing on November 2016	**12,271**	—
Term deposits earning interest at rates ranging from 0.20% to 0.50% and maturing on various dates from March 2016 to June 2016	—	13,507
	274,710	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, 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	
	June 30, 2016 **$**	December 31, 2015 $
Financial assets		
Cash and cash equivalents	**363,713**	237,481
Marketable securities	**274,710**	233,726
Other financial assets		
Loans and other receivables *[i]*	**74,356**	45,545
Available-for-sale equity investments *[ii]*	**18,225**	8,479
Available-for-sale fund investments *[iii]*	**29,982**	25,559
Derivatives *[iv]*	**9,276**	6,621
Total financial assets	**770,262**	557,411

[i] Loans and other receivables

On January 4, 2016, Knight issued to 60^{0} Pharmaceuticals LLC ("60P") $2,096 [US$1,500] as a second tranche of a secured loan of up to US$4,000. The loan bears interest at 15.0% per annum and will mature on December 31, 2020.

On January 22, 2016, Knight entered into a secured loan agreement ("INTEGA loan") whereby it issued an aggregate amount of $9,000 to INTEGA Skin Sciences Inc. to support a business acquisition. The Company issued a loan of $6,000 at an interest rate of 13.0% per year and maturing on January 21, 2022. A bridge loan of $3,000 with a one-year term was also issued bearing interest at a minimum of 16.0% 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 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 at a rate of 13.0% per annum and maturing on February 17, 2019. The loan was recorded at a fair value of $21,087 [US$15,410] upon initial measurement and subsequently accounted for at amortized cost using effective an interest rate of 19.7%. A second tranche of $2,524 [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.

The Company recorded in interest income, accretion of $2,846 (2015 - $2,220) for the six-months ended June 30, 2016.

[ii] Available-for-sale equity investments

As part of the INTEGA loan transaction, Knight was issued 780,574 or 8.0% of the fully diluted common shares of INTEGA. The common shares were assigned a relative fair value of $680 using a fair value of $1.00 per share.

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. 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.

For the six months ended June 30, 2016, the Company purchased $5,423 (2015 - $2,356) of common shares of publicly traded companies and disposed of $4,026 (2015 - $12,818) of common shares thereby realizing a gain of $602 (2015 - $7,783). The Company used the closing stock prices as at June 30, 2016 to measure fair value and recorded an unrealized gain of $4,443 (2015 – loss of $146) in other comprehensive income.

[iii] Available-for-sale fund investments

For the six months ended June 30, 2016, the Company invested an aggregate of $7,263 in available-for-sale funds (2015 -$8,789) and recorded an unrealized loss of $1,895 in accumulated other comprehensive income (2015 - unrealized gain of $3,146).

[iv] Derivatives

As part of the INTEGA loan transaction, the Company was issued 10-year warrants to purchase up to 762,711 additional common shares at $1.18 per share. The warrants were assigned a relative fair value of $590 using the Black Scholes model based on the fair value of $1.00 per share.

The Company recorded in net gain on financial assets, an unrealized gain of $2,655 (2015 - $225) for the six months ended June 30, 2016.

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.

	June 30, 2016	Level 1	Level 2	Level 3
	$	$	$	$
Recurring fair value measurements				
Marketable securities	274,710	—	274,710	—
Available-for-sale equity investments	14,719	14,719	—	—
Available-for-sale fund investments	29,982	—	—	29,982
Derivatives	7,330	—	—	7,330
Measured at cost or amortized cost				
Loans and other receivables	74,356	—	—	74,356
Available-for-sale equity investments	3,506	—	—	3,506
Derivatives	1,946	—	—	1,946
Total	**406,549**	**14,719**	**274,710**	**117,120**

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***	**June 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		3,873	2,634
Amortization of fair value adjustments		(2,214)	(1,593)
Share of net income for the period		**1,659**	1,041
Dividends		**(2,423)**	(2,015)
Carrying value, end of the period		**81,393**	81,027

7. SHARE CAPITAL

[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 deferred tax of $3,080	*[a]*	28,750,000	221,631
Issuance of shares to associate	*[b]*	250,000	2,073
Issuance of shares under share purchase plan		6,341	50
Share purchase loans	*[c]*	—	(200)
Balance at June 30, 2016		**132,480,708**	**662,702**

[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 $11,448 (net of deferred taxes of $3,080) for the period ended June 30, 2016. Long Zone Holdings, a company controlled by Mr. Jonathan Ross Goodman, the President and 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] 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 certain 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 term and vest over a one-year period for directors and a three-year period for employees.

The Company recorded compensation expense of $1,883 (2015 - $2,865) 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 $3.94 (2015 - $3.86) under the Black Scholes option pricing model using the following assumptions:

	Period ended June 30	
	2016	2015
Weighted average risk-free interest rate	**1.47%**	1.59%
Dividend yield	**Nil**	Nil
Weighted average volatility factor	**56.2%**	58.3%
Annualized forfeiture rate	**3.6%**	3.2%
Weighted average expected life	**7 years**	7 years

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

	Period ended June 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	**40,380**	**7.60**	690,218	8.75
Options exercised	—	—	(170,000)	5.49
Options expired/forfeited	**(5,000)**	**5.65**	—	—
Balance at end of the period	**2,850,863**	**6.90**	2,164,938	6.63
Options exercisable at end of period	**1,280,719**	**6.36**	532,407	5.64

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

As at	**June 30, 2016** $	December 31, 2015 $
Realized gains reclassified to statement of income, net of tax of $1,410 ($1,345 as at December 31, 2015)	**(9,070)**	(8,654)
Net unrealized gains in available-for-sale investments, net of tax of $1,776 ($1,629 as at December 31, 2015)	**16,398**	13,851
Unrealized gain on translating financial statements of foreign operations	**19,113**	30,758
	26,441	35,955

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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		Six-month period ended	
	June 30, 2016 $	June 30, 2015 $	**June 30, 2016** $	June 30, 2015 $
Net income	**4,446**	8,520	**4,923**	22,336
Weighted average number of shares outstanding	**112,681,825**	93,089,609	**108,078,434**	92,816,245
Basic earnings per share	**$0.04**	$0.09	**$0.05**	$0.24

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		Six-month period ended	
	June 30, 2016 $	June 30, 2015 $	**June 30, 2016** $	June 30, 2015 $
Net income	**4,446**	8,520	**4,923**	22,336
Weighted average number of shares outstanding	**112,681,825**	93,089,609	**108,078,434**	92,816,245
Adjustment for compensation warrants and share options	**431,174**	132,716	**331,846**	211,766
Weighted average number of shares outstanding (diluted)	**113,112,999**	93,222,325	**108,410,280**	93,028,011
Diluted earnings per share	**$0.04**	$0.09	**$0.05**	$0.24

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 internationally.

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 and milestone commitments, equity and loan commitments and other commitments. The commitments of the Company as at June 30, 2016 are as follows.

[i] Fund commitments

As at June 30, 2016, under the terms of Company's agreements with life sciences venture capital funds, $106,942 (2015 - $117,142) may be called over the life of the funds which is based on the closing foreign exchange rates.

[ii] Revenue and milestone 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 $25,605 including $14,855 [US$11,500] upon achieving certain sales volumes, and up to $1,938 [US$1,500], upon achieving regulatory or other milestones related to specific products.

[iii] Equity and loan commitments

Subject to a loan agreement with one its borrowers, Knight has committed up to a maximum of $3,229 [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 $2,583 [US$2,000] should the borrower meet certain conditions.

[iv] Other commitments

As at June 30, 2016, the Company is committed to approximately $110 over the next three years under two operating leases of its premises. Furthermore, the Company is committed to pay $222 [US$172] within the year towards a real property.

12. STATEMENT OF CASH FLOWS

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

As at	**June 30, 2016** $	June 30, 2015 $
Decrease (increase) in:		
Trade and other receivables	**(1,511)**	(1,062)
Inventories	**627**	(927)
Other financial assets	**602**	(271)
Income taxes receivable	**85**	—
Increase (decrease) in:		
Accounts payable and accrued liabilities	**447**	(587)
Income taxes payable	**713**	(2,529)
	963	(5,376)

13. SUBSEQUENT EVENTS

[i] Pediapharm Inc.

On July 15, 2016, the Company acquired 11,470,920 common shares of Pediapharm Inc. ("Pediapharm") in exchange for 221,126 common shares of Knight with an aggregate fair value of $1,846 and 221,126 four-year warrants of Knight. Subsequent to the purchase of the shares, the Company owned 13,418,920 common shares of Pediapharm representing approximately 18.5% of Pediapharm's outstanding common shares. Subsequent to the acquisition, the Company sold 885,000 of the Pediapharm shares and realized a gain of $51.

[ii] 3D Signatures Inc.

On July 21, 2016, the Company executed a definitive licencing and distribution agreement with 3D Signatures Inc. ("3D Signatures") and Plicit Capital Corp. ("Plicit"). Knight also committed to a minimum equity investment of $1,000 pursuant to a business combination and public listing transaction between 3D Signatures and Plicit.

[iii] Società Industria Farmaceutica Italiana S.p.A.

On August 2, 2016, the Company entered into an agreement whereby Knight received the exclusive rights to commercialize NETILDEX™ in Canada. As part of the agreement, Knight has entered into a total commitment of $1,613 (€1,188).

[iv] Other subsequent event

The company amended one of its existing loan agreement and committed to loan an additional $1,679 (US$1,300) subject to certain requirements.

Stock Exchange Listing
Toronto Stock Exchange
Trading Symbol: GUD

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