knight

2015
Annual Report

Knight Therapeutics Inc.

Product Highlights

Knight's new product partnerships in 2015*

* Includes agreements signed subsequent to the fiscal year ended December 31, 2015

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Message to our Shareholders

Since its founding on February 28, 2014, Knight has:

1. Generated $160 million of net income ($11 million from foreign exchange gains[1]);

2. Raised $355 million in three financings at increasing valuations ($3.50, $5.25 and $6.75 per share);

3. Generated US$125 million in gross proceeds from the sale of a priority review voucher to Gilead;

4. Grew our net asset value from $12 million to $642 million ($42 million from foreign exchange gains[1]);

5. Received U.S. FDA approval for Impavido;

6. Acquired or in-licenced over 20 additional innovative pipeline products from a dozen companies;

7. Sold or out-licensed the rights to Neuragen U.S., Impavido U.S., and NeurAxon U.S. and other markets;

8. Expanded internationally into Israel through a strategic partnership and equity swap with Medison, Israel's fourth largest specialty pharmaceutical company by revenue;

9. Loaned over $120 million on a fully secured basis in 14 transactions generating a 15+% internal rate of return to date; and

10. Committed over $120 million to 8 proven successful life sciences funds in an effort to secure innovative pharmaceuticals for Canada, Israel and other markets typically deemed non-strategic by larger pharmaceutical companies.

In short, we have been busy seeding the foundation for sustained growth that will be appreciated by our grandchildren. You don't plant a tree and expect to hang a swing on it the next day, nor do you acquire rights to promising innovative pharmaceuticals in development and expect immediate revenues.

Our strategy will clearly take time to bear fruit; but you, our investors, should always be able to sleep at Knight knowing that your executive management team stands hand in hand with you, as we have invested over $70 million into Knight and do not plan to sell a single share until we sell them all, which may be a long time from now.

I look forward to reporting to you next year on how Knight is fulfilling its meaningful mission of making people better through the products we sell while making a GUD living in the process.

We do not take your confidence in the Knight team for granted and I thank you for your continued support.

Jonathan Ross Goodman BA, LLB, MBA
President and CEO

[1] Better lucky than smart!

Management's Discussion and Analysis

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 year ended December 31, 2015. This document should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended December 31, 2015. Knight's annual consolidated financial statements as at and for the year ended December 31, 2015 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

This discussion and analysis was prepared by management from information available as at March 23, 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".

In 2015, Knight made significant progress in building its product pipeline, in part through its continued investment in venture capital life sciences funds and secured loans to life sciences companies, both designed to directly and indirectly enhance Knight's ability to acquire or in-license products, as well as through the direct acquisition and in-licensing of assets and product rights. As at the date hereof, Knight has committed or invested over $260,000 toward these strategies.

Knight's Product Pipeline

In less than two years, Knight has built a promising portfolio of innovative prescription pharmaceuticals and medical devices in various stages of development, which are outlined in the table below.

Product/Family	Indication	Status in Territory	Territory Rights[1]
Impavido®	Leishmaniasis	Approved in Germany, India, Israel and the U.S.	GLOBAL
AzaSite®	Bacterial conjunctivitis	Approved	CAN
ATryn®	Prevention of thromboembolic events	NDS in review	CAN
Photofrin® [2]	Oesophageal, endobronchial and papillary bladder cancers	Approved	CAN
ILUVIEN®	Diabetic macular edema	Pre-Registration	CAN
TULSA-PRO	Prostate ablation	Pre-Registration	CAN
PROBUPHINE® [3]	Opioid addiction	Pre-Registration	CAN
60˚ Pharma Family of Products	Tropical diseases	Phase 1 / 3	CAN, ISR, RUS
Advaxis Family of Products	HPV-associated cancers, prostate cancer, and HER2 overexpressing tumors	Phase 1 / 2	CAN
Ember Family of Products	Osteoarthritis, chronic kidney disease, Alport syndrome and metabolic disease	Phase 1 / 2	CAN, ISR, RUS, ZAF
NeurAxon Family of Products	Acute migraine, pain and neurological disorders	Pre-Clinical / Phase 1 / Phase 2	CAN, ISR, RUS, ZAF
Antibe Family of Products	Chronic pain and inflammation	Pre-Clinical / Phase 2A	CAN, ISR, ROM, RUS, ZAF
Blood Factor Products	Haemophilia	Pre-Registration	CAN, ISR
VEWS® Vascular Early Warning System	Detection of peripheral arterial disease	Pre-Registration	CAN, ISR

1 *Legend: **CAN** (Canada), **ISR** (Israel), **ROM** (Romania), **RUS** (Russia), **ZAF** (Sub-Saharan Africa).*

2 *On February 4, 2016, Concordia Laboratories Inc. ("Concordia") sent a notice of termination to the Company with respect to their collaboration agreement for Photofrin®. The Company does not believe that Concordia has valid grounds for such termination and is taking necessary measures to defend its legal rights.*

3 *The rights to PROBUPHINE® were obtained subsequent to the year ended December 31, 2015.*

In addition, Knight has built a diverse portfolio of unique branded consumer health products as outlined in the table below.

Brand	Indication / Description	Status in Territory	Territory Rights[1]
Neuragen®	Pain associated with diabetic and peripheral neuropathy	Marketed[2]	GLOBAL (Ex. US)
Flat Tummy Tea	Herbal detox tea cleanse	Marketed	CAN, ISR, ROM, RUS, ZAF
FOCUSFactor®	Dietary supplement for improvement of memory and concentration	Not Yet Marketed	CAN, ISR, ROM, RUS, ZAF
FLEXISEQ™	Relief of pain and joint stiffness associated with osteoarthritis	Not Yet Marketed	QUE, ISR
SEQuaderma™	Range of dermatology solutions	Not Yet Marketed	QUE, ISR
HandMD	Line of anti-aging hand skincare products	Not Yet Marketed	CAN, ISR, ROM, RUS, ZAF
UrgentRx®	Line of fast-acting, portable OTC medications	Not Yet Marketed	CAN, ISR, ROM, RUS, ZAF
Laboratoire Dr. Renaud®[3]	Dermo-cosmetic line of products	Not Yet Marketed	ISR, ROM, RUS, ZAF, CAR
Premiology®[3]	Dermo-cosmetic line of products	Not Yet Marketed	ISR, ROM, RUS, ZAF, CAR
Pro-Derm®[3]	Dermo-cosmetic line of products	Not Yet Marketed	ISR, ROM, RUS, ZAF, CAR

1 *Legend: **CAN** (Canada), **CAR** (the Caribbean), **ISR** (Israel), **QUE** (Quebec), **ROM** (Romania), **RUS** (Russia), **ZAF** (Sub-Saharan Africa).*
2 *Neuragen® is currently approved and marketed by Knight in Canada only.*
3 *These rights were obtained subsequent to the year ended December 31, 2015.*

Knight's Strategic Fund Portfolio

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. As of the date hereof, Knight has committed to invest with eight life sciences venture capital fund managers for approximately $125,000 in total commitments based on the exchange rates as of the dates of the commitments, as outlined in the table below. As of the date hereof, approximately 20% of the aggregate commitments have been funded.

Fund Manager	Fund Commitment	
	In Source Currency	In Canadian Dollars[1]
Teralys Capital	CAD $30,000	$30,000
Domain Associates LLC	USD $25,000	$29,063
Forbion Capital Partners	EUR $19,500	$27,550
Sectoral Asset Management[2]	USD $13,000	$13,919
Sanderling Ventures LLC	USD $10,000	$11,625
HarbourVest Partners LLC	CAD $10,000	$10,000
TVM Capital Life Science	USD $1,600	$1,996
Stratigis Capital Advisors Inc.[3]	CAD $500	$500

1 *In thousands of Canadian dollars, converted at the Bank of Canada noon exchange rates as of the commitment dates.*

2 *Knight received a full return of capital from its USD $13,000 investment in Sectoral's New Emerging Medical Opportunities Fund II, Ltd. and subsequently committed to reinvest USD $10,000 into Sectoral's New Emerging Medical Opportunities Fund III, Ltd.*

3 *Stratigis Capital Advisors Inc. manages the Bloom Burton Healthcare Lending Trust.*

Knight's Secured Loan Portfolio

Knight finances other life sciences companies in Canada and internationally with the goal of earning interest income, strengthening relationships in the industry, and securing product rights for Canada and select international markets. As of the date hereof, Knight has 11 secured loans outstanding to life sciences companies as outlined in the table below.

Entity	Principal Loaned to Date		Interest Rate	Maturity
	In Source Currency	In Canadian Dollars[1]		
Medimetriks Pharmaceuticals, Inc.[2]	USD $18,000	$24,631	13.0%	2019
Pro Bono Bio PLC	USD $15,000	$18,521	12.0%	2018
Synergy CHC Corp.	USD $11,500	$14,742	15.0%	2017
INTEGA Skin Sciences Inc.[2]	CAD $9,000	$9,000	13.0%	2022
Apicore Inc.	USD $6,500	$6,912	12.0%	2018
Profound Medical Inc.	CAD $4,000	$4,000	15.0%	2019
60˚ Pharmaceuticals LLC[3]	USD $2,000	$2,780	15.0%	2020
Pediapharm Inc.	CAD $1,250	$1,250	12.0%	2019
Ember Therapeutics Inc.	USD $1,000	$1,318	12.5%	2016
Extenway Solutions Inc.	CAD $800	$800	15.0%	2021
Antibe Therapeutics Inc.	CAD $500	$500	10.0%	2018

1 *In thousands of Canadian dollars, converted at the Bank of Canada noon exchange rates on the dates of each transaction.*

2 *These loans were issued subsequent to the year ended December 31, 2015.*

3 *A portion of this loan was issued subsequent to the year ended December 31, 2015.*

Key Developments in 2015

NeurAxon

Acquisition

On January 1, 2015, Knight acquired NeurAxon Inc. ("NeurAxon") for $1,750 and amalgamated the company with Knight that same day. NeurAxon is a clinical stage research company focused on the development of innovative selective inhibitors of nitric oxide synthase as novel therapies for migraine and other conditions (the "NeurAxon Products"). Knight continues to fund the development of the NeurAxon Products.

Synergy

Secured Loans & License Agreement

On January 22, 2015, Knight entered into a senior secured debt financing agreement with Synergy CHC Corp. (formerly Synergy Strips Corp.) ("Synergy"). The secured loan of $7,423 [US$6,000] bears interest at 15.0% per annum and matures on January 20, 2017. As part of the transaction, the Company was issued 4,595,187 common shares in the capital of Synergy. Knight also received a 10-year warrant entitling Knight to purchase up to 3,584,759 additional common shares of Synergy at $0.42 [US$0.34] per share. In conjunction, Knight obtained the exclusive sales rights to FOCUSFactor® and all of Synergy's brands for Canada, Israel, Russia and Sub-Saharan Africa. Synergy's brands have since grown to include HandMD, Flat Tummy Tea and UrgentRx®. In addition, Synergy acquired the U.S. rights to Neuragen® from Knight in June 2015 as further described below.

On November 12, 2015, Knight agreed to extend an additional $7,319 [US$5,500] of secured financing to Synergy. The additional secured loan also bears interest at 15.0% and matures on November 11, 2017. As part of the transaction, Knight was issued 5,550,625 common shares in the capital of Synergy. Knight also received a 10-year warrant entitling Knight to purchase up to 4,547,243 shares of Synergy at $0.65 [US$0.49] per share. As part of the transaction, Knight obtained the rights to all of Synergy's brands in Romania.

CRH

Successful Exit of Secured Loan

Knight successfully exited its investment in CRH Medical Corporation ("CRH") following early repayments of $9,971 [US$7,969] and $29,303 [US$22,031] received on March 25, 2015 and November 25, 2015, respectively. The repayments relate to the $34,032 [US$30,000] secured loan issued by Knight to CRH on December 1, 2014.

During the three months ended March 31, 2015, Knight sold all of its 3,000,000 common shares of CRH, received as part of its secured loan agreement with CRH, for gross proceeds of $9,888.

HarbourVest

Strategic Fund Investment

On April 2, 2015, Knight entered into an agreement with HarbourVest Partners LLC, whereby the Company committed to invest $10,000 into HarbourVest Canada Growth Fund L.P., which is part of the Government of Canada's Venture Capital Action Plan.

Profound

Secured Loan & License Agreement

On April 30, 2015, the Company entered into a secured debt agreement with Profound Medical Inc. ("Profound"), whereby it issued a secured loan of $4,000 on June 4, 2015 which bears interest at 15.0% per annum for an initial four year term. As part of the transaction, Knight was issued 1,717,450 common shares in the capital of Profound, representing approximately 4.0% of its fully diluted capital.

Knight also purchased $2,000 of subscription receipts as part of an approximate $24,000 offering by Profound at a price of $1.50 per subscription receipt. The subscription receipts issued in the private placement were subsequently exchanged for an aggregate of 1,333,400 common shares in the capital of Profound.

In conjunction with the loan, Knight entered into a distribution, license and supply agreement with Profound pursuant to which Knight will act as the exclusive distributor of its TULSA-PRO system in Canada for an initial 10-year term. The TULSA-PRO system is an investigational phase device used in a unique and minimally invasive treatment to ablate the prostate gland, currently being assessed in clinical trials.

Sectoral

Gain on Investment

On June 5, 2015, Knight received a distribution of $17,015 [US$13,624] related to its investment in Sectoral Asset Management Inc.'s ("Sectoral") New Emerging Medical Opportunities Fund II, Ltd. ("NEMO II") as part of a partial distribution of the fund. On August 24, 2015, Knight received a further distribution of $2,033 [US$1,539] related to its investment in NEMO II. The Company had originally committed $13,879 [US$13,000] to NEMO II on June 30, 2014 and as of the date hereof, has invested $13,201 [US$12,071] in NEMO II plus $538 [US$504] in additional fees.

On June 30, 2015, Knight entered into an agreement with Sectoral, whereby the Company committed to invest $12,474 [US$10,000] into New Emerging Medical Opportunities Fund III, Ltd ("NEMO III"), Sectoral's successor fund, following the partial distribution from Sectoral's NEMO II described above.

Neuragen®

Acquisition & Sale of U.S. Rights

On June 24, 2015, Knight acquired the assets related to Neuragen® pursuant to an order of The Supreme Court of Nova Scotia following a default by Origin BioMed Inc. ("Origin") under its secured loan agreement with Knight. Neuragen® is the first all-natural, non-prescription topical treatment for rapid relief of pain associated with diabetic and peripheral neuropathy, approved for sale in Canada and the U.S. In connection with the acquisition, Knight issued 185,000 warrants on June 30, 2015 to several Origin stakeholders which are exercisable, in some instances subject to the achievement of certain prescribed financial benchmarks, for a period of 10 years at an exercise price of $10.00 per share.

On June 26, 2015, Knight entered into a sale agreement with Synergy related to the U.S. rights to Neuragen®. Under the terms of the agreement, Knight will receive minimum aggregate consideration of $1,483 [US$1,200] payable as follows: (i) $312 [US$250] upon closing, (ii) $312 [US$250] by June 30, 2016, (iii) $874 [US$700] payable in quarterly installments equal to the greater of $15 [US$12.5] or 5.0% of U.S. net sales, plus (iv) 2.0% of U.S. net sales of Neuragen® for 60 months thereafter. Knight retains the Canadian and other ex-U.S. global rights to Neuragen®.

Pro Bono Bio

Secured Loan & License Agreement

On June 25, 2015, Knight issued a secured loan of $18,521 [US$15,000] to Pro Bono Bio PLC ("Pro Bono Bio") which bears interest at 12.0% per annum and matures on June 24, 2018. The interest rate will decrease to 10.0% if Pro Bono Bio meets certain equity-fundraising targets. Contingent on Pro Bono Bio meeting certain equity-fundraising targets, Knight will receive a fee, payable in cash or shares at the option of Pro Bono Bio, ranging from $2,472 [US$2,000] to $3,399 [US$2,750], as well as a warrant to acquire 750 common shares of Pro Bono Bio at an exercise price of $3,708 [US$3,000] per share.

In conjunction with the loan, Knight entered into an exclusive distribution agreement with Pro Bono Bio pursuant to which Knight acquired the Quebec and Israeli rights to commercialize Pro Bono Bio's FLEXISEQ™ range of pain relief products and its SEQuaderma™ derma-cosmetic range of products. Moreover, Knight obtained the exclusive Canadian and Israeli rights to two earlier stage product groups: blood factor products for the treatment of haemophilia, and diagnostic devices designed for the automated detection of peripheral arterial disease.

Extenway

Secured Loan

On June 25, 2015, Knight issued a secured loan of $800 to Extenway Solutions Inc. ("Extenway") which bears interest at a rate of 15.0% per annum and matures on June 24, 2021.

On December 21, 2015, Extenway announced that a receiver was appointed over the majority of its assets under direction from Caisse Desjardins de Beauport, another secured creditor. Knight believes its ability to recover its principal and interest is in doubt and has recorded an impairment expense of $802 in its 2015 financial statements.

TVM

Strategic Fund Investment

On June 30, 2015, Knight entered into an agreement with TVM Capital Life Science ("TVM"), whereby the Company committed to invest $1,996 [US$1,600] into TVM Life Science Venture VII, a fund dedicated to investments in early-stage molecules from pharmaceutical or biotechnology companies as well as technology platforms.

Alimera

License Agreement

On July 21, 2015, Knight entered into an agreement with Alimera Sciences, Inc. pursuant to which Knight acquired the exclusive Canadian distribution rights to ILUVIEN®, a sustained release intravitreal implant for the treatment of diabetic macular edema, which is currently commercially available in the United States, the United Kingdom, Germany and Portugal, but not approved for sale in Canada.

Akorn

License Agreement

On July 24, 2015, Knight entered into an agreement with Akorn, Inc. pursuant to which Knight acquired the exclusive Canadian distribution rights to AzaSite®, an eye drop solution for topical treatment of bacterial conjunctivitis, commonly known as pink eye. When launched, AzaSite® is expected to be the first ophthalmic azithromycin product to be available in Canada.

Ember

Secured Loan & License Agreement

On August 5, 2015, Knight issued a secured loan of $1,318 [US$1,000] to Ember Therapeutics Inc. ("Ember") which bears interest at 12.5% per annum for a one year term. Furthermore, Knight may provide additional future equity commitments to Ember of up to $6,592 [US$5,000]. On August 14, 2015, Knight assigned $654 [US$500] of the principal amount of the loan to the Bloom Burton Healthcare Lending Trust.

In conjunction with the loan, Knight entered into an exclusive distribution agreement with Ember to commercialize its Bone Morphogenetic Protein-7 pipeline, including targeted therapies for osteoarthritis and kidney fibrosis, in Canada, Israel, Russia and Sub-Saharan Africa.

ATryn®

New Drug Submission Accepted for Review by Health Canada

On August 6, 2015, Knight's New Drug Submission ("NDS") was accepted for review by Health Canada for ATryn® (Antithrombin (Recombinant)) for the prevention of peri-operative and peri-partum thromboembolic events in hereditary antithrombin deficient patients. Knight received the rights to commercialize ATryn® in Canada through its acquisition of Orphan Canada's assets in September 2014.

Advaxis

License Agreement

On August 26, 2015, Knight entered into an exclusive licensing agreement with Advaxis, Inc. ("Advaxis") to commercialize in Canada its product portfolio including its lead drug candidates for HPV-associated cancers, prostate cancer and HER2 expressing solid tumors. In connection with the licensing agreement, Knight purchased directly from Advaxis 359,454 common shares at $18.50 [US$13.91] per share, which were subsequently sold for a net gain of $186 [US$139] over the purchase price. The Advaxis licensing opportunity was brought to Knight by Sectoral as part of a periodic review of product opportunities in Canada.

Medison

Investment & Strategic Collaboration

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 consideration given for the equity interest in Medison amounts to $82,001, which includes the fair value of 10,330,884 common shares of Knight issued to Medison and its controlling shareholder, representing approximately a 10.0% equity interest in Knight plus contingent consideration and transaction costs. Up to an additional 660,000 Knight shares (either 250,000 shares, 250,000 shares plus 410,000 options, or 500,000 options) may be issued if Medison meets certain financial targets in respect of its 2015 and 2016 fiscal years.

The companies will maintain a structure that will scan and evaluate the productive Israeli pharmaceutical landscape on a regular basis and will provide them with the required resources necessary to incubate them until licensing or strategic sale. This partnership aligns well with Knight's strategy to (1) develop a footprint in select international markets such as Israel and (2) build a rich pipeline of innovative products for the Canadian market.

On November 1, 2015, Knight announced that a dividend to Knight in the amount of $1,913 [ILS 5,654] has been approved by the Board of Directors of Medison. Historically, Medison has declared dividends on a semi-annual basis.

Profounda

U.S. Partner for Impavido®

On September 28, 2015, Knight entered into an exclusive distribution agreement with Profounda Inc. ("Profounda") to commercialize Impavido® (miltefosine), an oral treatment for visceral, mucosal and cutaneous leishmaniasis, in the U.S. Under the terms of the agreement, Profounda will be responsible for leading all commercial activities related to Impavido® in the U.S. in exchange for a share of U.S. net sales.

Antibe

Secured Loan & License Agreement

On November 13, 2015, Knight purchased $500 of senior secured convertible debentures offered by Antibe Therapeutics Inc. ("Antibe") as part of a $2,600 private placement. The debentures mature on October 15, 2018, bear interest at a rate of 10.0% per year, are convertible at Knight's option into common shares of Antibe at a price of $0.22 per share and are secured by the assets of Antibe. In addition, Knight received 1,000,000 warrants to purchase 1,000,000 common shares of Antibe, exercisable until October 15, 2018, at a price of $0.31 per share.

In conjunction with the private placement, Knight entered into an exclusive long-term license and distribution agreement with Antibe to commercialize its anti-inflammatory and pain product pipeline, along with other certain future Antibe products, in Canada, Israel, Romania, Russia and Sub-Saharan Africa.

60P

Secured Loan & License Agreement

On December 10, 2015, Knight extended the first $615 [US$500] tranche of a secured loan of up to $5,440 [US$4,000] to 60˚ Pharmaceuticals LLC ("60P"). The loan bears interest at 15.0% per annum and will mature on December 31, 2020. As part of the transaction, Knight will receive a share of all proceeds arising from the successful approval of 60P's products in the U.S. and elsewhere. In addition, Knight entered an exclusive license agreement with an option to develop and commercialize all of 60P's products in Canada, Israel and Russia. In December 2015, 60P met certain conditions required to receive the second tranche of $2,095 [US$1,500] from Knight. On January 4, 2016 the second tranche was issued to 60P.

Subsequent to the quarter ended December 31, 2015

INTEGA

Secured Loan & License Agreement

On January 22, 2016, Knight extended secured loans in the aggregate amount of $9,000 to INTEGA Skin Sciences Inc. (“INTEGA”) to support its acquisition of Valeant Groupe Cosméderme Inc., which includes the Laboratoire Dr. Renaud®, Pro-Derm®, and Premiology® product lines, three high-end medical skincare brands, from Valeant Canada Limited. Knight may issue a second tranche of the secured loans in the amount of $1,000 upon INTEGA’s request, should it meet certain financial targets, and $500 at Knight’s option, conditional on specified events. The loans bear interest at a minimum interest rate of 13.0% per year and have terms ranging from one to six years. As part of this financing transaction, Knight has been issued 8.0% of the fully diluted Common shares in the capital of INTEGA.

In conjunction with the financing transaction, Knight entered into an exclusive distribution, license and supply agreement to commercialize all INTEGA’s current and future products, to the extent that INTEGA possesses the right to commercialize such products, in Israel, Romania, Russia, Sub-Saharan Africa and the Caribbean. Subject to conditions, Knight may also receive rights to certain future products in Canada.

Braeburn

License Agreement

On February 1, 2016, Knight entered into an exclusive licensing agreement with Braeburn Pharmaceuticals, Inc. (“Braeburn”) to commercialize PROBUPHINE® in Canada. PROBUPHINE® is an investigational subdermal implant designed to deliver buprenorphine continuously for six months following a single treatment, promoting patient compliance and retention as well as helping to prevent accidental paediatric exposure.

Medimetriks

Secured Loan & License Agreement

On February 17, 2016, Knight announced that it had agreed to issue a secured loan of up to $27,368 [US$20,000] to Medimetriks Pharmaceuticals, Inc. (“Medimetriks”) to support its acquisition of the exclusive U.S. development and commercialization rights for OPA-15406 from Otsuka Pharmaceutical Co., Ltd. OPA-15406 is a topical, non-steroidal phosphodiesterase IV (PDE-4) inhibitor that is part of a new treatment class for atopic dermatitis, a disease that affects up to 18 million people in the U.S. The secured loan, with an initial tranche of $24,631 [US$18,000], bears interest at a rate of 13.0% per annum for a three year term. A second tranche of US$2,737 [US$2,000] will be issued by Knight upon the U.S. Food and Drug Administration (“FDA”) filing by Medimetriks of a New Drug Application (“NDA”) for Ozenoxacin, a novel, bactericidal non-fluorinated quinolone in development as a topical treatment for impetigo. Medimetriks expects to submit the NDA for Ozenoxacin in May 2016. As part of the transaction, Knight has been issued 3.6% of the fully-diluted common shares in the capital of Medimetriks.

In addition to the secured loan, Knight and Medimetriks have entered into a license and distribution agreement whereby Knight will be Medimetriks’ exclusive distribution partner in Canada, Israel, Romania, Russia, Sub-Saharan Africa and the Caribbean for future Medimetriks products. Medimetriks currently does not have rights to any products in these territories.

Impavido®

On March 15, 2016, Knight announced that it has terminated its agreement with Paladin Labs (Barbados) Inc., (an affiliate of Endo International plc) (“Paladin”) related to the distribution and sale of Impavido® in all countries other than the U.S.

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 international markets.

Selected Annual Information

(In thousands of Canadian dollars except per share information)

The following financial data is derived from Knight's annual financial statements for each of the three most recently completed financial years.

	2015 $	2014 $	2013[1] $
Total revenue	1,037	365	—
Net income	34,167	125,859	—
Basic earnings per share	0.36	2.20	—
Diluted earnings per share	0.35	2.20	—
Total assets	**648,988**	**486,614**	—
Total non-current liabilities	**186**	—	—

1 Period from Incorporation on November 1, 2013 to December 31, 2013

Knight's revenues are principally derived from the sales of its three revenue-generating products: Impavido®, Neuragen® and Flat Tummy Tea.

For the fiscal year ended December 31, 2015, Knight's net income was principally derived from net gains on financial assets which relate, directly and indirectly, to Knight's investments in venture capital life sciences funds and secured loans to life sciences companies as well as interest income and foreign exchange gains on U.S. dollar-denominated financial assets.

For the fiscal year ended December 31, 2014, Knight's net income was principally derived from a gain on the sale of a Priority Review Voucher (the "Voucher"), received in connection with FDA approval of Impavido®, which was sold to Gilead for gross proceeds of $141,900 [US$125,000] on November 19, 2014.

In the fiscal year ended December 31, 2015, Knight entered into a strategic investment to acquire a 28.3% ownership interest in Medison in exchange for 10,330,884 shares of Knight held by Medison and its controlling shareholder. This equity interest acquired in Medison represents an investment subject to significant influence which is accounted for using the equity method from the date of acquisition, September 9, 2015. The investment was initially recorded at cost of $82,001 and adjustments were made to include the Company's share of Medison's net income.

Results of Operations

(Year ended December 31, 2015 compared to year ended December 31, 2014)

Revenues

Revenues increased by $672 or 184% to $1,037 for the year ended December 31, 2015 from $365 for the year ended December 31, 2014. Revenues for the year ended December 31, 2015 relate to sales of Impavido®, Neuragen® and Flat Tummy Tea.

The year-over-year increase is explained by the launch of Neuragen® and Flat Tummy Tea during the 2015 fiscal year. Also, the global (excluding U.S.) Impavido® distribution and license agreement with Paladin was entered into by the Company as of February 27, 2014 rather than at the start of the 2014 fiscal year.

Cost of goods

Cost of goods sold was $428 for the year ended December 31, 2015 as compared to $nil for the year ended December 31, 2014. The increase is attributable to the launch of Neuragen® in 2015, as well as an amendment to the distribution and license agreement with Paladin that took place in December 2014.

General and administrative

General and administrative expenses increased by $4,803 or 112% to $9,086 for the year ended December 31, 2015 from $4,283 for the same period last year. The increase is largely attributable to increases in share-based compensation, professional fees and wages.

Share-based compensation increased by $2,616 or 145% to $4,421 from $1,805 for the same period last year. The increase is largely explained by the growth in number of employees since the Company commenced operations in the fiscal year ended December 31, 2014, as well as a full year of share-based compensation expense in 2015 versus 2014 where the first grant of stock options occurred in June 2014. In addition, early vesting of certain employees' stock options pursuant to certain employment agreements also increased share-based compensation in 2015.

Professional fees increased by $978 or 163% in part due to the increased number of and complexity of transactions that took place in the year relative to the prior year, which in turn led to higher legal, accounting and consulting fees.

Wages increased by $818 or 57% in part due to growth to approximately 15 full-time equivalents in the year ended December 31, 2015, as compared to having approximately 10 full-time equivalents at the end of the comparative period.

Research and development expenses

Research and development expenses increased by $1,679 or 163% to $2,707 for the year ended December 31, 2015 from $1,029 for the same period last year. The increase is primarily due to the increase in acquisition of product distribution rights of $957 expensed in the three-month period ended September 30, 2015. The remaining increase is explained by FDA post-marketing requirements of Impavido®, consulting and regulatory fees, and expenses related to NeurAxon which were not required in the comparative period.

Interest income

Interest income increased by $14,732 or 378% to $18,632 for the year ended December 31, 2015 from $3,900 for the same period last year. Knight's interest income is derived primarily from interest earned on loans receivable and interest on the Company's cash, cash equivalents and marketable securities balances. The increase over the comparative period last year is largely explained by an increase in the weighted average loan receivable balance to the Company during the 2015 fiscal year relative to the weighted average balance in the comparative prior period. For details regarding changes in the Company's loan receivable balance, please refer to note 11 of the Company's annual consolidated financial statements for the year ended December 31, 2015.

Other income

Income earned for advisory and other services provided by the Company increased by $2,425 or 557% to $2,860 for the year ended December 31, 2015 from $435 for the same period last year. The increase is due to the annual fee earned in the fiscal year ended December 31, 2015 in relation to the Company's agreement with CRH, other fees received from CRH in connection with the early repayment on their loan and income earned for advisory and other services provided by the Company.

Net gain on financial assets

The Company's net gain on financial assets was $17,347 for the fiscal year ended December 31, 2015 versus $16 for the comparative period. The increase is primarily due to realized gains totalling $6,979 related to Knight's investment in NEMO II from distributions received in 2015, the sale of 3,000,000 shares of CRH for a realized gain of $7,038 that took place in the three-month period ended March 31, 2015, as well as an unrealized gain on the revaluation of financial assets of $1,966.

Purchase gain on business combination

The purchase gain on business combination of $515 for the fiscal year ended December 31, 2015 versus $nil for the comparative period is due to the excess of the fair value of the assets acquired over the consideration paid upon the acquisition of NeurAxon on January 1, 2015 as described in note 5 of the annual consolidated financial statements for the year ended December 31, 2015.

Net loss on settlement of loans receivable

The net loss on settlement of loans receivable of $650 for the year ended December 31, 2015 versus $nil for the comparative period relates to the write-off of the loan receivable from Extenway of $802 as further described in note 11 of the consolidated financial statements for the year ended December 31, 2015 offset by a realized net gain of $152 on the settlement of the loan receivable from Origin as described in note 5 of the consolidated financial statements for the year ended December 31, 2015.

Foreign exchange gain

For the year ended December 31, 2015, Knight had a foreign exchange gain of $8,579 versus a foreign exchange gain of $2,387 for the comparative period. The increase is due to further gains on U.S. dollar-denominated financial assets as the Canadian dollar weakened against the U.S. dollar during the year.

Gain on sale of intangible asset

The Company did not have any gains from the sale of intangible assets in the fiscal year ended December 31, 2015. In the comparative period, the Company sold the Voucher for gross proceeds of $141,900 [US$125,000]. The Company recorded a gain of $129,371 net of selling and disposal costs during the year ended December 31, 2014.

Share of net income of associate

Knight's share of net income from Medison, which relates to the 113 day period beginning on September 9, 2015 and ending on December 31, 2015, was $1,041. For more information, please refer to note 12 of the Company's annual consolidated financial statements for the year ended December 31, 2015.

Income tax expense

The income tax expense of $1,939 for the fiscal year ended December 31, 2015 is mainly due to the current income tax provision of $4,763 on income generated during the period 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. The income tax expense was $4,423 for the fiscal year ended December 31, 2014.

Deferred income taxes

Deferred income tax expense of $910 for the year ended December 31, 2015 relates to the origination and reversal of temporary differences in the statement of income. Deferred income tax expense was $772 for the comparative year ended December 31, 2014.

Net income

Due to the factors set forth above, net income was $34,167 or $0.35 per share on a fully diluted basis for the year ended December 31, 2015 compared to 125,859 or $2.20 per share on a fully diluted basis for the year ended December 31, 2014.

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 December 31, 2015, the Company had $471,207 of cash and cash equivalents and marketable securities.

The table below sets forth a summary of cash flow activity and should be read in conjunction with our consolidated statements of cash flows. All figures are reflected in thousands of CAD.

	2015 $	2014 $
Net cash provided by operating activities	7,636	803
Net cash used in investing activities	(67,084)	(49,085)
Net cash provided by financing activities	13,862	328,721
Increase (decrease) in cash and cash equivalents during the year	(45,586)	280,439
Foreign exchange rate gain (loss) on cash and cash equivalents	(378)	3,006
Cash and cash equivalents, beginning of year	283,445	—
Cash and cash equivalents, end of year	237,481	283,445
Marketable securities, end of year	233,726	133,412
Cash, cash equivalents, marketable securities, end of year	**471,207**	**416,857**

The company's cash, cash equivalents and marketable securities increased by $54,350 or 13% to $471,207 at December 31, 2015 from $416,857 at December 31, 2014.

Cash flows provided by operating activities for the fiscal year ended December 31, 2015 were $7,636. Cash flows provided by operating activities primarily relate to interest received of $10,107 offset by operating expenses including salaries, research and development, professional fees, TSX listing-related 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, unrealized foreign exchange gain, deferred revenue and net changes in non-cash balances relating to operations.

Cash flows used in investing activities were $67,084 for the fiscal year ended December 31, 2015. The cash outflow primarily relates to (i) the purchase of marketable securities of $79,290 net of disposals, (ii) the issuance of secured loans and debentures totalling $40,280, (iii) the investment in life sciences funds of $15,694, (iv) the purchase of equity securities totalling $11,360, and (v) the disbursement of $1,750 related to the acquisition of NeurAxon. The outflows were largely offset by the following cash inflows: (i) the proceeds from the disposal of other current financial assets of $39,071, including $19,039 from distributions related to NEMO II, $9,888 from the sale of 3,000,000 shares of CRH and $6,836 from the sale of shares of Advaxis, (ii) the $40,420 repayment of the Company's loan receivable from CRH, and (iii) the dividend of $2,015 received from Medison.

Cash flows generated from financing activities were $13,862 for the fiscal year ended December 31, 2015. The exercise in full of an over-allotment option in January 2015 provided cash of $12,424, net of costs. Cash inflows from the exercise of compensation warrants and participation of employees and directors in the Company's share option plan and share purchase plan amounted to $1,645 for the fiscal year ended December 31, 2015.

Use of Proceeds from Financing

Knight has raised net proceeds of approximately $341 million from three public offerings in fiscal 2014 which includes the completion of the over-allotment option in January 2015.

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 December 31, 2015, Knight had deployed or invested or committed to deploy or invest more than $260,000 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.

Quarterly Information (unaudited)

(In thousands of Canadian dollars except per share information)

	2015 $				2014 $			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	343	114	333	247	110	7	247	1
Net income	5,554	6,277	8,520	13,816	124,981	563	391	(76)
Basic earnings per share	0.05	0.07	0.09	0.15	1.58	0.007	0.006	(0.01)
Diluted earnings per share	0.05	0.07	0.09	0.15	1.57	0.007	0.006	(0.01)

Fourth Quarter Analysis

Revenues

Revenues increased by $233 or 212% to $343 for the three-month period ended December 31, 2015 from $110 for the three-month period ended December 31, 2014. The increase is largely explained by the launch of Neuragen® and Flat Tummy Tea during the 2015 fiscal year.

Cost of goods

Cost of goods sold was $51 for the three-month period ended December 31, 2015 as compared to $nil for the comparative quarter last year. The increase is attributable to the launch of Neuragen® in 2015, as well as an amendment to the distribution and license agreement with Paladin that took place in December 2014.

General and administrative

General and administrative expenses decreased by $446 or 20% to $1,830 for the three-month period ended December 31, 2015 from $2,285 for the same period last year. The decrease is mainly due to a decrease in bonuses awarded in the fourth quarter of 2015 versus the fourth quarter of 2014.

Research and development expenses

Research and development expenses increased by $40 or 19% to $254 for the three-month period ended December 31, 2015 from $214 for the same period last year. The increase is explained by FDA post-marketing requirements of Impavido®, consulting and regulatory fees, and expenses related to NeurAxon which were not required in the comparative period.

Interest income

Interest income increased by $4,927 or 267% to $6,774 for the three-month period ended December 31, 2015 from $1,847 for the same period last year. The increase over the comparative period last year is largely explained by an increase in the weighted average loan receivable balance to the Company in the three-month period ended December 31, 2015 relative to the weighted average balance in the comparative prior year period. For details regarding changes in the Company's loan receivable balance, please refer to note 11 of the Company's annual consolidated financial statements for the year ended December 31, 2015.

Other income

Income earned for advisory and other services provided by the Company was $1,517 for the three-month period ended December 31, 2015 versus $nil for the same period last year. The increase is largely due to the prepayment fees of $1,250 received from CRH in connection with the early repayment of its secured loan, the annual fee earned in the fiscal year ended December 31, 2015 in relation to the Company's agreement with CRH and income earned for advisory and other services provided by the Company.

Net gain on financial assets

The Company's net gain on financial assets was $1,008 for the three-month period ended December 31, 2015 versus $16 for the comparative period. The increase is primarily due to unrealized gains on the revaluation of derivative financial assets.

Loss on impairment of loan receivable

The loss on impairment of loan receivable of $802 for the three-month period ended December 31, 2015 versus $nil for the comparative period relates to the write-off of the loan receivable from Extenway as further described in note 11 of the annual consolidated financial statements for the year ended December 31, 2015.

Foreign exchange gain

For the three-month period ended December 31, 2015, Knight had a foreign exchange gain of $1,103 versus $1,410 for the comparative period. The fluctuation is due to gains on U.S. dollar denominated financial assets as the Canadian dollar weakened against the U.S. dollar during the period.

Share of income of associate

For the quarter ended December 31, 2015, Knight's share of income from Medison was $946. For more information, please refer to note 12 of the Company's annual consolidated financial statements for the year ended December 31, 2015.

Outstanding Share Data

The table below summarizes the share data:

As at	March 23, 2016
Common Shares	103,476,735
Stock Options[1]	3,910,483

1 *On March 24, 2015, the Company issued 690,218 share-based compensation options to employees, officers and directors at an exercise price of $8.75 per share.*

On June 30, 2015, the Company issued 185,000 options to several Origin stakeholders related to the settlement of loan receivable from Origin at an exercise price of $10.00 per share for a period of ten years.

On August 17, 2015, the Company issued 32,500 share-based compensation options to employees at an exercise price of $7.25 per share.

On September 9, 2015, the Company issued an option for 910,000 shares of the Company to the controlling shareholder of Medison in which a maximum of 500,000 shares may be exercised conditional upon Medison meeting certain financial targets in respect of its 2015 and 2016 fiscal years.

On December 16, 2015, the Company issued 625,545 share-based compensation warrants to employees, officers and directors at an exercise price of $7.76 per share.

There were 170,000 options exercised as at March 23, 2016.

There were 12,500 options expired/forfeited as at March 23, 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 transition of the remaining responsibilities and obligations to the licensor under agreed upon time frames and conditions.

Commitments

Knight has financial commitments with respect to an operating lease, an equity commitment, commitments to contributing 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 note 22 of our annual consolidated financial statements for the year ended December 31, 2015.

Transactions between related parties

On January 21, 2014, Long Zone Holdings Inc. issued an unsecured revolving credit facility of up to $5,000 in favour of the Company for general working capital and general corporate requirements. The credit facility matured two years from the date of issuance and carried an interest rate equal to prime rate plus 4.0%. As at December 31, 2015, there were no amounts withdrawn from this credit facility.

Pharmascience Inc., a company related to the Company's President and CEO and shareholder provided administrative services of approximately $24 to the Company for the year ended December 31, 2015 (2014 - approximately $20).

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 year ended December 31, 2015.

As at December 31, 2015, the Company had US$165,885 of net U.S. dollar exposure. The Company may incur foreign exchange losses in subsequent periods if the Canadian dollar strengthens against the U.S. dollar.

Risk Factors

Risk factors which could materially affect the results of operations and the financial condition of the company, such as credit risk, foreign exchange risk, equity price risk, interest rate risk, and liquidity risk, are described in detail in note 21 to the annual audited financial statements for the year ended December 31, 2015. For a detailed discussion of additional risk factors, please refer to the Company's Annual Information Form for the year ended December 31, 2015.

Disclosure Controls and Procedures

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 December 31, 2015 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.

Internal Control over Financial Reporting

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 has evaluated the effectiveness of its ICFR as at December 31, 2015 and management has concluded that they were adequate and effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with IFRS.

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

Audited Annual Consolidated Financial Statements

Knight Therapeutics Inc.
December 31, 2015

Independant Auditor's Report

To the Shareholders of **Knight Therapeutics Inc.**

We have audited the accompanying consolidated financial statements of Knight Therapeutics Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2015 and 2014, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Knight Therapeutics Inc. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards.

Montreal, Canada — March 23, 2016

Ernst & Young s.r.l./S.E.N.C.R.L.[1]

[1] *CPA auditor, CA, public accountancy permit no. A120254*

Consolidated Balance Sheets

[In thousands of Canadian dollars]
As at December 31

		2015 $	2014 $
Assets	**Current**		
	Cash and cash equivalents *[note 6]*	237,481	283,445
	Marketable securities *[note 7]*	233,726	133,412
	Accounts receivable *[note 8]*	2,994	1,024
	Inventory *[note 9]*	1,460	602
	Other current financial assets *[note 11]*	23,588	10,090
	Income taxes receivable	231	—
	Total current assets	**499,480**	**428,573**
	Property and equipment	18	48
	Intangible assets *[note 10]*	3,320	846
	Other financial assets *[note 11]*	62,616	57,147
	Investment in associate *[note 12]*	81,027	—
	Deferred income tax assets *[note 19]*	2,527	—
	Total assets	**648,988**	**486,614**
Liabilities and Shareholders' Equity	**Current**		
	Accounts payable and accrued liabilities *[note 13]*	2,416	2,090
	Income taxes payable	4,031	4,493
	Deferred revenue	293	1,040
	Total current liabilities	**6,740**	**7,623**
	Deferred income tax liabilities *[note 19]*	186	—
	Total liabilities	**6,926**	**7,623**
	Shareholders' equity		
	Share capital *[note 15(i)]*	439,148	341,065
	Warrants *[note 15(vi)]*	161	—
	Contributed surplus	6,772	2,100
	Accumulated other comprehensive income *[note 16]*	35,955	9,967
	Retained earnings	160,026	125,859
	Total shareholders' equity	**642,062**	**478,991**
		648,988	**486,614**

Commitments [note 22]
Subsequent events [note 24]

See accompanying notes

Consolidated Statements of Income

[In thousands of Canadian dollars, except for share and per share amounts]
Year ended December 31

	2015 $	2014 $
Revenue	**1,037**	**365**
Cost of goods sold	428	—
Gross margin	**609**	**365**
Expenses		
General and administrative	9,086	4,283
Research and development	2,707	1,029
	(11,184)	**(4,947)**
Depreciation of property and equipment	30	22
Amortization of intangible assets *[note 10]*	94	63
Interest expense	—	23
Interest income	(18,632)	(3,900)
Other income	(2,860)	(435)
Net gain on financial assets	(17,347)	(16)
Gain on sale of intangible asset *[note 1]*	—	(129,371)
Purchase gain on business combination *[note 5]*	(515)	—
Net loss on settlement of loans receivable *[note 5 and note 11]*	650	—
Foreign exchange gain	(8,579)	(2,387)
Share of net income of associate *[note 12]*	(1,041)	—
Income before income taxes	**37,016**	**131,054**
Income tax expense *[note 19]*	1,939	4,423
Deferred income tax expense *[note 19]*	910	772
Net income for the year	**34,167**	**125,859**
Attributable to shareholders of the Company		
Basic earnings per share *[note 18]*	$0.36	$2.20
Fully diluted earnings per share *[note 18]*	$0.35	$2.20
Weighted average number of common shares outstanding		
Basic *[note 18]*	96,191,285	57,248,473
Diluted *[note 18]*	96,532,104	57,295,716

See accompanying notes

Consolidated Statements of Comprehensive Income

[In thousands of Canadian dollars]
Year ended December 31

	2015 $	2014 $
Net income for the year	**34,167**	**125,859**
Realized gain on available-for-sale financial instruments reclassified to statement of income (net of tax of $1,345 (2014 -$nil))	(8,654)	—
Other comprehensive income to be reclassified to income in subsequent periods:		
Unrealized gain on available-for-sale financial instruments (net of tax of $528 (2014 - $1,101))	7,083	6,768
Unrealized gain on translating financial statements of foreign operations	27,559	3,199
Other comprehensive income for the year	**25,988**	**9,967**
Comprehensive income for the year	**60,155**	**135,826**

See accompanying notes

Consolidated Statements of Changes in Shareholder's Equity

[In thousands of Canadian dollars]

	Share Capital $	Warrants $	Contributed Surplus $	Accumulated Other Comprehensive Income $	Retained Earnings $	Total Shareholders' Equity $
Balance on January 1, 2014	**—**	**—**	**—**	**—**	**—**	**—**
Net income for the year	—	—	—	—	125,859	125,859
Unrealized gain on available-for-sale financial instruments, net of tax of $1,101	—	—	—	6,768	—	6,768
Unrealized gain on translating financial statements of foreign operations	—	—	—	3,199	—	3,199
Comprehensive Income	**—**	**—**	**—**	**9,967**	**125,859**	**135,826**
Share-based compensation expense *[note 15]*	—	—	1,805	—	—	1,805
Issuance of common shares as part of Business Separation Agreement *[note 1]*	11,909	—	—	—	—	11,909
Issuance of warrants, net of costs and deferred tax *[note 15 (ii)]*	—	245,735	492	—	—	246,227
Deemed exercise of Special Warrants into common shares *[note 15 (ii)]*	245,735	(245,735)	—	—	—	—
Issuance of shares upon financing, net of costs and deferred tax *[note 15 (iii)]*	83,072	—	—	—	—	83,072
Exercise of compensation warrants *[note 15 (ii)]*	620	—	(197)	—	—	423
Issuance of shares for acquisition of product rights *[note 15 (vi)]*	294	—	—	—	—	294
Issuance of shares under share purchase plan *[note 15 (v)]*	30	—	—	—	—	30
Share purchase loans *[note 15 (v)]*	(595)	—	—	—	—	(595)
Balance as at December 31, 2014	**341,065**	**—**	**2,100**	**9,967**	**125,859**	**478,991**
Balance on January 1, 2015	**341,065**	**—**	**2,100**	**9,967**	**125,859**	**478,991**
Net income for the year	—	—	—	—	34,167	34,167
Realized gain on available-for-sale financial instruments reclassified to statement of income, net of tax of $1,345	—	—	—	(8,654)	—	(8,654)
Unrealized gain on available-for-sale financial instruments, net of tax of $528	—	—	—	7,083	—	7,083
Unrealized gain on translating financial statements of foreign operations	—	—	—	27,559	—	27,559
Comprehensive Income	**—**	**—**	**—**	**25,988**	**34,167**	**34,646**
Share-based compensation expense *[note 15]*	—	—	4,421	—	—	4,421
Issuance of shares upon financing, net of costs and includes deferred tax of $2,155	14,573	—	—	—	—	14,573
Issuance of shares and options upon investment in associate *[note 12]*	80,684	—	1,100	—	—	81,784
Issuance of shares upon exercise of stock options *[note 15 (iii)]*	1,487	—	(554)	—	—	933
Issuance of warrants *[note 15 (iv)]*	—	161	—	—	—	161
Exercise of compensation warrants *[note 15 (ii)]*	930	—	(295)	—	—	635
Issuance of shares due to share-based payments	332	—	—	—	—	332
Issuance of shares under share purchase plan *[note 15 (v)]*	77	—	—	—	—	77
Balance as at December 31, 2015	**439,148**	**161**	**6,772**	**35,955**	**160,026**	**642,062**

See accompanying notes

Consolidated Statement of Cash Flows

[In thousands of Canadian dollars]

Year ended December 31, 2015

		2015 $	2014 $
Operating Activities	**Net income**	34,167	125,859
	Adjustments reconciling net income to operating cash flows:		
	Deferred tax	910	772
	Share-based compensation	4,421	1,805
	Acquisition of product rights	—	294
	Depreciation of property, plant and equipment	30	22
	Amortization of intangible assets	94	63
	Accretion of interest	(6,985)	(349)
	Net loss on settlement of loans receivable *[note 5]*	(535)	—
	Gain on sale of other financial assets	(15,381)	(32)
	Gain on sale of intangible asset	—	(129,371)
	Unrealized (gain) loss on derivatives	(1,966)	16
	Unrealized foreign exchange gain	(2,068)	(2,410)
	Purchase gain on business combination *[note 5]*	(515)	—
	Other income	—	(424)
	Net income from associate	(1,041)	—
	Changes in non-cash working capital related to operations *[note 23]*	(3,818)	4,510
	Deferred revenue	(747)	48
	Cash inflow from operating activities	**7,636**	**803**
Investing Activities	Purchase of marketable securities	(583,225)	(133,411)
	Purchase financial assets	(11,360)	(2,239)
	Purchase of intangible assets	(1,750)	—
	Purchase of property and equipment	—	(70)
	Investment in funds	(15,694)	(14,158)
	Investment in associate net of costs	(217)	—
	Issuance of loans receivable	(40,280)	(38,941)
	Proceeds of repayments of loans receivable	40,420	—
	Proceeds from disposal of financial assets	19,758	170
	Proceeds from sale of marketable securities	503,935	—
	Proceeds from sale of investment in funds	19,314	—
	Proceeds from sale of intangible asset, net	—	139,564
	Dividend income from associate	2,015	—
	Cash outflow from investing activities	**(67,084)**	**(49,085)**

Consolidated Statement of Cash Flows

[In thousands of Canadian dollars]
Year ended December 31, 2015

		2015 $	2014 $
Financing Activites	Net proceeds from share issuance *[note 15]*	12,424	83,036
	Net proceeds from warrants issuance *[note 15]*	—	244,827
	Cost related to prior period share issuance	(207)	—
	Proceeds from exercise of compensation warrants	635	423
	Share option plan	933	—
	Share purchase plan	77	30
	Share purchase loans	—	(595)
	Net impact of a business separation agreement *[note 1]*	—	1,000
	Loan from related party *[note 14]*	—	2,500
	Repayment of loan from related party *[note 14]*	—	(2,500)
	Cash inflow from financing activities	**13,862**	**328,721**
	Increase (decrease) in cash during the year	**(45,586)**	**280,439**
	Cash, beginning of year	283,445	—
	Net foreign exchange difference	(378)	3,006
	Cash, end of year	**237,481**	**283,445**
	The following amounts are classified within operating activities:		
	Interest received	10,107	2,920
	Interest paid	—	23
	Income taxes paid	1,980	—

See accompanying notes

Notes to Consolodated Financial Statements

[In thousands of Canadian dollars, except for share and per share amounts]
Year ended December 31, 2015

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 as a subsidiary of Paladin Labs Inc. ("Paladin"). On November 5, 2013, Paladin announced that it had entered into a definitive agreement (the "Arrangement Agreement") with, among others, Endo Health Solutions Inc. ("Endo"). Pursuant to the transactions contemplated by the Arrangement Agreement, both Endo and Paladin became wholly-owned subsidiaries of Endo International Limited ("New Endo") and all of the issued and outstanding common shares of Paladin were exchanged for 1.6331 ordinary shares of New Endo, $1.16 in cash, subject to adjustment, and one common share of Knight for each Paladin common share by way of a court-approved plan of arrangement under the Canada Business Corporation Act (the "Arrangement"). In addition, each holder of a Paladin option that had a positive in-the-money amount per share as defined in the Arrangement was entitled to receive, among other things, one common share of Knight in exchange for each Paladin option.

Pursuant to the Arrangement Agreement, prior to the closing of the Arrangement, on February 27, 2014, Paladin and Knight entered into a business separation agreement ("Business Separation Agreement") providing for, in exchange for 22,036,059 shares of Knight, the transfer of assets to be owned by, and liabilities to be assumed by, Knight (or one of its affiliates) from Paladin and Paladin Labs (Barbados) Inc., ("Barbco") including; $1,000 in cash, all intellectual property rights on a worldwide basis for the drug known as Impavido® (miltefosine) ("Impavido®"), which is a product for the treatment of leishmaniasis, and a priority review voucher which was to be issued in the name of Paladin Therapeutics, Inc. (a subsidiary of Knight subsequently renamed Knight Therapeutics (USA) Inc.), by the U.S. Food and Drug Administration ("FDA") upon approval of Impavido® by the FDA, (the "Voucher") or, if not yet issued at the time of the consummation of the transactions contemplated by the Business Separation Agreement, any rights to the Voucher.

The exchange of shares in Knight and the transfer of assets were performed at fair value. In exchange for 22,036,059 common shares of Knight, the Company recorded cash of $1,000 and assets of $10,909 of which $10,000 was attributed to the Voucher.

On March 19, 2014, the FDA approved Impavido® for the U.S. market and the Voucher was granted by the FDA to Knight Therapeutics (USA) Inc. on behalf of Knight Therapeutics (Barbados) Inc. ("Knight Barbados"). The Voucher is transferable and can be sold to another entity. It also provides the bearer with an expedited FDA review for any drug application. It was management's stated intention to dispose of the Voucher, and it met the criteria for classification as an asset held for sale during the year ended December 31, 2014. On November 19, 2014, Knight Barbados sold the Voucher for gross proceeds of $141,875 [US$125,000].

The Business Separation Agreement also provided one of Knight's subsidiaries, Knight Barbados, as licensor to enter into a distribution and license agreement granting Barbco, a subsidiary of Paladin the exclusive commercialization rights for Impavido® for the world, other than the U.S., and Barbco would pay to Knight Barbados a fee of 22.5% of gross sales of Impavido® worldwide other than the U.S. On December 30, 2014, the distribution and license agreement was amended whereby Barbco transferred the commercialization rights back to Knight Barbados. Also on December 30, 2014, Barbco and Knight Barbados entered into an exclusive supply agreement where Knight Barbados granted Barbco the right to sell and distribute Impavido® for the world, other than the U.S. and Knight Barbados was appointed as Barbco's exclusive supplier of Impavido®.

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. Knight is listed on Toronto Stock Exchange under the ticker symbol "GUD".

2. Summary of Significant Accounting Policies

Basis of presentation and statement of compliance

These consolidated financial statements of the Company for the year ended December 31, 2015, have been prepared in accordance with International Financial Reporting Standards (IFRS) on a historical cost basis, except for items that are required to be accounted for at fair value. The policies set out below have been consistently applied to all the periods presented.

The preparation of the Company's 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 consolidated financial statements have been set out in note 3 below.

These consolidated financial statements are presented in Canadian dollars and were authorized for issue by the Company's Board of Directors on March 23, 2016.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Knight Barbados, Knight Therapeutics (USA) Inc. and Abir Therapeutics Ltd. These subsidiaries are fully consolidated from the date of incorporation in the case of Knight Barbados and Abir Therapeutics Ltd. or from the date of acquisition in the case of Knight Therapeutics (USA) Inc., and continue to be consolidated until the date that such control ceases.

All significant inter-company transactions, balances, revenues and expenses have been eliminated upon consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Foreign currency translation

[a] Functional and presentation currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements of the Company are presented in Canadian dollars ("CAD"), which is the parent Company's functional and presentation currency.

[b] Transactions and balances

Foreign currency transactions are initially recorded by the Company using the exchange rates prevailing at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the period-end rates of exchange. Non-monetary assets and liabilities are translated at the historical exchange rates. Exchange gains and losses arising from the translation of foreign currency items are recognized in the consolidated statement of income.

[c] Foreign operations

For subsidiaries that have a functional currency different from the Company, on consolidation, the assets and liabilities of foreign operations are translated into CAD at the rate of exchange prevailing at the reporting date and their statements of income are translated at exchange rates prevailing at the dates of the transactions.
The exchange differences arising on translation for consolidation are recognized in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents are comprised of current balances with banks and similar institutions and highly liquid investments with original maturities of three months or less. They are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

Marketable Securities

Marketable securities consist of securities that are liquid and subject to an insignificant risk of change in value. Marketable securities that are classified as "available-for-sale" are initially measured at fair value with any resulting subsequent changes in the fair value being charged or credited to other comprehensive income and when ultimately sold to net income. Fair values for marketable securities are obtained using techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Investments in associates

An associate is an entity in which the Company has significant influence. Significant influence is the power to participate in the financial and operating policies and decisions of the investee, but is not control or joint control over these policies.

The Company accounts for investments in associates using the equity method. Under the equity method, investments in associates are initially recognized at cost. The carrying amount of the investment is adjusted for the Company's share of the associates' net income, net of the amortization of fair value adjustments, taxation and dividends received. Goodwill relating to associates is included in the carrying amount of the investments and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

Unrealized gains and losses resulting from transactions between the Company and the associates are eliminated to the extent of the interest in the associates.

Inventory

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. The cost of finished goods and work-in-progress primarily includes direct costs. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and applicable selling expenses.

Financial instruments

Initial recognition and subsequent measurement

[a] Available-for-sale financial investments

Available-for–sale investments include cash equivalents, marketable securities, investments in securities and investments in funds. Investments classified as available-for-sale are initially recorded at fair value plus transaction costs and then remeasured at subsequent reporting dates to fair value using quoted market prices, if available, or other techniques if quoted market prices are not available, or are carried at cost for investments, where fair value is not readily determinable. Investments in publicly-traded securities with a high volume of trading are categorized in Level 1 of the fair value hierarchy. Cash equivalents and marketable securities are categorized in Level 2 of the fair value hierarchy. Security investments in private entities, publicly-traded securities adjusted for other factors such as illiquidity, and investments in funds are categorized in Level 3 of the fair value hierarchy. Unrealized gains and losses on available-for-sale investments are recognized directly in equity as other comprehensive income in "Accumulated other comprehensive income" until the investment is sold, at which time the cumulative gain or loss is recognized in "Other income". Purchases and sales of available-for-sale investments are accounted for on the trade date. Impairments arising from the significant or prolonged decline in fair value of an investment reduce the carrying amount of the asset directly and are charged to the consolidated statement of income. Impairments on equity investments classified as available-for-sale are not reversed until disposal of the instrument. On disposal or impairment of the investments, any gains and losses that have been deferred in equity are recognized in the consolidated statement of income. On disposal of investments, fair value movements are reclassified from "Accumulated other comprehensive income" to the consolidated statement of income.

[b] Loans and receivables

Loans and receivables includes loans receivable, debentures and long-term receivables. Investments classified as loans and receivables are initially recorded at fair value with subsequent measurements recorded at amortized cost using the effective interest method, less impairment, if any. The investments in loans and receivables are categorized in Level 3 of the fair value hierarchy. The interest accretion is captured under "Interest income" on the consolidated statement of income.

[c] Derivative financial instruments

Derivative financial instruments include share purchase warrants, stock options and conversion features on convertible debentures. These instruments are carried at fair value with changes in the fair value being charged or credited to the consolidated statement of income at every reporting period. Fair values of these instruments are obtained using the Black-Scholes option pricing valuation model or other valuation techniques. These derivative financial instruments are categorized in Level 3 of the fair value hierarchy.

[d] Financial liabilities

Accounts payable and accrued liabilities are classified as financial liabilities. They are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The interest accretion is captured under "Interest expense" on the consolidated statement of income.

[e] Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments or it has become probable that the debtor will enter bankruptcy or financial reorganization;
- An adverse change in legal factors or in the business climate that could affect the value of an asset; and
- Current or forecasted operating or cash flow losses that demonstrate continuing losses associated with the use of an asset.

[f] Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) or financial liability is derecognized when:

- The rights/obligations to receive/disburse cash flows from the asset/liability have expired/discharged; and
- The Company has transferred its rights/obligations to receive/disburse cash flows from the asset/liability.

Fair value hierarchy

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

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

Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and/or accumulated impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to consolidated net income during the financial period in which they are incurred.

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates each separately. Depreciation of the significant components is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

• Computer equipment	3-4 years
• Furniture and fixtures	2-3 years
• Leasehold improvements	lesser of useful life and life of the lease

On disposal of property and equipment, the cost and related accumulated depreciation and impairments are removed from the financial statements and the net amount, less any proceeds, is included in the consolidated statement of income.

The Company periodically reviews the useful lives and the carrying values of its property and equipment and as a result the useful life of property and equipment may be adjusted accordingly. On disposal of property and equipment, the cost and related accumulated depreciation and impairments are removed from the consolidated financial statements and the net amount, less any proceeds, is included in the consolidated statement of income.

Intangible assets

Intangible assets acquired are recorded at cost and consist of pharmaceutical product rights, intellectual property and process know-how covered by certain patented and non-patented information. Intangible assets with finite lives are amortized on a straight-line basis over the lesser of the term of the agreement, the life of the patent or the expected useful life of the product once they are available for commercialization. The amortization terms range from 10 to 15 years. The Company periodically reviews the useful lives and the carrying values of its intangible assets. As a result, the useful life of intangible assets may be adjusted accordingly.

Impairment of property and equipment and intangible assets

The Company assesses at each reporting period whether there is an indication that an asset may be impaired. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses are charged to the consolidated statement of income in the period concerned. Impairment losses on long-term assets are only reversed if there has been a change in estimates used to determine the recoverable amounts and only to the extent that the revised recoverable amounts do not exceed the carrying values that would have existed, net of depreciation or amortization, had no impairments been recognized. A reversal is recognized in the consolidated statement of income.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease (net of any incentives received from the lessor) are recognized in the consolidated statement of income on a straight-line basis over the period of the lease.

Share-based compensation plans

The Company has share-based compensation plans, which are described in note 15. The cost of share-based compensation plans is recognized, together with a corresponding increase in contributed surplus over the period in which the service conditions are fulfilled. The cumulative expense is recognized at each reporting date until the vesting date and reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative expense recognized for the period is recorded under general and administrative expenses on the consolidated statement of income. No expense is recognized for awards that do not ultimately vest. Any consideration paid by employees on exercise of share options or purchase of shares is credited to share capital. The dilutive effect of outstanding options, if any, is reflected as additional share dilution in the computation of diluted earnings per share.

Share purchase plan

The Company offers a share purchase plan to its employees and directors. Under this plan, the Company contributes, in the form of shares, a percentage of the employees' or directors' shares that have been purchased and held for at least two years by the individual. The Company contributions to the plan are recognized in other compensation costs in general and administrative expenses.

Equity instrument share issue costs

Issue costs incurred by the Company to issue equity instruments are recorded as a reduction of the equity instrument issued.

Revenue recognition

Revenue related to the sale of goods is recognized when title and risk of loss is passed to the customer. Gross revenue is reduced by discounts, credits, allowances and product returns. Revenue related to a fee arrangement with a partner, where the Company earns a fee based on certain pre-determined terms relating to the gross or net sales of products is recognized as such terms are met alongside the recording of partner product revenues.

Interest income/expense

Interest income or expense is recognized on a time-proportion basis. For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate method, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Government assistance

Amounts received or receivable resulting from government assistance programs such as investment tax credits for research and development, are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the amount relates to an expense item, it is recognized as income on a systematic basis as a reduction to the costs that it is intended to compensate. When the grant relates to an asset, it reduces the carrying amount of the asset and is then recognized as income over the useful life of the depreciable asset by way of a reduced depreciation charge.

Research and development

Research and development expenditures are charged to the consolidated statement of income in the period in which they are incurred. Development expenditures are charged to net income in the period of expenditure, unless a development project meets the criteria under IFRS for deferral and amortization. The Company has not deferred any such development expenditures to date.

Income taxes

Income tax expense is comprised of current and deferred tax. Tax expenses are recognized in the consolidated statement of income except to the extent they relate to items recognized directly in shareholders' equity or other comprehensive income, in which case the related tax is recognized in shareholders' equity or other comprehensive income, respectively.

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets (liabilities) are recognized for all deductible (taxable) temporary differences, except to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, except:

- Where the deferred tax asset (liability) relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable income or loss; and
- In respect of taxable temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable;
- When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Earnings per share

Earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated giving effect to the exercise of all dilutive instruments and assumes that any proceeds that could be obtained upon the exercise of options would be used to purchase common shares at the average market price during the period.

3. Use of Judgments and Estimates

The preparation of the Company's consolidated financial statements requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts or revenues and expenses during the reporting period. Reported amounts and note disclosures reflect the overall economic conditions that are most likely to occur and anticipated measures management intends to take. Actual results could differ materially from those estimates.

Information about significant judgments and estimates used in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to:

Fair value measurement of financial assets
When the fair values of financial assets recorded in the consolidated balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using other valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as credit risk, discount rates, volatility and illiquidity. Changes in assumptions about these factors could affect the reported fair value of financial assets.

When determining the fair value of investments in funds, judgment is used to determine if the net asset value ("NAV") provided by the fund approximates fair value. If it is determined that the NAV represents fair value, the investment in fund is adjusted to reflect the NAV and unrealized gains or losses are recorded in other comprehensive income.

Fair value measurement of non-financial assets acquired
The Company initially records intangible assets at fair value. The determination of fair value involves making assumptions with respect to revenue and gross margin projections, discount rates, and long-term growth rates.

Share-based compensation
The Company measures the cost of equity-settled transactions with employees and others by reference to the fair value of the related instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant, which is dependent on the terms and conditions of the grant. This also requires making assumptions and determining the most appropriate inputs to the valuation model including volatility (see note 15 for further disclosures).

Income taxes
Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the tax assets can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on income taxes are disclosed in note 19.

Functional currency
The functional currency of foreign subsidiaries is reviewed on an ongoing basis to assess if changes in the underlying transactions, events and conditions have resulted in a change. During the year ended December 31, 2014, the functional currency of one of the Company's subsidiaries changed from CAD to United States Dollar ("USD"). This assessment is also performed for new subsidiaries. When assessing the functional currency of a foreign subsidiary, management's judgment is applied in order to determine amongst other things the primary economic environment in which an entity operates, the currency in which funds the activities and the degree of autonomy of the foreign subsidiary from the reporting entity in its operations and financially. Judgment is also applied in determining whether the inter-company loans denominated in foreign currencies form part of the Company's net investment in the foreign subsidiary.

4. 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 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 impact of these amendments on its consolidated financial statements.

5. Significant Transactions

NeurAxon Acquisition
On January 1, 2015, the Company entered into a purchase agreement with NeurAxon Inc. ("NeurAxon") whereby the Company acquired all of the issued and outstanding common shares of NeurAxon for $1,750 in cash. NeurAxon is a clinical stage research company focused on the development of innovative selective inhibitors of nitric oxide synthase as novel therapies for migraine and other conditions.

The acquisition was accounted for using the acquisition method of accounting and as at January 1, 2015, the assets and liabilities acquired and the results of operations are included in these consolidated financial statements. The allocation of the purchase price is as follows:

	$
Current investment tax credits receivable	165
Intangible assets	2,100
Deferred tax asset	565
Deferred tax liability	(565)
Total net assets acquired	**2,265**
Consideration paid	(1,750)
Purchase gain on acquisition	**515**

As part of the acquisition, the Company acquired tax assets of $21,132 on total tax attributes of $75,661 which were not fully recognized in the consolidated financial statements. Given that the operations of the Company only started in 2014, there is uncertainty as to whether sufficient income will be generated in the future to recover these deferred tax assets. The Company has recognized a deferred tax asset of $565 to the extent of the deferred tax liability recorded as part of the purchase price allocation.

Origin Settlement of Loan Receivable
On June 24, 2015, Knight acquired the assets related to Neuragen® pursuant to an order of The Supreme Court of Nova Scotia following a default by Origin BioMed Inc. ("Origin") under its secured loan agreement with Knight. The net assets acquired to settle the loan receivable of $925 were assigned a fair value of $1,820. In connection with the acquisition, Knight issued 185,000 warrants on June 30, 2015 to several Origin stakeholders which are exercisable, in some instances subject to the achievement of certain prescribed financial benchmarks, for a period of ten years at an exercise price of $10 per share. The warrants were assigned a value of $161 using the Black-Scholes option pricing model based on the likelihood of meeting certain financial conditions. Knight recognized a gain on settlement of loan receivable of $382, net of $352 of related expenses.

On June 26, 2015, Knight entered into a sale agreement with Synergy CHC Corp. (formerly Synergy Strips Corp.) ("Synergy") related to the U.S. rights to Neuragen®. Under the terms of the agreement, Knight will receive minimum aggregate consideration of $1,498 [US$1,200] payable as follows: (i) $312 [US$250] upon closing, (ii) $312 [US$250] by June 30, 2016, (iii) $874 [US$700] payable in quarterly installments equal to the greater of $15 [US$12.5] or 5% of U.S. net sales, plus (iv) 2% of U.S. net sales of Neuragen® for 60 months thereafter. Knight retains the Canadian and other ex-U.S. global rights to Neuragen®. Knight recognized a loss of $230 on the sale of the U.S. rights of Neuragen® and other assets.

6. Cash and Cash Equivalents

Cash and cash equivalents includes a term deposit in the amount of $1,997 [ILS5,624] renewable on a monthly basis and earning interest at 0.05%.

7. Marketable Securities

	2015 $	2014 $
Guaranteed investment certificates, earning interest at rates ranging from 1.30% to 1.76% and maturing on various dates from January 2016 to December 2016	100,000	—
Term deposits of US$86,864, earning an interest rate at 0.60% and maturing on various dates from January 2016 to June 2016 (December 31, 2014: US$115,000, earning interest at 0.45% and maturing in September 2015)	120,219	133,412
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	—
	233,726	**133,412**

8. Accounts Receivable

	2015 $	2014 $
Trade and accounts receivables	414	101
Interest receivable	1,626	633
Commodity taxes receivable	366	234
Refundable investment tax credits *[note 5]*	165	—
Prepaids and other receivable	423	56
	2,994	**1,024**

9. Inventory

	2015 $	2014 $
Raw materials	1,407	331
Work in progress	37	—
Finished goods	16	271
	1,460	**602**

During the year ended December 31, 2015, total inventory in the amount of $379 was recognized as cost of goods sold.

10. Intangible Assets

	$
Cost as at January 1, 2014	—
Additions	909
Cost as at December 31, 2014	**909**
Additions	1,183
Acquired in a business combination [note 5]	2,100
Disposals	(911)
Foreign Exchange	219
Cost as at December 31, 2015	**3,500**
Accumulated amortization as at January 1, 2014	—
Amortization charge	63
Accumulated amortization as of December 31, 2014	**63**
Amortization charge	94
Foreign exchange	23
Accumulated amortization as of December 31, 2015	**180**
Net book value as at December 31, 2014	**846**
Net book value as at December 31, 2015	**3,320**

11. Other Financial Assets

Year ended December 31, 2015	Carrying value beginning of period $	Additions $	Accretion $	Net fair value movements $	Disposals / loan repayments $	Carrying value end of period $	Current other financial assets $	Non-current other financial assets $
Loans and receivables *[i]*	**37,566**	**35,491**	**6,985**	**7,510**	**(42,007)**	**45,545**	**13,206**	**32,339**
Derivatives *[i]*	**1,562**	**6,395**	**—**	**567**	**(1,903)**	**6,621**	**1,903**	**4,718**
Available-for-sale *[ii]*	**28,108**	**30,564**	**—**	**13,591**	**(38,225)**	**34,038**	**8,479**	**25,559**
	67,236	**72,450**	**6,985**	**21,668**	**(82,135)**	**86,204**	**23,588**	**62,616**
Year ended December 31, 2014								
Loans and receivables *[i]*	—	36,056	349	1,161	—	37,566	1,885	35,681
Derivatives *[i]*	—	1,490	—	72	—	1,562	—	1,562
Available-for-sale *[ii]*	—	19,224	—	9,054	(170)	28,108	8,204	19,904
	—	**56,770**	**349**	**10,287**	**(170)**	**67,236**	**10,089**	**57,147**

[i] Loans receivable and derivatives

2015

On January 22, 2015, the Company entered into a secured debt agreement with Synergy, whereby it issued a secured loan of $7,423 [US$6,000] which bears interest at 15.0% per annum and is fully secured against the assets of Synergy. The loan, which matures on January 20, 2017, may be extended for up to an additional two years should Synergy meet certain revenue and profitability milestones, and the interest rate could decrease to 13.0% if Synergy meets certain equity-fundraising targets. As part of the transaction, Knight was issued 4,595,187 common shares of Synergy and 10-year warrants entitling the Company to purchase up to 3,584,759 additional common shares of Synergy at $0.42 [US$0.34] per share. The loan was recorded at a relative fair value of $5,938 [US$4,800] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 23.4%. The common shares were assigned a relative fair value of $855 [US$690] using a fair value of $0.31 [US$0.25] per share adjusted by an illiquidity factor of 30%. The warrants were assigned a relative fair value of $630 [US$510] using the Black-Scholes model based on the fair value per share of $0.31 [US$0.25] adjusted by an illiquidity factor of 30%. A 5% change in the illiquidity factor would result in a change in fair value of the common shares and the warrants of $47 and $48, respectively.

On March 25, 2015, the Company received early repayment of $9,971 [US$7,969] on its secured loan to CRH Medical Corporation ("CRH") issued in 2014. On November 25, 2015, the Company received early repayment of the remaining balance of $29,395 [US$22,031] on its secured loan to CRH Medical Corporation as well as a prepayment fee of $1,250 [US$940] recorded in other income in the statement of income. Subsequent to year-end, on February 29, 2016, the Company received $676 [US$500] from CRH in exchange for the Company relinquishing a product option from CRH.

On March 30, 2015, the Company purchased $1,250 of convertible debentures of Pediapharm Inc. ("Pediapharm"), as part of a $5,550 offering, which bear interest at a rate of 12.0% per annum, mature on March 30, 2019 and are fully secured by the assets of Pediapharm on a pari passu basis with the other lenders. At Knight's option, the debentures may be converted at any time into common shares of Pediapharm at a price of $0.45 per common share. The debentures will automatically convert into common shares at the conversion price if during any twenty consecutive trading days, the common shares trade at a volume weighted average price of at least $0.60 on a total cumulative volume of not less than two million shares. In addition, Knight was issued 757,500 share purchase warrants to acquire 757,500 common shares of Pediapharm at an exercise price of $0.33 per common share for a period of four years until March 30, 2019 whose relative fair value was determined to be $97. The conversion option was assigned a value of $45. Based on the computed Black-Scholes values and stated interest rate, the effective interest rate of the convertible debentures is 16.1%. The convertible debentures were accounted for at their relative fair value of $1,108 upon initial measurement and subsequently accounted for at amortized cost using the effective interest method.

On April 30, 2015, the Company entered into a secured debt agreement with Profound Medical Inc. (“Profound”), whereby it issued a secured loan of $4,000 on June 4, 2015 bearing interest at 15.0% per annum, maturing on June 3, 2019. The loan terms include a two year payment holiday during which no interest or principal repayment is required. The loan may be extended by up to four successive additional 12-month periods should Profound meet certain revenue thresholds. As part of the transaction, Knight was issued 1,717,450 common shares in Profound. In addition, Knight is to receive a royalty equal to 0.5% of net sales by Profound until maturity of the loan. The loan was recorded at a relative fair value of $2,800 upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 31.4%. The common shares were assigned a relative fair value of $1,200 using a fair value of $1.50 per share adjusted by an illiquidity factor of 30%. A 5% change in the illiquidity factor would result in a change in fair value of the shares of $39.

On June 25, 2015, the Company entered into a secured debt agreement with Pro Bono Bio PLC (“Pro Bono Bio”), whereby it issued a secured loan of $18,521 [US$15,000] bearing interest at 12.0% per annum that will mature on June 25, 2018. The interest rate may decrease to 10% if Pro Bono Bio meets certain equity-fundraising targets. Contingent on Pro Bono Bio meeting certain equity-fundraising targets, Knight will receive a fee, payable in cash or shares at the option of Pro Bono Bio, ranging from $2,472 [US$2,000] to $3,399 [US$2,750], as well as a warrant to acquire 750 common shares of Pro Bono Bio at an exercise price of $3,708 [US$3,000] per share. The loan was recorded at a fair value less transaction costs of $18,199 [US$14,725] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 13.3%.

On June 25, 2015, the Company entered into a secured debt agreement with Extenway Solutions Inc. (“Extenway”) whereby it issued a secured loan of $800 bearing interest at 15.0% per annum maturing on June 24, 2021. On December 21, 2015 a receiver was appointed over the majority of Extenway’s assets under direction from another secured creditor. Due to uncertainty regarding the Company’s ability to recover its principal and interest, an impairment loss of $802 was recorded.

On July 7, 2015, the Company received 240,000 stock options (2014 – 240,000 stock options) from Medicure Inc. with a five-year life at an exercise price of $2.50 per option (2014 - $1.90 per option) in exchange for advisory services to be provided by Knight over a one-year period. The fair value of the options was $569 (2014 -$473) and was determined using the Black-Scholes option pricing model with a corresponding amount recorded in deferred revenue. Revenue is recognized over the term of the agreement. Knight will receive additional stock options over the term of the agreement. Medicure Inc. is a public company trading on TSX-V under the ticker symbol “MPH.V”.

On August 5, 2015, Knight issued a secured loan of $1,318 [US$1,000] to Ember Therapeutics Inc. (“Ember”) which bears interest at 12.5% per annum for a one-year term. The effective interest rate on this loan was 18.1%. On August 14, 2015, Knight assigned $654 [US$500] of the principal amount of the loan to the Bloom Burton Healthcare Lending Trust.

On November 12, 2015, the Company extended an additional secured loan of $7,319 [US$5,500] to Synergy which bears interest at 15.0% per annum and matures on November 11, 2017. As part of the November 12, 2015 transaction, Knight was issued 5,550,625 common shares of Synergy. Knight also received a 10-year warrant entitling Knight to purchase up to 4,547,243 shares of Synergy at $0.65 [US$0.49] per share. The loan was recorded at a relative fair value of $4,214 [US$3,167] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 62.4%. The common shares were assigned a relative fair value of $1,667 [US$1,250] using a fair value of $0.45 [US$0.34] per share adjusted by an illiquidity factor of 30%. The warrants were assigned a relative fair value of $1,188 [US$890] using the Black-Scholes model based on the fair value per share of $0.45 [US$0.34] adjusted by an illiquidity factor of 30%. A 5% change in the illiquidity factor would result in a change in fair value of the common shares and the warrants of $56 and $61, respectively.

On November 13, 2015, the Company purchased $500 of senior secured convertible debentures of Antibe Therapeutics Inc. ("Antibe") as part of a $2,600 private placement. The debentures bear interest at a rate of 10.0% per annum, mature on October 15, 2018 and are secured by the assets of Antibe. At Knight's option, the debentures may be converted at any time into common shares of Antibe at a price of $0.22 per common share. In addition, Knight was issued 1,000,000 share purchase warrants to acquire 1,000,000 common shares of Antibe at an exercise price of $0.31 per common share, exercisable until October 15, 2018 whose relative fair value was determined to be $60. The conversion option was assigned a value of $140. The effective interest rate of the debentures is 45.1%. The debentures were accounted for at their relative fair value of $270 upon initial measurement. A 5% change in the illiquidity factor would result in an insignificant change in fair value of the warrants.

On December 10, 2015, the Company issued a first $685 [US$500] tranche of a secured loan of up to $5,440 [US$4,000] to 60^0 Pharmaceuticals LLC ("60P"). The loan will bear interest at 15.0% per annum and will mature on December 31, 2020. As part of the transaction, Knight will receive a share of all proceeds arising from the successful approval of 60P's products in the U.S. and elsewhere. The loan was recorded at a fair value of $685 [US$500] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 15.0%. In December 2015, 60P met certain conditions required to receive the second tranche of $2,095 [US$1,500] from Knight. On January 4, 2016 the second tranche was issued to 60P.

2014

On June 25, 2014, the Company entered into an agreement whereby it issued a secured loan of $850 to Origin bearing an interest rate of 15.0% per annum and maturing on June 25, 2017. The loan is secured by a charge over the assets of Origin. Knight was been issued warrants to acquire 698,483 Origin preferred shares at $0.0794 per share. It was determined by management that the warrants were of limited value and consequently had not been recorded in these financial statements for the year ended December 31, 2014.

On July 3, 2014, the Company entered into a secured debt agreement whereby it issued a secured loan of $6,912 [US$6,500] to Apicore Inc. and Apigen Investments Limited (collectively "Apicore") bearing interest at a rate of 12.0% per annum and maturing on June 30, 2018. The loan is secured by a charge over the U.S. assets of Apicore. The Company also received 812,500 warrants of both Apicore Inc. and Apigen Investments Limited at an exercise price of $0.01 per warrant to acquire an 8.125% interest in Apicore.

The loan and the warrants were initially recognized at their relative fair value. The warrants were assigned a value of $1,017 [US$952], and the effective interest rate of the loan is 21.5%. The warrants are carried at cost as there are no quoted market prices in an active market for such instruments. The fair value of the warrants has not been disclosed because fair value cannot be measured reliably. The loan portion was recorded at fair value upon initial measurement and subsequently recorded at amortized cost using the effective interest method. Signet Healthcare Partners ("Signet"), a private equity firm, holds an equity investment in Apicore. A partner of Signet is also a director on Knight's Board.

On December 1, 2014, the Company entered into an agreement whereby it issued a secured loan of $34,032 [US$30,000] to CRH bearing interest at 10% per annum. The loan was used to fund CRH's acquisition of Gastroenterology Anesthesia Associates, LLC and related businesses, collectively a Southeast US-based Anesthesia services provider ("GAA"), matures on December 1, 2016 and was secured by a charge over the assets of CRH and GAA. The loan was reduced by financing and other fees earned by the Company of $1,688 [US$1,491]. The Company also received 3.0 million common shares of CRH as part of the loan transaction. CRH is a public company listed on the TSX under the ticker symbol "CRH". The loan and the common shares were initially recognized at their relative fair value calculated using the closing stock price of the shares at November 28, 2014 of $1.04 per share, and an effective interest rate of 18.2% for the loan. As part of the agreement, on December 1, 2014, the Company received an "Annual Fee" of $992 [US$876] which was recorded in deferred revenue and will be earned over a one-year period in other income. This fee related to a comfort letter provided by the Company to CRH to support the funding of certain earn-out obligations of CRH.

[ii] Available-for-sale investments

2015

During the year, the Company invested $29,737 (2014 - $14,552) in life science funds. The Company used the net asset value of the funds to measure fair value at December 31, 2015 and recorded an unrealized gain of $5,992 (2014 - $4,593) in other comprehensive income. A 5% discount in the net asset value of the funds would result in a decrease in fair value of approximately $1,301 (2014 - $728).

During the year, the Company received distributions of $19,049 [US$15,163] related to its investment in Sectoral Asset Management Inc.'s ("Sectoral") New Emerging Medical Opportunities Fund II, Ltd. ("NEMO II") as part of a partial distribution of the fund. The Company had invested $13,359 [US$12,267] which includes $538 [US$504] in fees prior to the partial distribution. The Company recognized a gain of $6,979 as a result of the distributions.

During the year, the Company also purchased $11,360 (2014 - $2,207) of common shares of publicly traded companies. The Company used the closing stock prices as at December 31, 2015 to measure fair value and recorded an unrealized loss of $1,065 (2014 – gain of $255) in other comprehensive income. During the year ended December 31, 2015, the Company disposed of $19,758 (2014 - $170) of common shares of publicly traded companies and realized a gain of $8,402 (2014 -$31).

2014

In reference to CRH in note 11 [i] above, for 2014 the Company used the closing stock price to determine the fair value of the shares and recorded an unrealized gain of $3,020 in other comprehensive income for the year ended December 31, 2014.

12. Investment in Associate

	December 31 2015 $
Carrying value, beginning of year	—
Additions in the year	**82,001**
Share of net income for the year before adjustments	2,634
Amortization of fair value adjustments	(1,593)
Share of net income for the year	**1,041**
Dividends	**(2,015)**
Carrying value, end of year	**81,027**

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 consideration given for the equity interest in Medison amounted to $82,001, which includes the fair value of 10,330,884 common shares of Knight issued to Medison and its controlling shareholder, representing approximately a 10% equity interest in Knight plus contingent consideration. Up to an additional 660,000 Knight shares (either 250,000 shares, 250,000 shares plus 410,000 options, or 500,000 options) may be issued conditional on Medison meeting certain financial targets in respect of its 2015 and 2016 fiscal years. The fair value of the contingent consideration was estimated to be $1,100 and was included as part of the cost of the investment, with an offsetting amount recorded in contributed surplus. This fair value was based on cash flow projections of Medison. The potential options were valued $4.56 per option using Black-Scholes and the following assumptions.

Weighted average	Year ended December 31, 2015
Risk-free interest rate	1.49%
Dividend yield	Nil
Volatility factor	50%
Expected life (in years)	10

In addition, the Company incurred $217 of transaction costs which were capitalized with the investment.

The equity interest acquired in Medison represents an investment subject to significant influence which is accounted for using the equity method from the date of acquisition, September 9, 2015. The investment was initially recorded at cost and adjustments were made to include the Company's share of Medison's net income. The Company's share of net income was 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 the tax impact on the distributable earnings.

The total cost was allocated to the Company's share of net identifiable assets acquired including intangible assets on the basis of their fair values using the purchase method of accounting, with the resulting difference accounted for as goodwill relating to the associate and included in the carrying amount of the investment.

The Company is presenting select financial information derived from Medison's consolidated financial statements for the year ended December 31, 2015 in New Israeli Shekels (ILS) using Israeli GAAP converted into IFRS in CAD for information purposes:

Medison's statement of income data	For the period from September 9, 2015 to December 31, 2015 $
Revenue	**64,044**
Net income for the period	**9,391**

Medison's balance sheet data	As at December 31, 2015
Current assets	131,876
Non-current assets	58,972
Total assets	**190,848**
Current liabilities	96,893
Non-current liabilities	15,593
Total liabilities	**112,486**

Subsequent to year end, the Company received a dividend of $2,423 (ILS7 068).

13. Accounts Payable and Accrued Liabilities

As at December 31	2015 $	2014 $
Trade payables	39	591
Accrued liabilities	2,377	1,499
	2,416	**2,090**

14. Related Party Transactions

[i] Loan payable to related party

On January 21, 2014, Long Zone Holdings Inc. ("Long Zone"), (formerly 3487911 Canada Inc.), a company controlled by the Company's President and CEO and shareholder, issued an unsecured revolving credit facility of up to $5,000 in favor of the Company for general working capital and general corporate requirements. The credit facility matured two years from the date of issuance and bears an interest rate equal to prime rate plus 4%. On February 20, 2014, the Company withdrew $2,500 from this credit facility. The loan of $2,500 and related interest of $23 was repaid in full on April 8, 2014.

[ii] U.S. partner for Impavido®

On September 28, 2015, Knight entered into an exclusive distribution agreement with Profounda Inc. ("Profounda") to commercialize Impavido® (miltefosine), an oral treatment for visceral, mucosal and cutaneous leishmaniasis, in the U.S. Under the terms of the agreement, Profounda will be responsible for leading all commercial activities related to Impavido® in the U.S. in exchange for a share of U.S. net sales. Profounda is an entity related to the Company's President and CEO and shareholder.

[iii] Administrative services

Pharmascience Inc., a company related to the Company's President and CEO and shareholder provided administrative services of approximately $24 to the Company for the year ended December 31, 2015 (2014- approximately $20).

15. 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:

	Number of common shares	$
Balance as at January 1, 2015	**90,818,595**	**341,065**
Issued upon exercise of Over-Allotment Option, net of costs and includes deferred tax of $2,155 *[iii]*	1,932,420	14,573
Issued upon investment in associate *[note 12]*	10,330,884	80,684
Issued upon exercise of share options *[iv]*	170,000	1,487
Issued upon exercise of compensation warrants *[ii]*	169,360	930
Issued due to share-based payments	43,101	332
Issued pursuant to share purchase plan *[v]*	10,007	77
Balance at December 31, 2015	**103,474,367**	**439,148**
Balance as at January 1, 2014	**1**	**—**
Issued due to Business Separation Agreement *[note 1]*	22,036,059	11,909
Issued upon exercise of warrants, net of costs and deferred tax *[ii]*	55,728,580	245,735
Issued upon exercise of compensation warrants *[ii]*	112,906	620
Issued upon a financing, net of costs and deferred tax *[iii]*	12,882,800	83,072
Issued upon acquisition of product rights *[vii]*	53,763	294
Issued upon share purchase plan *[v]*	4,486	30
Share purchase loans *[viii]*	—	(595)
Balance at December 31, 2014	**90,818,595**	**341,065**

[ii] Warrants exercised into common shares

2015

On February 24, 2015, 169,360 compensation warrants were exercised for total proceeds of $635. The compensation warrants were issued as part of the March 19, 2014 financing described below.

2014

On March 19, 2014, the Company issued 21,428,580 special warrants (the "Special Warrants") at a price of $3.50 per Special Warrant for aggregate gross proceeds to Knight of $75,000 (the "Offering"). Long Zone purchased 6,052,739 Special Warrants under the Offering for $21,523. Joddes Limited, an entity related to the Company's President and Chief Executive Officer and shareholder, purchased 1,127,542 Special Warrants under the Offering for $3,946.

On April 10, 2014, the Company issued 34,300,000 additional special warrants (the "Additional Special Warrants") at a price of $5.25 per Additional Special Warrant, for aggregate gross proceeds of $180,075. Other than the consideration paid therefor, the terms of the Additional Special Warrants were substantially the same as the Special Warrants. Long Zone purchased 7,620,000 of the 34,300,000 Additional Special Warrants sold under the Additional Special Warrants offering for $40,005.

All Special Warrants and Additional Special Warrants were converted to common shares during the second quarter of 2014.

In conjunction with the issuance of the Special Warrants on March 19, 2014, the Company also issued to the underwriters 282,266 compensation options of the Company, subsequently exercised into 282,266 compensation warrants, which were exercisable into one common share of Knight at any time until March 19, 2015 at an exercise price equal to $3.75 per compensation warrant. On October 28, 2014, 112,906 warrants were exercised for total proceeds of $423.

The fair value of the compensation options of $1.74 per compensation option was estimated at the date of grant using the Black-Scholes option pricing model and the following assumptions:

Weighted average	
Risk-free interest rate	0.95%
Dividend yield	Nil
Volatility factor	60%
Expected life (in years)	1

[iii] Shares issued upon financing and exercise of Over-Allotment Option

2015

On January 14, 2015, the underwriters acquired 1,932,420 additional common shares of the Company at a price of $6.75 per share pursuant to the exercise in full of an over-allotment option ("the Over-Allotment Option") with regards to the December 22, 2014 financing (the "Share Offering") described below. Following the exercise in full, the Over-Allotment Option resulted in gross proceeds of $13,044 for total gross proceeds from the Share Offering of $100,003.

2014

Shares issued in a financing

On December 22, 2014, the Company completed the Share Offering for gross proceeds of approximately $86,959 of common shares of Knight ("Common Shares"). An aggregate of 12,882,800 Common Shares at a price of $6.75 per Common Share were issued. Long Zone purchased 719,259 Common Shares under the Share Offering and the Chief Financial Officer of the Company purchased 10,000 Common Shares. In addition, the underwriters had the option, exercisable for a period of 30 days after the date hereof, to acquire up to an aggregate of 1,932,420 additional Common Shares at the offering price to cover over-allotments, if any and for market stabilization purposes.

Issue costs related to the Special Warrants Offering, Additional Special Warrants offering and the Share Offering were $15,249 for the year ended December 31, 2014.

[iv] 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 $4,421 (2014 - $1,805) 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 (2014 - $3.29) under the Black Scholes option pricing model using the following assumptions:

	Year ended December 31, 2015	Year ended December 31, 2014
Weighted average risk-free interest rate	1.47%	1.85%
Dividend yield	Nil	Nil
Weighted average volatility factor	56.3%	57.6%
Annualized forfeiture rate	3.6%	2.5%
Weighted average expected life	6 years	7 years

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

	Year ended December 31, 2015		Year ended December 31, 2014	
	Number of share options #	Weighted average exercise price $	Number of share options #	Weighted average exercise price $
Balance beginning of year	**1,644,720**	**5.62**	**—**	**—**
Options granted	1,348,263	8.25	1,644,720	5.62
Options exercised	(170,000)	5.49	—	—
Options expired/forfeited	7,500	7.25	—	—
Balance at end of the year	**2,815,483**	**6.89**	**1,644,720**	**5.62**
Options exercisable at end of year	**664,907**	**6.10**	**30,000**	**5.43**

The weighted-average share price at the date of exercise was $8.03 per share (2014 - $nil).

The following table summarizes information about outstanding stock options granted by the Company as at December 31, 2015:

	Options outstanding			Options exercisable	
Range of exercise $	Number of share options #	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number of share options #	Weighted average exercise price $
5.20 to 6.00	1,467,220	5.45	5.63	562,407	5.63
6.69 to 7.25	32,500	6.46	7.12	2,500	6.69
7.76 to 8.75	1,315,763	6.70	8.28	100,000	8.75
	2,815,483	**6.04**	**6.89**	**664,907**	**6.10**

[v] Share Purchase Plan

The Company has a Share Purchase Plan ("Purchase Plan") allowing employees and directors of the Company to purchase common shares at listed market prices from treasury. The plan allows for employees to contribute up to a maximum of 10% of their salary and directors to contribute up to $10 per year. The Company will contribute 25% of employees' or directors' contributions in the form of common shares if the employee remains employed by the Company or director remains on the Board, and has held the original shares for two years from the original purchase date. The Company's contribution in common shares is calculated using the lesser of the original common share value at the original purchase date and at the date of the Company's contribution. During the year, this Purchase Plan was amended resulting in an increase in the total number of common shares reserved for issuance under this Plan from 200,000 common shares to 1% of total outstanding common shares of the Company. During the year ended December 31, 2015, 10,007 shares (2014 - 4,486 shares) were issued from treasury at fair market value under the Purchase Plan for total proceeds of $77 (2014 - $30). As at December 31, 2015, 916,434 common shares (2014 -195,514 common shares) reserved for share purchase arrangements remain available under the Plan.

[vi] Warrants

As described in note 5, on June 24, 2015, Knight acquired the assets related to Neuragen® pursuant to a default by Origin under its secured loan agreement with Knight. The Company issued 185,000 warrants on June 30, 2015 to several Origin stakeholders which are exercisable, in some instances subject to the achievement of certain prescribed financial benchmarks, at an exercise price of $10.00 per share. The Company determined the value of the warrants issued based on the likelihood of certain financial benchmarks being achieved. Warrants that are unlikely to achieve their prescribed financial benchmark were assigned a value of zero. The remaining warrants were assigned a value of $4.14 per option ($161 in aggregate) using the Black-Scholes option pricing model and the following assumptions:

Weighted average	Year ended December 31, 2015
Risk-free interest rate	1.73%
Dividend yield	Nil
Volatility factor	60%
Expected life (in years)	10

[vii] Shares issued in acquisition of product rights

On September 2, 2014, as part of the acquisition of product rights, the Company issued 53,763 common shares at a value of $5.47 per common share for a total consideration of $294,084.

[viii] Share Purchase Loans

During the year ended December 31, 2014, certain participating employees were granted $595 in share purchase loans bearing an interest rate of 1% per annum to help fund the acquisition of 150,053 common shares including share purchase warrants from the Share Offering converted to common shares during the year. 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.

16. Accumulated Other Comprehensive Income

	2015 $	2014 $
Realized gain reclassified to statement of income net of tax of $1,345	(8,654)	—
Net unrealized gains in available for sale investments net of tax of $1,629 ($1,101 as of December 31, 2014)	13,851	6,768
Unrealized gain on translating financial statements of foreign operations	30,758	3,199
	35,955	**9,967**

17. Employee Benefit Expenses

	2015 $	2014 $
Wages and salaries	1,981	1,428
Bonuses	143	687
Severances	34	—
Share-based incentive plans	3,642	1,805
	5,800	**3,920**

The compensation earned by key management personnel, including directors, in aggregate was as follows:

	2015 $	2014 $
Wages and salaries	848	302
Bonuses	113	592
Board fees	60	36
Share-based incentive plans	3,738	1,657
	4,759	**2,587**

18. 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 year.

	2015 $	2014 $
Net income	34,167	125,859
Weighted average number of shares outstanding	96,191,285	57,248,473
Basic earnings per share	**$0.36**	**$2.20**

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 employee share options (2014 – compensation warrants and employee share options) where the exercise price is below the average market price of the Company's shares during the year.

	2015 $	2014 $
Net income	34,167	125,859
Weighted average number of shares outstanding	96,191,285	57,248,473
Adjustment for employee share options (2014 - compensation warrants and employee share options)	340,819	47,243
Weighted average number of shares outstanding (diluted)	96,532,104	57,295,716
Diluted earnings per share	**$0.35**	**$2.20**

19. Income Tax

[i] Consolidated statement of income

Year ended December 31

	2015 $	2014 $
Current income tax		
Current income tax charge	4,763	4,423
Adjustments in respect of current tax of previous year	(2,824)	—
Deferred tax		
Relating to the origination and reversal of temporary differences	910	772
Income tax expense reported in statement of income	**2,849**	**5,195**

[ii] Consolidated statement of other comprehensive income (OCI)

Deferred tax expense related to unrealized gain on available- for-sale financial assets recognized in OCI during the year

	2015 $	2014 $
Income tax charged to OCI	(817)	1,101
	(817)	**1,101**

[iii] Consolidated shareholders' equity

Deferred tax recovery related to items recognized in shareholders' equity during the year

	2015 $	2014 $
Share issue costs	(4,029)	(1,873)
Income tax recovery in shareholders' equity	**(4,029)**	**(1,873)**

[iv] Reconciliation of the tax expense and the accounting profit multiplied by the Company's tax rate

	Year ended December 31 2015 $	Period ended December 31 2014 $
Accounting profit before tax	**37,016**	**131,054**
At Canada's statutory income tax rate of 26.9%	9,957	35,253
Non-deductible expenses for tax purposes	97	88
Adjustments in respect of current income tax of previous year	(2,824)	—
Recognition of previously unrecognized tax attributes	(3,440)	—
Utilization of previously unrecognized tax losses	(271)	—
Unrecognized tax benefits on various deferred income tax assets	(556)	1,428
Effect of income taxes recorded at rates different from the Canadian tax rate	(204)	(31,523)
Other	90	(51)
Income tax expense reported in statement of income at the effective income tax rate of 7.7% (2014 – 3.96%)	**2,849**	**5,195**

[v] Deferred tax relates to the following

	Consolidated Balance Sheet		Consolidated Statement of Income	
	As at December 31, 2015	As at December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2014
Financing fees	2,451	3,088	806	772
Revaluation on available-for -sale investments	(284)	(1,101)	—	—
Loans	(233)	1,345	1,578	(1,345)
Deferred revenue	—	245	245	(245)
Fixed assets and intangible assets	521	157	(364)	(157)
Revaluation on derivatives and other investments	(594)	(321)	273	321
Losses available for offsetting against future taxable income	10,832	—	(10,832)	—
SR&ED expenses available for offsetting against future taxable income	5,877	—	(5,877)	—
Investment tax credits	1,235	—	(1,235)	—
Other	(323)	3	326	(2)
Deferred tax	**19,482**	**3,416**	**(15,080)**	**(656)**
Valuation allowance	**(17,141)**	**(3,416)**	**15,990**	**1,428**
Deferred tax expense			**910**	**772**
Net deferred tax assets	**2,341**	**—**		

Presentation in the consolidated balance sheet is as follows:

	2015 $	2014 $
Deferred income tax asset	2,527	—
Deferred income tax liabilities	(186)	—
Net deferred tax assets	2,341	—

Certain deferred tax assets were not recognized during the year. Given it is the second year of operations for the Company, there is uncertainty as to whether sufficient income will be generated in the future to recover these deferred tax assets. If the Company was able to recognize all unrecognized deferred tax assets, the profit would increase by $15,990.

Reconciliation of deferred tax liabilities, net

	2015 $	2014 $
Tax expense recognized during the year in income	(910)	(772)
Tax recovery (expense) during the year recognized in other comprehensive income	817	(1,101)
Tax recovery recognized during the year in equity	2,155	1,873
Other	279	—
Balance at December 31, 2015	**2,341**	**—**

20. 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.

21. Financial Instruments

The classifications of financial instruments using the fair value hierarchy measured at fair value on a recurring basis, are shown in the table below:

Financial assets – fair values

		Carrying amount and fair value	
At December 31	Fair Value Hierarchy Level	2015 $	2014 $
Financial Assets			
Marketable securities	2	233,726	133,412
Other financial assets			
Available-for-sale investments in securities	3	8,478	8,204
Available-for-sale investments in funds	3	25,560	19,904
Derivatives	3	6,621	456
		274,385	**161,976**

Fair value of loans receivable at December 31, 2015 was $51,061 (2014 - $43,194) and the carrying value was $44,917 (2014 - $37,566).

There have been no transfers between levels of hierarchy for the years ended December 31, 2015 and 2014.

Management of capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for its shareholders and to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Managed capital includes cash, marketable securities, other financial assets [note 11] and shareholders' equity. To maintain or adjust the capital structure, the Company may attempt to issue new common shares, repurchase the Company's own stock, and acquire or dispose of assets. The issuance and repurchase of common shares requires approval of the Board of Directors.

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.

Credit risk

The maximum credit risk of the Company as at December 31, 2015 is $312,347 ($193,184 as at December 31, 2014) and represents the carrying value of its marketable securities, accounts receivables, loans receivables, investments in funds and derivatives. The Company's marketable securities and available-for-sale investments in securities are held through various reputable financial institutions. Marketable securities are invested in liquid, investment securities. They are subject to minimal risk of changes in value and have a maturity of up to twelve months from the date of purchase.

Foreign exchange risk

The Company maintains cash and cash equivalents, marketable securities, accounts receivable, other financial assets and accounts payable and accrued liabilities in U.S. dollars and is therefore exposed to foreign exchange risk on these balances.

Year ended December 31

	2015 (USD)	2014 (USD)
Cash and cash equivalents	35,620	1,296
Marketable securities	86,864	115,000
Account receivable	452	18
Other financial assets	46,720	49,515
Accounts payable and accrued liabilities	(73)	(278)
Net exposure	**169,583**	**165,551**

Based on the aforementioned net exposure as at December 31, 2015, and assuming that all other variables remain constant, a 5% change in the Canadian dollar against the U.S. dollar would have resulted in a change in the statement of income and comprehensive income of $11,735 ($9,603 as at December 31, 2014).

The Company maintains cash and cash equivalents, available-for-sale investments in funds and accounts payable and accrued liabilities in EUR and is therefore exposed to foreign exchange risk on these balances.

Year ended December 31

	2015 (EUR)	2014 (EUR)
Cash	57	15
Available-for-sale investments in funds	2,801	202
Accounts payable and accrued liabilities	(1,030)	—
Net exposure	**1,828**	**217**

Based on the aforementioned net exposure as at December 31, 2015, and assuming that all other variables remain constant, a 5% change in the Canadian dollar against the EUR would have resulted in a change in the statement of income and comprehensive income of $137 ($15 as at December 31, 2014).

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 $31,335 at December 31, 2015 (estimated fair value of $28,018 at December 31, 2014). 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.

A hypothetical 5% adverse change in the stock prices of the Company's available-for-sale equity securities would result in an approximate charge of $1,567 (2014 - $1,401) to other comprehensive income. The adverse change above does not reflect what could be considered the best or worst case scenarios. Results could be worse due both to the nature of equity markets and the concentrations existing in the Company's equity investment portfolio, in particular where there is less liquidity available as in the case of the small capitalization companies included in the available-for-sale equity securities.

Interest rate risk

The Company is subject to interest rate risk on its cash and cash equivalents, its marketable securities and its loans receivable. 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

The Company is subject to liquidity risk on its accounts payable and accrued liabilities. The Company generates sufficient cash from operating activities to 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.

22. Commitments

[i] Operating lease

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

	2015 $	2014 $
2016	83	38
2017	25	10
2018	16	—
	124	**48**

[ii] Fund Commitments

As at December 31, 2015, under the terms of Company's agreements with life sciences venture capital funds, $118,397 (2014 - $98,507) may be called over the life of the funds which is based on the closing foreign exchange rates.

[iii] 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 $26,666 including $17,300 [US$12,500] upon achieving certain sales volumes, and up to $2,076 [US$1,500], upon achieving regulatory or other milestones related to specific products.

[iv] Equity Commitment

Subject to a loan agreement with one its borrowers, Knight has committed up to a maximum of $6,920 [US$5,000] to participate in the initial public offering of equity interests of the borrower.

23. Statement of Cash Flows

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

Year ended December 31

	2015 $	2014 $
Increase in:		
Accounts receivable	(1,970)	(1,025)
Inventory	(858)	(602)
Income taxes receivable	(231)	—
Long term receivable	(624)	—
Increase (decrease) in:		
Accounts payable and accrued liabilities	326	1,644
Income taxes payable	(461)	4,493
	(3,818)	**4,510**

24. Subsequent Events

[i] INTEGA – Secured Loan and License Agreement

On January 22, 2016, Knight extended secured loans in the aggregate amount of $9,000 to INTEGA Skin Sciences Inc. ("INTEGA") to support its acquisition of Valeant Groupe Cosméderme Inc., which includes Laboratoire Dr. Renaud, Pro-Derm, and Premiology product lines, three high-end medical skincare brands, from Valeant Canada Limited. Knight may issue a second tranche of the secured loans in the amount of $1,000 upon INTEGA's request, should it meet certain financial targets, and $500 at Knight's option conditional on specified events. The loans bear interest at a minimum interest rate of 13.0% per year and have terms ranging from one to six years. As part of this financing transaction, Knight has been issued 8.0% of the fully-diluted common shares in the capital of INTEGA, plus other consideration.

In conjunction with the financing transaction, Knight has entered into an exclusive distribution, license and supply agreement to commercialize all INTEGA's current and future products, to the extent that INTEGA possesses the right to commercialize such products, in Israel, Romania, Russia, Sub-Saharan Africa and the Caribbean. Subject to conditions, Knight may also receive rights to certain future products in Canada.

[ii] Braeburn – License Agreement

On February 1, 2016, Knight entered into a licensing agreement with Braeburn Pharmaceuticals, Inc. ("Braeburn") to commercialize PROBUPHINE® in Canada. PROBUPHINE® is an investigational subdermal implant designed to deliver buprenorphine continuously for six months following a single treatment, promoting patient compliance and retention as well as helping to prevent accidental paediatric exposure.

[iii] Collaboration Agreement for Photofrin®

On February 4, 2016, Concordia Laboratories Inc. ("Concordia") sent a notice of termination to the Company with respect to their collaboration agreement for Photofrin®. The Company does not believe that Concordia has valid grounds for such termination and is taking necessary measures to defend its legal rights.

[iv] Medimetriks – Secured Loan and License Agreement

On February 17, 2016, Knight announced that it had agreed to issue a secured loan of up to $27,368 [US$20,000] to Medimetriks Pharmaceuticals, Inc. ("Medimetriks") to support its acquisition of the exclusive U.S. development and commercialization rights for OPA-15406 from Otsuka Pharmaceutical Co., Ltd. OPA-15406 is a topical, non-steroidal phosphodiesterase IV (PDE-4) inhibitor that is part of a new treatment class for atopic dermatitis. The secured loan, with an initial tranche of $24,631 [US$18,000], will bear interest at a rate of 13.0% per annum for a three year term. A second tranche of $2,737 [US$2,000] will be issued by Knight upon the FDA filing by Medimetriks of a New Drug Application ("NDA") for Ozenoxacin, a novel, bactericidal non-fluorinated quinolone in development as a topical treatment for impetigo. Medimetriks expects to submit the NDA for Ozenoxacin in May 2016. As part of the transaction, Knight has been issued 3.6% of the fully-diluted common shares in the capital of Medimetriks, plus other consideration.

In addition to the secured loan, Knight and Medimetriks have entered into a license and distribution agreement whereby Knight will be Medimetriks' exclusive distribution partner in Canada, Israel, Romania, Russia, Sub-Saharan Africa and the Caribbean for future Medimetriks products. Medimetriks currently does not have rights to any products in these territories.

[v] Impavido®

On March 15, 2016 Knight announced that it terminated its agreement with Paladin Labs (Barbados) Inc., (an affiliate of Endo International plc) related to the distribution and sale of Impavido® in all countries other than the United States.

Management Team

Jonathan Ross Goodman

President & Chief Executive Officer

Prior to Knight, Mr. Goodman was the co-founder, President and CEO of Paladin Labs Inc. which was acquired by Endo for $3.2 billion. Under his leadership, $1.50 invested in Paladin at its founding was worth $142 nineteen years later. Prior to co-founding Paladin in 1995, Mr. Goodman was a consultant with Bain & Company and also worked in brand management for Procter & Gamble. Mr. Goodman holds a B.A. with Great Distinction from McGill University and the London School of Economics with 1st Class Honours. Additionally, Mr. Goodman holds an LL.B. and an M.B.A. from McGill University.

Jeffrey Kadanoff

Chief Financial Officer

Prior to Knight, Mr. Kadanoff was Vice President-Strategic Planning and Development at Reitmans. Prior to Reitmans, he was a Principal with Bain & Company where he served as a strategy consultant for 14 years. Prior to Bain, Mr. Kadanoff worked as a consulting engineer at Hatch. Mr. Kadanoff holds a B. Eng. with Distinction in Chemical Engineering and a Minor in Management from McGill University and an M.B.A. with Distinction from INSEAD. Additionally, Mr. Kadanoff is a licenced member of Professional Engineers Ontario.

Amal Khouri

Vice President of Business Development

Prior to Knight, Ms. Khouri worked at Novartis Pharma for over 7 years, where she held multiple positions within the global business development and licensing team in Basel, Switzerland. Before joining Novartis, she worked in business development at Paladin Labs in roles with increasing responsibilities. Ms. Khouri holds a B.Sc. in Biochemistry from McGill University and an M.B.A. from the University of Ottawa.

Board of Directors

Jonathan Ross Goodman
President & Chief Executive Officer

Please refer to Management Team section to the left. Mr. Goodman was on the Board of Paladin Labs from 1995 to 2014.

James C. Gale
Director

Mr. Gale is the founding partner of Signet Healthcare Partners. He is currently the Chairman of the Board of Alpex Pharma S.A. and Teligent Inc., and also serves on the Board of Directors of Spepharm AG, Bionpharma Inc., CoreRx, Inc., Leon Nanodrugs GmbH and Chr. Olesen Synthesis A/S. Prior to Signet, Mr. Gale worked for Gruntal & Co., LLC as head of principal investment activities and investment banking. Prior to joining Gruntal, he worked for Home Insurance Co., Gruntal's parent. Earlier in his career, Mr. Gale was a senior investment banker at E.F. Hutton & Co. Mr. Gale holds an M.B.A. from the University of Chicago. Mr. Gale was on the Board of Paladin Labs from 2008 to 2014.

Meir Jakobsohn
Director

Mr. Jakobsohn founded Israeli-based Medison Pharma Ltd. in 1996 and spearheaded its growth as a leading international marketing group. Formerly, he served as the Chief Operating Officer of M. Jakobsohn Ltd., a pioneer in opening the Israeli market to global pharmaceutical companies like Ciba-Geigy (Novartis), which it represented between 1937 and 1995. Mr. Jakobsohn holds a B.A. in Economics from Bar-Ilan University and an Executive M.B.A. from Bradford University in the UK.

Robert Lande
Director

Mr. Lande is the Chief Financial Officer of FXCM, Inc. a foreign exchange brokerage firm. Formerly, he was managing partner and Chief Operating Officer of Riveredge Capital Partners LLC. Prior to Riveredge Capital, Mr. Lande worked for over 16 years within the BCE/Bell Canada group where his last position was Chief Financial Officer of Telecom Américas Ltd., a joint venture between Bell Canada International, AT&T (then SBC Communications) and America Movil. Mr. Lande is a chartered financial analyst and holds an M.B.A. from the John Molson School of Business and a B.A. in Economics from McGill University. Mr. Lande was on the Board of Paladin Labs from 1995 to 2014.

Ed Schutter
Director

Mr. Schutter is the President and CEO of Arbor Pharmaceuticals, LLC. Prior to Arbor, Ed was the President of Sciele Pharmaceuticals which was subsequently sold to Shionogi & Co. Ltd. in 2008 for $1.3 billion. Prior to Sciele, Mr. Schutter served as the VP of Global Business Development at Solvay Pharmaceuticals. He was also a co-founder of North Hampton Pharmaceuticals which later was renamed to Ventrus Biosciences. Mr. Schutter holds a Bachelor degree in Pharmaceutical Sciences from Mercer University, an M.B.A. from Kennesaw State University and has also completed post graduate work in international business at Nyenrode University in the Netherlands.

Sylvie Tendler
Director

Ms. Tendler is a leading pharmaceutical market research specialist. In 2001, she founded The Tendler Group, a custom pharma marketing research consulting company which served 12 of the Top 20 global pharmaceutical companies. Ms. Tendler led The Tendler Group until its sale to IntrinsiQ LLC in 2007 where she remained as President of IntrinsiQ Tendler until 2010. Ms. Tendler has hands-on experience conducting global primary research in the top 5 EU markets, as well as the U.S., Brazil and Mexico and has been involved in the development and launch of blockbuster prescription products across therapeutic categories. Ms. Tendler holds a Master's degree in International Management from the University of Maryland.

Corporate Information

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Stock Exchange Listing
Toronto Stock Exchange
Trading Symbol: GUD

Shares Outstanding
103,474,367 Common Shares
(as at December 31, 2015)

Fiscal 2015 Trading Summary
High: $10.00
Low: $6.45
Close: $7.72
Average Daily Volume: 237,529

Transfer Agent
CST Trust Company
1 (800) 387-0825

Auditors
Ernst & Young LLP

Annual General Meeting
June 15, 2016, 5:00 PM

This annual report is also available at www.gud-knight.com
Ce document est également disponible en français.

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