KNIGHT THERAPEUTICS INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

INTERIM CONSOLIDATED BALANCE SHEETS

[Unaudited] [In thousands of Canadian dollars]

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

Commitments *[note 11]*

Subsequent events *[note 13]*

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

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

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[Unaudited] [In thousands of Canadian dollars]

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

See accompanying notes

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

[Unaudited] [In thousands of Canadian dollars]

	Notes	**Share capital**	**Warrants**	**Contributed surplus**	**Accumulated other comprehensive income**	**Retained earnings**	**Total shareholders' equity**
Balance as at January 1, 2015		**341,065**	**—**	**2,100**	**9,967**	**125,859**	**478,991**
Net income for the period		—	—	—	—	22,336	**22,336**
Realized gain reclassified to statement of income, net of tax of $1,300		—	—	—	(8,050)	—	**(8,050)**
Change in fair value of available-for-sale financial instruments, net of deferred tax of $404		—	—	—	3,000	—	**3,000**
Change in unrealized gain on translating financial statements of foreign operations		—	—	—	10,852	—	**10,852**
Comprehensive income		—			5,802	22,336	**28,138**
Share-based compensation expense		—	—	2,865	—	—	**2,865**
Issuance of shares upon financing, net of costs and deferred tax of $2,200		14,573	—	—	—	—	**14,573**
Issuance of shares upon exercise of stock options		1,487	—	(553)	—	—	**934**
Issuance of warrants		—	161	—	—	—	**161**
Exercise of compensation warrants		930	—	(295)	—	—	**635**
Issuance of shares under share purchase plan		42	—	—	—	—	**42**
Balance as at June 30, 2015		**358,097**	**161**	**4,117**	**15,769**	**148,195**	**526,339**
Balance as at January 1, 2016		**439,148**	**161**	**6,772**	**35,955**	**160,026**	**642,062**
Net income for the period		—	—	—	—	4,923	**4,923**
Realized gain reclassified to statement of income, net of tax for $65		—	—	—	(416)	—	**(416)**
Change in fair value of available-for-sale financial instruments, net of deferred tax of $147					2,548		**2,548**
Change in unrealized loss on translating financial statements of foreign operations		—	—	—	(11,646)	—	**(11,646)**
Comprehensive income (loss)		—		—	(9,514)	4,923	**(4,591)**
Share-based compensation expense	*7 [ii]*	—	—	1,883	—	—	**1,883**
Issuance of shares upon bought deal, net of costs and deferred tax of $3,080	*7 [i] [a]*	221,631	—	—	—	—	**221,631**
Issuance of shares to associate	*7 [i] [b]*	2,073	—	(943)	—	—	**1,130**
Share purchase loans	*7 [i] [c]*	(200)	—	—	—	—	**(200)**
Issuance of shares under share purchase plan		50	—	—	—		**50**
Balance as at June 30, 2016		**662,702**	**161**	**7,712**	**26,441**	**164,949**	**861,965**

See accompanying notes

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

[Unaudited] [In thousands of Canadian dollars]

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

See accompanying notes

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

1. NATURE OF OPERATIONS

Description of business

Knight Therapeutics Inc. ("Knight" or the "Company") was incorporated on November 1, 2013 under the *Canada Business Corporations Act*. The Company is a specialty pharmaceutical company and its principal business activity is developing, acquiring, in-licensing, out-licensing, marketing and distributing innovative pharmaceutical products, consumer health products and medical devices. The Company is located at 376 Victoria Avenue, Suite 220, Westmount, Quebec, H3Z 1C3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and statement of compliance

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

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

These interim condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on August 10, 2016.

3. CASH AND CASH EQUIVALENTS

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4. MARKETABLE SECURITIES

As at	June 30, 2016 $	December 31, 2015 $
Guaranteed investment certificates earning interest rates ranging from 0.95% to 1.90% and maturing on various dates from September 2016 to April 2018 (December 31, 2015: earning interest rates ranging from 1.30% to 1.76% and maturing on various dates from January 2016 to December 2016)	**150,895**	100,000
Term deposits of US$86,354 earning interest rates ranging from 0.94% to 1.34% and maturing on various dates from October 2016 to January 2017 (December 31, 2015: US$86,864 earning interest rate of 0.60% and maturing on various dates from January 2016 to June 2016)	**111,544**	120,219
Guaranteed investment certificates of US$9,500 earning interest rate of 1.21% and maturing on November 2016	**12,271**	—
Term deposits earning interest at rates ranging from 0.20% to 0.50% and maturing on various dates from March 2016 to June 2016	—	13,507
	274,710	233,726

5. FINANCIAL INSTRUMENTS

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

	Carrying amount	
	June 30, 2016 **$**	December 31, 2015 $
Financial assets		
Cash and cash equivalents	**363,713**	237,481
Marketable securities	**274,710**	233,726
Other financial assets		
Loans and other receivables *[i]*	**74,356**	45,545
Available-for-sale equity investments *[ii]*	**18,225**	8,479
Available-for-sale fund investments *[iii]*	**29,982**	25,559
Derivatives *[iv]*	**9,276**	6,621
Total financial assets	**770,262**	557,411

[i] Loans and other receivables

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

On January 22, 2016, Knight entered into a secured loan agreement ("INTEGA loan") whereby it issued an aggregate amount of $9,000 to INTEGA Skin Sciences Inc. to support a business acquisition. The Company issued a loan of $6,000 at an interest rate of 13.0% per year and maturing on January 21, 2022. A bridge loan of $3,000 with a one-year term was also issued bearing interest at a minimum of 16.0% per annum. The loans were recorded at a fair value of $7,730 upon initial measurement and subsequently accounted for at amortized cost using effective interest rates ranging from 19.8% to 44.1%.

On February 17, 2016, Knight entered into a secured loan agreement ("Medimetriks loan") of up to $27,368 [US$20,000] with Medimetriks Pharmaceuticals, Inc. ("Medimetriks") to support Medimetriks' acquisition of the exclusive U.S. development and commercialization rights of certain pharmaceutical products. Knight issued an initial tranche of $24,631 [US$18,000], bearing interest at a rate of 13.0% per annum and maturing on February 17, 2019. The loan was recorded at a fair value of $21,087 [US$15,410] upon initial measurement and subsequently accounted for at amortized cost using effective an interest rate of 19.7%. A second tranche of $2,524 [US$2,000] was issued by Knight on June 29, 2016, upon the U.S. Food and Drug Administration filing by Medimetriks of a New Drug Application for a certain pharmaceutical.

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

[ii] Available-for-sale equity investments

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

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

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

[iii] Available-for-sale fund investments

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

[iv] Derivatives

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

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

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

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

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

6. INVESTMENT IN ASSOCIATE

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

As at	***Notes***	**June 30, 2016**	December 31, 2015
		$	$
Carrying value, beginning of the period		**81,027**	—
Additions in the period		**—**	82,001
Change in contingent consideration	*7 [i] [b]*	**1,130**	—
Share of net income for the period before adjustments		3,873	2,634
Amortization of fair value adjustments		(2,214)	(1,593)
Share of net income for the period		**1,659**	1,041
Dividends		**(2,423)**	(2,015)
Carrying value, end of the period		**81,393**	81,027

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. SHARE CAPITAL

[i] Share Capital

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

	Notes	Number of common shares	$
Balance as at January 1, 2016		**103,474,367**	**439,148**
Issuance of shares upon bought deal, net of costs and deferred tax of $3,080	*[a]*	28,750,000	221,631
Issuance of shares to associate	*[b]*	250,000	2,073
Issuance of shares under share purchase plan		6,341	50
Share purchase loans	*[c]*	—	(200)
Balance at June 30, 2016		**132,480,708**	**662,702**

[a] Issuance of shares upon bought deal

On June 2, 2016, the Company completed a bought deal (the "Offering") for gross proceeds of $230,000 of common shares of Knight at a price of $8.00 per common share. An aggregate of 28,750,000 common shares including underwriters' over-allotment option of 3,750,000 common shares were issued. Issue costs related to the Offering were $11,448 (net of deferred taxes of $3,080) for the period ended June 30, 2016. Long Zone Holdings, a company controlled by Mr. Jonathan Ross Goodman, the President and Chief Executive Officer of the Company, purchased 45,000 common shares under the Offering, and Jeffrey Kadanoff, Chief Financial Officer of the Company and Amal Khouri, Vice President of Business Development of the Company each purchased 12,500 common shares.

[b] Issuance of shares to associate

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

[c] Share purchase loans

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

[ii] Share option plan

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

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The Company recorded compensation expense of $1,883 (2015 - $2,865) with a corresponding credit to contributed surplus related to the issuance of stock options. The Company determined the weighted average fair value of the options to be $3.94 (2015 - $3.86) under the Black Scholes option pricing model using the following assumptions:

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

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

	Period ended June 30			
	2016		2015	
	Number of share options **#**	**Weighted average exercise price** **$**	Number of share options \#	Weighted average exercise price $
Balance beginning of period	**2,815,483**	**6.89**	1,644,720	5.62
Options granted	**40,380**	**7.60**	690,218	8.75
Options exercised	—	—	(170,000)	5.49
Options expired/forfeited	**(5,000)**	**5.65**	—	—
Balance at end of the period	**2,850,863**	**6.90**	2,164,938	6.63
Options exercisable at end of period	**1,280,719**	**6.36**	532,407	5.64

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

9. EARNINGS PER SHARE

Basic

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

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

Diluted

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

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

10. SEGMENT REPORTING

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

11. COMMITMENTS

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

[i] Fund commitments

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

[ii] Revenue and milestone commitments

Under certain agreements, Knight may have to pay additional consideration should the Company achieve certain sales volumes or if certain milestones are met, such as regulatory approval in Canada. The Company may have to pay up to $25,605 including $14,855 [US$11,500] upon achieving certain sales volumes, and up to $1,938 [US$1,500], upon achieving regulatory or other milestones related to specific products.

[iii] Equity and loan commitments

Subject to a loan agreement with one its borrowers, Knight has committed up to a maximum of $3,229 [US$2,500] to participate in the initial public offering of equity interests of the borrower.

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

[iv] Other commitments

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

12. STATEMENT OF CASH FLOWS

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

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

13. SUBSEQUENT EVENTS

[i] Pediapharm Inc.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[ii] 3D Signatures Inc.

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

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

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

[iv] Other subsequent event

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

Stock Exchange Listing
Toronto Stock Exchange
Trading Symbol: GUD

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