knight

2014

ANNUAL REPORT

FINANCIAL HIGHLIGHTS

$110+ million

Total capital committed* in the following life science venture capital funds:

- **Sectoral Asset Management Inc.'s New Emerging Medical Opportunities Fund II, L.P.**
- **Forbion Capital Fund III C.V.**
- **Teralys Capital Innovation Fund LP**
- **Domain Partners IX, L.P.**
- **Sanderling Ventures VII, L.P.**

$40+ million

Total secured lending* to support the following life science companies:

- **Origin Biomed Inc.**
- **Apicore Inc.**
- **CRH Medical Corporation**

* Funds in Canadian dollars calculated using foreign exchange rates in effect on the date of commitment

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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 this Annual Report as well as in the Company's Annual Information Form for the year ended December 31, 2014. 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. For additional information on risks and uncertainties relating to these forward-looking statements, investors should consult the Company's ongoing quarterly filings, Annual Report and Annual Information Form and other filings found on SEDAR at www.sedar.com.

MESSAGE TO OUR SHAREHOLDERS

The first question often asked to me by existing or prospective Knight shareholders is a variation on why I am working. They are not questioning my physical health, which would be appropriate given my serious bicycling accident experienced in 2011. Surprisingly, they are asking me why I would sell Paladin Labs Inc., after 19 consecutive years of record revenues and a share price that appreciated from $1.50 to $142, to Endo Health Solutions for $3.2 billion AND not retire.

The answer is simple.

I did not want to sell Paladin, but had a fiduciary responsibility to all shareholders that trumped my personal desire. I love selling drugs. We improve people's health and make a great living in the process. I could not imagine a more fulfilling and meaningful way to spend a life. It is for that very reason that the same day that Paladin was sold to Endo, Feb 28, 2014, was also Knight's birthday.

For the record, I did not even take the day off because, as my father has taught me, "find something that you love to do, and you will never work a day in your life."

Jeffrey Kadanoff, Knight's CFO, and I stand hand in hand with Knight's shareholders, convinced that Knight will become a proud Canadian specialty pharmaceutical company. This is best evidenced by our participation in all three financings and personally investing approximately $70 million. We are certain that our grandchildren will thank us for this strong commitment to Knight's future.

I look forward to reporting to you on our progress in improving the health of Canadians through Knight's therapeutics. It will take time. At Paladin, it took about 19 years to become an overnight success. Thanks for the confidence that together we can do it again.

JONATHAN ROSS GOODMAN BA, LLB, MBA
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2014

Knight Therapeutics Inc. and its wholly-owned subsidiaries, Knight Therapeutics (Barbados) Inc. and Knight Therapeutics (USA) Inc., (collectively "Knight" or 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. Additionally, Knight intends to finance other life science companies in Canada and internationally. Headquartered in Montreal, Knight is a public company listed on Toronto Stock Exchange under the ticker symbol "GUD".

This management's discussion and analysis ("MD&A") provides our overview of Knight's operations, performance and financial condition for the year ended December 31, 2014. This document should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended December 31, 2014. Knight's consolidated financial statements as at and for the year ended December 31, 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This review was prepared by management from information available as at March 18, 2015.

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 this Annual Report as well as in the Company's Annual Information Form for the year ended December 31, 2014. 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.

Corporate highlights

Knight was listed as a separate entity on February 28, 2014 on TSX Venture Exchange ("TSX-V") as a result of a business separation agreement ("Business Separation Agreement") between Knight and Paladin Labs Inc. ("Paladin"). Knight shares began trading on March 3, 2014 and subsequently graduated to Toronto Stock Exchange ("TSX") on April 29, 2014.

During 2014, three separate equity raises were completed totalling approximately $355 million in gross proceeds. Additionally, with the approval of Impavido® by the FDA, Knight was granted a priority review voucher ("Voucher") which was later sold for gross proceeds of approximately $142 million [US$125 million] resulting in total capital generated from these transactions of close to $500 million.

To date, Knight has committed or deployed over $160 million of this capital, based on the exchange rate at the time of each transaction, through investments in venture capital life science funds and loans to life sciences companies, both designed to directly or indirectly enhance Knight's ability to acquire or in-license products for Canada and select international markets, and through acquisitions of assets and product rights.

In 2014, Knight committed to invest in five life sciences funds for a total of approximately $110 million, based on the exchange rate at the time of each commitment, to Sectoral Asset Management Inc. ("Sectoral"), Forbion Capital Partners ("Forbion"), Teralys Capital ("Teralys"), Domain Associates, L.L.C. ("Domain"), and Sanderling Ventures, L.L.C. ("Sanderling"). These funds have an ability to leverage their broad life sciences industry experience and existing relationships with key life science companies, including well placed introductions to their investee companies, to help secure Canadian and select international product rights for the Company.

To date, Knight has provided secured loans of approximately $50 million in total to life sciences companies in four separate transactions: Origin Biomed Inc. ("Origin"), Apicore Inc. and Apigen Investments Limited (collectively "Apicore"), CRH Medical Corporation ("CRH") and Synergy Strips Corp ("Synergy"). These secured loans are made with the objective of deploying capital in low risk, fair return opportunities while helping to secure Canadian and select international product rights.

To date, Knight has acquired multiple product rights through two separate transactions, an asset purchase agreement with Orphan Canada Inc. ("Orphan") in September 2014 and the acquisition of NeurAxon Inc. ("NeurAxon") in early 2015.

Based on the successful FDA approval of Impavido® for leishmaniasis, a neglected tropical disease, and the subsequent sale of the Voucher, several life sciences companies have reached out to Knight with respect to their own treatments for neglected tropical diseases to see whether Knight could become a strategic partner. Knight is in several such discussions which may lead to product rights for Knight in Canada and select international markets as well as a beneficial interest in future Vouchers.

Most importantly, Knight has built a promising portfolio of products in various stages of development for various geographies. The following table outlines Knight's product pipeline:

Knight's Product Portfolio

Product	Indication	Licensor / Vendor	Regulatory Status	Country Rights
Impavido®	Leishmaniasis	N/A	Approved in 14 countries	Worldwide
ATryn®	Prevention of thromboembolic events	rEVO Biologics	Pre-registration	Canada
Photofrin®	Oesophageal cancer, Endobronchial cancer, High-grade dysplasia in Barrett's oesophagus, Papillary bladder cancer	Pinnacle Biologics	Approved	Canada
FOCUSfactor®[1,2]	Dietary supplement	Synergy Strips Corp.	Approved	Canada
NXN-188[2] (nNOS/5HT)	Acute migraine	N/A	Phase 2	Worldwide
NXN-462[2] (nNOS)	Pain and Neurological Disorders	N/A	Phase 2	Worldwide
nNOS/iNOS[2] Inhibitor	Inflammatory pain	N/A	Preclinical	Worldwide

1 Knight has exclusive license rights to FOCUSfactor® in Canada and an exclusive option for the product rights in Israel, Russia and Sub-Saharan Africa.

2 Acquired subsequent to December 31, 2014.

The Corporation expects to continuously add products to the list of current brands.

These accomplishments achieved in the past year began with only two employees. To date, the Company has grown to over ten employees and counting, with a primary focus on growing the business development team whose mission is to build a specialty pharmaceutical company with products that improve the health of individuals in Canada and in other markets that it serves.

Overview and Overall Performance

Knight was incorporated on November 1, 2013 under the *Canada Business Corporations Act* as a subsidiary of 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 indirect 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, on February 27, 2014, Paladin and Knight entered into the 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; $1,000,000 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 Voucher to be issued in the name of Paladin Therapeutics, Inc. (a subsidiary of Knight Therapeutics Inc. subsequently renamed Knight Therapeutics (USA) Inc.), by the U.S. Food and Drug Administration ("FDA"), upon approval of Impavido® by the FDA, 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 Business Separation Agreement also provided one of Knight Therapeutic Inc.'s subsidiaries, Knight Therapeutics (Barbados) Inc. ("Knight Barbados") as licensor, to enter into a distribution and license agreement with Barbco. Under the distribution and license agreement, as amended, Knight Barbados granted to Barbco exclusive commercialization rights for Impavido® for a ten year term for the world, other than the United States. Under that agreement, Barbco shall pay to Knight Barbados, a fee of 22.5% of licensing revenue (other than gross sales) derived from Impavido® worldwide, other than the United States. In addition, under an exclusive supply agreement between Knight Barbados and Barbco entered into in December 2014, the latter must acquire all of its requirements for inventory of Impavido® from Knight Barbados for a purchase price equal to the latter's cost of manufacturing or acquiring same, plus 22.5% of gross sales of Impavido® worldwide (other than the United States).

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 $1.0 million and assets of $10.9 million of which $10.0 million was attributed to the Voucher.

As of February 28, 2014, Knight was listed on TSX-V and began trading as of March 3, 2014 under the ticker symbol "GUD.V".

On March 6, 2014, Knight entered into an agreement for a $75.0 million "Bought Deal" private placement of special warrants. 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 $75.0 million (the "Offering"). Long Zone Holdings, Inc. ("Long Zone"), (formerly 3487911 Canada Inc.), an entity controlled by the Company's President and Chief Executive Officer and shareholder, purchased 6,052,739 Special Warrants under the Offering for approximately $21.2 million. Joddes Limited, an entity related to the Company's President and Chief Executive Officer, purchased 1,127,542 Special Warrants under the Offering for $3.9 million.

Each Special Warrant was exercisable into one common share in the capital of the Company for no additional consideration. The Special Warrants were deemed to be exercised upon the expiry of the hold period applicable thereto, being the earlier of: (i) a date no later than the fifth business day after the date of issuance of a receipt for a final prospectus qualifying the issuance of common shares underlying the Special Warrants; and (ii) four months and one day following March 19, 2014. The issuance of receipt occurred on April 17, 2014, and the warrants were exercised into common shares within five business days.

In conjunction with the issuance of the Special Warrants, the Company also issued to the underwriters 282,266 compensation options, subsequently exercised into compensation warrants, which are exercisable anytime until March 19, 2015 at an exercise price equal to $3.75 per compensation warrant. On October 28, 2014, 112,906 of the compensation warrants were exercised into common shares. The remaining 169,360 warrants were exercised on February 24, 2015 for total proceeds of $635,100.

On March 19, 2014, the Company announced FDA Approval for Impavido® for the treatment of visceral, mucosal and cutaneous leishmaniasis and was granted the Voucher. 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 has met the criteria for classification as an asset held for sale. Knight sold the Voucher through its wholly-owned subsidiary, Knight Barbados, for gross proceeds of $141.9 million [US$125.0 million].

On March 21, 2014, Knight entered into an agreement for an additional $75.0 million "Bought Deal" private placement of additional special warrants (the "Additional Special Warrants") that was subsequently amended to $180.1 million. On April 10, 2014, the Company issued 34,300,000 Additional Special Warrants at a price of $5.25 with substantially the same terms as the Special Warrants for gross proceeds of $180.1 million. Long Zone purchased 7,620,000 of the Additional Special Warrants for $40.0 million. The issuance of receipt occurred on April 17, 2014, and the warrants were exercised into common shares within five business days.

On April 14, 2014, Knight entered into an arrangement with Medicure, a specialty pharmaceutical company, under which Knight would provide advisory services to help advance Medicure's U.S. specialty pharmaceutical business and corporate development initiatives. On July 7, 2014, Knight received stock options of Medicure in consideration for the services and will receive additional stock options over the term of the agreement.

On April 29, 2014, Knight began trading on TSX under the ticker symbol "GUD" and de-listed from TSX-V.

On May 1, 2014, the Company announced that Genesys Capital Management Inc. had been engaged to assist Knight with its business development efforts. The mandate included lending money on a secured basis to emerging biotechnology and specialty pharmaceutical companies in order to gain access to innovative products for the Canadian market.

On June 25, 2014, Knight issued a secured loan of $850 thousand to Origin that bears interest at a rate of 15% per annum and matures on June 25, 2017. The loan is secured by a charge over the assets of Origin. In addition, Knight has been issued warrants to acquire 698,483 Origin preferred shares at $0.0794 per share. Origin will use the funds to promote the growth of Neuragen in both Canada and the U.S. 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.

On June 26, 2014, the Company entered into a letter of agreement with Sectoral to invest $13.9 million [US$13 million] into a private fund that invests in public and private healthcare companies. Sectoral will also assist the Company in gaining preferred access to Canadian product rights for pharmaceutical products and facilitate introductions for lending opportunities between investee companies and Knight.

On July 3, 2014, Knight entered into a secured debt agreement whereby it issued a secured loan of $6.9 million [US$6.5 million] to Apicore bearing interest at a rate of 12% per annum and maturing on June 30, 2018. 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 September 2, 2014, Knight entered into an asset purchase agreement with Orphan related to the Canadian rights for ATryn® and Photofrin® (porfimer sodium), two innovative pharmaceutical products approved for sale in multiple jurisdictions.

Also on September 2, 2014, the Company announced that Bourne Partners, a leading healthcare-focused merchant banking firm, has been engaged by Knight to assist with its corporate development efforts.

On October 2, 2014, Knight entered into an agreement with Forbion whereby the Company will be investing $27.5 million [EUR19.5 million] into Forbion Capital Fund III C.V.

On October 28, 2014, Knight entered into an agreement with Teralys whereby the Company will be investing $30 million into Teralys Capital Innovation Fund LP.

On November 19, 2014, Knight through one of its wholly-owned subsidiaries, Knight Barbados, sold the Voucher to Gilead Sciences, Inc. for gross proceeds of $141.9 million [US$125.0 million].

On December 1, 2014, Knight entered into an agreement whereby it issued a secured loan of $34.0 million [US$30.0 million] to CRH bearing an 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 is secured by a charge over the assets of CRH and GAA. Knight also received 3.0 million common shares of CRH as part of the loan transaction. CRH is a public company listed on TSX under the ticker symbol "CRH".

On December 3, 2014, Knight entered into a "Bought Deal" agreement ("Share Offering") whereby the Underwriters agreed to purchase 11,111,120 common shares of Knight at a price of $6.75 per common share for gross proceeds to Knight of $75.0 million. On December 4, 2014, Knight amended the terms of the Share Offering to increase the size of the Share Offering to 12,882,800 for approximate gross proceeds of $87.0 million. On December 22, 2014, Knight completed the previously announced Share Offering for gross proceeds of $87.0 million. In addition, the Underwriters had the option, exercisable for a period of 30 days after December 22, 2014, to acquire up to an aggregate of 1,932,420 additional Common Shares at $6.75 per share for gross proceeds of $13.0 million to cover over-allotments, if any and for market stabilization purposes (the "Over-Allotment Option").

On December 16, 2014, Knight, through one of its wholly-owned subsidiaries, entered into an agreement with Sanderling to invest $11.6 million [US$10 million] into Sanderling Ventures VII, L.P. and with Domain to invest $29.0 million [US$25 million] into Domain Partners IX, L.P.

Subsequent to the year ended December 31, 2014

On January 1, 2015, Knight acquired NeurAxon for approximately $1.75 million. Knight will provide additional funding to further develop the NeurAxon family of products. NeurAxon has a family of pain and migraine pipeline products, based on selective inhibition of nitric oxide synthase (NOS).

On January 14, 2015, the Underwriters exercised the Over-Allotment in full for gross proceeds of $13.0 million, resulting in total gross proceeds of $100.0 million from the Share Offering.

On January 22, 2015, Knight, through one of its wholly-owned subsidiaries, entered into a senior secured debt financing agreement with Synergy. The secured loan of $7.4 million [US$6 million] bears interest at 15% 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 representing approximately 6.5% of its fully diluted capital. Knight will also receive a 10 year warrant entitling Knight to purchase up to 3,584,759 shares of Synergy at $0.34 per share.

Recent accounting Pronouncements

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 has not yet assessed the impact of this standard and amendments 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, 2014.

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 in Canada and internationally.

Selected quarterly financial information

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

Quarterly consolidated statements of income (loss) and comprehensive income (loss)
(in Canadian dollars, except for share amounts)

	Q4 $	Q3 $	Q2 $	Q1 $
Revenue	**109,608**	6,901	247,373	1,441
Expenses				
General and administrative	**2,285,367**	1,227,438	693,360	77,272
Research and development	**214,226**	686,517	112,736	15,037
	(2,389,985)	(1,907,054)	(558,723)	(90,868)
Depreciation of property and equipment	**7,546**	7,401	6,515	493
Amortization of intangible assets	**18,970**	18,970	18,970	6,324
Interest expense	**–**	–	4,500	19,040
Interest income	**(1,845,170)**	(1,134,970)	(878,744)	(40,983)
Gain on sale of intangible asset	**(129,370,762)**	–	–	–
Other income	**(1,234)**	(329,295)	(104,859)	–
Net gain on financial assets	**(15,706)**	–	–	–
Foreign exchange gain	**(1,409,913)**	(976,145)	(1,210)	–
Income (loss) before income taxes	**130,226,284**	506,985	396,105	(75,742)
Income tax (recovery) expense	**4,418,329**	(1,177)	5,488	–
Deferred tax recovery expense	**826,516**	(54,396)	–	–
Net income (loss) for the period	**124,981,439**	562,558	390,617	(75,742)
Other comprehensive income to be reclassified to income in subsequent periods				
Unrealized gain on available-for-sale financial instruments (net of tax of $807,962 in Q4, 2014)	**4,881,801**	174,651	1,711,235	–
Unrealized gain on translating financial statements of foreign operations	**3,199,150**	–	–	–
Other comprehensive income for the period	**8,080,951**	174,651	1,711,235	–
Total comprehensive income (loss) for the period	**133,062,390**	737,209	2,101,852	(75,742)
Basic earnings (loss) per share	**1.58**	0.007	0.006	(0.01)
Diluted earnings (loss) per share	**1.57**	0.007	0.006	(0.01)
Weighted average number of common shares				
Basic	**79,299,307**	77,781,587	63,066,993	8,079,889
Fully diluted	**79,372,599**	77,869,627	63,166,988	8,079,889

Summarized condensed consolidated balance sheets
(in Canadian dollars)

As at	December 31, 2014 $	December 31, 2013 $
Cash	**283,445,451**	1
Marketable securities	**133,411,500**	
Other current assets	**11,715,654**	–
Property and equipment and intangible assets	**893,489**	–
Other financial assets	**57,147,077**	–
Total assets	**486,613,171**	1
Total current liabilities	**7,622,437**	–
Shareholders' equity	**478,990,734**	1
Total liabilities and shareholders' equity	**486,613,171**	1

No dividends were declared or paid on our common shares since our inception. We do not expect to pay any dividends in the foreseeable future.

RESULTS OF OPERATIONS

Three-Month Period ended and year ended December 31, 2014

Revenues

Revenues related to income earned on the gross sales of Impavido® were $110 thousand and $365 thousand for the three-month period ended and year ended December 31, 2014, respectively. This income is expected to be irregular because Impavido® sales are typically associated with a tender process marked by relatively infrequent opportunities to offer the product for sale in less developed countries.

General and administrative

General and administrative expenses of $2.3 million for the three months ended December 31, 2014 relates to salaries of $1.8 million including $795 thousand of share-based compensation expense, and $328 thousand in consulting and professional fees. The remaining expenses relate to general office expenses, rent, utilities, travel, insurance, Board fees, and other expenses. For the year ended December 31, 2014 there were $4.3 million of general administrative expenses of which $3.2 million were due to salaries including $1.8 million of share-based compensation expense. There were professional fees of approximately $600 thousand including consulting services related to business development efforts, approximately $174 thousand in TSX listing fees, while the remaining $328 thousand relates to general office expenses, rent, utilities, travel and insurance.

Research and development expenses

Research and development expenses of $214 thousand for the three-month period ended December 31, 2014 related to consulting fees for the U.S. commercialization and FDA post-marketing requirements of Impavido®. Research and development expenses of $1.0 million for the year ended December 31, 2014 were due to $444 thousand of consulting fees for the U.S. commercialization and FDA post-marketing requirements of Impavido® and the acquisition of product rights of $584 thousand in the third quarter of 2014.

Interest expense

There was no interest expense for the three months ended December 31, 2014. Interest expense for the year ended December 31, 2014 relates primarily to the interest paid on the loan payable to related party, which was repaid on April 8, 2014.

Interest income

Interest income for the three months ended December 31, 2014 relates primarily to the interest earned on the Company's average cash balances and interest earned on loans receivable of $918 thousand and $896 thousand, respectively. For the year ended December 31, 2014, the Company earned $2.8 million and $1.1 million from interest earned on the Company's average cash balances and loans receivable, respectively.

Gain on sale of intangible asset

In the fourth quarter of 2014, the Company, through one of its subsidiaries sold the Voucher for gross proceeds of $141.9 million [US$125.0 million]. The Company recorded income of $129.4 million net of selling and disposal costs for the three months ended and year ended December 31, 2014.

Other income

Income earned for advisory and other services provided by the Company was $435 thousand for the year ended December 31, 2014.

Foreign exchange gain

Foreign exchange gain of $1.4 million and $2.4 million for three-month period ended and year ended December 31, 2014, respectively are primarily due to the unrealized gains on U.S. dollar denominated financial assets as the Canadian dollar weakened against the U.S. dollar during the year.

Income taxes

Current income tax expense for the three month period ended and year ended December 31, 2014, of $4.4 million was primarily due to the sale of the Voucher and interest income on our average cash balances and loans receivable. The effective tax rate was 3.4% for the year ended December 31, 2014.

Deferred taxes of $827 thousand and $772 thousand for the three month period ended and year ended December 31, 2014, respectively, relate to the origination and reversal of temporary differences in the statement of income.

Earnings per share

Basic and diluted earnings per share were $1.58 and $1.57, respectively for the three months ended December 31, 2014. Basic and diluted earnings per share for the year ended December 31, 2014 was $2.20.

Other comprehensive income

Other comprehensive income for the three months ended and year ended December 31, 2014 was $8.1 million and

$10.0 million. This other comprehensive income was the result of unrealized gains on available-for-sale investments of $4.9 million and $6.8 million for three months ended and year ended December 31, 2014, respectively, net of deferred taxes of $808 thousand and $1.1 million, respectively and $3.2 million of unrealized gain on translating of financial statements of its foreign operations for the three months ended and 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 investments 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 as well as cash generated from operations are sufficient to finance its current operations, working capital requirements and future product acquisitions.

As at December 31, 2014, the Company had $283.4 million of cash and $133.4 million in marketable securities.

Cash flows from operating activities in the year ended December 31, 2014 were $803 thousand. Cash flows from operating activities represent the cash flows primarily from interest income of $2.9 million offset by operating expenses including salaries, public relations and office expenses but excluding revenues and expenses not affecting cash such as deferred income taxes, share-based compensation expense, acquisition of product rights with shares, depreciation and amortization, accretion of interest, other income, net gain on sale of other current financial assets and intangible asset, unrealized foreign exchange gain, deferred revenue and net changes in non-cash balances relating to operations.

Cash flows used in investing activities were $49.1 million for the year ended December 31, 2014. The Company invested $133.4 million in marketable securities, issued secured loans of $38.9 million, invested $14.1 million in life science funds, purchased $2.2 million of equity securities and acquired $70 thousand of property and equipment. The use of cash of $188.7 million was offset by net proceeds from the sale of the Voucher of $139.6 million.

Cash flows generated from financing activities were $328.7 million for the year ended December 31, 2014. The issuances of Special Warrants in the first six months of 2014 provided a total of $244.8 million of cash, net of costs, while the Share Offering in the fourth quarter of 2014 provided cash of $83.0 million, net of costs. There was an offsetting use of cash of $595 thousand for warrant and share purchase loans provided to certain employees. The loan payable to a related party provided $2.5 million of cash in the first quarter but was subsequently repaid in the second quarter of 2014. Cash inflows due to the exercise of compensation warrants and participation of employees and directors in the share purchase plan amounted to $454 thousand for the year ended December 31, 2014. The remaining $1.0 million cash inflow was due to the net impact of the Business Separation Agreement.

Off-balance sheet arrangements

The Company's off-balance sheet arrangements as described in note 20 of the consolidated financial statements for the year ended December 31, 2014 currently include an operating lease arrangement and commitments to contributing additional capital to several fund investments.

Transactions between related parties

On January 21, 2014, Long Zone issued an unsecured revolving credit facility of up to $5.0 million in favor of the Company for general working capital and general corporate requirements. The credit facility matures 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 $2.5 million from this credit facility. The $2.5 million and the related interest of $22,534 were repaid in full on April 8, 2014.

Pharmascience Inc., a company related to the Company's President and CEO and shareholder provided administrative services of approximately $20,000 to the Company for the year ended December 31, 2014.

Financial instruments

Knight has not entered into any currency or other hedging instrument contracts during the year ended December 31, 2014.

Financial commitments

Our financial commitments as at December 31, 2014 in respect to an operating lease, commitments to contributing additional capital to our available-for-sale investments in funds and a commitment to support the funding of certain earn-out obligations of another company are reported in note 20 of our annual consolidated financial statements for the year ended December 31, 2014.

Outstanding share data

The table below summarizes the share data:

As at	March 18, 2015 $
Common shares	92,921,496
Stock options[1]	1,644,720

[1] On June 2, 2014, the Company issued 1,362,220 share-based compensation options to employees, officers and directors at an exercise price of $5.65.

In the third and fourth quarters of 2014, the Company issued 282,500 share-based compensation options to employees, officers and directors at exercise prices ranging from $5.20 per share to $6.69 per share.

There were no options exercised or expired/forfeited as at March 18, 2015.

Disclosure controls and procedures and internal control over financial reporting

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

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

The Company has evaluated the effectiveness of its designed disclosure controls and procedures (DC&P). Based on the evaluation of its DC&P, management has concluded that they are sufficiently effective as of December 31, 2014 to provide reasonable assurance that material information relating to the Company is made known to management.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). The Company has designed ICFR and evaluated their effectiveness as of December 31, 2014. Based on the evaluation of the Company's ICFR, 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, 2014

INDEPENDENT AUDITORS' 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, 2014 and 2013, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year ended December 31, 2014 and for the period from incorporation on November 1, 2013 to December 31, 2013, 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, 2014 and 2013, and its financial performance and its cash flows for the year ended December 31, 2014 and for the period from incorporation on November 1, 2013 to December 31, 2013 in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
March 18, 2015

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

CONSOLIDATED BALANCE SHEETS

[In Canadian dollars]

As at December 31

	2014 $	2013 $
ASSETS		
Current		
Cash	**283,445,451**	1
Marketable securities *[note 5]*	**133,411,500**	–
Accounts receivable *[note 6]*	**740,545**	–
Inventory *[note 7]*	**601,780**	–
Other current financial assets *[note 11]*	**10,089,462**	–
Other current assets *[note 8]*	**283,867**	–
Total current assets	**428,572,605**	1
Property and equipment *[note 9]*	**47,728**	–
Intangible assets *[note 10]*	**845,761**	–
Other financial assets *[note 11]*	**57,147,077**	–
Total assets	**486,613,171**	1
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[note 12]*	**2,089,911**	–
Income taxes payable	**4,492,701**	–
Deferred revenue	**1,039,825**	–
Total current liabilities	**7,622,437**	–
Shareholders' equity		
Share capital *[note 14]*	**341,065,000**	1
Contributed surplus	**2,100,025**	–
Accumulated other comprehensive income	**9,966,837**	–
Retained earnings	**125,858,872**	–
Total shareholders' equity	**478,990,734**	1
	486,613,171	1

Commitments *[note 20]*

Subsequent events *[note 22]*

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME

[In Canadian dollars]

	Year ended December 31, 2014 $	Period from Incorporation on November 1, 2013 to December 31, 2013 $
REVENUE	**365,323**	–
EXPENSES		
General and administrative	**4,283,437**	–
Research and development	**1,028,516**	–
	(4,946,630)	–
Depreciation of property and equipment *[note 9]*	**21,955**	–
Amortization of intangible assets *[note 10]*	**63,234**	–
Interest expense *[note 13]*	**23,538**	–
Interest income	**(3,899,865)**	–
Gain on sale of intangible asset *[note 1]*	**(129,370,762)**	–
Other income	**(435,388)**	–
Net gain on financial assets	**(15,706)**	–
Foreign exchange gain	**(2,387,268)**	–
Income before income taxes	**131,053,632**	–
Income tax expense *[note 17]*	**4,422,640**	–
Deferred income tax expense *[note 17]*	**772,120**	–
Net income for the year	**125,858,872**	–
Basic and diluted earnings per share *[note 16]*	**$ 2.20**	–
Weighted average number of common shares outstanding		
Basic	**57,248,473**	1
Diluted	**57,295,716**	1

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[In Canadian dollars]

	Year ended December 31, 2014 $	Period from Incorporation on November 1, 2013 to December 31, 2013 $
Net income for the year	**125,858,872**	–
Other comprehensive income to be reclassified to income or loss in subsequent periods:		
Unrealized gain on available-for-sale financial instruments (net of tax of $1,101,032)	**6,767,687**	–
Unrealized gain on translating financial statements of foreign operations	**3,199,150**	–
Other comprehensive income for the year	**9,966,837**	–
Comprehensive income for the year	**135,825,709**	–

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

[In Canadian dollars]

	Share capital $	Warrants $	Contributed surplus $	Accumulated other comprehensive income $	Retained earnings $	Total shareholders' equity $
Balance on Incorporation and as at January 1, 2014	**1**	–	–	–	–	**1**
Net income for the year	–	–	–	–	125,858,872	125,858,872
Unrealized gain on available-for-sale financial instruments	–	–	–	6,767,687	–	6,767,687
Unrealized gain on translating financial statements of foreign operations	–	–	–	3,199,150	–	3,199,150
Share-based compensation expense	–	–	1,804,898	–	–	1,804,898
Issuance of common shares as part of Business Separation Agreement *[note 1]*	11,909,000	–	–	–	–	11,909,000
Issuance of warrants, net of costs and deferred tax	–	245,734,723	491,877	–	–	246,226,600
Deemed exercise of Special Warrants into common shares	245,734,723	(245,734,723)	–	–	–	–
Issuance of shares upon financing, net of costs and deferred tax	83,071,591	–	–	–	–	83,071,591
Exercise of compensation warrants	620,148	–	(196,750)	–	–	423,398
Issuance of shares for acquisition of product rights	294,084	–	–	–	–	294,084
Issuance of shares under share purchase plan	30,453	–	–	–	–	30,453
Share purchase loans	(595,000)	–	–	–	–	(595,000)
Balance as at December 31, 2014	**341,065,000**	–	**2,100,025**	**9,966,837**	**125,858,872**	**478,990,734**

Share Capital *[note 14]*

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

[In Canadian dollars]

	Year ended December 31, 2014 $	Period from Incorporation on November 1, 2013 to December 31, 2013 $
OPERATING ACTIVITIES		
Net income	125,858,872	–
Adjustments reconciling net income to operating cash flows:		
Deferred tax	772,120	–
Share-based compensation	1,804,898	–
Acquisition of product rights	294,084	–
Depreciation of property and equipment	21,955	–
Amortization of intangible assets	63,234	–
Accretion of interest	(348,876)	–
Other income	(424,583)	–
Gain on sale of other current financial assets	(31,546)	–
Gain on sale of intangible asset	(129,370,762)	–
Unrealized loss on derivative	15,840	–
Unrealized foreign exchange gain	(2,410,213)	–
Changes in non-cash working capital related to operations *[note 21]*	4,510,390	–
Deferred revenue	47,930	–
Cash inflow from operating activities	803,343	–
INVESTING ACTIVITIES		
Purchase of marketable securities	(133,411,500)	–
Purchase of other current financial assets	(2,238,721)	–
Proceeds from disposal of other current financial assets	169,880	–
Investment in funds	(14,157,772)	–
Issuance of loans receivable	(38,941,363)	–
Purchase of property and equipment	(69,683)	–
Proceeds from sale of intangible asset, net	139,563,959	
Cash outflow from investing activities	(49,085,200)	–
FINANCING ACTIVITIES		
Net impact of Business Separation Agreement *[note 1]*	1,000,000	–
Net proceeds from warrants issuance *[note 14]*	244,826,712	–
Net proceeds from share issuance	83,035,790	1
Proceeds from exercise of compensation warrants	423,398	–
Share purchase loans	(595,000)	–
Share purchase plan	30,453	–
Loan from related party *[note 13]*	2,500,000	–
Repayment of loan from related party	(2,500,000)	–
Cash inflow from financing activities	328,721,353	1
Increase in cash during the year	280,439,496	1
Cash, beginning of year	1	–
Net foreign exchange difference	3,005,954	–
Cash, end of year	283,445,451	1

See accompanying notes

The following amounts are classified within operating activities:

Interest received	2,920,285	–
Interest paid	22,534	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars]

December 31, 2014

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; $1,000,000 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 $1,000,000 and assets of $10,909,000 of which $10,000,000 was attributed to the Voucher.

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. The Company is located at 376 Victoria Avenue, Suite 220, Westmount, Quebec, H3Z 1C3. As of February 28, 2014, Knight was listed on TSX Venture Exchange ("TSX-V") and began trading as of March 3, 2014 under the ticker symbol "GUD.V". On April 29, 2014, Knight began trading on Toronto Stock Exchange under the ticker symbol "GUD" and de-listed from TSX-V.

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 $141.9 million [US$125.0 million].

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®.

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, 2014, have been prepared by management 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. These consolidated financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements. The policies set out below have been consistently applied to all the periods presented.

The preparation of the Company's consolidated annual 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 18, 2015.

December 31, 2014

Basis of consolidation

These consolidated annual financial statements include the accounts of the Company and its wholly-owned subsidiaries Knight Therapeutics (Barbados) Inc. and Knight Therapeutics (USA) Inc. These subsidiaries are fully consolidated from the date of incorporation in the case of Knight (Barbados) Inc. or from the date of the Business Separation Agreement 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.

Foreign currency translation

[a] Functional and Presentation currency

Items included in the financial statements of each of the Company's entities 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] Company's subsidiaries

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.

During the year, the functional currency of one of the Company's subsidiaries changed from CAD to United States Dollar ("USD"). There was no material impact on prior periods.

Cash

Cash is comprised of cash on hand.

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.

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

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 held in private entities, where there are no quoted market prices in an active market. 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

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 interest accretion is captured under "Interest income" on the consolidated statement of income.

[c] Derivative financial instruments

Derivative financial instruments are carried at fair value with changes in the fair value being charged or credited to the consolidated statement of income during the year. Fair values of common share purchase warrants and stock options are obtained using the Black-Scholes option pricing valuation model or other valuation techniques.

December 31, 2014

[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.

Assets held for sale

Long-lived assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continued use and such sale is considered highly probable with the asset available for immediate sale in its present condition. The criteria for classification as held for sale includes a firm decision by management or the board of directors to dispose of a non-current asset and the expectation that such disposal will be completed within a 12 month-period. Assets held for sale are measured at the lower of their carrying amounts or their fair value less costs to sell.

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 are approximately 12 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 14. 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 a fee arrangement with a partner, where the Company earns a fee based on certain pre-determined terms relating to the gross 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.

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

December 31, 2014

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 realised 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. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions 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 judgement is required in establishing fair values. Judgements include considerations of inputs such as credit risk, discount rates and volatility. Changes in assumptions about these factors could affect the reported fair value of financial assets. See note 19 for further disclosures.

Fair value measurement of non-financial asset acquisitions

The Company initially recorded intangible assets acquired 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 details in note 14).

[In Canadian dollars]

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 judgement 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 17.

4. RECENT ACCOUNTING PRONOUNCEMENTS

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 has not yet assessed the impact of this standard and amendments on its consolidated financial statements.

5. MARKETABLE SECURITIES

Marketable securities consist of a term deposit issued in the amount of US$115,000,000 earning interest at 0.45% and maturing on September 18, 2015.

6. ACCOUNTS RECEIVABLE

	December 31, 2014 $	December 31, 2013 $
Trade receivables	**101,389**	–
Interest receivable	**633,355**	–
Other receivable	**5,801**	–
	740,545	–

7. INVENTORY

	December 31, 2014 $	December 31, 2013 $
Raw materials	**331,148**	–
Finished goods	**270,632**	–
	601,780	–

8. OTHER CURRENT ASSETS

	December 31, 2014 $	December 31, 2013 $
Commodity taxes receivable	**234,153**	–
Prepaid expenses	**49,714**	–
	283,867	–

9. PROPERTY AND EQUIPMENT

	Computer equipment $	Furniture and fixtures $	Leasehold improvements $	Total $
Cost at incorporation and as at January 1, 2014	**–**	**–**	**–**	**–**
Additions	27,969	8,265	33,449	69,683
Cost as at December 31, 2014	**27,969**	**8,265**	**33,449**	**69,683**
Accumulated depreciation at incorporation and as at January 1, 2014	**–**	**–**	**–**	**–**
Depreciation charge	6,768	2,727	12,460	21,955
Accumulated depreciation as at December 31, 2014	**6,768**	**2,727**	**12,460**	**21,955**
Net book value as at December 31, 2014	**21,201**	**5,538**	**20,989**	**47,728**

[In Canadian dollars]

December 31, 2014

10. INTANGIBLE ASSETS

	$
Cost at incorporation and as at January 1, 2014	**–**
Additions [note 1]	908,995
Cost as at December 31, 2014	**908,995**
Accumulated amortization at incorporation and as at January 1, 2014	**–**
Amortization charge	63,234
Accumulated amortization as at December 31, 2014	**63,234**
Net book value as at December 31, 2014	**845,761**

11. OTHER FINANCIAL ASSETS

	Loans receivable [i] $	Derivatives [i] $	Available-for-sale investments [ii] $	Total financial assets $
Carrying value at incorporation and January 1, 2014	–	–	–	–
Additions	36,056,476	1,489,557	19,224,862	56,770,895
Accretion of interest	348,876	–	–	348,876
Net gain(loss)	–	(15,840)	7,900,086	7,884,246
Foreign exchange gain	1,161,459	87,913	1,153,030	2,402,402
Disposals	–	–	(169,880)	(169,880)
Carrying value end of year	**37,566,811**	**1,561,630**	**28,108,098**	**67,236,539**
Less current portion:	1,885,163	–	8,204,299	10,089,462
Long term financial assets	**35,681,648**	**1,561,630**	**19,903,799**	**57,147,077**

[i] Loans receivable and derivatives

On June 25, 2014, the Company entered into an agreement whereby it issued a secured loan of $850,000 to Origin Biomed Inc. ("Origin") bearing an interest rate of 15% per annum and maturing on June 25, 2017. The loan is secured by a charge over the assets of Origin. In addition, Knight has been issued warrants to acquire 698,483 Origin preferred shares at $0.0794 per share. It was determined by management that the warrants are of limited value and consequently have not been recorded in these financial statements. This loan is classified as loans and receivables and is categorized in Level 3 of the fair value hierarchy.

On July 3, 2014, the Company entered into a secured debt agreement whereby it issued a secured loan of $6.9 million [US$6.5 million] to Apicore Inc. and Apigen Investments Limited (collectively "Apicore") bearing interest at a rate of 12% per annum and maturing on June 30, 2018. The loan is secured by a charge over the U.S. assets of Apicore. This loan is classified as loans and receivables and is categorized in Level 3 of the fair value hierarchy. 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 $1.1 million [US$1.0 million], and the effective interest rate of the loan is 21.5%. The warrants are classified as "Derivatives" and are carried at cost as there are no quoted market prices in an active market for such instruments. Categorized in Level 3 of the fair value hierarchy, the fair value of the warrants has not been disclosed because fair value cannot be measured reliably. The loan portion was classified as "Loans and receivables", recorded at fair value upon initial measurement and subsequently recorded at amortized cost using the effective interest method. During the year ended December 31, 2014, the Company recorded accreted interest of $153,971 on the loan in the consolidated statement of income. 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 $34.0 million [US$30.0 million] to CRH Medical Corporation ("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 is secured by a charge over the assets of CRH and GAA. This loan is classified as loans and receivables and is categorized in Level 3 of the fair value hierarchy. The loan was reduced by financing and other fees earned by the Company of $1.7 million [US$1.5 million]. The

[In Canadian dollars]

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. During the year ended December 31, 2014, the Company recorded accreted interest of $194,905 on the loan in the consolidated statement of income. As part of the agreement, on December 1, 2014, the Company received an “Annual Fee” of $991,895 [US$876,000] which was recorded in deferred revenue and will be earned over a one-year period in other income. This fee relates to a comfort letter provided by the Company to CRH to support the funding of certain earn-out obligations of CRH. The Company will receive an additional US$876,000 on each anniversary of the closing date of the agreement.

On July 7, 2014, the Company received 240,000 stock options from Medicure Inc. with a five-year life at an exercise price of $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 $472,512 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”. This instrument is categorized in Level 3 of the fair value hierarchy. At December 31, 2014, the Company recorded an unrealized loss of $15,840 in the consolidated statement of income.

[ii] Available-for-sale investments

On June 26, 2014, the Company entered into an agreement with Sectoral Asset Management Inc. (“Sectoral”) to invest $13.9 million [US$13 million] into a private fund that invests in public and private companies in the healthcare sector (“Sectoral Fund”) for a five-year term. On June 30, 2014, the Company contributed $10.7 million [US$10.0 million] to the Sectoral Fund and incurred $538,265 [US$504,466] in transaction costs. It is classified as available for sale and is categorized in Level 3 of the fair value hierarchy. The Company used the net asset value of the Sectoral Fund to measure fair value at December 31, 2014 and recorded an unrealized gain of $4.9 million in other comprehensive income. A 5% discount in the net asset value of the fund would result in a decrease in fair value of approximately $863,000.

In reference to CRH in note 11[i] above, these securities are classified as available-for-sale and categorized in Level 1 of the fair value hierarchy. The Company used the closing stock price as at December 31, 2014 to measure fair value and recorded an unrealized gain of $3.0 million in other comprehensive income.

On December 16, 2014, the Company, through one of its wholly-owned subsidiaries, entered into an agreement with Sanderling Ventures, L.L.C. (“Sanderling”) to invest $11.6 million [US$10 million] into their Sanderling Ventures VII, L.P. (“Sanderling Fund”) for an eight-year term. As at December 31, 2014, the Company invested $2.7 million [US$2.3 million] into the Sanderling Fund. It is classified as available for sale and is categorized in Level 3 of the fair value hierarchy. The Company used the net asset value of the Sanderling Fund to measure fair value at December 31, 2014 and recorded an unrealized loss of $317,391 in other comprehensive income. A 5% discount in the net asset value of the fund would result in a decrease in fair value of approximately $118,000.

During the year, the Company also purchased $2.2 million of common shares of publicly traded companies. These securities are classified as available-for-sale and categorized in Level 1 of the fair value hierarchy. The Company used the closing stock prices as at December 31, 2014 to measure fair value and recorded an unrealized gain of $255,458 in other comprehensive income.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2014 $	December 31, 2013 $
Trade payables	**590,848**	–
Accrued liabilities	**1,499,063**	–
	2,089,911	–

13. 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 $5.0 million in favor of the Company for general working capital and general corporate requirements. The credit facility matures 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 $2.5 million from this credit facility. The loan of $2.5 million and related interest of $22,534 was repaid in full on April 8, 2014.

[ii] Administrative services

Pharmascience Inc., a company related to the Company’s President and CEO and shareholder provided administrative services of approximately $20,000 to the Company for the year ended December 31, 2014.

[In Canadian dollars]

December 31, 2014

14. 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 on incorporation and as at January 1, 2014	1	1
Issued due to business separation agreement [note 1]	22,036,059	11,909,000
Issued upon exercise of warrants, net of costs and deferred tax [ii]	55,728,580	245,734,723
Issued upon exercise of compensation warrants [ii]	112,906	620,148
Issued upon a financing, net of costs and deferred tax [iii]	12,882,800	83,071,591
Issued upon acquisition of product rights [iv]	53,763	294,084
Issued upon share purchase plan [vi]	4,486	30,453
Share purchase loans [vii]	–	(595,000)
Balance at December 31, 2014	**90,818,595**	**341,065,000**

[ii] Warrants exercised into common shares

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 $75.0 million (the “Offering”). Long Zone purchased 6,052,739 Special Warrants under the Offering for $21.2 million. 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 $3.9 million.

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 $180.1 million. 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 $40.0 million.

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 are 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 $423,398. The remaining 169,360 warrants were exercised subsequent to the year ended December 31, 2014 for total proceeds of $635,100.

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 in a financing

On December 22, 2014, the Company completed a financing (the “Share Offering”) for gross proceeds of approximately $87.0 million 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 (the “Over-Allotment Option”). Subsequent to year end, on January 14, 2015, the Over-Allotment Option was exercised in full which resulted in additional gross proceeds of $13.0 million, for total gross proceeds under the Share Offering of $100.0 million.

Issue costs related to the Special Warrants Offering, Additional Special Warrants offering and the Share Offering were $14.6 million for the year ended December 31, 2014.

[In Canadian dollars]

[iv] 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.

[v] 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.

The Company recorded share based compensation expense of $1.8 million with a corresponding credit to contributed surplus and determined the fair value of the share options under the Black-Scholes option pricing model using the following assumptions:

	Year ended December 31, 2014	**Period from date of incorporation to December 31, 2013**
Weighted average fair value of options	**$ 3.29**	–
Weighted average risk-free interest rate	**1.85%**	–
Dividend yield	**Nil**	–
Weighted average volatility factor	**57.6%**	–
Annualized forfeiture rate	**2.5%**	–
Weighted average expected life	**7 years**	–

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

	Year ended December 31, 2014		**Period from date of incorporation to December 31, 2013**	
	Number of share options #	**Weighted average exercise price $**	**Number of share options #**	**Weighted average exercise price $**
Balance beginning of year	–	–	–	–
Options granted	**1,644,720**	**5.62**	–	–
Options exercised	–	–	–	–
Options expired/forfeited	–	–	–	–
Balance at end of the year	**1,644,720**	**5.62**	–	–
Options exercisable at end of year	**30,000**	**5.43**	–	–

[vi] 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 $10,000 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. The total number of common shares reserved for issuance under this Purchase Plan is 200,000 common shares of the Company. During the year ended December 31, 2014, 4,486 shares were issued from treasury at fair market value under the Purchase Plan for total proceeds of $30,453. As at December 31, 2014, 195,514 common shares reserved for share purchase arrangements remain available under the Plan.

[vii] Share Purchase Loans

Certain participating employees were granted $595,000 in share purchase loans bearing an interest rate of 1% per annum to help fund the acquisition of a 150,053 common shares including share purchase warrants from the 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.

[In Canadian dollars]

15. EMPLOYEE BENEFIT EXPENSES

	Year ended December 31, 2014 $	Period ended December 31, 2013 $
Wages and salaries	**1,427,668**	–
Share-based incentive plans	**1,804,898**	–
	3,232,566	–

The compensation earned by key management personnel (including Directors) in aggregate was as follows:

	Year ended December 31, 2014 $	Period ended December 31, 2013 $
Wages and salaries	**327,867**	–
Share-based incentive plans	**1,657,089**	–
	1,984,956	–

16. 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.

	Year ended December 31, 2014 $	Period ended December 31, 2013 $
Net income	**$125,858,872**	–
Weighted average number of shares outstanding	**57,248,473**	1
Basic earnings per share	**$ 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 compensation warrants from the Special Warrants Offering and employee share options where the exercise price is below the average market price of the Company's shares during the year.

	Year ended December 31, 2014 $	Period ended December 31, 2013 $
Net income	**125,858,872**	–
Weighted average number of shares outstanding	**57,248,473**	–
Adjustment for compensation warrants and employee share options	**47,243**	–
Weighted average number of shares outstanding (diluted)	**57,295,716**	1
Diluted earnings per share	**$ 2.20**	–

[In Canadian dollars]

December 31, 2014

17. INCOME TAX

[i] Consolidated statement of income

	Year ended December 31, 2014 $	Period ended December 31, 2013 $
Current income tax		
Current income tax charge	**4,422,640**	–
Deferred tax		
Relating to the origination and reversal of temporary differences	**772,120**	–
Income tax expense reported in statement of income	**5,194,760**	–
[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	**1,101,032**	–
Income tax charged to OCI	**1,101,032**	–
[iii] Consolidated shareholders' equity		
Deferred tax recovery related to items recognized in shareholders' equity during the year:		
Share issue costs	**(1,873,152)**	–
Income tax recovery in shareholders' equity	**(1,873,152)**	–

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

	Year ended December 31, 2014 $	Period ended December 31, 2013 $
Accounting profit before tax	**131,053,632**	–
At Canada's statutory income tax rate of 26.9%	**35,253,427**	–
Non-deductible expenses for tax purposes	**88,084**	–
Unrecognized tax benefits on various deferred income tax assets	**1,428,333**	–
Effect of income taxes recorded at rates different from the Canadian tax rate	**(31,522,990)**	–
Other	**(52,094)**	–
Income tax expense reported in statement of income at the effective income tax rate of 3.4%	**5,194,760**	–

[In Canadian dollars]

December 31, 2014

[v] Deferred tax relates to the following:

	Consolidated Balance Sheet		Consolidated Statement of income	
	As at December 31, 2014	**As at December 31, 2013**	**Year ended December 31, 2014**	**Period ended December 31, 2013**
Financing fees	**3,088,479**	–	**772,120**	–
Revaluation on available-for -sale investments	**(1,101,032)**	–	**–**	–
Loans	**1,344,526**	–	**(1,344,526)**	–
Deferred revenue	**244,889**	–	**(244,889)**	–
Product rights	**157,195**	–	**(157,195)**	–
Revaluation on derivatives and other investments	**(320,992)**	–	**320,992**	–
Other	**2,714**	–	**(2,714)**	–
Deferred tax	**3,415,779**	–	**(656,212)**	–
Valuation allowance	**(3,415,779)**	–	**1,428,332**	–
Deferred tax expense (income)			**772,120**	–
Net deferred tax assets (liabilities)	–	–		

Certain deferred tax assets were not recognized during the year. Given it is the first 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 recognise all unrecognized deferred tax assets, the profit would increase by $1,428,332 and the equity would increase by $1,987,447.

Reconciliation of deferred tax liabilities, net

	$
Balance on incorporation and as at January 1, 2014	–
Tax expense recognized during the year in income	(772,120)
Tax expense during the year recognized in other comprehensive income	(1,101,032)
Tax recovery recognized during the year in equity	1,873,152
Balance at December 31, 2014	–

18. 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 in Canada and internationally.

[In Canadian dollars]

December 31, 2014

19. FINANCIAL INSTRUMENTS

The Company uses the fair value hierarchy for determining and disclosing the fair value of financial instruments by valuation technique as described in note 2. The classifications of financial instruments at December 31, 2014 measured at fair value on a recurring basis, are shown in the table below:

[i] Financial assets – fair values

	Fair Value Hierarchy Level	Carrying amount $	Fair value $
FINANCIAL ASSETS			
Marketable securities	2	**133,411,500**	133,411,500
Other financial assets			
Available-for-sale investments in securities	1	**8,204,299**	8,204,299
Available-for-sale investments in funds	3	**19,903,799**	19,903,799
Derivative	3	**456,672**	456,672
		161,976,270	161,976,270

Fair value of loans receivable at December 31, 2014 was $43.2 million and the carrying value was $37.6 million.

[ii] 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, 2014 is $193.2 million and represents the carrying value of its marketable securities, accounts receivables, loans receivables, investments in funds and derivatives. The Company's marketable securities and other current financial assets 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.

December 31, 2014

Foreign exchange risk

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

	Year ended December 31, 2014 $	Year ended December 31, 2013 $
Cash	**1,295,963**	–
Marketable securities	**115,000,000**	–
Other receivables	**17,760**	–
Available-for-sale investments in funds	**16,912,940**	–
Loans receivable	**31,649,695**	–
Derivatives	**952,468**	–
Accounts payable and accrued liabilities	**(277,616)**	–
Net exposure	**165,551,210**	–

Based on the aforementioned net exposure as at December 31, 2014, and assuming that all other variables remain constant, a 5% rise or fall in the Canadian dollar against the U.S. dollar would have resulted in decreases (increases) in the statement of income and comprehensive income of $9.6 million.

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 based on quoted market prices as of the balance sheet date with an estimated fair value of $28.0 million 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 $1.4 million 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 its marketable securities described in note 5. 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.

20. COMMITMENTS

[i] Operating lease

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

	$
2015	37,902
2016	10,062
	47,964

[ii] Fund Commitments

In addition to the $13.9 million [US$12.8 million] of capital invested in the funds described in note 11[ii], an additional $98.5 million can be called at any time based on the terms of various fund agreements.

[iii] CRH Commitment

In accordance with the secured loan agreement with CRH in note 11 [i], the Company receives an Annual Fee of US$876,000 whereby the Company is committed to provide funds of up to $16.7 million [US$14.7 million], subject to the terms and conditions of the agreement, to support CRH fund certain earn out payment obligations.

[In Canadian dollars]

December 31, 2014

21. STATEMENT OF CASH FLOWS

The net change in non-cash working capital balances related to operations is as follows:

	Year ended December 31, 2014 $	Period ended December 31, 2013 $
Increase in:		
Accounts receivables	**(740,545)**	–
Inventory	**(601,780)**	–
Other current assets	**(283,867)**	–
Increase in:		
Accounts payable and accrued liabilities	**1,643,881**	–
Income taxes payable	**4,492,701**	–
	4,510,390	–

22. SUBSEQUENT EVENTS

[i] Over-allotment

On January 14, 2015, the underwriters acquired 1,932,420 additional common shares of the Company (the "Additional Shares") at a price of $6.75 per Additional Share pursuant to the exercise in full of the Over-Allotment Option granted to them in connection with the Share Offering of common shares of the Company that was completed on December 22, 2014. Following the exercise in full of the Over-Allotment Option which resulted in additional proceeds of $13.0 million, the total gross proceeds of the Share Offering were $100.0 million.

[ii] Loan to Synergy Strips Corp.

On January 22, 2015, the Company, through one of its wholly owned subsidiaries, entered into a senior secured debt financing agreement with Synergy Strips Corp. ("Synergy"). The secured loan of $7.4 million [US$6 million] will bear interest at 15% 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 representing approximately 6.5% of its fully diluted capital. Knight will also receive a 10 year warrant entitling Knight to purchase up to 3,584,759 shares of Synergy at $0.34 per share.

[iii] NeurAxon

On January 1, 2015, Knight acquired NeurAxon Inc. ("NeurAxon") for approximately $1.75 million. Knight will provide additional funding to further develop the NeurAxon family of products. The Company is in the process of determining the accounting impact of this transaction.

MANAGEMENT TEAM

Jonathan Ross Goodman
President & Chief Executive Officer

Prior to establishing Knight, Mr. Goodman was the co-founder of Paladin which was acquired by Endo for $3.2 billion. Under his leadership, $1 investment in Paladin at its founding was worth over $100 19 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. He is currently a member of the Bars of New York and Massachusetts and an accredited pharmaceutical manufacturing representative. 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 joining 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 joining 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. Amal 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 & CEO

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

Robert Lande, CFA,
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 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.

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 also serves on the board of directors of Spepharm AG, Pfenex Inc., Bionpharma Inc. and IGI Laboratories Inc. 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 in 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.

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 $1.4 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. Sylvie led The Tendler Group until its sale to IntrinsiQ LLC in 2007 where she remained as President of IntrinsiQ Tendler until 2010. Sylvie has hands-on experience conducting global primary research in the top 5 EU markets, as well as USA, Brazil and Mexico and has been involved in the development and launch of blockbuster prescription products across therapeutic categories. Sylvie holds a Master's degree in International Management from the University of Maryland.

CORPORATE INFORMATION

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www.gud-knight.com

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol: GUD

SHARES OUTSTANDING

90,818,595 Common Shares
(as at December 31, 2014)

FISCAL 2014 TRADING SUMMARY

High: $7.24
Low: $3.51
Close: $6.92
Average Daily Volume: 341,837

TRANSFER AGENT

CST Trust Company
1-800-387-0825

AUDITORS

Ernst & Young LLP

ANNUAL GENERAL MEETING

June 3, 2015, 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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