

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE FIRST QUARTER 2014

Knight Therapeutics Inc. (“Knight” or the “Company”) is a specialty pharmaceutical company and its principal business activity will be 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 three months ended March 31, 2014. This document should be read in conjunction with the interim condensed consolidated financial statements and notes thereto for the three months ended March 31, 2014. Knight’s accounting policies are in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board (IASB). This review was prepared by management from information available as at May 27, 2014.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements for the Company and its subsidiaries. These forward looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. The Company considers the assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared, but cautions the reader that these assumptions regarding future events, many of which are beyond the control of the Company and its subsidiaries, may ultimately prove to be incorrect. Factors and risks, which could cause actual results to differ materially from current expectations are discussed in the Company’s Listing Application dated February 21, 2014 and two Short Form Prospectuses each one dated April 17, 2014. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events, except as required by law.

OVERVIEW AND OVERALL PERFORMANCE

Knight 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 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 plan

of arrangement was entitled to receive, among other things, one common share of Knight in exchange for each Paladin option.

Key Highlights in Q1, 2014

- Knight listed on TSX-V on February 28, 2014 and began trading on TSX-V under the ticker symbol GUD.V on March 3, 2014. Subsequently, on April 29, 2014, Knight began trading on TSX under the ticker symbol GUD and delisted from TSX-V.
- Knight entered into and completed a private placement for a total of \$75 million in gross proceeds.
- Knight entered into a second private placement for a total of \$180 million in gross proceeds which was subsequently completed on April 10, 2014.
- Knight received U.S. FDA approval for Impavido for the Treatment of Visceral, Mucosal and Cutaneous Leishmaniasis.
- In conjunction with receiving U.S. FDA approval, Knight was awarded a Priority Review Voucher which can be sold and entitles the bearer to a priority review for any product.

Pursuant to the Arrangement Agreement, 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 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 (collectively, the “Impavido Property”).

The Business Separation Agreement also provided one of Knight’s subsidiaries, Knight Barbados Inc. as licensor, to enter into a distribution and license agreement granting a subsidiary of Paladin (Barbco) the exclusive commercialization rights for Impavido for the world, other than the United States, for a ten year term and Barbco would pay to Knight Barbados Inc. a royalty fee of 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 Venture Exchange (“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”). 3487911 Canada Inc., an entity controlled by the Company’s President and Chief Executive Officer, 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 5 business days of the issuance of receipt.

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 March 19, 2014, the Company announced FDA Approval for Impavido® (Miltefosine) for the Treatment of Visceral, Mucosal and Cutaneous Leishmaniasis and was awarded a Priority Review 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 is management's stated intention to dispose of the Priority Review Voucher, and has met the criteria for classification as an asset held for sale.

On March 21, 2014, Knight entered into an agreement for a \$75.0 million "Bought Deal" private placement of Special Warrants that was subsequently amended to \$180.1 million. The deal was to issue 34,300,000 of its Special Warrants at a price of \$5.25 with substantially the same terms as the Special Warrants for gross proceeds of \$180.1 million. The deal closed on April 10, 2014.

On April 14, 2014, Knight entered into an arrangement with Medicure, a specialty pharmaceutical company, under which Knight will provide advisory services to help advance Medicure's U.S. specialty pharmaceutical business and corporate development initiatives.

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

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.

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2010, the IASB released the complete first part of a three-part project to replace IAS 39, Financial instruments: recognition and measurement by IFRS 9, Financial instruments.

The first phase of IFRS 9, “Financial Instruments” is the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.

The second part, the new hedge accounting model, represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The third part, impairment of financial assets, is still under development.

The standard is effective for annual periods beginning on or after January 1, 2018, but earlier adoption is permitted. The Company has not yet assessed the impact of this standard and amendments on its consolidated financial statements.

SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

Our significant accounting estimates, judgements and assumptions are reported in Note 3 of our interim condensed consolidated financial statements for the three month period ended March 31, 2014.

SELECTED FINANCIAL INFORMATION

The selected financial information is derived from our interim condensed consolidated financial statements for the period ended March 31, 2014.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the period ended March 31, 2014

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

	\$
Revenue	
Royalty income	1,441
Expenses	
General and administrative	77,272
Research and development	15,037
Loss before depreciation, amortization and interest	(90,868)
Depreciation of property and equipment	493
Amortization of intangible assets	6,324
Interest expense	19,040
Interest income	(40,983)
Loss before income taxes	(75,742)
Provision for income taxes	—
Net loss and comprehensive loss for the period	(75,742)
Basic and diluted loss per share	(0.01)
Weighted average number of common shares	8,079,889

SUMMARIZED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

As at	March 31, 2014	December 31, 2013
(in thousands of Canadian dollars) (unaudited)	\$	\$
Cash	75,449,376	1
Interest and royalties receivable, and other assets	95,136	—
Property and equipment – net	35,489	—
Intangible assets – net	902,671	—
Intangible asset held for sale	10,000,000	—
Total assets	86,482,672	1
Total current liabilities	2,989,833	—
Shareholders' equity	83,492,839	1
Total liabilities and shareholders' equity	86,482,672	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 MARCH 31, 2014****REVENUES**

Revenues of \$1,441 relate to the royalties earned on the gross sales of Impavido.

GENERAL AND ADMINISTRATIVE

General and administrative expenses of \$77,000 included \$26,000 in salaries, and \$27,000 in professional fees primarily due the listing on TSX Venture Exchange (“TSX-V”). The remaining \$24,000 was due to general office expenses, utilities, travel and insurance.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of \$15,000 related to consulting fees for the U.S. commercialization and FDA post-marketing requirements of Impavido.

INTEREST EXPENSE

Interest expense was mainly due to the accrued interest on the loan payable to related party.

INTEREST INCOME

Interest income was mainly due to the interest earned on our average cash balance for the quarter.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2014, we had \$75.4 million of cash.

Cash used in operating activities in the three-month period ended March 31, 2014 was \$26,000.

In our investing activities, the Company acquired \$36,000 of property and equipment in the first three months of 2014.

For the three month period ended March 31, 2014, the financing activities of the Company provided \$75.5 million of cash. The issuance of the Special Warrants provided \$72.5 million of cash with an offsetting use of cash of \$450,000 for warrant purchase loans provided to certain employees. The loan payable to a related party also provided \$2.5 million of cash and the remaining \$1.0 million increase was due to the receipt of cash as per the Business Separation Agreement.

OFF-BALANCE SHEET ARRANGEMENTS

The Company's off-balance sheet arrangements as described in Note 13 of the interim condensed consolidated financial statements for the period ending March 31, 2014 currently include an operating lease arrangement.

TRANSACTIONS BETWEEN RELATED PARTIES

On January 21, 2014, 3487911 Canada Inc., a company controlled by the Company's President 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 \$2.5 million and the related interest of \$18,699 were repaid in full on April 8, 2014.

FINANCIAL INSTRUMENTS

Knight has not entered into any currency or other hedging instrument contracts during the first three months of 2014.

FINANCIAL COMMITMENT

Our financial commitment as at March 31, 2014 in respect to an operating lease is reported in Note 13 of our unaudited interim condensed consolidated financial statements for three-month period ended March 31, 2014.

OUTSTANDING SHARE DATA

The table below summarizes the share data:

As at	May 27, 2014
Common shares	77,764,640
Compensation warrants ¹	282,266

¹In conjunction with the issuance of the Special Warrants, 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.

DISCLOSURE CONTROLS AND PROCEDURES

The management of Knight is responsible for establishing and maintaining disclosure controls and procedures for the Company and has implemented disclosure controls and procedures to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company's management.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has taken steps to implement procedures and provide maintenance related to an effective design for the Company's internal controls and procedures over financial reporting.

Management will continue with the implementation of procedures aimed at minimizing the risk of material error in its financial reporting.

Interim condensed consolidated financial statements

Knight Therapeutics Inc.

[unaudited]

For the three-month period ended March 31, 2014

Knight Therapeutics Inc.**INTERIM CONDENSED CONSOLIDATED
BALANCE SHEETS**

As at
[In Canadian dollars]
[unaudited]

	Note	March 31, 2014 \$	December 31, 2013 \$
ASSETS			
Current assets			
Cash		75,449,376	1
Interest and royalties receivable	5	42,425	—
Other current assets	6	52,711	—
Total current assets		75,544,512	1
Property and equipment	7	35,489	—
Intangible assets	8	902,671	—
Intangible asset held for sale	1	10,000,000	—
Total assets		86,482,672	1
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accruals	9	471,134	—
Interest payable to related party	10	18,699	—
Loan payable to related party	10	2,500,000	—
Total current liabilities		2,989,833	—
Shareholders' equity			
Share capital	11	11,909,001	1
Warrants	11	71,167,703	—
Contributed Surplus	11	491,877	—
Deficit		(75,742)	—
Total shareholders' equity		83,492,839	1
Total liabilities and shareholders' equity		86,482,672	1

Subsequent events [note 16]

See accompanying notes

Knight Therapeutics Inc.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF
LOSS AND COMPREHENSIVE LOSS**

For the three months ended March 31, 2014
[In Canadian dollars except for share and per share amounts]
[unaudited]

	Note	\$
REVENUE		
Royalty income		<u>1,441</u>
EXPENSES		
General and administrative		77,272
Research and development		<u>15,037</u>
Loss before depreciation, amortization and interest		(90,868)
Depreciation of property and equipment	7	493
Amortization of intangible assets	8	6,324
Interest expense		19,040
Interest income		<u>(40,983)</u>
Loss before income tax		(75,742)
Provision for income taxes		<u>—</u>
Net loss and comprehensive loss for the period		(75,742)
Basic and diluted net loss per share	12	(0.01)
Weighted average number of common shares outstanding		<u>8,079,889</u>

See accompanying notes

Knight Therapeutics Inc.**INTERIM CONDENSED CONSOLIDATED STATEMENT OF
CHANGES IN SHAREHOLDERS' EQUITY**

For the three months ended March 31, 2014

[In Canadian dollars]

[unaudited]

	Note	Share capital \$	Warrants \$	Contributed Surplus \$	Deficit \$	Total Shareholders' Equity \$
Balance on Incorporation and as at January 1, 2014		1	—	—	—	1
Net loss and comprehensive loss for the period		—	—	—	(75,742)	(75,742)
Issuance of common shares as part of Business Separation Agreement	1	11,909,000	—	—	—	11,909,000
Issuance of warrants, net of costs		—	71,617,703	491,877	—	72,109,580
Warrant purchase loans		—	(450,000)	—	—	(450,000)
Balance as at March 31, 2014		11,909,001	71,167,703	491,877	(75,742)	83,492,839

See accompanying notes

Knight Therapeutics Inc.

**INTERIM CONDENSED CONSOLIDATED
STATEMENT OF CASH FLOWS**

For the three months ended March 31, 2014
[In Canadian dollars]
[unaudited]

	Note	\$
OPERATING ACTIVITIES		
Net loss		(75,742)
Depreciation of property and equipment		493
Amortization of intangible assets		6,324
Changes in non-cash working capital related to operations	14	43,157
Cash outflow from operating activities		(25,768)
INVESTING ACTIVITIES		
Purchase of property and equipment		(35,982)
Cash outflow from investing activities		(35,982)
FINANCING ACTIVITIES		
Net impact of Business Separation Agreement	1	1,000,000
Net proceeds from warrants issuance		72,461,125
Warrant purchase loans		(450,000)
Loan from related party		2,500,000
Cash inflow from financing activities		75,511,125
Increase in cash during the period		75,449,375
Cash, beginning of period		1
Cash, end of period		75,449,376

See accompanying notes

Knight Therapeutics Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars except for share and per share amounts]
[unaudited]

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 plan of 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 [collectively, the “Impavido Property”].

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 will be 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 Venture Exchange.

Knight Therapeutics Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars except for share and per share amounts]
[unaudited]

1. NATURE OF OPERATIONS [Cont'd]

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. 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 is management's stated intention to dispose of the Priority Review Voucher, and has met the criteria for classification as an asset held for sale.

The Business Separation Agreement also provided one of Knight's subsidiaries, Knight Therapeutics (Barbados) Inc. 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., for a ten year term and Barbco would pay to Knight Therapeutics (Barbados) Inc. a royalty fee of 22.5% of gross sales of Impavido worldwide other than the U.S.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and statement of compliance

These unaudited interim condensed consolidated financial statements of the Company for the three-month period ended March 31, 2014, have been prepared by management in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ["IASB"]. They have also been prepared on a historical cost basis and in accordance with IAS 1, Presentation of Financial Statements.

The preparation of the Company's interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 3 below.

These consolidated interim financial statements are presented in Canadian dollars and were authorized for issue by the Company's Board of Directors on May 27, 2014.

Knight Therapeutics Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars except for share and per share amounts]
[unaudited]

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Basis of consolidation

These interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Knight Therapeutics (Barbados) Inc. and Knight Therapeutics (USA) Inc. (formerly Paladin Therapeutics 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 Therapeutic (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.

Foreign currency translation

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 interim condensed consolidated financial statements of the Company are presented in Canadian dollars ["CAD"], which is the parent Company's functional and presentation currency.

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 included in the consolidated net loss for the period.

Cash

Cash is comprised of cash on hand.

Knight Therapeutics Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars except for share and per share amounts]
[unaudited]

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Financial instruments

Initial recognition and subsequent measurement

[a] 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 loss.

[b] Financial liabilities

Accounts payable and accruals and loan payable to related party 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 loss.

[c] 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.

Knight Therapeutics Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars except for share and per share amounts]
[unaudited]

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

[d] 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 loss during the financial period in which they are incurred.

Knight Therapeutics Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars except for share and per share amounts]
[unaudited]

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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
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 consolidated net loss.

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 loss.

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. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Knight Therapeutics Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars except for share and per share amounts]
[unaudited]

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Impairment of non-financial 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.

In addition, intangible assets with indefinite useful lives and intangible assets which are not yet available for use, if any, are tested for impairment annually, as well as whenever there is an indication that the carrying amount of the asset to which an asset has been allocated exceeds its recoverable amount.

Impairment losses are charged to the consolidated statement of loss 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 amortisation, had no impairments been recognized. A reversal is recognized in the consolidated statement of loss.

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 loss on a straight-line basis over the period of the lease.

Knight Therapeutics Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars except for share and per share amounts]
[unaudited]

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Share-based compensation plans

The Company has share-based compensation plans, which are described in note 11. The cost of share-based compensation plans is recognized, together with a corresponding increase in contributed surplus over the period in which the performance and/or service conditions are fulfilled. The cumulative expense is recognised 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 statements of loss. 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 loss per share.

Equity instrument share issue costs

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

Revenue recognition

Revenue related to a royalty arrangement with a partner, where the Company earns a royalty 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.

Research and development

Research and development expenditures are charged to the consolidated statement of loss in the period in which they are incurred. Development expenditures are charged to net loss 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.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars except for share and per share amounts]
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Income taxes

The tax expense comprises current and deferred tax. When applicable, tax is recognized in the consolidated statement of loss and comprehensive loss. The Company has not recorded the tax benefits of any of its net losses or tax attributes due to uncertainty as to the timing of revenue recognition.

The Company follows the liability method of accounting for deferred income taxes. Under this method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods during which the future tax assets or liabilities are expected to be realized or settled.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused research and development expenditures and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused research and development expenditures and unused tax losses can be utilized, except where the deferred tax asset 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 nor taxable profit or loss.

Unrecognized deferred tax assets are reassessed 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.

Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss 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.

Knight Therapeutics Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars except for share and per share amounts]
[unaudited]

3. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim condensed 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. Estimates and assumptions are reviewed quarterly. All revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant judgments and estimates 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 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.

Impairment of non-financial 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 loss in the period concerned. Impairment losses on these 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.

Knight Therapeutics Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars except for share and per share amounts]
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3. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS [Cont'd]

Stock 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 stock-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 the volatility [see details in note 11].

4. RECENT ACCOUNTING PRONOUNCEMENTS

In October 2010, the IASB released the complete first part of a three-part project to replace IAS 39, Financial instruments: recognition and measurement by IFRS 9, Financial instruments.

The first phase of IFRS 9, "Financial Instruments" is the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.

The second part, the new hedge accounting model, represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The third part, impairment of financial assets, is still under development.

The standard is effective for annual periods beginning on or after January 1, 2018, but earlier adoption is permitted. The Company has not yet assessed the impact of this standard and amendments on its consolidated financial statements.

5. INTEREST AND ROYALTIES RECEIVABLE

	March 31, 2014	December 31, 2013
	\$	\$
Interest receivable	40,984	—
Royalties receivable	1,441	—
Total	42,425	—

Knight Therapeutics Inc.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED
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[In Canadian dollars except for share and per share amounts]
[unaudited]

6. OTHER CURRENT ASSETS

	March 31, 2014	December 31, 2013
	\$	\$
Commodity taxes receivable	33,461	—
Prepaid expenses	19,250	—
	<u>52,711</u>	<u>—</u>

7. PROPERTY AND EQUIPMENT

	Computer equipment	Leasehold improvements	Total
	\$	\$	\$
Cost as at January 1, 2014	—	—	—
Additions	17,753	18,229	35,982
Cost as at March 31, 2014	<u>17,753</u>	<u>18,229</u>	<u>35,982</u>
Accumulated depreciation as at January 1, 2014	—	—	—
Depreciation charge	493	—	493
Accumulated depreciation as at March 31, 2014	<u>493</u>	<u>—</u>	<u>493</u>
Net book value as at March 31, 2014	<u>17,260</u>	<u>18,229</u>	<u>35,489</u>

The leasehold improvements were not completed by March 31, 2014 therefore no amortization was recorded for the three-month period ended March 31, 2014.

8. INTANGIBLE ASSETS

	Intellectual property
	\$
Cost as at January 1, 2014	—
Additions	908,995
Cost as at March 31, 2014	<u>908,995</u>
Accumulated amortization as at January 1, 2014	—
Amortization charge	6,324
Accumulated amortization as at March 31, 2014	<u>6,324</u>
Net book value as at March 31, 2014	<u>902,671</u>

Knight Therapeutics Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars except for share and per share amounts]
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9. ACCOUNTS PAYABLE AND ACCRUALS

	March 31, 2014	December 31, 2013
	\$	\$
Trade payables	183,442	—
Accrued liabilities	287,692	—
	471,134	—

10. LOAN PAYABLE TO RELATED PARTY

On January 21, 2014, 3487911 Canada Inc., a company controlled by the Company's President 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% [7% as at March 31, 2014]. On February 20, 2014, the Company withdrew \$2.5 million from this credit facility.

The \$2.5 million was repaid in full on April 8, 2014. The interest payable as at March 31, 2014 related to this credit facility amounted to \$18,699 and was also paid on April 8, 2014.

11. 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 at January 1, 2014	1	1
Issued during the period [Note 1]	22,036,059	11,909,000
Balance at March 31, 2014	22,036,060	11,909,001

Knight Therapeutics Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars except for share and per share amounts]
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11. SHARE CAPITAL [Cont'd]

[ii] Share Option Plan

The Company has an equity-settled Share Option Plan [“the Plan”] in place for the benefit of certain employees, directors and officers of the Company. As at March 31, 2014, no options have been granted. 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. The option period for an option shall be determined by the Committee appointed by the Board or the Board if no committee appointed at the time the option is granted and may be up to ten years from the date the option is granted. The 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. As at March 31, 2014, no options were issued under this plan.

[iii] Share Purchase Plan

The Company has a Share Purchase Plan [“Purchase Plan”] allowing employees and directors of the Company to purchase up to 200,000 common shares at listed market prices from treasury. Under the Purchase Plan, the Company will contribute 25% of employees’ contributions to a maximum of 10% of the employees’ salary in the form of common shares if the employee remains employed by the Company 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 the date of the Company’s contribution. As at March 31, 2014, no shares were issued under this plan.

[iv] 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 \$75,000,030 [the “Offering”]. 3487911 Canada Inc., an entity controlled by the Company’s President and Chief Executive Officer, purchased 6,052,739 Special Warrants under the Offering for \$21,184,587. Joddes Limited, an entity related to the Company’s President and Chief Executive Officer, purchased 1,127,542 Special Warrants under the Offering for \$3,946,397.

Each Special Warrant is exercisable into one common share in the capital of the Company for no additional consideration. The Special Warrants will be deemed to be exercised upon the expiry of the hold period applicable thereto, being the earlier of: [i] a date that is 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 5 business days of the issuance of receipt.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars except for share and per share amounts]
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11. SHARE CAPITAL [Cont'd]

In conjunction with the issuance of the Special Warrants, 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.

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	March 31, 2014
Risk-free interest rate	0.95%
Dividend yield	nil
Volatility factor	60%
Expected life (in years)	1

The compensation cost of \$491,877 related to the compensation options was included with the other issue costs related to the Special Warrants of \$2,890,450 and was recorded as an offset to the Special Warrants. The deferred tax asset of \$800,000 related to compensation costs was not recognized by the Company.

Certain participating employees were given \$450,000 in warrant purchase loans bearing an interest rate of 1% per annum to help fund the acquisition of 128,572 Special Warrants. 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 Special Warrants issued.

12. LOSS PER SHARE

There were no adjustments to the weighted average number of common shares outstanding for the purpose of calculating diluted loss per share, because to do so would be anti-dilutive. Instruments that could potentially dilute basic earnings per share in the future include Special Warrants and compensation warrants.

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13. COMMITMENT

Operating lease

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

	\$
2014	23,148
2015	37,902
2016	10,062
	<u>71,112</u>

14. STATEMENT OF CASH FLOWS

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

	\$
Increase in:	
Interest and royalties receivables	(42,425)
Other current assets	(52,711)
Increase in:	
Accounts payable and accruals	119,594
Interest payable	18,699
	<u>43,157</u>

15. 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 shareholder 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. To maintain or adjust the capital structure, the Company may attempt to issue new common shares, issue debt, acquire or dispose of assets. The issuance of common shares requires approval of the Board of Directors.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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16. SUBSEQUENT EVENTS

On April 10, 2014, Knight completed a Subsequent Special Warrant Offering and sold an aggregate of 34,300,000 Additional Special Warrants at a price of \$5.25 per Additional Special Warrant, for aggregate gross proceeds of \$180,075,000 to the Company. Other than the consideration paid therefor and the date of their deemed exercise, the terms of the Additional Special Warrants were substantially the same as the Special Warrants. 3487911 Canada Inc. purchased 7,620,000 of the 34,300,000 Additional Special Warrants sold pursuant to the Subsequent Special Warrant Offering.

On April 17, 2014, the Company received receipts for its short form prospectuses both dated April 17, 2014 [the “Final Prospectuses”] filed with the securities regulatory authorities in the applicable provinces of Canada with respect to the distribution of an aggregate of 55,728,580 Common Shares issuable pursuant to the exercise of an aggregate of 55,728,580 common share Special Warrants. 21,428,580 Special Warrants were issued on March 19, 2014 at a price of \$3.50 per Special Warrant and 34,300,000 Special Warrants were issued on April 10, 2014 at a price of \$5.25 per Special Warrant. All unexercised Special Warrants were deemed exercised without the payment of additional consideration or further action on the part of the holder within five business days from April 17, 2014.