MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SECOND 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 and six months ended June 30, 2014. This document should be read in conjunction with the interim condensed consolidated financial statements and notes thereto for the three and six months ended June 30, 2014. Knight's interim condensed consolidated financial statements as at and for the three and six-month periods ended June 30, 2014 are in compliance with IAS 34, Interim Financial Reporting. This review was prepared by management from information available as at August 13, 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 or future events, except as required by law.

OVERVIEW AND OVERALL PERFORMANCE

Key Highlights in Q2, 2014

- On April 10, 2014, Knight completed a private placement of Additional Special Warrants for aggregate proceeds of $180,075,000.
- On April 17, 2014, Knight received receipts for two short form prospectuses. The warrants issued in the private placements of Special Warrants dated March 19 and Additional Special Warrants dated April 10, 2014 were exercised into common shares within five business days of receipt.
- On April 29, 2014, Knight began trading on TSX under the ticker symbol GUD and delisted from TSX-V.
- On June 25, 2014, Knight issued an $850,000 secured loan bearing 15% interest per annum to Origin Biomed Inc. ("Origin"), a company dedicated to the commercialization of the Neuragen® and Bionica Brands.

- On June 26, 2014, Knight entered into an agreement with Sectoral Asset Management Inc. ("Sectoral") to invest $13.9 million [US$13 million] in its private fund that invests in public and private healthcare companies. Sectoral will also assist the Company in securing preferred access to Canadian product rights for pharmaceutical products and facilitate introductions for lending opportunities between the investee companies and Knight.

Subsequent to the quarter ended June 30, 2014

- On July 3, 2014, Knight issued a secured loan of $6.9 million [US$6.5 million], bearing an interest rate of 12% per annum, to support the acquisition, by two newly formed holding companies, of Apicore LLC and Apicore US LLC (collectively, "Apicore") which became wholly owned operating subsidiaries of the borrowers.

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.

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 Therapeutics (Barbados) Inc. as licensor, to enter into a distribution and license agreement granting 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 Therapeutics (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 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 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 additional special warrants [the “Additional Special Warrants”] that was subsequently amended to $180.1 million. The deal was to issue 34,300,000 of its 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. The deal closed on April 10, 2014. 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 will 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 Toronto Stock Exchange ("TSX") 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.

On June 25, 2014, Knight issued a secured loan of $850,000 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 [USD$13 million] into a private fund that invests in public and private healthcare companies ("the Fund'). 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 issued a secured loan of $6.9 million [US$6.5 million] to support the acquisition, by two newly formed holding companies, of Apicore LLC and Apicore US LLC which became wholly owned operating subsidiaries of the borrowers. The loan bears interest at a rate of 12% per annum and matures on June 30, 2018. The loan is secured by a charge over the U.S. assets of Apicore. In addition, Knight has been issued warrants to acquire a beneficial interest of 8.125% of Apicore.

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 October 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, JUDGMENTS AND ASSUMPTIONS

Our significant accounting estimates, judgments and assumptions are reported in Note 3 of our interim condensed consolidated financial statements for the three and six-month periods ended June 30, 2014.

SELECTED FINANCIAL INFORMATION

The selected financial information is derived from our interim condensed consolidated financial statements for the period ended June 30, 2014.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(in Canadian dollars, except for share amounts) (unaudited)	**Q2** $	**Q1** $
Revenue		
Royalty income	**247,373**	**1,441**
Expenses		
General and administrative	693,360	77,272
Research and development	112,736	15,037
	(558,723)	**(90,868)**
Depreciation of property and equipment	6,515	493
Amortization of intangible assets	18,970	6,324
Interest expense	4,500	19,040
Interest income	(878,744)	(40,983)
Other income	(104,859)	—
Foreign exchange gain	(1,210)	—
Income (loss) before income taxes	**396,105**	**(75,742)**
Income tax expense	5,488	—
Net income (loss) for the period	**390,617**	**(75,742)**
Other comprehensive income to be reclassified to income in subsequent periods		
Change in fair value of available-for-sale financial instruments (net of tax of $265,929)	1,711,235	—
Other Comprehensive income for the period	**1,711,235**	—
Total Comprehensive income (loss) for the period	**2,101,852**	**(75,742)**
Basic and diluted earnings (loss) per share	0.006	(0.01)
Weighted average number of common shares		
Basic	63,066,993	8,079,889
Fully diluted	63,166,988	8,079,889

SUMMARIZED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

As at (in Canadian dollars) (unaudited)	June 30, 2014 $	December 31, 2013 $
Cash	234,507,236	1
Interest, royalties and other receivable, and other current assets	845,934	—
Property and equipment – net	57,476	—
Intangible assets – net	883,701	—
Intangible asset held for sale	10,000,000	
Other financial assets	14,029,454	
Total assets	260,323,801	1
Total current liabilities	1,501,718	—
Total liabilities	1,767,647	
Shareholders' equity	258,556,154	1
Total liabilities and shareholders' equity	260,323,801	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 AND SIX-MONTH PERIOD ENDED JUNE 30, 2014

REVENUES

Revenues related to royalties earned on the gross sales of Impavido were $247 thousand and $249 thousand for the three-month and six-month periods ended June 30, 2014, respectively.

GENERAL AND ADMINISTRATIVE

General and administrative expenses of $693 thousand for the three months ended June 30, 2014 includes $378 thousand in salaries, and $108 thousand in consulting and professional fees and TSX listing fees of $150 thousand. The remaining $57 thousand relates to general office expenses, utilities, travel and insurance. For the six month period ended June 30, 2014 the $771 thousand of general and administrative expenses included $404 thousand in salaries, $138 thousand in professional fees, including consulting services related to business development efforts, approximately $160 thousand in TSX listing fees, while the remaining $69 thousand relates to general office expenses, utilities, travel and insurance.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of $113 thousand and $128 thousand for the three-month period and six -month period ended June 30, 2014, respectively, were related to consulting fees for the U.S. commercialization and FDA post-marketing requirements of Impavido.

INTEREST EXPENSE

Interest expense for the three months and six months ended June 30, 2014 relates 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 and six months ended June 30, 2014 relates primarily to the interest earned on the Company's average cash balance.

OTHER INCOME

Other income for the three and six-months periods ended June 30, 2014 relates to income earned for advisory services provided by the Company.

EARNINGS PER SHARE

Basic and diluted earnings per share were $0.006 and $0.009 for the three months and six months ended June 30, 2014, respectively.

OTHER COMPREHENSIVE INCOME

Other comprehensive income of $1.7 million was the result of an unrealized gain on an available for sale investment of $2.0 million, net of tax of $266 thousand.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2014, the Company had $234.5 million of cash.

Cash flows from operating activities in the six-month period ended June 30, 2014 was $241 thousand. Cash flows from operating activities represent the cash flows primarily from interest income excluding revenues and expenses not affecting cash such as share-based compensation expense, depreciation and amortization, other income and net changes in non-cash balances relating to operations.

Cash flows used in investing activities were $11.6 million for the six months ended June 30, 2014. The Company invested $10.7 million [US$10 million] in the Fund, issued a secured loan of $850 thousand and acquired $64 thousand of property and equipment.

Cash flows generated from financing activities were $245.8 million in the first six months of 2014. The issuances of Special Warrants in the first six months of 2014 provided a total of $245.3 million of cash with an offsetting use of cash of $450 thousand for warrant 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. The remaining $1.0 million cash inflow was due to the net impact of Business Separation Agreement.

OFF-BALANCE SHEET ARRANGEMENTS

The Company's off-balance sheet arrangements as described in Note 14 of the interim condensed consolidated financial statements for the three-month and six-month periods ended June 30, 2014 currently include an operating lease arrangement and a commitment to contributing additional capital to the Fund.

TRANSACTIONS BETWEEN RELATED PARTIES

On January 21, 2014, 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 $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 six months of 2014.

FINANCIAL COMMITMENTS

Our financial commitments as at June 30, 2014 in respect to an operating lease and a commitment to contributing additional capital to the Fund is reported in Note 14 of our unaudited interim condensed consolidated financial statements for three-month and six-month periods ended June 30, 2014.

OUTSTANDING SHARE DATA

The table below summarizes the share data:

As at	**August 13, 2014**
Common shares	77,764,640
Compensation warrants[1]	282,266
Stock options[2]	1,362,220

[1]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.

[2]On June 2, 2014, the Company issued share-based compensation options to employees, officers and directors at an exercise price of $5.65. There were no options exercised or expired/forfeited during the period.

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 and six-month periods ended June 30, 2014

NOTICE TO READER OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements of Knight Therapeutics Inc. (the " Company ") and the accompanying interim condensed consolidated balance sheet as at June 30, 2014, the interim condensed consolidated statements of income, comprehensive income and changes in shareholders' equity for the three and six-month periods ended June 30, 2014, and the consolidated statement of cash flows for the six-month period ended June 30, 2014, are the responsibility of the Company's management. These interim condensed consolidated financial statements have not been audited or reviewed on behalf of the shareholders by the independent external auditors, Ernst & Young LLP.

The interim condensed consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with International Financial Reporting Standards. Management has determined such amounts on a reasonable basis in order to ensure that the interim condensed consolidated financial statements are presented fairly in all material respects. The Company's accounting procedures and related systems of internal controls are designed to provide a reasonable assurance that its assets are safeguarded and its financial records are reliable. Readers are cautioned that these interim condensed consolidated financial statements may not be appropriate for their purposes.

(signed) Jonathan Goodman	*(signed) Jeffrey Kadanoff*
Jonathan Goodman	Jeffrey Kadanoff
President and Chief Executive Officer	Chief Financial Officer
Montreal, Canada	Montreal, Canada
August 13, 2014	August 13, 2014

Knight Therapeutics Inc.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

As at
[In Canadian dollars]
[unaudited]

	Note	June 30, 2014 $	December 31, 2013 $
ASSETS			
Current assets			
Cash		**234,507,236**	1
Interest, royalties and other receivable	5	**670,811**	—
Other current assets	6	**175,123**	—
Total current assets		**235,353,170**	1
Property and equipment	7	**57,476**	—
Intangible assets	8	**883,701**	—
Intangible asset held for sale	1	**10,000,000**	—
Other financial assets	9	**14,029,454**	—
Total assets		**260,323,801**	1
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accruals	10	**1,501,718**	—
Total current liabilities		**1,501,718**	—
Deferred income tax liability		**265,929**	—
Total liabilities		**1,767,647**	—
Shareholders' equity			
Share capital	12	**255,779,700**	1
Contributed surplus		**750,344**	—
Accumulated other comprehensive income		**1,711,235**	—
Retained earnings		**314,875**	—
Total shareholders' equity		**258,556,154**	1
Total liabilities and shareholders' equity		**260,323,801**	1

Commitments [note 14]
Subsequent event *[note 17]*

See accompanying notes

Knight Therapeutics Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Note	Three months ended June 30, 2014	Six months ended June 30, 2014
		$	$
REVENUE			
Royalty income		247,373	248,814
EXPENSES			
General and administrative		693,360	770,632
Research and development		112,736	127,773
		(558,723)	**(649,591)**
Depreciation of property and equipment	7	6,515	7,008
Amortization of intangible assets	8	18,970	25,294
Interest expense		4,500	23,540
Interest income		(878,744)	(919,727)
Other income	5	(104,859)	(104,859)
Foreign exchange gain		(1,210)	(1,210)
Income before income taxes		**396,105**	**320,363**
Income tax expense		5,488	5,488
Net income for the period		**390,617**	**314,875**
Basic and diluted earnings per share		**0.006**	**0.009**
Weighted average number of common shares outstanding			
Basic		63,066,993	35,725,338
Diluted		63,166,988	35,784,315

See accompanying notes

Knight Therapeutics Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[In Canadian dollars]
[unaudited]

	Three months ended June 30, 2014 $	Six months ended June 30, 2014 $
Net income for the period	**390,617**	**314,875**
Other comprehensive income to be reclassified to income or loss in subsequent periods:		
Change in fair value of available-for-sale financial instruments (net of tax of $265,929)	1,711,235	1,711,235
Other comprehensive income for the period	**1,711,235**	**1,711,235**
Total comprehensive income for the period	**2,101,852**	**2,026,110**

See accompanying notes

Knight Therapeutics Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended June 30, 2014
[In Canadian dollars]
[unaudited]

	Note	Share capital $	Warrant $	Contributed Surplus $	Accumulated Other Comprehensive Income $	Retained Earnings $	Total Shareholders' Equity $
Balance on Incorporation and as at January 1, 2014		**1**	**—**	**—**	**—**	**—**	**1**
Net income and comprehensive income for the period		—	—	—	1,711,235	314,875	2,026,110
Stock based compensation expense		—	—	258,467	—	—	258,467
Issuance of common shares as part of Business Separation Agreement	1	11,909,000	—	—	—	—	11,909,000
Issuance of warrants, net of costs		—	244,320,699	491,877	—	—	244,812,576
Deemed exercise of Special Warrants into common shares	12	244,320,699	(244,320,699)	—	—	—	—
Share purchase loans		(450,000)	—	—	—	—	(450,000)
Balance as at June 30, 2014		**255,779,700**	**—**	**750,344**	**1,711,235**	**314,875**	**258,556,154**

See accompanying notes

Knight Therapeutics Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

[In Canadian dollars]
[unaudited]

	Note	Six months ended June 30, 2014 $
OPERATING ACTIVITIES		
Net income		314,875
Depreciation of property and equipment		7,008
Amortization of intangible assets		25,294
Stock based compensation		258,467
Changes in non-cash working capital related to operations	15	(364,230)
Cash inflow from operating activities		**241,414**
INVESTING ACTIVITIES		
Purchase of property and equipment		(64,484)
Loan receivable		(850,000)
Investment in Fund		(10,664,025)
Cash outflow from investing activities		**(11,578,509)**
FINANCING ACTIVITIES		
Net impact of Business Separation Agreement	1	1,000,000
Net proceeds from warrants issuance	12	245,294,330
Share purchase loans		(450,000)
Loan from related party	11	2,500,000
Repayment of loan from related party	11	(2,500,000)
Cash inflow from financing activities		**245,844,330**
Increase in cash during the period		**234,507,235**
Cash, beginning of period		1
Cash, end of period		**234,507,236**

See accompanying notes

The following amounts are classified within operating activities:

Interest received	593,863
Interest paid	22,534

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars except for 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.

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 and six-month periods ended June 30, 2014, have been prepared by management in accordance with IAS 34, Interim Financial Reporting. They have also been prepared on a historical cost basis.

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 August 13, 2014.

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 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.

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 income for the period.

Cash

Cash is comprised of cash on hand.

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

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 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) expense". 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 under "Other (income) expense" during the year. Fair values of common and preferred share purchase warrants are obtained using the Black-Scholes option pricing valuation model.

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

[d] Financial liabilities

Accounts payable and accruals 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.

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

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars except for 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
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 consolidated net 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. 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.

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 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 12. 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

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

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. The dilutive effect of outstanding options, if any, is reflected as additional share dilution in the computation of diluted earnings 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 issued.

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.

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

The tax expense comprises current and deferred tax. When applicable, tax is recognized in the consolidated statement of income and comprehensive income. 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.

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

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.

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, JUDGMENTS 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

3. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS [Cont'd]

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 income 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.

[In Canadian dollars except for share amounts]

3. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS [Cont'd]

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 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 12].

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 October 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. INTEREST, ROYALTIES AND OTHER RECEIVABLE

	June 30, 2014 $	December 31, 2013 $
Interest receivable	**325,863**	—
Royalties receivable	**240,089**	—
Other receivable	**104,859**	—
Total	**670,811**	—

Other receivable consists of income earned for advisory services provided by Knight in exchange for stock options to be received over the term of the agreement. Consideration received was determined based on the fair value of the stock options.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

6. OTHER CURRENT ASSETS

	June 30, 2014 $	December 31, 2013 $
Commodity taxes receivable	**161,123**	—
Prepaid expenses	**14,000**	—
	175,123	—

7. PROPERTY AND EQUIPMENT

	Computer equipment $	**Furniture and fixtures** $	**Leasehold improvements** $	**Total** $
Cost as at January 1, 2014	—	—	—	—
Additions	22,770	8,265	33,449	64,484
Cost as at June 30, 2014	**22,770**	**8,265**	**33,449**	**64,484**
Accumulated depreciation as at January 1, 2014	—	—	—	—
Depreciation charge	2,251	659	4,098	7,008
Accumulated depreciation as at June 30, 2014	**2,251**	**659**	**4,098**	**7,008**
Net book value as at June 30, 2014	**20,519**	**7,606**	**29,351**	**57,476**

8. INTANGIBLE ASSETS

	Intellectual property $
Cost as at January 1, 2014	—
Additions	908,995
Cost as at June 30, 2014	**908,995**
Accumulated amortization as at January 1, 2014	—
Amortization charge	25,294
Accumulated amortization as at June 30, 2014	**25,294**
Net book value as at June 30, 2014	**883,701**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

9. OTHER FINANCIAL ASSETS

	June 30, 2014 $	December 31, 2013 $
Loan receivable [i]	**850,000**	—
Investment in Fund [ii]	**13,179,454**	—
	14,029,454	—

[i] Loan receivable

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 Knight 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 2 of the fair value hierarchy.

[ii] Investment in Fund

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 ("the Fund") for a five-year term. On June 30, 2014, the Company contributed $10,664,025 [US$9,994,400] to the 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 Fund to measure fair value at June 30, 2014.

10. ACCOUNTS PAYABLE AND ACCRUALS

	June 30, 2014 $	December 31, 2013 $
Trade payables	**848,563**	—
Accrued liabilities	**653,155**	—
	1,501,718	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

11. LOAN PAYABLE TO RELATED PARTY

On January 21, 2014, 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 $18,699 was repaid in full on April 8, 2014.

12. 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 due to business separation agreement [*Note 1*]	22,036,059	11,909,000
Issued upon exercise of warrants [ii]	55,728,580	244,320,699
Share purchase loans	—	(450,000)
Balance at June 30, 2014	**77,764,640**	**255,779,700**

[ii] Warrants exercised into common shares

On March 19, 2014, the Company had 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.

On April 10, 2014, the Company issued 34,300,000 additional special warrants [the "Additional Special Warrants"] at a price of $5.25 per Additional Special Warrant, for aggregate gross proceeds of $180,075,000. Other than the consideration paid therefor, 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 under the Subsequent Special Warrant Offering for $40,005,000.

[In Canadian dollars except for share amounts]

12. SHARE CAPITAL [Cont'd]

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

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. There was no exercise of these warrants during the six-month period ended June 30, 2014.

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	**June 30, 2014**
Risk-free interest rate	0.95%
Dividend yield	Nil
Volatility factor	60%
Expected life (in years)	1

Issue costs related to both Special Warrants offerings of $10,262,438 resulted in a deferred tax asset of $2,760,598 of which $61,035 was recognized.

[iii] Share Purchase Loans

Certain participating employees were given $450,000 in share 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 share capital.

[iv] Share Option Plan

The Company has an equity-settled Share Option Plan ["the Plan"] in place for the benefit of certain employees, directors and officers of the Company. The aggregate maximum number of shares reserved for issuance under the Plan at any given time shall not exceed 10% of the

[In Canadian dollars except for share amounts]

12. SHARE CAPITAL [Cont'd]

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 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 granted 1,362,220 share options during the three-month and six-month period ended June 30, 2014 at an exercise price of $5.65 per option and recorded share option compensation expense of $258,467 with a corresponding credit to contributed surplus. There were no options exercised or expired/forfeited during the period. The fair value of options of $3.27 was determined using the Black-Scholes option pricing model based on the following assumptions:

Risk-free interest rate	1.88%
Dividend yield	Nil
Volatility factor	57.14%
Expected life	7 years

[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 total number of common shares reserved for issuance under this Purchase Plan is 200,000 common shares of the Company. The employees can contribute up to a maximum of 10% of their salary and the Company will contribute 25% of employees' contributions 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 June 30, 2014, no shares were issued under this plan.

[In Canadian dollars except for share amounts]

13. FINANCIAL INSTRUMENTS

The classification of financial instruments, as well as their carrying values and fair values as at June 30, 2014, are shown in the table below:

	Carrying Amount $	Fair Value $
FINANCIAL ASSETS		
Interest, royalties and other receivable	670,811	670,811
Other financial assets		
Loan receivable	850,000	850,000
Available-for-sale investment in Fund	13,179,454	13,179,454
	14,700,265	**14,700,265**
FINANCIAL LIABILITIES		
Accounts payables and accruals	1,501,718	1,501,718
	1,501,718	**1,501,718**

14. 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:

	$
2014	15,432
2015	37,902
2016	10,062
	63,396

[ii] Other commitment

The Company is committed to contributing another $3.2 million [US$3 million] to the Fund in other financial assets.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

15. STATEMENT OF CASH FLOWS

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

	Six months ended June 30, 2014 $
Increase in:	
Interest, royalties and other receivables	(670,811)
Other current assets	(175,123)
Increase in:	
Accounts payable and accruals	481,704
	(364,230)

16. 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, 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.

17. SUBSEQUENT EVENT

On July 3, 2014, the Company entered into a secured debt agreement to support the acquisition, by two newly formed holding companies, of Apicore LLC and Apicore US LLC (collectively, "Apicore") which became wholly owned operating subsidiaries of the borrowers. The $6.9 million [US$6.5 million] secured loan issued by Knight will bear interest at a rate of 12% per annum and matures on June 30, 2018. The loan is secured by a charge over the U.S. assets of Apicore. In addition, Knight has been issued warrants to acquire an 8.125% interest in Apicore.