# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE FIRST QUARTER 2015

Knight Therapeutics Inc. ("Knight" or the "Company") is a specialty pharmaceutical company and its principal business activity is developing, acquiring, in-licensing, out-licensing, marketing and distributing innovative pharmaceutical products. Knight finances other life science companies in Canada and internationally with the goal of earning interest income, strengthening relationships in the industry, and securing product rights for Canada and select international markets. Additionally, Knight invests in life sciences venture capital funds in which the Company earns a return similar to any other limited partner in the fund and receives preferential access to innovative healthcare products from around the world for Canada and select international markets. 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, 2015. This document should be read in conjunction with the interim condensed consolidated financial statements and notes thereto for the three months ended March 31, 2015. Knight's interim condensed consolidated financial statements as at and for the three months ended March 31, 2015 have been prepared in accordance International Accounting Standard 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board. This review was prepared by management from information available as at May 12, 2015.

**Forward-looking statements**

This document contains forward-looking statements for the Company and its subsidiaries. These forward looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. The Company considers the assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared, but cautions the reader that these assumptions regarding future events, many of which are beyond the control of the Company and its subsidiaries, may ultimately prove to be incorrect. Factors and risks, which could cause actual results to differ materially from current expectations are discussed in the Company's Annual Report and in the Company's Annual Information Form for the year ended December 31, 2014. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information or future events, except as required by law.

## Overview and Overall Performance

Key Highlights in Q1, 2015

- On January 1, 2015, Knight acquired NeurAxon Inc. ("NeurAxon") for $1.75 million and amalgamated the company into Knight that same day. NeurAxon is a clinical stage research company focused on the development of innovative selective inhibitors of nitric oxide synthase as novel therapies for migraine and other conditions (the "NeurAxon Products"). Knight will continue to fund the development of the NeurAxon Products.

- On January 14, 2015, the syndicate of underwriters led by GMP Securities L.P. and including Cormark Securities Inc., National Bank Financial Inc., Laurentian Bank Securities Inc., Bloom Burton & Co. Limited, Clarus Securities Inc., Mackie Research Capital Corporation and TD Securities Inc. acquired 1,932,420 additional common shares of Knight at a price of $6.75 per share for gross proceeds of $13.0 million pursuant to the exercise in full of the over-allotment option (the "Over-Allotment Option") granted to them in connection with the previously announced bought deal offering of common shares of Knight for gross proceeds of $87.0 million, which was completed on December 22, 2014 (the "Offering"). Following the exercise in full of the Over-Allotment Option, the total gross proceeds of the Offering are $100.0 million.

- On January 22, 2015, Knight entered into a senior secured debt financing agreement with Synergy Strips Corp. ("Synergy"). The secured loan of $7.4 million [US$6.0 million] bears interest at 15% per annum and matures on January 20, 2017. As part of the transaction, the Company was issued 4,595,187 common shares in the capital of Synergy representing approximately 6.5% of its fully diluted capital. Knight also received a 10-year warrant entitling Knight to purchase up to 3,584,759 additional common shares of Synergy at $0.42 [US$0.34] per share.

- On March 25, 2015, Knight received early repayment of $10.0 million [US$7.9 million] of its secured loan of $34.0 million [US$30.0 million] from CRH Medical Corporation ("CRH"). During the three months ended March 31, 2015, Knight sold all of its 3 million common shares of CRH, received as part of its secured loan agreement with CRH, for gross proceeds of $9.9 million.

- On March 31, 2015, Knight purchased $1.25 million of debentures (the "Debentures") offered by Pediapharm Inc. ("Pediapharm"), as part of a $5.50 million offering, which bear interest at a rate of 12% per annum paid quarterly and which mature on March 30, 2019. The Debentures are secured against the assets of Pediapharm. At Knight's option, the debentures may be converted at any time into common shares of Pediapharm at a price of $0.45 per common share. The Debentures will automatically convert into equity if Pediapharm's common shares trade at a volume-weighted average price of $0.60 on a cumulative volume of not less than two million common shares during any 20 consecutive trading days. In addition, Knight was issued 757,000

4-year share purchase warrants to acquire 757,000 common shares of Pediapharm at an exercise price of $0.33 per common share.

Subsequent to the quarter ended March 31, 2015

- On April 3, 2015, Knight entered into an agreement with HarbourVest Partners LLC, whereby the Company committed to invest $10.0 million into HarbourVest Canada Growth Fund L.P. This brings Knight's total commitment to life sciences fund investments to approximately $120 million out of the $130 million Knight intends to commit to this strategy.

- On April 30, 2015, Knight entered into several agreements with Profound Medical Inc. ("Profound") which are subject to a number of conditions including, but not limited to, TSX Venture Exchange acceptance:

    - Knight entered into a secured loan of $4.0 million with Profound which would bear interest at 15.0% per annum for an initial term of 4 years. As part of the transaction, Knight would be issued 1,715,937 common shares in the capital of Profound, representing approximately 4.0% of its fully diluted capital after giving effect to the qualifying transaction discussed below, plus other consideration.

    - Knight purchased $2.0 million as part of a $24.0 million offering of subscription receipts at a price of $1.50 per subscription receipt by Profound. Each subscription receipt issued in the private placement will be exchangeable for one common share in the capital of Profound upon the satisfaction of certain conditions related to the qualifying transaction in accordance with the policies of the TSX Venture Exchange, which is expected to close on or about May 21, 2015.

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

**Other Information**

- The Supreme Court of Nova Scotia appointed a receiver to Origin Biomed Inc. ("Origin") on April 7, 2015 after default under its loan agreement with Knight. The receivership is expected to be completed in early June, at which time Knight is expected to take ownership of Origin's assets in full satisfaction of Origin's obligations to Knight.

**Recent accounting Pronouncements**

In July 2014, the IASB amended IFRS 9, "Financial Instruments", to bring together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The standard supersedes all previous versions of IFRS 9 and will be effective on January 1, 2018 for the Company with earlier application permitted. The Company has not yet assessed the impact of this standard and amendments on its consolidated financial statements.

### Significant accounting estimates and assumptions

Our significant accounting estimates and assumptions are reported in note 2 of our annual consolidated financial statements for the year ended December 31, 2014.

### Segment reporting

The Company has one reportable segment, and our principal business activity is focused on developing, acquiring, in-licensing, out-licensing, marketing and distributing innovative pharmaceutical products in Canada and select international markets.

## Selected quarterly financial information

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

### Quarterly consolidated statements of income (loss) and comprehensive income (loss)

(in Canadian dollars, except for share amounts)

| | **Q1, F2015** | Q4, F2014 | Q3, F2014 | Q2, F2014 | Q1, F2014 |
|---|---|---|---|---|---|
| **Revenue** | **247,356** | 109,608 | 6,901 | 247,373 | 1,441 |
| Cost of goods sold | **86,239** | — | — | — | — |
| Gross margin | **161,117** | 109,608 | 6,901 | 247,373 | 1,441 |
| **Expenses** | | | | | |
| General and administrative | **2,676,651** | 2,285,367 | 1,227,438 | 693,360 | 77,272 |
| Research and development | **334,590** | 214,226 | 686,517 | 112,736 | 15,037 |
| | **(2,850,124)** | (2,389,985) | (1,907,054) | (558,723) | (90,868) |
| Depreciation of property and equipment | **7,542** | 7,546 | 7,401 | 6,515 | 493 |
| Amortization of intangible assets | **21,121** | 18,970 | 18,970 | 18,970 | 6,324 |
| Interest expense | — | — | — | 4,500 | 19,040 |
| Interest income | **(3,966,030)** | (1,845,170) | (1,134,970) | (878,744) | (40,983) |
| Gain on sale of intangible asset | — | (129,370,762) | — | — | — |
| Other income | **(441,177)** | (1,234) | (329,295) | (104,859) | — |
| Net gain on financial assets | **(7,528,588)** | (15,706) | — | — | — |
| Purchase gain on acquisition | **(550,000)** | — | — | — | — |
| Foreign exchange gain | **(4,410,545)** | (1,409,913) | (976,145) | (1,210) | — |
| **Income (loss) before income taxes** | **14,017,553** | 130,226,284 | 506,985 | 396,105 | (75,742) |
| Income tax (recovery) expense | — | 4,418,329 | (1,177) | 5,488 | — |
| Deferred tax (recovery) expense | **201,363** | 826,516 | (54,396) | — | — |
| **Net income (loss) for the period** | **13,816,190** | 124,981,439 | 562,558 | 390,617 | (75,742) |
| **Realized gain reclassified to statement of income (net of tax of $440,585 in Q1, 2015)** | **(2,844,143)** | — | — | — | — |
| **Other comprehensive income to be reclassified to income in subsequent periods** | | | | | |
| Unrealized gain on available-for-sale financial instruments (net of tax of $332,130 in Q1, 2015) | **2,101,857** | 4,881,801 | 174,651 | 1,711,235 | — |
| Unrealized gain on translating financial statements of foreign operations | **12,917,191** | 3,199,150 | — | — | — |
| **Other comprehensive income for the period** | **12,174,905** | 8,080,951 | 174,651 | 1,711,235 | — |
| **Total comprehensive income (loss) for the period** | **25,991,095** | 133,062,390 | 737,209 | 2,101,852 | (75,742) |
| **Basic earnings (loss) per share** | **0.15** | 1.58 | 0.007 | 0.006 | (0.01) |
| **Diluted earnings (loss) per share** | **0.15** | 1.57 | 0.007 | 0.006 | (0.01) |

### Summarized condensed consolidated balance sheets

(in Canadian dollars)

| As at | March 31, 2015 $ | December 31, 2014 $ |
|---|---|---|
| Cash and cash equivalents | **301,293,007** | 283,445,451 |
| Marketable securities | **150,893,400** | 133,411,500 |
| Receivables, inventory, other current assets and financial assets | **6,139,956** | 11,715,654 |
| Property and equipment, and intangible assets | **3,079,603** | 893,489 |
| Other financial assets | **64,017,965** | 57,147,077 |
| **Total assets** | **525,423,931** | 486,613,171 |
| **Total current liabilities** | **5,973,143** | 7,622,437 |
| **Shareholders' equity** | **519,450,788** | 478,990,734 |
| **Total liabilities and shareholders' equity** | **525,423,931** | 486,613,171 |

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, 2015 compared to the Three-Month Period ended March 31, 2014

### Revenues

Revenues increased $246 thousand to $247 thousand for the three-month period ended March 31, 2015 from $1 thousand for the comparative three-month period ended March 31, 2014. The increase of $246 thousand is due in part to $86 thousand of inventory sales at cost and to the fact that during the comparative three-month period last year, the distribution and license agreement with Paladin Labs Inc. for the global, excluding U.S., sales of Impavido® was entered into by the Company as of February 27, 2014 rather than at the start of the three-month period. Additionally, income is expected to be irregular because Impavido® sales are typically associated with a tender process marked by relatively infrequent opportunities to offer the product for sale in less developed countries.

### General and administrative

General and administrative expenses increased $2.6 million to $2.7 million for the three-month period ended March 31, 2015 from $77 thousand for the comparative three-month period ended March 31, 2014. This increase of $2.6 million is primarily due to the fact that the comparative period spanned only one month and was Knight's first month of operations. The key components of the increase relate to salaries of $2.1 million including stock based compensation of $1.3 million and professional fees which increased by $0.3 million. The increase in compensation is explained in part by the fact that Knight grew to an average of 11 full time employees in the three-month period ended March 31, 2015 as compared to 2 full-time employees in the comparative period. The remaining increases relate to general office expenses, rent, utilities, travel, insurance, Board fees, and other expenses.

### Research and development expenses

Research and development expenses of $335 thousand and $15 thousand for the three-month periods ended March 31, 2015 and March 31, 2014, respectively related to consulting fees for the U.S. commercialization and FDA post-marketing requirements of Impavido®.

### Interest expense

Interest expense decreased from $19 thousand for the three-month period ended March 31, 2014 to $nil for the three-month period ended March 31, 2015. The decrease of $19 thousand is due to the fact that Knight repaid its loan payable to a related party on April 8, 2014.

### Interest income

Interest income for the three-month period ended March 31, 2015 relates primarily to the interest earned on average loans receivable and interest earned on the Company's average cash, cash equivalents and marketable securities balances of $39.4 million and $434.5 million, respectively. Interest income was $4.0 million for the three-month period ended March 31, 2015 and $41 thousand for the comparative three-month period last year. The increase of $3.9 million is primarily due to the increase in the Company's average loans receivable from $nil to $2.8 million and an increase in the Company's average cash, cash equivalents and marketable securities balances from $37.7 million to $434.5 million.

### Other income

Income earned for advisory and other services provided by the Company was $441 thousand for the three-month period ended March 31, 2015 compared to $nil for the three-month period ended March 31, 2014.

### Net gain on financial assets

Net gain on financial assets of $7.5 million for the three-month period ended March 31, 2015 compared to $nil for the three-month period ended March 31, 2014 is due primarily to the realized gain of $7.0 million on the sale of 3 million shares of CRH during the three-month period ended March 31, 2015.

### Purchase gain on acquisition

The purchase gain on acquisition of $550,000 for the three-month period ended March 31, 2015 compared to $nil for the three-month period ended March 31, 2014 is due to the excess of the fair value of the assets acquired over the consideration paid upon the acquisition of NeurAxon on January 1, 2015.

### Foreign exchange gain

Foreign exchange gain of $4.4 million for the three-month period ended March 31, 2015 is primarily due to the unrealized gains on U.S. dollar denominated financial assets as the Canadian dollar weakened against the U.S. dollar during the three-month period. There was no foreign exchange gain or loss for the comparative three-month period last year as Knight did not have any foreign denominated financial assets in the three-month period ended March 31, 2014.

### Deferred income taxes

Deferred income tax expense of $201 thousand for the three-month period ended March 31, 2015, relates to the origination and reversal of temporary differences in the statement of income. Deferred income tax expense was $nil for the comparative three-month period in the previous year.

### Earnings per share

Basic and diluted earnings per share were both $0.15 for the three months ended March 31, 2015. Basic and diluted earnings per share were both ($0.01) for the comparative three-month period in the previous year.

### Other comprehensive income

Other comprehensive income for the three-month period ended March 31, 2015 was $12.2 million versus $nil for the three-month period ended March 31, 2014. This $12.2 million other comprehensive income was the result of unrealized gains on available-for-sale financial assets of $2.1 million, net of deferred taxes of $332 thousand, and $12.9 million of unrealized gain on translating the financial statements of its foreign operations. These unrealized gains were offset by the reclassification of a $2.8 million realized gain, net of $441 thousand of deferred tax, on the sale of 3 million shares of CRH to the interim condensed consolidated statement of income for the three-month period ended March 31, 2015.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's investment policy regulates the investment activities relating to cash resources. The Company invests in strategic investments in the form of equity funds, equity or in liquid investments securities with varying terms to maturity, selected with regard to the expected timing of investments and expenditures for continuing operations and prevailing interest rates.

The Company believes that its existing cash, cash equivalents and marketable securities as well as cash generated from operations are sufficient to finance its current operations, working capital requirements and future product acquisitions.

As at March 31, 2015, the Company had $301.3 million of cash and cash equivalents and $150.9 million in marketable securities.

Cash flows used in operating activities for the three-month period ended March 31, 2015 were $0.9 million. Cash flows used in operating activities represent the cash flows primarily from interest income of $2.6 million offset by operating expenses including salaries, research and development, public relations and office expenses, but excluding revenues and expenses not affecting cash such as deferred income taxes, share-based compensation expense, depreciation and amortization, accretion of interest, other income, unrealized foreign exchange gain, deferred revenue and net changes in non-cash balances relating to operations.

Cash flows generated from investing activities were $4.8 million for the three-month period ended March 31, 2015. The cash inflow relates to proceeds from the disposal of other current financial assets of $12.2 million including $9.9 million from the sale of 3 million shares of CRH, from the disposal of marketable securities and proceeds of $10.0 million [US$7.9 million] from repayment of the Company's loan receivable from CRH. These inflows were offset by $8.5 million of secured loans issued by the Company, the purchase of $6.4 million in marketable securities net of proceeds upon disposal of marketable securities, disbursement of $1.75 million due to acquisition of NeurAxon, investment of $312 thousand in life science funds, and the purchase of $356 thousand of equity securities.

Cash flows generated from financing activities were $12.9 million for the three-month period ended March 31, 2015. The exercise in full of the Over-Allotment Option provided cash of $12.4 million, net of costs. Cash inflows due to the exercise of compensation warrants and participation of employees and directors in the share purchase plan amounted to $645 thousand for the three months ended March 31, 2015.

## Other Capital Resources

### Accounts receivable, Investment tax credits receivable, and Other current assets

Accounts receivable of $749 thousand at March 31, 2015 remained relatively unchanged from December 31, 2014.

Refundable investment tax credits of $200 thousand at March 31, 2015 versus $nil at December 31, 2014 were recorded upon recognition of assets acquired in the business combination with NeurAxon.

Other current assets of $425 thousand at March 31, 2015 increased by $142 thousand versus December 31, 2014 primarily due to commodity taxes receivable.

### Other current financial assets

Other current financial assets of $3.5 million at March 31, 2015 decreased by $6.6 million compared to $10.1 million at December 31, 2014 mainly due to the sale of CRH shares and other similar investments.

### Intangible assets

Intangible assets of $3.0 million, net of amortization at March 31, 2015 increased by $2.2 million versus December 31, 2014 due to the recognition of pharmaceutical products licenses and rights acquired in a business combination.

## Other financial assets

Total current and long term other financial assets of $67.5 million at March 31, 2015 remained relatively unchanged compared to $67.2 million at December 31, 2014. The most significant changes to other financial assets during the three-month period ended March 31, 2015, include the Company issuing secured loans and purchasing debentures receivable for $8.5 million and recording unrealized foreign exchange gains of $5.2 million on available-for-sale financial assets offset by a repayment of a loan receivable of $10 million [US$7.9 million] and the disposal of 3 million CRH shares for $9.9 million.

## Accounts payable accrued liabilities

Accounts payable and accrued liabilities of $1.6 million at March 31, 2015 were $490,000 lower than at December 31, 2014 due to higher financing related payables and accruals, and higher compensation accruals at December 31, 2014.

## Income taxes payable

Income taxes payable decreased by $697,000 at March 31, 2015 versus December 31, 2014 primarily due to tax payments made during the three-month period ended March 31, 2015.

## Deferred revenue

Deferred revenue decreased by $463 thousand as at March 31, 2015 compared to December 31, 2014 due to the recognition of revenue during the three-month period ended March 31, 2015 for services rendered by the Company.

## Off-balance sheet arrangements

The Company's off-balance sheet arrangements, as described in note 8 of the consolidated financial statements for the three-month period ended March 31, 2015, currently include an operating lease arrangement and commitments to contributing additional capital to several fund investments.

## Transactions between related parties

On January 21, 2014, Long Zone issued an unsecured revolving credit facility of up to $5.0 million in favour 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%. As at March 31, 2015, there were no amounts withdrawn from this credit facility.

## Financial instruments

Knight has not entered into any currency or other hedging instrument contracts during the three-month period ended March 31, 2015.

## Financial commitments

Knight's financial commitments as at March 31, 2015 in respect to an operating lease, commitments to contributing additional capital to our available-for-sale investments in funds and a commitment to support the funding of certain earn-out obligations of another company are reported in note 8 of our interim consolidated financial statements for the three-month period ended March 31, 2015.

## Outstanding share data

The table below summarizes the share data**:**

| As at | **May 12, 2015** |
|---|---|
| | $ |
| Common shares | 93,092,700 |
| Stock options[1] | 2,164,938 |

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

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

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

There were 170,000 options exercised as at May 12, 2015.

There were no options expired/forfeited as at May 12, 2015.

## Disclosure controls and procedures and internal control over financial reporting

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

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

The Company has evaluated the effectiveness of its designed disclosure controls and procedures (DC&P). Based on the evaluation of its DC&P, management has concluded that they are sufficiently effective as of March 31, 2015 to provide reasonable assurance that material information relating to the Company is made known to management.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). The Company has designed ICFR and evaluated their effectiveness as of March 31, 2015. Based on the evaluation of the Company's ICFR, management has concluded that they were adequate and effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with IFRS.

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

Interim condensed consolidated financial statements

# Knight Therapeutics Inc.

[unaudited]

For the three month period ended March 31, 2015

# NOTICE TO READER OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements of Knight Therapeutics Inc. (“Knight” or the “Company”) and the accompanying interim condensed consolidated balance sheet as at March 31, 2015 and the interim condensed consolidated statements of income and comprehensive income, changes in shareholders’ equity, comprehensive income and cash flows for the three-month periods ended March 31, 2015 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 Ross Goodman* | *(signed) Jeffrey Kadanoff* |
| Jonathan Ross Goodman | Jeffrey Kadanoff |
| President and Chief Executive Officer | Chief Financial Officer |
| | |
| Montreal, Canada | Montreal, Canada |
| May 12, 2015 | May 12, 2015 |

**Knight Therapeutics Inc.**

# INTERIM CONSOLIDATED BALANCE SHEETS

As at
[in Canadian dollars]
[unaudited]

| | March 31, 2015 $ | December 31, 2014 $ |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | **301,293,007** | 283,445,451 |
| Marketable securities | **150,893,400** | 133,411,500 |
| Accounts receivable | **748,696** | 740,545 |
| Investment tax credits receivable *[note 3]* | **200,000** | — |
| Inventory | **1,255,303** | 601,780 |
| Other current financial assets *[note 4]* | **3,510,236** | 10,089,462 |
| Other current assets | **425,721** | 283,867 |
| **Total current assets** | **458,326,363** | 428,572,605 |
| Property and equipment | **40,187** | 47,728 |
| Intangible assets *[note 3]* | **3,039,416** | 845,761 |
| Other financial assets *[note 4]* | **64,017,965** | 57,147,077 |
| **Total assets** | **525,423,931** | 486,613,171 |
| | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | **1,600,280** | 2,089,911 |
| Income taxes payable | **3,795,791** | 4,492,701 |
| Deferred revenue | **577,072** | 1,039,825 |
| **Total current liabilities** | **5,973,143** | 7,622,437 |
| | | |
| **Shareholders' equity** | | |
| Share capital *[note 5]* | **354,515,466** | 341,065,000 |
| Contributed surplus | **3,118,518** | 2,100,025 |
| Accumulated other comprehensive income | **22,141,742** | 9,966,837 |
| Retained earnings | **139,675,062** | 125,858,872 |
| **Total shareholders' equity** | **519,450,788** | 478,990,734 |
| **Total liabilities and shareholders' equity** | **525,423,931** | 486,613,171 |

Commitments *[note 8]*

Subsequent events *[note 10]*

*See accompanying notes*

**Knight Therapeutics Inc.**

# INTERIM CONSOLIDATED STATEMENTS OF INCOME

[in Canadian dollars]
[unaudited]

| | Three month period ended March 31, 2015 $ | March 31, 2014 $ |
|---|---|---|
| **Revenue** | **247,356** | 1,441 |
| Cost of goods sold | **86,239** | — |
| Gross margin | **161,117** | 1,441 |
| **Expenses** | | |
| General and administrative | **2,676,651** | 77,272 |
| Research and development | **334,590** | 15,037 |
| | **(2,850,124)** | (90,868) |
| Depreciation of property and equipment | **7,542** | 493 |
| Amortization of intangible assets | **21,121** | 6,324 |
| Interest expense | — | 19,040 |
| Interest income | **(3,966,030)** | (40,983) |
| Other income | **(441,177)** | — |
| Net gain on financial assets | **(7,528,588)** | — |
| Purchase gain on acquisition | **(550,000)** | — |
| Foreign exchange gain | **(4,410,545)** | — |
| **Income (loss) before income taxes** | **14,017,553** | (75,742) |
| Income tax expense | — | — |
| Deferred income tax expense | **201,363** | — |
| **Net income (loss) for the period** | **13,816,190** | (75,742) |
| **Basic and diluted earnings (loss) per share** *[note 6]* | **0.15** | (0.01) |
| **Weighted average number of common shares outstanding** | | |
| Basic | **92,539,843** | 8,079,889 |
| Diluted | **92,820,153** | 8,079,889 |

*See accompanying notes*

**Knight Therapeutics Inc.**

# INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[in Canadian dollars]
[unaudited]

| | Three month period ended March 31, 2015 | March 31, 2014 |
|---|---|---|
| | $ | $ |
| **Net income (loss) for the period** | **13,816,190** | (75,742) |
| **Realized gain reclassified to statement of income (net of tax of $ $440,585)** | **(2,844,143)** | **—** |
| **Other comprehensive income to be reclassified to income or loss in subsequent periods:** | | |
| Unrealized gain on available-for-sale financial instruments (net of tax of $332,130) | **2,101,857** | — |
| Unrealized gain on translating financial statements of foreign operations | **12,917,191** | — |
| **Other comprehensive income for the period** | **12,174,905** | — |
| **Comprehensive income (loss) for the period** | **25,991,095** | (75,742) |

*See accompanying notes*

**Knight Therapeutics Inc.**

[in Canadian dollars]
[unaudited]

# INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | Share capital $ | Warrants $ | Contributed surplus $ | Accumulated other comprehensive income $ | Retained earnings (Deficit) $ | Total shareholders' equity $ |
|---|---|---|---|---|---|---|
| **Balance on Incorporation and as at January 1, 2014** | **1** | — | — | — | — | **1** |
| Net income (loss) for the period | — | — | — | — | (75,742) | (75,742) |
| Issuance of common shares as part of Business Separation Agreement | 11,909,000 | — | — | — | — | 11,909,000 |
| Issuance of warrants, net of costs and deferred tax | — | 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** |

| | Share capital $ | Warrants $ | Contributed surplus $ | Accumulated other comprehensive income $ | Retained earnings $ | Total shareholders' equity $ |
|---|---|---|---|---|---|---|
| **Balance as at January 1, 2015** | **341,065,000** | — | **2,100,025** | **9,966,837** | **125,858,872** | **478, 990,734** |
| Net income for the period | — | — | — | — | 13,816,190 | 13,816,190 |
| Realized gain reclassified to statement of income, net of tax of $ $440,585 | — | — | — | (2,844,143) | — | (2,844,143) |
| Change in fair value of available-for-sale financial instruments, net of tax of $332,130 | — | — | — | 2,101,857 | — | 2,101,857 |
| Unrealized gain on translating financial statements of foreign operations | — | — | — | 12,917,191 | — | 12,917,191 |
| Share-based compensation expense | — | — | 1,313,620 | — | — | 1,313,620 |
| Issuance of shares upon financing, net of costs and deferred tax of $92,908 | 12,510,318 | — | — | — | — | 12,510,318 |
| Exercise of compensation warrants | 930,227 | — | (295, 127) | — | — | 635,100 |
| Issuance of shares under share purchase plan | 9,921 | — | — | — | — | 9,921 |
| **Balance as at March 31, 2015** | **354,515,466** | — | **3,118,518** | **22,141,742** | **139,675,062** | **519,450,788** |

Share Capital *[note 5]*

*See accompanying notes*

## Knight Therapeutics Inc.

# INTERIM CONSOLIDATED
# STATEMENT OF CASH FLOWS

[in Canadian dollars]
[unaudited]

| | Three month period ended | |
|---|---|---|
| | **March 31, 2015** | **March 31, 2014** |
| | $ | $ |
| **OPERATING ACTIVITIES** | | |
| **Net income (loss)** | **13,816,190** | **(75,742)** |
| Adjustments reconciling net income to operating cash flows: | | |
| Deferred tax | **201,363** | — |
| Share-based compensation | **1,313,620** | — |
| Depreciation of property and equipment | **7,542** | 493 |
| Amortization of intangible assets | **21,121** | 6,324 |
| Accretion of interest | **(1,318,296)** | — |
| Gain on sale of other current financial assets | **(7,551,244)** | — |
| Purchase gain on business combination | **(550,000)** | — |
| Unrealized loss on derivative | **22,656** | — |
| Unrealized foreign exchange gain | **(4,398,899)** | — |
| Changes in non-cash working capital related to operations *[note 9]* | **(1,990,070)** | 43,157 |
| Deferred revenue | **(462,752)** | — |
| **Cash outflow from operating activities** | **(888,769)** | (25,768) |
| **INVESTING ACTIVITIES** | | |
| Purchase of marketable securities | **(273,932,700)** | — |
| Proceeds from disposal of marketable securities | **267,504,500** | — |
| Purchase of other current financial assets | **(355,937)** | — |
| Proceeds from disposal of other current financial assets | **12,226,511** | — |
| Investment in funds | **(311,885)** | — |
| Issuance of loans and debentures receivable | **(8,524,922)** | — |
| Proceeds from repayments on loans receivable | **9,971,017** | — |
| Purchase of property and equipment | **—** | (35,982) |
| Consideration paid on business combination *[note 3]* | **(1,750,000)** | — |
| **Cash inflow from investing activities** | **4,826,584** | (35,982) |
| **FINANCING ACTIVITIES** | | |
| Net impact of Business Separation Agreement | — | 1,000,000 |
| Net proceeds from warrants issuance | — | 72,461,125 |
| Proceeds from exercise of Over-Allotment Option | **12,424,253** | — |
| Proceeds from exercise of compensation warrants | **635,100** | — |
| Costs related to prior period share financing | **(206,828)** | — |
| Share purchase plan | **9,921** | — |
| Share purchase loans | — | (450,000) |
| Loan from related party | — | 2,500,000 |
| **Cash inflow from financing activities** | **12,862,446** | 75,511,125 |
| **Increase in cash during the period** | **16,800,261** | 75,449,375 |
| Cash, beginning of year | **283,445,451** | 1 |
| Net foreign exchange difference | **1,047,295** | — |
| **Cash, end of year** | **301,293,007** | 75,449,376 |

*See accompanying notes*

The following amount is classified within operating activities:

| | | |
|---|---|---|
| Interest received | **2,587,201** | — |

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[in Canadian dollars]
[unaudited]

## 1. NATURE OF OPERATIONS

### Description of business

The Company is a specialty pharmaceutical company and its principal business activity is developing, acquiring, in-licensing, out-licensing, marketing and distributing innovative pharmaceutical products in Canada and select international markets. Knight finances other life science companies in Canada and internationally with the goal of earning interest income, strengthening relationships in the industry, and securing product rights for Canada and select international markets. Additionally, Knight invests in life sciences venture capital funds in which the Company earns a return similar to other limited partners in the fund and receives preferential access to innovative healthcare products from around the world for Canada and select international markets. The Company is located at 376 Victoria Avenue, Suite 220, Westmount, Quebec, H3Z 1C3. Knight trades on Toronto Stock Exchange under the ticker symbol "GUD".

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation and statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board. In addition, the interim condensed consolidated financial statements have been prepared in accordance with the accounting policies set out in note 2, "Summary of significant accounting policies", of the Company's consolidated financial statements for the year ended December 31, 2014. The accounting policies were consistently applied to all periods.

These interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2014.

The Company's interim condensed consolidated financial statements for the three months ended March 31, 2015 were authorized for issue by the Board of Directors on May 12, 2015.

## 3. SIGNIFICANT TRANSACTION

**NeurAxon transaction**

On January 1, 2015, the Company entered into an agreement ("Purchase Agreement") with NeurAxon Inc. ("NeurAxon") whereby the Company acquired all of the issued and outstanding common shares of NeurAxon for $1.75 million in cash. NeurAxon is a clinical stage research company focused on the development of innovative selective inhibitors of nitric oxide synthase as novel therapies for migraine and other conditions ("NeurAxon Products"). Knight will continue to fund the development of NeurAxon Products.

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

[in Canadian dollars]

| | $ |
|---|---|
| Current investment tax credits receivable | 200,000 |
| Intangible assets | 2,100,000 |
| Deferred tax asset | 565,000 |
| Deferred tax liability | (565,000) |
| **Total net assets acquired** | **2,300,000** |
| Consideration paid | (1,750,000) |
| **Purchase gain on acquisition** | **550,000** |

The amounts recognized during the quarter ended March 31, 2015 are based on preliminary results and the Company intends to finalize its purchase price allocation before the end of 2015.

The Company incurred acquisition related costs of $75,000 which were expensed in general and administrative expenses in the consolidated statement of income. In addition, the Company incurred severance and other payments of $245,000 that were also recorded in general and administrative expenses at the date of acquisition.

As part of the acquisition, deferred tax assets of $20,528,894 were not recognized in these interim condensed consolidated financial statements on total tax attributes of $74,231,332. Given the operations of the Company only started in 2014, there is uncertainty as to whether sufficient income will be generated in the future to recover these deferred tax assets. The Company has recognized a deferred tax asset of $565,000 to the extent of the deferred tax liability recorded as part of the purchase price allocation.

## 4. OTHER FINANCIAL ASSETS

| | **Loans receivable [i]** $ | **Derivatives [i]** $ | **Available-for-sale investments** $ | **Total financial assets** $ |
|---|---|---|---|---|
| **Carrying value at January 1, 2015** | **37,566,811** | **1,561,630** | **28,108,098** | **67,236,539** |
| Additions | 7,018,801 | 788,066 | 1,540,510 | 9,347,377 |
| Accretion of interest | 1,318,296 | — | — | 1,318,296 |
| Net gain (loss) | — | (22,656) | 6,648,992 | 6,626,336 |
| Foreign exchange gain | 3,302,887 | 101,438 | 1,792,856 | 5,197,181 |
| Loan repayments and disposals | (9,971,017) | — | (12,226,511) | (22,197,528) |
| **Carrying value at March 31, 2015** | **39,235,778** | **2,428,478** | **25,863,945** | **67,528,201** |
| Less current portion: | 2,058,225 | — | 1,452,011 | 3,510,236 |
| **Other financial assets** | **37,177,553** | **2,428,478** | **24,411,934** | **64,017,965** |

**[i] Loans receivable and derivatives**

On January 22, 2015, the Company entered into a secured debt agreement with Synergy Strips Corp. ("Synergy"), whereby it issued a secured loan of $7.4 million [US$6.0 million] bearing interest at 15% per annum and fully secured against the assets of Synergy. The loan which matures on January 20, 2017, may be extended for up to an additional two years should Synergy meet certain revenue and profitability milestones, and the interest rate could decrease to 13% if Synergy meets certain equity-fundraising targets. This loan is classified as "Loans and receivables" and is categorized in Level 3 of the fair value hierarchy. As part of the transaction, Knight was issued 4,595,187 of Synergy's common shares and 10-year warrants entitling the Company to purchase up to 3,584,759 shares of Synergy at $0.42 [US$0.34] per share. Synergy trades on the OTC under the ticker symbol "SNYR". The loan was recorded at a relative fair value of $5.9 million [US$4.8 million] upon initial measurement and subsequently accounted for at amortized cost using an effective interest rate of 23.4%. The common shares were assigned a relative fair value of $854,600 [US$689,000] using a fair value of $0.31 [US$0.25] per share adjusted by an illiquidity factor. The warrants were assigned a relative fair value of $632,600 [US$510,000] using the Black Scholes model based on the fair value per share of $0.31 [$0.25] adjusted by the illiquidity factor and categorized in Level 2 of the fair value hierarchy. During the period ended March 31, 2015, the Company recorded accreted interest of $192,484 on the loan in the consolidated statement of income. Categorized in Level 3 of the fair value hierarchy, the share purchase warrants are classified as "derivatives" and will be revalued at every reporting period. The resulting change in fair value, if any, would be recorded in the consolidated statement of income.

On March 30, 2015, the Company purchased $1.25 million of convertible debentures ("Debentures") of Pediapharm Inc. ("Pediapharm"), as part of a $5.50 million offering, which bear interest at a rate of 12% per annum, mature on March 30, 2019 and are fully secured against the assets of Pediapharm on a pari passu basis with the other lenders. Pediapharm is a public company listed on TSX Venture Exchange under the ticker symbol "PDP". At Knight's option, the Debentures may be converted at any time into common shares of Pediapharm at a price of $0.45 per common share ("Conversion Option"). In addition, Knight was issued 757,500 share purchase warrants to acquire 757,500 common shares of Pediapharm at an exercise price of $0.33 per Common share for a period of four years until March 30, 2019 ("Share Purchase Warrants"). The Debentures, Conversion Option and Share Purchase Warrants were initially recognized at their relative fair value on a pro rata basis. The Conversion Option and Share Purchase Warrants were assigned a value of $45,100 and $97,000, respectively. Based on the computed Black Scholes values and stated interest rate, the effective interest rate of the Debentures is 16.1%. Categorized in Level 3 of the fair value hierarchy, the Conversion Options and Share Purchase Warrants are classified as "derivatives" and will be revalued at every reporting period. The resulting change in fair value, if any, would be recorded in the consolidated statement of income. The Debentures, also categorized in Level 3 of the fair value hierarchy, were classified as "Loans and receivables", accounted for at its relative fair value of $1.1 million upon initial measurement and subsequently accounted for at amortized cost using the effective interest method.

[in Canadian dollars]

## 5. SHARE CAPITAL

**[i] Share Capital**

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

| | Number of common shares | $ |
|---|---|---|
| **Balance on January 1, 2015** | **90,818,595** | **341,065,000** |
| Issued upon exercise of over-allotment option, net of costs and deferred tax [i] | 1,932,420 | 12,510,318 |
| Issued upon exercise of compensation warrants | 169,360 | 930,227 |
| Issued upon share purchase plan | 1,121 | 9,921 |
| **Balance as at March 31, 2015** | **92,921,496** | **354,515,466** |

**[i] Shares issued in exercise of over-allotment option**

On January 14, 2015, the underwriters acquired 1,932,420 additional common shares of the Company (the "Additional Shares") at a price of $6.75 per Additional Share pursuant to the exercise in full of the Over-Allotment Option granted to them in connection with the Share Offering of common shares of the Company that was completed on December 22, 2014 as described in note 14 of the Company's annual consolidated financial statements for the year ended December 31, 2014. Following the exercise in full of the Over-Allotment Option which resulted in additional gross proceeds of $13.0 million, the total gross proceeds of the Share Offering were $100.0 million.

**[ii] Share Option Plan**

The Company recorded share based compensation expense of $1.3 million with a corresponding credit to contributed surplus and determined the fair value of the share options under the Black Scholes option pricing model using the following assumptions:

| | Period ended March 31, 2015 |
|---|---|
| Weighted average fair value of options | **$3.86** |
| Weighted average risk-free interest rate | **1.59%** |
| Dividend yield | **Nil** |
| Weighted average volatility factor | **58.33%** |
| Annualized forfeiture rate | **3.2%** |
| Weighted average expected life | **7 years** |

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[in Canadian dollars]
[unaudited]

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

| | Period ended March 31, 2015 | |
|---|---|---|
| | **Number of share options** | **Weighted average exercise price** |
| | # | $ |
| **Balance beginning of year** | **1,644,720** | **5.62** |
| Options granted | **690,218** | **8.75** |
| Options exercised | **—** | **—** |
| Options expired/forfeited | **—** | **—** |
| **Balance at end of the year** | **2,334,938** | **6.55** |
| **Options exercisable at end of year** | **280,000** | **5.54** |

## 6. EARNINGS PER SHARE

**Basic**

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

| | **March 31, 2015** | **March 31, 2014** |
|---|---|---|
| | $ | $ |
| Net income (loss) | **$13,816,190** | ($75,742) |
| Weighted average number of shares outstanding | **92,539,843** | 8,079,889 |
| **Basic earnings (loss) per share** | **$0.15** | ($0.01) |

**Diluted**

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

| | **March 31, 2015** | **March 31, 2014** |
|---|---|---|
| | $ | $ |
| Net income (loss) | **$13,816,190** | ($75,742) |
| Weighted average number of shares outstanding | **92,539,843** | 8,079,889 |
| Adjustment for compensation warrants and share options | **280,310** | — |
| Weighted average number of shares outstanding (diluted) | **92,820,153** | 8,079,889 |
| **Diluted earnings per share** | **$0.15** | ($0.01) |

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[in Canadian dollars]
[unaudited]

## 7. SEGMENT REPORTING

The Company has one reportable segment, and its principal business activity is focused on developing, acquiring, in-licensing, out-licensing, marketing and distributing innovative pharmaceutical products in Canada and select international markets.

## 8. COMMITMENTS

### [i] Operating lease

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

| | $ |
|---|---|
| 2015 | 44,028 |
| 2016 | 14,676 |
| | **58,704** |

### [ii] Fund Commitments

As at March 31, 2015, based on the closing exchange rates at that date, an additional $101.2 million can be called at over the life of the funds based on the terms of various fund agreements described in note 11[ii] in the Company's annual consolidated financial statements for the year ended December 31, 2014.

### [iii] CRH Commitment

In accordance with the secured loan agreement with CRH Medical Corporation ("CRH") in note 11 [i] in the Company's annual consolidated financial statements for the year ended December 31, 2014, the Company receives an Annual Fee of $992,000 [US$876,000] whereby the Company is committed to provide funds of up to $16.7 million [US$14.7 million], subject to the terms and conditions of the agreement, to support CRH fund certain earn-out payment obligations.

## 9. STATEMENT OF CASH FLOWS

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

| | **March 31, 2015** $ | **March 31, 2014** $ |
|---|---|---|
| **Increase in:** | | |
| Accounts receivable | **(8,151)** | (42,425) |
| Inventory | **(653,523)** | — |
| Other current assets | **(141,854)** | (52,711) |
| **Increase in:** | | |
| Accounts payable and accrued liabilities | **(489,632)** | 119,594 |
| Interest payable | **—** | 18,699 |
| Income taxes payable | **(696,910)** | — |
| | **(1,990,070)** | 43,157 |

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[in Canadian dollars]
[unaudited]

## 10. SUBSEQUENT EVENTS

**[i]** On April 2, 2015, the Company announced that it had committed to invest $10.0 million in HarbourVest Canada Growth Fund. L.P.

**[ii**] On April 30, 2015, the Company entered into several agreements with Profound Medical Inc. ("Profound") that are subject to TSX Venture Exchange acceptance. Knight entered into a secured loan of $4.0 million to Profound for an initial period of four years with an interest rate of 15% per annum, with payments of interest and principal deferred until June 30, 2017. Knight purchased $2.0 million of subscription receipts as part of a $24.0 million offering by Profound. The Company entered into a distribution, license and supply agreement with Profound pursuant to which Knight will act as the exclusive distributor of the Company's TULSA-PRO system, an investigational phase device used in a minimally invasive treatment for localized prostate cancer currently being assessed in clinical trials, in Canada for an initial ten year term.