MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE FIRST QUARTER 2016

In thousands of Canadian dollars (unless otherwise indicated) except for share and per share amounts.
All other currencies are in thousands.

The following is management's discussion and analysis ("MD&A") of the financial condition and operating results of Knight Therapeutics Inc. ("Knight" or the "Company") for the three months ended March 31, 2016. This document should be read in conjunction with the interim condensed consolidated financial statements and notes thereto for the three months ended March 31, 2016. Knight's interim condensed consolidated financial statements as at and for the three months ended March 31, 2016 have been prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting".

This discussion and analysis was prepared by management from information available as at May 9, 2016.

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, 2015. 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 & Overall Performance

Knight is a specialty pharmaceutical company and its principal business activity is developing, acquiring, in-licensing, out-licensing, marketing and distributing innovative pharmaceutical products, consumer health products and medical devices in Canada and select international markets. Knight finances other life sciences companies in Canada and internationally with the goal of earning interest income, strengthening relationships in the life sciences industry, and securing product distribution rights for Canada and select international markets. Additionally, Knight invests in life sciences venture capital funds whereby 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, Canada, Knight is a public company listed on Toronto Stock Exchange under the ticker symbol "GUD".

Key Highlights in Q1, 2016

- *60^0 Pharmaceuticals LLC – Second Tranche of Secured Loan*

On January 4, 2016, Knight issued to 60^0 Pharmaceuticals LLC ("60P") $2,096 [US$1,500] as a second tranche of a secured loan of up to $5,440 [US$4,000]. On December 10, 2015, Knight entered into the secured loan agreement with 60P and issued the first tranche of $685 [US$500]. The loan bears interest at 15.0% per annum and will mature on December 31, 2020.

- *INTEGA – Secured Loan & License Agreement*

On January 22, 2016, Knight extended secured loans in the aggregate amount of $9,000 to INTEGA Skin Sciences Inc. ("INTEGA") to support its acquisition of Valeant Groupe Cosméderme Inc., which includes the Laboratoire Dr. Renaud®, Pro-Derm®, and Premiology® product lines, three high-end medical skincare brands, from Valeant Canada Limited. Knight may issue a second tranche of the secured loans in the amount of $1,000 upon INTEGA's request, should it meet certain financial targets, and $500 at Knight's option, conditional on specified events. The loans bear interest at a minimum interest rate of 13.0% per year and have terms ranging from one to six years. As part of this financing transaction, Knight has been issued 8.0% of the fully diluted common shares in the capital of INTEGA.

In conjunction with the financing transaction, Knight entered into an exclusive distribution, license and supply agreement to commercialize all INTEGA's current and future products, to the extent that INTEGA possesses the right to commercialize such products, in Israel, Romania, Russia, Sub-Saharan Africa and the Caribbean. Subject to conditions, Knight may also receive rights to certain future products in Canada.

- *Braeburn – License Agreement*

On February 1, 2016, Knight entered into an exclusive licensing agreement with Braeburn Pharmaceuticals, Inc. ("Braeburn") to commercialize PROBUPHINE® in Canada. PROBUPHINE® is an investigational subdermal implant designed to deliver buprenorphine continuously for six months following a single treatment, promoting patient compliance and retention as well as helping to prevent accidental paediatric exposure.

- *Medimetriks – Secured Loan & License Agreement*

On February 17, 2016, Knight announced that it had agreed to issue a secured loan of up to $27,368 [US$20,000] to Medimetriks Pharmaceuticals, Inc. ("Medimetriks") to support its acquisition of the exclusive U.S. development and commercialization rights for OPA-15406 from Otsuka Pharmaceutical Co., Ltd. OPA-15406 is a topical, non-steroidal phosphodiesterase IV (PDE-4) inhibitor that is part of a new treatment class for atopic dermatitis, a disease that affects up to 18 million people in the U.S. The secured loan, with an initial tranche of $24,631 [US$18,000], bears interest at a rate of 13.0% per annum for a three year term. A second tranche of $2,737 [US$2,000] will be issued by Knight upon the U.S. Food and Drug Administration filing by Medimetriks of a New Drug Application ("NDA") for Ozenoxacin, a novel, bactericidal non-fluorinated quinolone in development as a topical treatment for impetigo. Medimetriks expects to submit the NDA for Ozenoxacin in the second quarter of 2016. As part of the transaction, Knight has been issued 3.6% of the fully diluted common shares in the capital of Medimetriks.

In addition to the secured loan, Knight and Medimetriks have entered into a license and distribution agreement whereby Knight will be Medimetriks' exclusive distribution partner in Canada, Israel, Romania, Russia, Sub-Saharan Africa and the Caribbean for future Medimetriks products. Medimetriks currently does not have rights to any products in these territories.

- *Impavido®*

On March 15, 2016, Knight announced that it has terminated its agreement with Paladin Labs (Barbados) Inc., (an affiliate of Endo International plc) ("Paladin") related to the distribution and sale of Impavido® in all countries other than the U.S.

- *Profounda – Launch of Impavido® U.S.*

On March 22, 2016, Knight, through one of its wholly-owned subsidiaries, announced that its U.S. commercialization partner, Profounda Inc. ("Profounda"), has launched Impavido® (miltefosine) in the United States. Knight entered into an exclusive distribution agreement with Profounda in September 2015 to commercialize Impavido® (miltefosine), an oral treatment for visceral, mucosal and cutaneous leishmaniasis in the United States.

- *Medison Dividend*

On March 23, 2016, Knight, through one of its wholly-owned subsidiaries, announced the receipt of a $2,423 [ILS7,068] dividend from Medison Biotech (1995) Ltd. ("Medison").

Subsequent to the quarter ended March 31, 2016

- *Neuragen® – Distribution agreement in the Middle East*

On April 25, 2016, Knight, through one of its wholly-owned subsidiaries announced that it has entered into an exclusive distribution agreement with EMPA Healthcare LLC ("EMPA") to commercialize Neuragen®, in the United Arab Emirates and Kuwait. Knight may extend exclusivity on a country-by-country basis should certain minimum sales targets be met in each GCC country. Knight sold the rights to Neuragen® in the U.S. in June 2015 and retains the rights for all other territories. Under the terms of the agreement, EMPA will register, import, distribute and market the product in the United Arab Emirates, Kuwait and GCC countries while Knight will maintain responsibility for product supply.

- *ATryn® – Notice of Deficiency from Health Canada*

On April 25, 2016, Knight, announced that it has received a Notice of Deficiency ("NOD") for its ATryn® New Drug Submission. In its notice, Health Canada requested additional technical information on ATryn® in order to complete its assessment of the product.

Recent Accounting Pronouncements

IFRS 9 – Financial Instruments

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 is currently assessing the impact of this standard and amendments on its consolidated financial statements.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 – Leases ("IFRS 16"), which replaces IAS 17 – Leases ("IAS 17") and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained.

IFRS 16 will be applied retrospectively for annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 – Revenue Recognition has also been applied. The Company is currently assessing the potential impact of this standard on its consolidated financial statements.

IAS 12 - Income taxes

In January 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses as an amendment to IAS 12 – Income Taxes. These amendments address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company is currently assessing the potential impact of this standard on its consolidated financial statements.

Significant Accounting Estimates and Assumptions

Our significant accounting estimates and assumptions are reported in note 3 of our annual consolidated financial statements for the year ended December 31, 2015.

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, consumer health products and medical devices in Canada and select international markets.

Selected Quarterly Financial Information

(In thousands of Canadian dollars except per share information)

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

	Q1, F2016	Q4, F2015	Q3, F2015	Q2, F2015	Q1, F2015	Q4, F2014	Q3, F2014	Q2, F2014
Total revenue	**1,068**	343	114	333	247	110	7	247
Net income	**477**	5,554	6,277	8,520	13,816	124,981	563	391
Earnings per share								
Basic	**0.005**	0.05	0.07	0.09	0.15	1.58	0.007	0.006
Diluted	**0.005**	0.05	0.07	0.09	0.15	1.57	0.007	0.006
Cash and marketable securities	**426,235**	471,207	445,889	436,997	452,186	416,857	227,223	234,507
Total assets	**638,336**	648,988	627,821	530,136	525,424	486,614	261,614	260,324
Total Liabilities	**5,663**	6,926	2,372	3,797	5,973	7,623	1,036	1,768

Knight’s revenues are principally derived from the sales of its three revenue-generating products: Impavido®, Neuragen® and Flat Tummy Tea.

Results of Operations

(In thousands of Canadian dollars except for per share amounts)

Revenues

Revenues increased by $821 or 331.9% to $1,068 for the three-month period ended March 31, 2016 from $247 for the three-month period ended March 31, 2015. The increase is explained primarily by an increase in sales of Impavido® following the termination of the agreement with Paladin. The launch of Neuragen® and Flat Tummy Tea after the first quarter in the 2015 fiscal year also contributed to increased sales.

Cost of goods sold

Cost of goods sold was $246 for the three-month period ended March 31, 2016 as compared to $86 for the comparative quarter last year. The increase is attributable to the launch of Neuragen® after the first quarter of 2015, as well the increased sales of Impavido®.

General and administrative

General and administrative expenses decreased by $484 or 18.1% to $2,193 for the three-month period ended March 31, 2016 from $2,677 for the same period last year. The decrease is mainly due to early vesting of employee stock options that increased share-based compensation expense in the first quarter of 2015.

Research and development expenses

Research and development expenses remained consistent for the three-month period ended March 31, 2016 compared to the same period last year.

Interest income

Interest income increased by $850 or 21.4% to $4,816 for the three-month period ended March 31, 2016 from $3,966 for the same period last year. The increase over the comparative period is largely explained by an increase in the weighted average loan receivable balance to the Company in the three-month period ended March 31, 2016 relative to the weighted average balance in the comparative prior year period.

Other income

Other income earned was $1,099 for the three-month period ended March 31, 2016 versus $441 for the same period last year. The increase is largely due to fees received related to secured loans.

Foreign exchange loss

For the three-month period ended March 31, 2016, Knight had a foreign exchange loss of $3,770 versus a foreign exchange gain of $4,410 for the comparative period. The fluctuation is due to losses on U.S. dollar denominated financial assets as the Canadian dollar strengthened against the U.S. dollar during the period.

Share of income of associate

For the quarter ended March 31, 2016, Knight's share of income from Medison was $854. The investment in associate occurred in the third quarter of 2015, therefore $nil for the comparative period. For more information, please refer to note 7 of the Company's interim condensed consolidated financial statements for the period ended March 31, 2016.

Income taxes

The total provision for income taxes increased by $2,347 or 92% to $2,548 for the quarter ended March 31, 2016 from $201 for the quarter ended March 31, 2015. The increase in the total tax provision in the current period is principally due to a decrease in permanent differences as a portion of net income in comparison to the previous period.

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 investment securities with varying terms to maturity, selected with regard to the expected timing of investments and expenditures for continuing operations, and prevailing interest rates.

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. At present, the Company is actively pursuing acquisitions that may require the use of substantial capital resources. There are no present agreements or commitments with respect to such acquisitions.

As at March 31, 2016, the Company had $426,235 of cash and cash equivalents and marketable securities.

The table below sets forth a summary of cash flow activity and should be read in conjunction with our interim condensed consolidated statements of cash flows.

All figures are reflected in thousands of Canadian dollars.

	Three months ended March 31	
	2016	**2015**
	$	$
Net cash provided (used) by operating activities	**567**	**(889)**
Net cash provided (used) in investing activities	**(35,563)**	**4,827**
Net cash provided by financing activities	**28**	**12,862**
Increase (decrease) in cash and cash equivalents during the period	**(34,968)**	**16,800**
Net foreign exchange difference	**2,272**	**1,048**
Cash and cash equivalents, beginning of period	**237,481**	**75,449**
Cash and cash equivalents, end of period	**204,785**	**301,293**
Marketable securities, end of period	**221,450**	**150,893**
Cash, cash equivalents, marketable securities, end of period	**426,235**	**452,186**

The company's cash, cash equivalents and marketable securities decreased by $25,951 or 5.7% to $426,235 at March 31, 2016 from $452,186 at March 31, 2015.

Cash flows provided by operating activities for the period ended March 31, 2016 were $567. Cash flows provided by operating activities primarily relate to interest received of $3,773 offset by operating expenses including salaries, research and development expenses, professional fees, and office expenses. Cash flows provided by operating activities excludes revenues and expenses not affecting cash, such as deferred income taxes, share-based compensation expense, depreciation and amortization, accretion of interest, unrealized foreign exchange gain, deferred revenue and net changes in non-cash balances relating to operations.

Cash flows used in investing activities were $35,563 for the period ended March 31, 2016. Cash outflows primarily relate to the issuance of secured loans totalling $34,851, and the investment in life sciences funds of $5,833. The cash outflows were partially offset by the disposition of marketable securities of $4,827 net of purchases, and the dividend of $2,423 received from Medison.

Cash flows generated from financing activities were $28 for the period ended March 31, 2016 due to participation in the employee and director share purchase plan.

Use of Proceeds from Financing

Knight has raised net proceeds of approximately $341,000 from three public offerings in fiscal 2014 which includes the completion of the over-allotment option in January 2015.

In our short form prospectuses related to the offerings, Knight disclosed that its intent was to use a substantial portion of the net proceeds (i) for potential acquisitions of (a) in-licensing of over-the-counter and prescription pharmaceutical products and targeted promotion of these products, and (b) specialty pharmaceutical businesses in select international markets, (ii) for financing of other life sciences companies in Canada and internationally as well as for investments in funds focused in the life sciences sector, and (iii) the remainder for general corporate purposes.

As at March 31, 2016, Knight had deployed or invested or committed to deploy or invest over $300,000 for the purposes disclosed in the prospectuses, as described above. Pending the application of the remainder of the net proceeds, Knight has invested part of the net proceeds in short-term investment-grade securities and bank deposits, and holds the remainder in cash. Knight anticipates that it has sufficient funds available to achieve its business objectives and milestones as listed in the prospectuses.

Outstanding share data

The table below summarizes the share data:

As at	May 9, 2016
Common Shares	103,478,063
Stock Options[1]	3,945,863

[1] On March 30, 2015, the Company issued 30,380 share-based compensation options to employees, officers and directors at an exercise price of $7.55 per share and 10,000 at an exercise price of $7.76.

There were no options exercised as at May 9, 2016.

There were 5,000 options forfeited as at May 9, 2016.

Payment of Dividends

The Company has not paid dividends on its common shares since inception and does not anticipate declaring dividends in the foreseeable future. Knight's current policy is to retain earnings to finance the acquisition and development of new products and to reinvest in the growth of the Company. Any future determination to pay dividends is at the discretion of the Company's Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements and other such factors as the Board of Directors of the Company deems relevant.

Off-balance sheet arrangements

The Company's off-balance sheet arrangements consist of contractual obligations and agreements for development, sales, marketing and distribution rights to innovative drug products. The effect of terminating these arrangements under normal operating circumstances consists of an effective transaction of the remaining responsibilities and obligations to the licensor under agreed upon time frames and conditions.

Commitments

Knight has financial commitments with respect to an operating lease, a real property, an equity commitment, commitments to contributing additional capital to our available-for-sale investments in funds and in loans, and revenue and milestone commitments related to product distribution, license and supply agreements which are reported in note 12 of our interim condensed consolidated financial statements for the period ended March 31, 2016.

Financial Instruments

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 investment securities with varying terms to maturity, selected with regard to the expected timing of investments and expenditures for continuing operations, and prevailing interest rates.

Knight has not entered into any currency or other hedging instrument contracts during the period ended March 31, 2016.

Risk Factors

Risk factors which could materially affect the results of operations and the financial condition of the company, such as credit risk, foreign exchange risk, equity price risk, interest rate risk, and liquidity risk, are described in detail in note 21 to the annual consolidated financial statements for the year ended December 31, 2015. For a detailed discussion of additional risk factors, please refer to the Company's Annual Information Form for the year ended December 31, 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 effective as of March 31, 2016 to provide reasonable assurance that material information relating to the Company is made known to management and that information required to be disclosed in the Company's annual and interim filings and other reports are reported within the timeliness specified by securities legislation.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). The Company has designed ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with IFRS. The Company did not make any material changes in the ICFR during the quarter ended March 31, 2016.

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, 2016

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, 2016, the interim condensed consolidated statements of income and comprehensive income, consolidated statement of changes in shareholders’ equity and consolidated statement of cash flows for the three-month period ended March 31, 2016, 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
Jonathan Ross Goodman
President and Chief Executive Officer

Montreal, Canada
May 9, 2016

(signed) Jeffrey Kadanoff
Jeffrey Kadanoff
Chief Financial Officer

Montreal, Canada
May 9, 2016

Knight Therapeutics Inc.

INTERIM CONSOLIDATED BALANCE SHEETS

[In thousands of Canadian dollars]

As at
[Unaudited]

	March 31, 2016 $	December 31, 2015 $
ASSETS		
Current		
Cash and cash equivalents *[note 3]*	**204,785**	237,481
Marketable securities *[note 4]*	**221,450**	233,726
Accounts receivable	**2,983**	2,994
Inventory	**1,339**	1,460
Other current financial assets *[note 6]*	**31,222**	23,588
Income taxes receivable	**197**	231
Total current assets	**461,976**	499,480
Property and equipment	**10**	18
Intangible assets *[note 5]*	**6,079**	3,320
Other financial assets *[note 6]*	**88,492**	62,616
Investment in associate *[note 7]*	**79,458**	81,027
Deferred income tax assets	**2,321**	2,527
Total assets	**638,336**	648,988
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**1,294**	2,416
Income taxes payable	**4,218**	4,031
Deferred revenue	**151**	293
Total current liabilities	**5,663**	6,740
Deferred income tax liabilities	—	186
Total liabilities	**5,663**	6,926
Shareholders' equity		
Share capital *[note 8]*	**439,176**	439,148
Warrants	**161**	161
Contributed surplus	**7,845**	6,772
Accumulated other comprehensive income *[note 9]*	**24,988**	35,955
Retained earnings	**160,503**	160,026
Total shareholders' equity	**632,673**	642,062
Total liabilities and shareholders' equity	**638,336**	648,988

Commitments *[note 12]*

See accompanying notes

Knight Therapeutics Inc.

INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

For the period ended March 31
[Unaudited]

	2016	2015
	$	$
Revenue	**1,068**	247
Cost of goods sold	**246**	86
Gross margin	**822**	161
Expenses		
General and administrative	**2,193**	2,677
Research and development	**283**	334
	(1,654)	(2,850)
Depreciation of property and equipment	**8**	8
Amortization of intangible assets *[note 5]*	**41**	21
Interest income	**(4,816)**	(3,966)
Other income	**(1,099)**	(441)
Net gain on financial assets	**(1,729)**	(7,529)
Purchase gain on acquisition	**—**	(550)
Share of net income of associate *[note 7]*	**(854)**	—
Foreign exchange loss (gain)	**3,770**	(4,410)
Income before income taxes	**3,025**	14,017
Income tax expense	**2,541**	—
Deferred income tax expense	**7**	201
Net income for the period	**477**	13,816
Attributable to shareholders of the Company		
Basic earnings per share *[note 10]*	**$0.005**	$0.15
Fully diluted earnings per share *[note 10]*	**$0.005**	$0.15
Weighted average number of common shares outstanding		
Basic *[note 10]*	**103,475,043**	92,539,843
Diluted *[note 10]*	**103,688,167**	92,820,153

See accompanying notes

Knight Therapeutics Inc.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[In thousands of Canadian dollars]

For the period ended March 31
[Unaudited]

	2016 $	2015 $
Net income for the period	**477**	13,816
Realized gain reclassified to statement of income (net of tax of $64 and $440 as at March 31, 2015)	**(410)**	(2,844)
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 $72 and $332 as at March 31, 2015)	**421**	2,102
Unrealized (loss) gain on translating financial statements of foreign operations	**(10,978)**	12,917
Other comprehensive (loss) income for the period	**(10,967)**	12,175
Comprehensive (loss) income for the period	**(10,490)**	25,991

See accompanying notes

Knight Therapeutics Inc.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

[In thousands of Canadian dollars]

[Unaudited]

	Share capital $	Warrants $	Contributed surplus $	Accumulated other comprehensive income $	Retained earnings $	Total shareholders' equity $
Balance on January 1, 2015	**341,065**	—	**2,100**	**9,967**	**125,859**	**478,991**
Net income for the period	—	—	—	—	13,816	**13,816**
Realized gain reclassified to statement of income, net of tax of $440	—	—	—	(2,844)	—	**(2,844)**
Change in fair value of available-for-sale financial instruments, net of tax of $332	—	—	—	2,102	—	**2,102**
Unrealized gain on translating financial statements of foreign operations	—	—	—	12,917	—	**12,917**
Comprehensive Income	—	—	—	**22,142**	**139,675**	**504,982**
Share-based compensation expense *[note 8 (ii)]*	—	—	1,314	—	—	**1,314**
Issuance of shares upon financing, net of costs and deferred tax of $93	12,510	—	—	—	—	**12,510**
Exercise of compensation warrants	930	—	(295)	—	—	**635**
Issuance of shares under share purchase plan	10	—	—	—	—	**10**
Balance as at March 31, 2015	**354,515**	—	**3,119**	**22,142**	**139,675**	**519,451**

	Share capital $	Warrants $	Contributed surplus $	Accumulated other comprehensive income $	Retained earnings $	Total shareholders' equity $
Balance on January 1, 2016	**439,148**	**161**	**6,772**	**35,955**	**160,026**	**642,062**
Net income for the period	—	—	—	—	477	**477**
Realized gain reclassified to statement of income, net of tax of $64	—	—	—	(410)	—	**(410)**
Change in fair value of available-for-sale financial instruments, net of tax of $72	—	—	—	421	—	**421**
Change in unrealized loss on translating financial statements of foreign operations	—	—	—	(10,978)	—	**(10,978)**
Comprehensive Income	—	—	—	**24,988**	**160,503**	**631,572**
Share-based compensation expense *[note 8 (ii)]*	—	—	**1,073**	—	—	**1,073**
Issuance of shares under share purchase plan *[note 8 (i)]*	**28**	—	—	—	—	**28**
Balance as at March 31, 2016	**439,176**	**161**	**7,845**	**24,988**	**160,503**	**632,673**

See accompanying notes

Knight Therapeutics Inc.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

[In thousands of Canadian dollars]

For the period ended March 31
[Unaudited]

	2016 $	2015 $
OPERATING ACTIVITIES		
Net income	**477**	13,816
Adjustments reconciling net income to operating cash flows:		
Deferred tax	**7**	201
Share-based compensation	**1,073**	1,314
Depreciation of property and equipment	**8**	8
Amortization of intangible assets	**41**	21
Accretion of interest	**(1,105)**	(1,318)
Gain on sale of other financial assets	**(656)**	(7,551)
Unrealized (gain) loss on derivatives	**(1,073)**	22
Unrealized foreign exchange gain (loss)	**3,760**	(4,399)
Purchase gain on business combination	**—**	(550)
Share of net income from associate	**(854)**	—
Changes in non-cash working capital related to operations *[note 13]*	**(969)**	(1,990)
Deferred revenue	**(142)**	(463)
Cash inflow (outflow) from operating activities	**567**	(889)
INVESTING ACTIVITIES		
Purchase of marketable securities	**(147,399)**	(273,933)
Purchase of financial assets	**(3,633)**	(356)
Purchase of intangible assets, net	**(2,924)**	—
Investment in funds	**(5,833)**	(312)
Issuance of loans receivable	**(34,851)**	(8,525)
Proceeds from repayments of loans receivable	**1,018**	9,971
Proceeds from disposal of financial assets	**3,410**	12,227
Proceeds from sale of marketable securities	**152,226**	267,505
Dividend income from associate	**2,423**	—
Consideration paid on business combination	**—**	(1,750)
Cash (outflow) inflow from investing activities	**(35,563)**	4,827
FINANCING ACTIVITIES		
Cost related to prior period share issuance	**—**	(207)
Proceeds from exercise of compensation warrants	**—**	635
Proceeds from exercise of an over-allotment option	**—**	12,424
Share purchase plan	**28**	10
Cash inflow from financing activities	**28**	12,862
Increase (decrease) in cash during the period	**(34,968)**	16,800
Cash, beginning of period	**237,481**	283,445
Net foreign exchange difference	**2,272**	1,048
Cash, end of period	**204,785**	301,293

The following amounts are classified within operating activities:

Interest received	**3,773**	2,587
Income taxes paid	**2,334**	—

See accompanying notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2016
[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*. The Company is a specialty pharmaceutical company and its principal business activity is developing, acquiring, in-licensing, out-licensing, marketing and distributing innovative pharmaceutical products, consumer health products and medical devices. The Company is located at 376 Victoria Avenue, Suite 220, Westmount, Quebec, H3Z 1C3. Knight is listed 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 Financial Accounting Standard 34 "Interim Financial Reporting. In addition, these interim condensed consolidated financial statements have been prepared in accordance with the accounting policies set out in note 2 "Summary of significant accounting policies", of the Company's consolidated financial statements for the year ended December 31, 2015. 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, 2015.

The Company's interim condensed consolidated financial statements for the three months ended March 31, 2016 were authorized for issue by the Company's Board of Directors on May 9, 2016.

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

March 31, 2016
[Unaudited]

3. CASH AND CASH EQUIVALENTS

As at

	March 31, 2016 **$**	December 31, 2015 $
Cash in bank	**193,444**	235,484
High interest savings accounts of US$3,609, earning interest at rates ranging from 0.30% to 0.45%	**4,687**	—
High interest saving accounts, earning 1.0% interest	**2,186**	—
Term deposit earning 0.5% interest and maturing in June 2016	**2,527**	—
Monthly renewable term deposit in the amount of ILS5,624 earning 0.07% interest (December 31, 2015: ILS5,624 earning 0.05% interest)	**1,941**	1,997
	204,785	237,481

4. MARKETABLE SECURITIES

As at

	March 31, 2016 **$**	December 31, 2015 $
Guaranteed investment certificates, earning interest at rates ranging from 1.30% to 1.76% and maturing on various dates from April 2016 to January 2017 (December 31, 2015: earning interest at rates ranging from 1.30% to 1.76% and maturing on various dates from January 2016 to December 2016)	**100,300**	100,000
Term deposits of US$87,120, earning interest at rates ranging from 0.90% to 1.30% and maturing on various dates from July 2016 to January 2017 (December 31, 2015: US$86,864, earning interest at rate of 0.60% and maturing on various dates from January 2016 to June 2016)	**113,142**	120,219
Term deposits earning interest at rates ranging from 0.20% to 0.50% and maturing in June 2016 (December 31, 2015: earning interest at rates ranging from 0.20% to 0.50% and maturing on various dates from March 2016 to June 2016)	**8,008**	13,507
	221,450	233,726

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

March 31, 2016
[Unaudited]

5. INTANGIBLE ASSETS

	$
Cost as at December 31, 2015	3,500
Additions	2,924
Foreign exchange	(137)
Cost as at March 31, 2016	**6,287**
Accumulated amortization as at December 31, 2015	180
Amortization charge	41
Foreign exchange	(13)
Accumulated amortization as at March 31, 2016	**208**
Net book value as at December 31, 2015	**3,320**
Net book value as at March 31, 2016	**6,079**

6. OTHER FINANCIAL ASSETS

Loans receivable and derivatives

[i] 60^0 Pharmaceuticals LLC

On January 4, 2016, Knight issued to 60^0 Pharmaceuticals LLC ("60P") $2,096 [US$1,500] as a second tranche of a secured loan of up to $5,440 [US$4,000]. On December 10, 2015, Knight entered into the secured loan agreement with 60P and issued the first tranche of $685 [US$500]. The loan bears interest at 15.0% per annum and will mature on December 31, 2020. Refer to the Company's consolidated financial statements for the year ended December 31, 2015 for more information on this loan.

[ii] INTEGA

On January 22, 2016, Knight entered into a secured loan agreement whereby it issued an aggregate amount of $9,000 to INTEGA Skin Sciences Inc. ("INTEGA") to support a business acquisition. Knight may extend a second tranche of the secured loans in the amount of $1,000 upon INTEGA's request, should it meet certain financial targets, and $500 at Knight's option, conditional on specified events. The Company issued a loan of $6,000 bearing interest at an interest rate of 13.0% per year and maturing January 21, 2022. An additional bridge loan of $3,000 with a one-year term was also issued bearing interest at a minimum of 16.0% interest per annum, (collectively "the Loans"). The Loans are classified under "Loans and receivables" and are categorized in Level 3 of the fair value hierarchy. As part of the transaction, Knight was issued 780,574 common shares of INTEGA which represents 8.0% of the fully diluted common shares of INTEGA and 10-year warrants entitling the Company to purchase up to 762,711 additional common shares at $1.18 per share. The Loans were recorded at a fair value of $7,730 upon initial measurement and subsequently accounted for at amortized cost using effective interest rates ranging from 19.8% to 44.1%. The common shares, categorized in Level 3 of the fair value hierarchy, were assigned a relative fair value of $680 using a fair value of $1.00 per share. The warrants, classified as “derivatives”, were assigned a relative fair value of $590 using the Black Scholes model based on the fair value per share of $1.00 and were categorized in Level 3 of the fair value hierarchy.

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

[iii] Medimetriks

On February 17, 2016, Knight entered into a secured loan agreement of up to $27,368 [US$20,000] with Medimetriks Pharmaceuticals, Inc. (“Medimetriks”) to support Medimetriks’ acquisition of the exclusive U.S. development and commercialization rights of certain pharmaceutical products. Knight issued an initial tranche of $24,631 [US$18,000], bearing interest at a rate of 13.0% per annum and maturing on February 17, 2019. A second tranche of $2,737 [US$2,000] will be issued by Knight upon the U.S. Food and Drug Administration filing by Medimetriks of a New Drug Application for a certain pharmaceutical product expected to be filed in the second quarter of 2016. The loan is classified under “Loans and receivables” and is categorized in Level 3 of the fair value hierarchy. As part of the transaction, Knight was issued 455,219 common shares representing 3.6% of the fully diluted common shares in the capital of Medimetriks. The loan was recorded at a fair value of $21, 087 [US$15,410] upon initial measurement and subsequently accounted for at amortized cost using effective an interest rate of 19.7%. The common shares, categorized in Level 3 of the fair value hierarchy, were assigned a relative fair value of $2,983 [US$2,180] using a fair value of $7.39 [US$5.40] per share.

7. INVESTMENT IN ASSOCIATE

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

As at

	March 31, 2016 $	December 31, 2015 $
Carrying value, beginning of period	**81,027**	—
Additions in the period	—	82,001
Share of net income for the period before adjustments (2015: from September 9, 2015 to December 31, 2015)	1,860	2,634
Amortization of fair value adjustments	(1,006)	(1,593)
Share of net income for the period	**854**	1,041
Dividends	**(2,423)**	(2,015)
Carrying value, end of period	**79,458**	81,027

On March 15, 2016, the Company received a dividend in the amount of $2,423 [ILS7,068] from Medison.

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

The Company is presenting select financial information derived from Medison's consolidated financial statements for the period ended March 31, 2016 in New Israeli Shekels (ILS) using Israeli GAAP converted into IFRS in Canadian dollars for information purposes:

Medison's statement of income data	For the period ended March 31, 2016 $
Revenue	**51,699**
Net income for the period	**6,580**

Medison's balance sheet data	As at March 31, 2016 $
Current assets	132,524
Non-current assets	56,802
Total assets	**189,326**
Current liabilities	102,318
Non-current liabilities	12,974
Total liabilities	**115,292**

8. 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 as at January 1, 2016	**103,474,367**	**439,148**
Issued upon share purchase plan	3,696	28
Balance at March 31, 2016	**103,478,063**	**439,176**

[ii] Share Option Plan

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

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

Generally, the options have a seven-year term and vest over a one-year period for directors and a three-year period for employees.

The Company recorded compensation expense of $1,073 (2015 - $1,314) with a corresponding credit to contributed surplus related to the issuance of stock options. The Company determined the weighted average fair value of the options to be $3.94 (2015 - $3.86) under the Black Scholes option pricing model using the following assumptions:

	Period ended March 31	
	2016	2015
Weighted average risk-free interest rate	**1.47%**	1.59%
Dividend yield	**Nil**	Nil
Weighted average volatility factor	**56.2%**	58.3%
Annualized forfeiture rate	**3.6%**	3.2%
Weighted average expected life	**7 years**	7 years

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

	Period ended March 31			
	2016		2015	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
	#	$	#	$
Balance beginning of period	**2,815,483**	**6.89**	1,644,720	5.62
Options granted	**40,380**	**7.60**	690,218	8.75
Options exercised	—	—	—	—
Options expired/forfeited	**(5,000)**	**5.65**	—	—
Balance at end of the period	**2,850,863**	**6.90**	2,334,938	6.55
Options exercisable at end of period	**856,646**	**6.71**	280,000	5.54

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

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

As at

	March 31 2016 $	December 31, 2015 $
Realized gain reclassified to statement of income net of tax of $1,409 ($1,345 as at December 31, 2015)	**(9,064)**	(8,654)
Net unrealized gains in available for sale investments net of tax of $1,701 ($1,629 as at December 31, 2015)	**14,272**	13,851
Unrealized gain on translating financial statements of foreign operations	**19,780**	30,758
	24,988	35,955

10. 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.

As at March 31

	2016 $	2015 $
Net income	**477**	13,816
Weighted average number of shares outstanding	**103,475,043**	92,539,843
Basic earnings per share	**$0.005**	$0.15

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.

As at March 31

	2016 $	2015 $
Net income	**477**	13,816
Weighted average number of shares outstanding	**103,475,043**	92,539,843
Adjustment for share options	**213,124**	280,310
Weighted average number of shares outstanding (diluted)	**103,688,167**	92,820,153
Diluted earnings per share	**$0.005**	$0.15

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

March 31, 2016
[Unaudited]

11. SEGMENT REPORTING

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

12. COMMITMENTS

[i] Operating lease

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

	$
2016	**82**
2017	**23**
2018	**16**
	121

As at March 31, 2016, the Company is committed to pay $335 [US$258] within the year towards a real property.

[ii] Fund Commitments

As at March 31, 2016, under the terms of Company's agreements with life sciences venture capital funds, $105,089 (2015 - $101,203) may be called over the life of the funds which is based on the closing foreign exchange rates.

[iii] Revenue and Milestone Commitments

Under certain agreements, Knight may have to pay additional consideration should the Company achieve certain sales volumes or if certain milestones are met, such as regulatory approval in Canada. The Company may have to pay up to $26,666 including $16,234 [US$12,500] upon achieving certain sales volumes, and up to $1,948 [US$1,500], upon achieving regulatory or other milestones related to specific products.

[iv] Equity and Loan Commitments

Subject to a loan agreement with one its borrowers, Knight has committed up to a maximum of $6,494 [US$5,000] to participate in the initial public offering of equity interests of the borrower.

Subject to certain loan agreements with its borrowers, Knight has committed to loan an additional $3,597 including $2,597 [US$2,000] should the borrowers meet certain conditions and/or financial targets.

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

March 31, 2016
[Unaudited]

13. STATEMENT OF CASH FLOWS

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

Period ended March 31

	2016 $	2015 $
Decrease (increase) in:		
Accounts receivable	**11**	(150)
Inventory	**121**	(653)
Income taxes receivable	**34**	—
Long term receivable	**(199)**	—
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(1,122)**	(490)
Income taxes payable	**186**	(697)
	(969)	(1,990)