Condensed Consolidated Interim Financial Statements (unaudited) (expressed in Canadian dollars)

For the three and nine month periods ended December 31, 2014 and 2013

Notice to Reader

The accompanying unaudited condensed interim consolidated financial statements of PEDIAPHARM INC. (the "Corporation") for the periods of three and nine months ended on December 31, 2014 and 2013 have been prepared by the management and are its responsibility. These unaudited condensed interim consolidated financial statements, together with the accompanying notes, have been reviewed and approved by the members of the Corporation's audit committee. These unaudited condensed interim consolidated financial statements have not been reviewed by the Corporation's auditors.

Pediapharm Inc. Condensed Interim Consolidated Statement of Financial Position (unaudited) (expressed in Canadian dollars)

	As at December 31, 2014 \$	As at March 31, 2014 \$
Assets		
Current assets Cash and cash equivalents Accounts receivable Prepaid expenses Inventories	2,723,241 425,020 20,239 393,296	7,092,224 427,727 55,376 348,144
	3,561,796	7,923,471
Property and equipment	68,095	22,504
Intangible assets Product & licencing rights Other	1,513,484 6,775	643,826 7,374
	1,520,259	651,200
	5,150,150	8,597,175
Liabilities		
Current liabilities Accounts payable and accrued liabilities Deferred revenue Current portion of long-term debt	498,307 2,705 4,203	1,100,315 264,327 6,892
	505,215	1,371,534
Long-term debt	1,500	4,693
	506,715	1,376,227
Shareholders' Equity		
Share capital	20,779,567	20,779,567
Contributed surplus	1,446,188	903,012
Deficit	(17,582,320)	(14,461,631)
	4,643,435	7,220,948
	5,150,150	8,597,175

Approved by the Board of Directors on March 2, 2015

(Sylvain Chretien)	Director	(Normand Chartrand)	_ Director
Sylvain Chretien		Normand Chartrand	

Condensed Interim Consolidated Statement of Comprehensive Loss (unaudited)

(expressed in Canadian dollars)

Revenue Sale of products Commission revenue 824,246 434,589 2,161,239 1,139,641 Commission revenue 94,265 802,949 564,265 2,042,754 918,511 1,237,538 2,725,504 3,182,395 Expenses (income) 5,8 2,043,972 1,289,916 5,875,503 3,456,119 Selling and administrative Finance costs 4 (669) 81,055 (181) 313,422 Foreign exchange losses (gains) Interest income 4 (669) 81,055 (181) 313,422 Stock Exchange listing expenses 1,568,008 1,568,008 1,568,353 2,039,656 1,650,746 5,846,193 5,356,272 Loss per share from continuing operations attributable to equity holders of the Company (1,121,145) (1,703,124) (3,120,689) (2,173,877) Basic and diluted werage number of common shares outstanding (0.02) (0.08) (0.04) (0.17)		Note	For the 3-month period ended December 31, 2014 \$	For the 3-month period ended December 31, 2013 \$	For the 9-month period ended December 31, 2014 \$	For the 9-month period ended December 31, 2013 \$
Commission revenue 94,265 802,949 564,265 2,042,754 918,511 1,237,538 2,725,504 3,182,395 Expenses (income) 5,8 2,043,972 1,289,916 5,875,503 3,456,119 Finance costs 4 (669) 81,055 (181) 313,422 Foreign exchange losses (gains) Interest income 6,974 8,185 14,555 8,980 Stock Exchange listing expenses 2,039,656 1,650,746 5,846,193 5,356,272 Loss and comprehensive loss for the period (1,121,145) (1,703,124) (3,120,689) (2,173,877) Loss per share from continuing operations attributable to equity holders of the Company (0.02) (0.08) (0.04) (0.17)	Revenue					
Expenses (income) 918,511 1,237,538 2,725,504 3,182,395 Expenses (income) 5,8 2,043,972 1,289,916 5,875,503 3,456,119 Finance costs 4 (669) 81,055 (181) 313,422 Foreign exchange losses (gains) interest income (10,621) (6,502) (43,684) (7,602) Stock Exchange listing expenses 2,039,656 1,650,746 5,846,193 5,356,272 Loss and comprehensive loss for the period (1,121,145) (1,703,124) (3,120,689) (2,173,877) Loss per share from continuing operations attributable to equity holders of the Company (0.02) (0.08) (0.04) (0.17) Basic and diluted (0.02) (0.08) (0.04) (0.17)	Sale of products		824,246	434,589	2,161,239	1,139,641
Expenses (income) Selling and administrative 5, 8 2,043,972 1,289,916 5,875,503 3,456,119 Finance costs 4 (669) 81,055 (181) 313,422 Foreign exchange losses (gains) 6,974 8,185 14,555 8,980 Interest income (10,621) (6,502) (43,684) (7,602) Stock Exchange listing expenses 2,039,656 1,650,746 5,846,193 5,356,272 Loss and comprehensive loss for the period (1,121,145) (1,703,124) (3,120,689) (2,173,877) Loss per share from continuing operations attributable to equity holders of the Company (0.02) (0.08) (0.04) (0.17) Weighted average number of common shares (0.02) (0.08) (0.04) (0.17)	Commission revenue	_	94,265	802,949	564,265	2,042,754
Selling and administrative 5, 8 2,043,972 1,289,916 5,875,503 3,456,119 Finance costs 4 (669) 81,055 (181) 313,422 Foreign exchange losses (gains) Interest income 6,974 8,185 14,555 8,980 Interest income (10,621) (6,502) (43,684) (7,602) Stock Exchange listing expenses 2,039,656 1,650,746 5,846,193 5,356,272 Loss and comprehensive loss for the period (1,121,145) (1,703,124) (3,120,689) (2,173,877) Loss per share from continuing operations attributable to equity holders of the Company (0.02) (0.08) (0.04) (0.17) Basic and diluted (0.02) (0.08) (0.04) (0.17)		-	918,511	1,237,538	2,725,504	3,182,395
Finance costs 4 (669) 81,055 (181) 313,422 Foreign exchange losses (gains) Interest income 6,974 8,185 14,555 8,980 Stock Exchange listing expenses (10,621) (6,502) (43,684) (7,602) Stock Exchange listing expenses 2,039,656 1,650,746 5,846,193 5,356,272 Loss and comprehensive loss for the period (1,121,145) (1,703,124) (3,120,689) (2,173,877) Loss per share from continuing operations attributable to equity holders of the Company (0.02) (0.08) (0.04) (0.17) Weighted average number of common shares (0.02) (0.08) (0.04) (0.17)	Expenses (income)					
Finance costs 4 (669) 81,055 (181) 313,422 Foreign exchange losses (gains) Interest income 6,974 8,185 14,555 8,980 Stock Exchange listing expenses (10,621) (6,502) (43,684) (7,602) Stock Exchange listing expenses 2,039,656 1,650,746 5,846,193 5,356,272 Loss and comprehensive loss for the period (1,121,145) (1,703,124) (3,120,689) (2,173,877) Loss per share from continuing operations attributable to equity holders of the Company (0.02) (0.08) (0.04) (0.17) Weighted average number of common shares (0.02) (0.08) (0.04) (0.17)	Selling and administrative	5, 8	2,043,972	1,289,916	5,875,503	3,456,119
Interest income (10,621) (6,502) (43,684) (7,602) Stock Exchange listing expenses 1,568,008 1,585,353 1,585,353 1,585,353 2,039,656 1,650,746 5,846,193 5,356,272 1,285,353 1,285,353 Loss and comprehensive loss for the period (1,121,145) (1,703,124) (3,120,689) (2,173,877) Loss per share from continuing operations attributable to equity holders of the Company (0.02) (0.08) (0.04) (0.17) Weighted average number of common shares (0.02) (0.08) (0.04) (0.17)	•					
Stock Exchange listing expenses1,568,0081,585,3532,039,6561,650,7465,846,1935,356,272Loss and comprehensive loss for the period(1,121,145)(1,703,124)(3,120,689)(2,173,877)Loss per share from continuing operations attributable to equity holders of the Company Basic and diluted(0.02)(0.08)(0.04)(0.17)Weighted average number of common shares(0.02)(0.08)(0.04)(0.17)	Foreign exchange losses (gains)		6,974	8,185	14,555	8,980
2,039,6561,650,7465,846,1935,356,272Loss and comprehensive loss for the period(1,121,145)(1,703,124)(3,120,689)(2,173,877)Loss per share from continuing operations attributable to equity holders of the Company Basic and diluted(0.02)(0.08)(0.04)(0.17)Weighted average number of common shares(0.02)(0.08)(0.04)(0.17)			(10,621)	()	(43,684)	()
Loss and comprehensive loss for the period (1,121,145) (1,703,124) (3,120,689) (2,173,877) Loss per share from continuing operations attributable to equity holders of the Company (0.02) (0.08) (0.04) (0.17) Weighted average number of common shares (0.02) (0.08) (0.04) (0.17)	Stock Exchange listing expenses	-		1,568,008		1,585,353
for the period(1,121,145)(1,703,124)(3,120,689)(2,173,877)Loss per share from continuing operations attributable to equity holders of the Company(0.02)(0.08)(0.04)(0.17)Basic and diluted weighted average number of common shares(0.02)(0.08)(0.04)(0.17)		-	2,039,656	1,650,746	5,846,193	5,356,272
for the period(1,121,145)(1,703,124)(3,120,689)(2,173,877)Loss per share from continuing operations attributable to equity holders of the Company(0.02)(0.08)(0.04)(0.17)Basic and diluted weighted average number of common shares(0.02)(0.08)(0.04)(0.17)	Loss and comprehensive loss					
operations attributable to equity holders of the Company Basic and diluted (0.02) (0.08) (0.04) (0.17) Weighted average number of common shares	•	-	(1,121,145)	(1,703,124)	(3,120,689)	(2,173,877)
Weighted average number of common shares	operations attributable to equity holders of the					
	Weighted average number of		(0.02)	(0.08)	(0.04)	(0.17)
			72,055,856	20,716,289	72,055,856	12,582,979

Condensed Interim Consolidated Statement of Changes in Equity (unaudited)

(expressed in Canadian dollars)

	Share capital \$	Contributed surplus \$	Deficit \$	Total shareholders' equity (deficiency) \$
Balance – April 1, 2013	1,000	979,467	(10,525,494)	(9,545,027)
Loss and comprehensive loss for the period Qualifying Transaction Issuance of shares for Private Placements Issuance of shares for Finders fees Issuance of shares for conversion of debt Share-based compensation – Stock option plan Issuance of warrants Adjustment of previously issued warrants Issuance of agents options and warrants Cost related to issuance of shares Adjustment for conversion of term Ioans Deferred share units issuance, conversion and adjustments	12,296,600 6,976,490 247,500 236,833 (293,842) (662,260)	109,915 263,167 (350,504) 115,634 (174,214) 178,207 (403,945)	(2,173,877) (518,477)	(2,173,877) 12,406,515 6,976,490 247,500 500,000 (350,504) 115,634 (174,214) (115,635) (662,260) (518,477) (403,945)
Balance – December 31, 2013	18,802,321	717,727	(13,217,848)	6,302,202
Balance – April 1, 2014 Loss and comprehensive loss for the period	20,779,567	903,012	(14,461,631) (3,120,689)	7,220,948 (3,120,689)
Share-based compensation – Stock option plan	-	543,176	-	543,176
Balance – December 31, 2014	20,779,567	1,446,188	(17,582,320)	4,643,435

Condensed Interim Consolidated Statement of Cash Flows

(unaudited)

(expressed in Canadian dollars)

For the Note For the S-month period ended becombor 31, 2013 For the S-month period ended becombor 31, 2013 S-month S-month period ended S-month S-mo						For the
Cash flows from Operating activities (1,703,124) (3,120,689) (2,173,877) Adjustments for 5,516 2,899 11,969 5,637 Amonization of intengible assets 22,003 21,465 65,938 50,002 Amonization of intengible assets 22,003 21,465 65,938 50,002 Amonization of intengible assets 22,003 21,465 65,938 50,002 Chenese analgemation 1031,643 1031,643 1031,643 1031,643 Chenese analgemation 10,621 6,6502 (43,684) (2,525,551 Deferred share units 7 (80,807) (452,505) (812,609) Changes in non-cash operating working captel items 7 (80,807) (452,505) (812,609) Changes in non-cash operating working captel items 7 (80,807) (452,505) (817,002) (12,57,804) Interest paid 7 (60,807) (452,505) (10,21,73) (12,57,804) Interest paid (10,621 6,502 43,884 7,802 (2,57,806)		Note	3-month period ended December 31, 2014	3-month period ended December 31, 2013	9-month period ended December 31, 2014	period ended December 31, 2013
Loss for the period Adjustments for Depreciation of property and equipment Amortization of intancing less amortization of intancing less Amortization of intancing less Amortization of intancing less Amortization of intancing less Stare-based compensation expense Interest income Interest income Interest income Interest income Interest pard Interest pard In	Cash flows from		φ	φ	φ	φ
Depreciation of property and equipment Amortization of financing less 5.916 2.899 11,969 5.687 Amortization of financing less 2.003 21,455 55,938 50,062 Share-based compensation expense Interest on long-term debt 16,31,643 16,31,643 16,31,643 Gain on warrant conversion Interest income 10,01,643 10,31,643 220,052 220,052 Amortization of warrants Gain on warrant conversion Interest income 10,021 6,502 43,684 7,175 Deferred share units 21,000 (48,697) 21,000 (812,609) Charges in non-cash operating working capital terms 7 (60,897) (452,505) (870,806) (452,687) Interest received 10,621 6,502 43,684 7,602 Purchases of property and equipment Purchases of property and equipment (806) (57,560) (10,173) Purchases of property and equipment Purchases of property and equipment (806) (57,560) (10,173) Purchases of property and equipment Purchases of property and equipment (806) (57,560) (10,173) Proceeds from insuance osits	Loss for the period		(1,121,145)	(1,703,124)	(3,120,689)	(2,173,877)
Interest on long-term debt 1,031,643 1,031,643 1,031,643 Gain on warrant conversion 11,031,643 1,031,643 220,652 Armotization of warrants 19,855 14,687 7,175 Deferred share units 19,855 14,687 7,175 Deferred share units (917,918) (674,396) (2,528,603) (612,609) Changes in non-cash operating working capital items (917,918) (674,396) (2,528,603) (612,609) Interest received (917,918) (674,396) (2,528,603) (612,609) Interest received (917,918) (674,396) (2,528,603) (612,609) Interest received (917,918) (574,396) (2,528,603) (612,609) Interest received (968,164) (1,038,899) (3,360,621) (1,257,864) Investing activities (966, (57,560) (10,173) (5,200) (5,200) Cash acquired through analgamation (701,787) 249,443 (992,690) 55,798 Financing activities (965) 6,314,230 6,314,230 <	Depreciation of property and equipment Amortization of intangible assets			21,465		59,062
Gain on warrait conversion Interest income Amortization of warrants 222,052 (10,621) 222,052 (43,684) 222,052 (7,602) Amortization of warrants 19,855 14,687 7,175 Deferred share units (917,918) (574,396) (2,528,603) (812,609) Changes in non-cash operating working capital items interest paid (917,918) (574,396) (2,528,603) (812,609) Interest paid (917,918) (574,396) (2,528,603) (812,609) Interest paid (917,918) (574,396) (2,528,603) (812,609) Interest received (96,897) (452,505) (870,806) (452,857) Interest received (968,164) (1,038,899) (3,360,621) (1,257,864) Investing activities (968,164) (1,038,899) (3,360,621) (1,257,864) Investing activities (700,981) 178,272 (935,130) (5,200) Investing activities (701,787) 249,443 (992,690) 55,798 Financing activities (965) 80,000 (985) 870,000 Proceeds from	Interest on long-term debt		178,822	. ,	543,176	96 ,502
Deferred share units 21,000 Changes in non-cash operating working capital items interest paid (917,918) (574,396) (2,528,603) (812,609) Interest paid (60,897) (452,505) (870,806) (452,857) Interest received 10,621 6,502 43,884 7,602 Investing activities (968,164) (1,038,899) (3,360,621) (1,257,864) Investing activities (606) (57,560) (10,173) Purchases of property and equipment Purchases of property and equipment Purchases of property and equipment Purchases of intangible assets (806) (57,560) (10,173) Cash acquired through amalgamation Investments and deposits (700,981) 178,272 (935,130) (5,200) Cash acquired through amalgamation Investments and deposits (701,787) 249,443 (992,890) 55,798 Financing activities Proceeds from issuance costs 6,314,230 6,314,230 6,314,230 Proceeds from issuance costs (985) 80,000 (985) 670,000 Repayment of long-term debt (1,678,073) 5,596,589 (4,368,983) 5,518,115	Gain on warrant conversion Interest income		(10,621)	(6,502)	(43,684)	(7,602)
Changes in non-cash operating working capital items 7 (60,897) (452,505) (870,806) (452,857) Interest paid interest received 7 (60,897) (452,505) (870,806) (452,857) Investing activities Purchases of property and equipment Purchases of stares, net of issuance costs (806) (57,560) (10,173) (700,981) 178,272 71,171 71,171 (701,787) 249,443 (992,690) 55,798 Financing activities Proceeds from long-term debt and warrants, net of issuance costs 6,314,230 6,314,230 Proceeds from long-term debt (985) 80,000 (985) 870,000 (985) 6,394,230 (985) 6,727,356 Foreign exchange impact on cash (7,107) (8,185) (14,687) (7,175) Net change in cash and cash equivalents during the period (1,678,073) 5,596,589 (4,368,983) 5,518,115 Cash and cash equivalents – 4,401,314 508,046 7,092,224 586,520			7,107	8,185	14,687	
capital items 7 (60,897) (452,505) (870,806) (452,857) Interest received 10,621 6,502 43,684 7,602 Interest received 10,621 6,502 43,684 7,602 Investing activities (968,164) (1,038,899) (3,360,621) (1,257,864) Investing activities (806) (57,560) (10,173) Purchases of property and equipment (935,130) (5,200) Cash acquired through amalgamation 178,272 (935,130) (5,200) Investing activities (700,981) 178,272 71,171 71,171 (701,787) 249,443 (992,690) 55.798 Financing activities (700,981) 6,314,230 6,314,230 Proceeds from insuance of shares, net of issuance costs 6,314,230 6,314,230 6,314,230 Sequeration on long-term debt (985) 80,000 (985) 670,000 Repayment of long-term debt (1,678,073) 5,596,589 (4,368,983) 5,518,115 Foreign exchange in cash and cash equivalents dur	Changes in non-cash operating working		(917,918)	(574,396)	(2,528,603)	(812,609)
Investing activities Purchases of property and equipment Purchases of property and equipment Purchases of intangible assets Cash acquired through amalgamation Investments and deposits (968,164) (1,038,899) (3,360,621) (1,257,864) (200) Cash acquired through amalgamation Investments and deposits (806) (57,560) (10,173) (700,981) (700,981) (78,272) (992,690) 55,798 Financing activities Proceeds from issuance of shares, net of issuance costs (6,314,230) 6,314,230 6,314,230 Proceeds from long-term debt and warrants, net of issuance costs (985) 80,000 (985) 870,000 (985) 6,394,230 (985) 6,727,356 (14,687) (7,175) Net change in pact on cash (7,107) (8,185) (14,687) (7,175) Net change in cash and cash equivalents during the period (1,678,073) 5,596,589 (4,368,983) 5,518,115 Cash and cash equivalents – Beginning of period 4,401,314 508,046 7,092,224 586,520	capital items Interest paid	7		(18,500)	(4,896)	(· ·)
Investing activities Purchases of property and equipment Purchases of intangible assets Cash acquired through amalgamation Investments and deposits(806) (700,981)(57,560) (935,130)(10,173) (5,200)Financing activities Proceeds from issuance of shares, net of issuance costs(701,787)249,443(992,690)55,798Financing activities Proceeds from long-term debt and warrants, net of issuance costs(985)6,314,2306,314,230Proceeds from long-term debt(985)6,394,230(985)870,000Repayment of long-term debt(1,678,073)5,596,589(4,368,983)5,518,115Cash and cash equivalents – Beginning of period(1,678,073)5,596,589(4,368,983)5,518,115Cash and cash equivalents –240,425240,425240,425	Interest received		10,621	6,502	43,684	7,602
Purchases of property and equipment (806) (57,560) (10,173) Purchases of intangible assets (935,130) (52,00) Cash acquired through amalgamation 178,272 (935,130) (52,00) Investments and deposits 71,171 71,171 (701,787) 249,443 (992,690) 55,798 Financing activities Proceeds from issuance of shares, net of issuance costs 6,314,230 6,314,230 6,314,230 Proceeds from long-term debt and warrants, net of issuance costs (985) 80,000 (985) 870,000 Repayment of long-term debt (985) 6,394,230 (985) 6,727,356 Foreign exchange impact on cash (7,107) (8,185) (14,687) (7,175) Net change in cash and cash equivalents – Beginning of period (1,678,073) 5,596,589 (4,368,983) 5,518,115 Cash and cash equivalents – 4,401,314 508,046 7,092,224 586,520 Cash and cash equivalents – 2404,625 56,520 56,520 56,520			(968,164)	(1,038,899)	(3,360,621)	(1,257,864)
(701,787) 249,443 (992,690) 55,798 Financing activities Proceeds from issuance of shares, net of issuance costs 6,314,230 6,314,230 6,314,230 Proceeds from long-term debt and warrants, net of issuance costs (985) 80,000 (985) 870,000 Repayment of long-term debt (985) 6,394,230 (985) 6,727,356 Foreign exchange impact on cash equivalents during the period (1,678,073) 5,596,589 (4,368,983) 5,518,115 Cash and cash equivalents – Beginning of period 4,401,314 508,046 7,092,224 586,520 Cash and cash equivalents – 6,404,635 6,404,635 6,404,635	Purchases of property and equipment Purchases of intangible assets Cash acquired through amalgamation					(5,200)
Proceeds from issuance of shares, net of issuance costs6,314,2306,314,230Proceeds from long-term debt and warrants, net of issuance costs(985)80,000(985)870,000 (456,874)Repayment of long-term debt(985)6,394,230(985)6,727,356Foreign exchange impact on cash equivalents during the period(7,107)(8,185)(14,687)(7,175)Net change in cash and cash equivalents during the period(1,678,073)5,596,589(4,368,983)5,518,115Cash and cash equivalents - Beginning of period4,401,314508,0467,092,224586,520Cash and cash equivalents -5,518,1155,518,1155,518,1155,518,115			(701,787)	,	(992,690)	
Proceeds from long-term debt and warrants, net of issuance costs (985) 80,000 (985) 870,000 (456,874) (985) 6,394,230 (985) 6,727,356 Foreign exchange impact on cash (7,107) (8,185) (14,687) (7,175) Net change in cash and cash equivalents during the period (1,678,073) 5,596,589 (4,368,983) 5,518,115 Cash and cash equivalents – Beginning of period 4,401,314 508,046 7,092,224 586,520	Proceeds from issuance of shares, net of			6 314 230		6 314 230
(985) 6,394,230 (985) 6,727,356 Foreign exchange impact on cash (7,107) (8,185) (14,687) (7,175) Net change in cash and cash equivalents during the period (1,678,073) 5,596,589 (4,368,983) 5,518,115 Cash and cash equivalents – Beginning of period 4,401,314 508,046 7,092,224 586,520 Cash and cash equivalents – 6,404,625 6,404,625 6,404,625	Proceeds from long-term debt and warrants, net of issuance costs		(985)		(985)	870,000
Net change in cash and cash equivalents during the period (1,678,073) 5,596,589 (4,368,983) 5,518,115 Cash and cash equivalents – Beginning of period 4,401,314 508,046 7,092,224 586,520 Cash and cash equivalents – 6,404,625			(985)	6,394,230	(985)	· ·
equivalents during the period (1,678,073) 5,596,589 (4,368,983) 5,518,115 Cash and cash equivalents – Beginning of period 4,401,314 508,046 7,092,224 586,520 Cash and cash equivalents – 6,404,635 6,404,635	Foreign exchange impact on cash		(7,107)	(8,185)	(14,687)	(7,175)
of period 4,401,314 508,046 7,092,224 586,520 Cash and cash equivalents – 6,404,625 6,404,625 6,404,625	Net change in cash and cash equivalents during the period		(1,678,073)	5,596,589	(4,368,983)	5,518,115
			4,401,314	508,046	7,092,224	586,520
	Cash and cash equivalents – End of period		2,723,241	6,104,635	2,723,241	6,104,635

(expressed in Canadian dollars)

1 Incorporation and nature of activities

Pediapharm Inc. (the "Company") was incorporated under the Canada Business Corporations Act and offers sales and marketing services to the pharmaceutical industry, particularly related to pediatric care. The Company is domiciled in Canada, and its registered office is located at 1 Place du Commerce, Suite 225, Verdun, Quebec H3E 1A2. Pediapharm Inc.'s shares are traded on the TSX Venture Stock Exchange.

The Board of Directors of the Company decided, following the amalgamation with Chelsea Acquisition Corporation completed on December 10, 2013, to change the Company's financial year-end from December 31 to March 31. Pursuant to section 4.8 of National Instrument 51-102 – Continuous Disclosure Obligations, the Company has filed on SEDAR a Notice of Change in Year End providing information about the length and filing dates of its annual audited financial statements and interim financial statements for both its transition year and subsequent financial years.

2 Basis of presentation and summary of significant accounting policies

Basis of presentation

The key accounting policies applied in the preparation of these condensed interim consolidated financial statements are consistent with those disclosed in Note 2 of the Corporation's consolidated financial statements for the year ended March 31, 2014. These policies have been consistently applied to all periods presented. These condensed consolidated interim financial statements should be read in conjunction with the Corporation's most recent annual consolidated financial statements for the year ended March 31, 2014.

These consolidated interim financial statements have been prepared in accordance with Part I of the CPA Canada Handbook (referred to as IFRS) as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, IAS 34, *Interim Financial Reporting*.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 2, 2015.

The accompanying condensed interim consolidated financial statements were prepared on a going concern basis under the historical cost convention.

3 Share-based compensation

For the three-month period ended December 31, 2014, the share-based compensation expense with respect to options amounted to 178,822 (three month period ended December 31, 2013 – (245,554)) and is included in administrative expenses in the consolidated statement of comprehensive loss. The share-based compensation expense for the three-month period ended December 31, 2014 is entirely comprised of vesting of previously issued stock options.

(expressed in Canadian dollars)

For the nine-month period ended December 31, 2014, the share-based compensation expense with respect to options amounted to \$543,176 (nine month period ended December 31, 2013 – (\$245,554)) and is included in administrative expenses in the consolidated statement of comprehensive loss.

As at December 31, 2014, a total of 2,948,919 common shares remained authorized for issuance under the stock incentive plan.

All options granted become immediately exercisable in the event of any change of control of the Company.

4 Finance costs

	For the three-month periods ended December 31,		periods en	
	2014 \$	2013 \$	2014 \$	2013 \$
Interest on long-term debt Amortization of warrants	(669)	42,778 19,855	(181)	253,858 59,564
Financing fees		18,422		
	(669)	81,055	(181)	313,422

Pediapharm Inc. Notes to Condensed Consolidated Interim Financial Statements (unaudited) **December 31, 2014 and 2013**

(expressed in Canadian dollars)

5 Employee benefit expense

a) Employees (non Key Management)

	For the three-month periods ended December 31,		per	nine-month iods ended cember 31,
	2014 \$	2013 \$	2014 \$	2013 \$
Salaries and benefits	506,701	479,622	1,510,686	1,273,356
Share-based compensation	97,830	6,066	295,040	18,198
	604,531	485,688	1,805,726	1,291,554

b) Key management personnel include the Company's president, chief financial officer, vice-presidents and Board of Directors.

-	For the three-month periods ended December 31,		periods end	
	2014 \$	2013 \$	2014 \$	2013 \$
Key management compensation				
Salaries, short-term employee benefits and consulting fees	268,484	206,541	743,241	561,852
Share-based compensation	81,091		248,135	
	349,575	206,541	991,376	561,852

Key management compensation is included in administrative expenses.

Pediapharm Inc. Notes to Condensed Consolidated Interim Financial Statements (unaudited) **December 31, 2014 and 2013**

(expressed in Canadian dollars)

6 Related party transactions

Transactions with related parties during the period and amounts due or from these parties as at December 31, 2014 are disclosed in the consolidated financial statements. All related party transactions, unless otherwise disclosed, occurred in the normal course of operations.

In the three months ended December 31, 2014, the Company paid management fees in the amount of \$37,500 (2013 - \$46,290) to a company owned by the current Chief Financial Officer of the Company. In the nine months ended December 31, 2014, the Company paid management fees in the amount of \$112,500 (2013 - \$68,790) to a company owned by the current Chief Financial Officer of the Company.

In the nine months ended December 31, 2014, the Corporation paid management fees in the amount of \$7,000 (2013 - \$10,000) to a Director of the Corporation for a project outside of the regular duties of a Director.

In the nine months ended December 31, 2014, the Company paid consulting fees in the amount of \$0 (2013 - \$32,214) to a firm of which a Director of the Company is a partner.

In the three months ended December 31, 2014, the Company paid legal fees in the amount of \$4,143 (2013 - \$0) to a firm of which a Director of the Company is a partner. In the nine months ended December 31, 2014, the Company paid legal fees in the amount of \$4,143 (2013 - \$0) to a firm of which a Director of the Company is a partner.

(expressed in Canadian dollars)

7 Cash flows

Changes in non-cash operating working capital items are as follows:

	peri	For the three-month periods ended December 31,		ine-month ods ended cember 31,
	2014 \$	2013 \$	2014 \$	2013 \$
Decrease (increase) in Accounts receivable and prepaid expenses Inventories	64,062 (39,694)	(258,772) (30,789)	37,845 (45,152)	(572,781) (304,003)
Increase (decrease) in Accounts payable and accrued liabilities Deferred revenue	(83,930) (1,335)	(45,773) (117,171)	(601,877) (261,622)	777,498 (353,571)
	(60,897)	(452,505)	(870,806)	(452,857)

8 Selling and administrative expenses

	For the three-month periods ended December 31,		For the nine-month periods ended December 31	
	2014 \$	2013 \$	2014 \$	2013 \$
Sales and marketing expenses	1,184,590	994,325	3,389,981	2,502,270
Business development & regulatory affairs	329,132	126,699	946,627	361,038
General administrative	530,250	168,892	1,538,895	592,811
	2,043,972	1,289,916	5,875,503	3,456,119