

# **Pediapharm Inc.**

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

For the three and six month periods ended  
September 30, 2015 and 2014

## Notice to Reader

The accompanying unaudited condensed interim consolidated financial statements of PEDIAPHARM INC. (the "Company") for the periods of three and six months ended on September 30, 2015 and 2014 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 Company's audit committee. These unaudited condensed interim consolidated financial statements have not been reviewed by the Company's auditors.

# Pediapharm Inc.

## Condensed Interim Consolidated Statements of Financial Position (unaudited)

(expressed in Canadian dollars)

	Note	As at September 30, 2015 \$	As at March 31, 2015 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		4,115,708	6,798,770
Accounts receivable		642,775	300,886
Prepaid expenses		58,267	135,079
Inventories		480,170	369,752
		<u>5,296,920</u>	<u>7,604,487</u>
<b>Property and equipment</b>		51,549	59,045
<b>Intangible assets</b>		<u>1,632,261</u>	<u>1,408,758</u>
		<u>6,980,730</u>	<u>9,072,290</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		829,348	994,723
Interest payable	3, 4	170,977	-
Current portion of long-term debt		2,592	4,313
		<u>1,002,917</u>	<u>999,036</u>
<b>Long-term debt</b>		-	380
<b>Convertible debentures</b>	3	<u>3,669,124</u>	<u>3,582,766</u>
		<u>4,672,041</u>	<u>4,582,182</u>
<b>Shareholders' Equity</b>			
<b>Share capital</b>		20,934,786	20,779,567
<b>Contributed surplus</b>		3,383,140	3,171,121
<b>Deficit</b>		<u>(22,009,237)</u>	<u>(19,460,580)</u>
		<u>2,308,689</u>	<u>4,490,108</u>
		<u>6,980,730</u>	<u>9,072,290</u>

Approved by the Board of Directors on November 30, 2015

*(Sylvain Chretien)*

Director

*Sylvain Chretien*

*(Normand Chartrand)*

Director

*Normand Chartrand*

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Pediapharm Inc.

## Condensed Interim Consolidated Statements of Comprehensive Loss (unaudited)

(expressed in Canadian dollars)

	Note	For the 3-month period ended September 30, 2015 \$	For the 3-month period ended September 30, 2014 \$	For the 6-month period ended September 30, 2015 \$	For the 6-month period ended September 30, 2014 \$
<b>Revenue</b>					
Products		1,455,459	837,007	1,997,628	1,261,992
Commissions		16,275	91,250	79,748	545,000
		<u>1,471,734</u>	<u>928,257</u>	<u>2,077,376</u>	<u>1,806,992</u>
Cost of sales		<u>517,254</u>	<u>316,129</u>	<u>729,168</u>	<u>476,106</u>
<b>Gross Profit</b>		954,480	612,128	1,348,208	1,330,886
Selling & administrative expenses	5 , 8	1,688,949	1,789,763	3,452,043	3,326,228
Depreciation & Amortization		26,286	16,077	51,169	29,296
<b>Operating Loss</b>		(760,755)	(1,193,712)	(2,155,004)	(2,024,638)
Finance costs (income)	4	211,931	218	423,888	487
Foreign exchange losses (gain)		(8,068)	6,884	(5,356)	7,580
Interest income		(10,607)	(13,877)	(24,879)	(33,062)
<b>Loss and comprehensive loss</b>		<u>(954,011)</u>	<u>(1,186,937)</u>	<u>(2,548,657)</u>	<u>(1,999,643)</u>
<b>Loss per share from continuing operations attributable to equity holders of the Company</b>					
Basic and diluted		<u>(0.01)</u>	<u>(0.02)</u>	<u>(0.04)</u>	<u>(0.03)</u>
Weighted average number of common shares outstanding		<u>72,342,469</u>	<u>72,055,856</u>	<u>72,281,030</u>	<u>72,055,856</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Pediapharm Inc.

## Condensed Interim Consolidated Statements of Changes in Equity (unaudited)

(expressed in Canadian dollars)

	Note	Share capital \$	Contributed surplus \$	Deficit \$	Total shareholders' equity (deficiency) \$
<b>Balance – April 1, 2014</b>		20,779,567	903,012	(14,461,631)	7,220,948
Loss and comprehensive loss for the period		-	-	(1,999,643)	(1,999,643)
Share-based compensation – Stock option plan		-	364,354	-	364,354
<b>Balance – September 30, 2014</b>		20,779,567	1,267,366	(16,461,274)	5,585,659
<b>Balance – April 1, 2015</b>		20,779,567	3,171,121	(19,460,580)	4,490,108
Loss and comprehensive loss for the period		-	-	(2,548,657)	(2,548,657)
Share-based compensation – Stock option plan		-	250,514	-	250,514
Options forfeited		-	(12,526)	-	(12,526)
Exercise of warrants and options		97,969	(25,969)	-	72,000
Issuance of shares for officer compensation		57,250	-	-	57,250
<b>Balance – September 30, 2015</b>		20,934,786	3,383,140	(22,009,237)	2,308,689

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Pediapharm Inc.

## Condensed Interim Consolidated Statements of Cash Flows (unaudited)

(expressed in Canadian dollars)

Note	For the 3-month period ended September 30, 2015 \$	For the 3-month period ended September 30, 2014 \$	For the 6-month period ended September 30, 2015 \$	For the 6-month period ended September 30, 2014 \$
<b>Cash flows from</b>				
<b>Operating activities</b>				
Loss for the period	(954,011)	(1,186,937)	(2,548,657)	(1,999,643)
Adjustments for				
Depreciation of property and equipment	5,815	4,313	11,337	6,051
Amortization of intangible assets	30,867	22,160	60,624	44,035
Amortization of financing fees related to term loans	43,179	-	86,358	-
Forfeited stock options	(7,802)	-	(12,526)	-
Share-based compensation expense	213,279	186,635	307,762	364,354
Interest on convertible debentures	2,311	-	170,977	-
Interest income	-	(13,876)	-	(33,062)
Unrealized foreign exchange loss	(8,068)	6,884	(5,356)	7,580
	(674,430)	(980,821)	(1,929,481)	(1,610,685)
Changes in non-cash operating working capital items	7 (459,264)	146,708	(540,871)	(809,909)
Interest paid	-	(1,710)	-	(4,896)
Interest received	-	13,876	-	33,062
	(1,133,694)	(821,947)	(2,470,352)	(2,392,428)
<b>Investing activities</b>				
Cash acquired through amalgamation	-	-	-	-
Decrease in investments	-	-	-	-
Purchases of property and equipment	-	(44,297)	(3,839)	(56,754)
Purchases of intangible assets	(284,129)	(66,848)	(284,129)	(234,149)
	(284,129)	(111,145)	(287,968)	(290,903)
<b>Financing activities</b>				
Proceeds from issuance of shares, net of issuance costs	-	-	72,000	-
Repayment of long-term debt	(1,064)	-	(2,098)	-
	(1,064)	-	69,902	-
<b>Foreign exchange impact on cash</b>	8,068	(6,883)	5,356	(7,580)
<b>Net change in cash and cash equivalents during the period</b>	(1,410,818)	(939,975)	(2,683,062)	(2,690,911)
<b>Cash and cash equivalents – Beginning of period</b>	5,526,526	5,341,288	6,798,770	7,092,224
<b>Cash and cash equivalents – End of period</b>	4,115,708	4,401,313	4,115,708	4,401,313

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

## **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.

## **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 Company’s consolidated financial statements for the year ended March 31, 2015. These policies have been consistently applied to all periods presented. These condensed consolidated interim financial statements should be read in conjunction with the Company’s most recent annual consolidated financial statements for the year ended March 31, 2015.

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 November 30, 2015.

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

### **Basis of consolidation**

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies to obtain benefits from its activities. Subsidiaries are fully consolidated from the date control is obtained and they are deconsolidated on the date control ceases. These consolidated financial statements include the Company’s one inactive subsidiary, Pediapharm Licensing Inc.

## **3 Convertible debentures**

On March 31, 2015, the Company closed a private placement of secured, convertible debentures of the Company and share purchase warrants of the Company for aggregate gross proceeds of \$5,500,000.

The fair value of the liability component was estimated at \$3,882,394 using a discount rate of 25% and the estimated fair value of the warrants was \$367,606. The residual amount attributed to the equity conversion feature was \$1,250,000.

The proceeds received from the convertible debentures were allocated between the convertible debentures and the determined fair value of the warrants and the equity conversion feature. The resulting debentures discount of \$1,617,605 is accreted to the face value of the convertible debentures until maturity.

Issuance costs of \$299,629 were also capitalized and are being amortized using the effective interest method.

#### 4 Finance costs (income)

	For the 3-month period ended September 30, 2015 \$	For the 3-month period ended September 30, 2014 \$	For the 6-month period ended September 30, 2015 \$	For the 6-month period ended September 30, 2014 \$
Interest on convertible debentures	168,752	218	337,530	487
Amortization of deferred financing fees	18,727	-	37,454	-
Accretion of discount on convertible debentures	24,452	-	48,904	-
	<u>211,931</u>	<u>218</u>	<u>423,888</u>	<u>487</u>

#### 5 Employee benefit expense

- a) Employees other than the Company's president, chief financial officer and vice-presidents

	For the 3-month period ended September 30, 2015 \$	For the 3-month period ended September 30, 2014 \$	For the 6-month period ended September 30, 2015 \$	For the 6-month period ended September 30, 2014 \$
Salaries and benefits	522,755	513,336	1,050,335	1,003,984
Share-based compensation	61,267	95,598	113,292	197,311
	<u>584,022</u>	<u>608,934</u>	<u>1,163,627</u>	<u>1,201,295</u>

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

	For the 3-month period ended September 30, 2015 \$	For the 3-month period ended September 30, 2014 \$	For the 6-month period ended September 30, 2015 \$	For the 6-month period ended September 30, 2014 \$
<b>Key management compensation</b>				
Short-term employee benefits and consulting fees	243,152	236,141	473,850	474,756
Share-based compensation	144,210	91,037	181,947	167,043
	<u>387,362</u>	<u>327,178</u>	<u>655,797</u>	<u>641,799</u>

Key management compensation is included in selling and administrative expenses.



## **6 Related party transactions**

All related party transactions, unless otherwise disclosed, occurred in the normal course of operations.

For the three-month period ended September 30, 2015, the Company paid management fees in the amount of \$37,500 (for the three-month period ended September 30, 2014 – \$37,500) to a company owned by the current Chief Financial Officer of the Company.

For the six-month period ended September 30, 2015, the Company paid management fees in the amount of \$75,000 (for the six-month period ended September 30, 2014 – \$75,000) to a company owned by the current Chief Financial Officer of the Company.

For the three-month period ended September 30, 2015, the Company paid management fees in the amount of nil (for the three-month period ended September 30, 2014 – \$7,000) to a Director of the Company for a project outside of the regular duties of a Director.

For the six-month period ended September 30, 2015, the Company paid management fees in the amount of nil (for the six-month period ended September 30, 2014 – \$7,000) to a Director of the Company for a project outside of the regular duties of a Director.

For the three-month period ended September 30, 2015, the Company paid legal fees in the amount of \$13,191 (for the three-month period ended September 30, 2014 – nil) to a firm of which a Director of the Company is a partner.

For the six-month period ended September 30, 2015, the Company paid legal fees in the amount of \$20,316 (for the six-month period ended September 30, 2014 – nil) to a firm of which a Director of the Company is a partner.

## 7 Cash flows

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

	For the 3-month period ended September 30, 2015 \$	For the 3-month period ended September 30, 2014 \$	For the 6-month period ended September 30, 2015 \$	For the 6-month period ended September 30, 2014 \$
Decrease (increase) in				
Accounts receivable	(316,177)	194,920	(341,887)	7,861
Prepaid expenses	1,072	(23,719)	76,812	(34,078)
Inventories	(105,013)	(93,559)	(110,420)	(5,458)
Increase (decrease) in				
Accounts payable and accrued liabilities	(39,146)	149,065	(165,376)	(517,947)
Deferred revenue	-	(79,999)	-	(260,287)
	<u>(459,264)</u>	<u>146,708</u>	<u>(540,871)</u>	<u>(809,909)</u>

## 8 Selling and administrative expenses

	For the 3-month period ended September 30, 2015 \$	For the 3-month period ended September 30, 2014 \$	For the 6-month period ended September 30, 2015 \$	For the 6-month period ended September 30, 2014 \$
Sales and marketing expenses	866,527	930,208	1,747,143	1,748,755
Business development and regulatory affairs	355,325	337,678	857,049	618,817
General administrative	467,097	521,877	847,851	958,656
Total	<u>1,688,949</u>	<u>1,789,763</u>	<u>3,452,043</u>	<u>3,326,228</u>