

Pediapharm Inc.

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

For the three month periods June 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 months ended on June 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 June 30, 2015 \$	As at March 31, 2015 \$
Assets			
Current assets			
Cash and cash equivalents		5,526,526	6,798,770
Accounts receivable		326,597	300,886
Prepaid expenses		59,339	135,079
Inventories		375,158	369,752
		<u>6,287,620</u>	<u>7,604,487</u>
Property and equipment		57,363	59,045
Intangible assets		<u>1,379,001</u>	<u>1,408,758</u>
		<u>7,723,984</u>	<u>9,072,290</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		868,382	994,723
Interest payable	3, 4	168,779	-
Current portion of long-term debt		3,655	4,313
		<u>1,040,816</u>	<u>999,036</u>
Long-term debt		-	380
Convertible debentures	3	<u>3,625,945</u>	<u>3,582,766</u>
		<u>4,666,761</u>	<u>4,582,182</u>
Shareholders' Equity			
Share capital		20,877,537	20,779,567
Contributed surplus		3,234,912	3,171,121
Deficit		<u>(21,055,226)</u>	<u>(19,460,580)</u>
		<u>3,057,223</u>	<u>4,490,108</u>
		<u>7,723,984</u>	<u>9,072,290</u>

Approved by the Board of Directors on August 27, 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 June 30, 2015 \$	For the 3-month period ended June 30, 2014 \$
Revenue			
Products		542,168	431,510
Commissions		63,474	453,750
		<u>605,642</u>	<u>885,260</u>
Expenses (income)			
Selling and administrative	5, 8	1,999,890	1,716,187
Finance costs (income)	4	211,958	270
Foreign exchange losses		2,712	696
Interest income		(14,272)	(19,186)
		<u>2,200,288</u>	<u>1,697,967</u>
Loss and comprehensive loss		<u>(1,594,646)</u>	<u>(812,707)</u>
Loss per share from continuing operations attributable to equity holders of the Company			
Basic and diluted		<u>(0.02)</u>	<u>(0.01)</u>
Weighted average number of common shares outstanding		<u>72,275,856</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) \$
Balance – April 1, 2014		20,779,567	903,012	(14,461,631)	7,220,948
Loss and comprehensive loss for the period		-	-	(812,707)	(812,707)
Share-based compensation – Stock option plan		-	177,719	-	177,719
Balance – June 30, 2014		20,779,567	1,080,731	(15,274,338)	6,585,960
Balance – April 1, 2015		20,779,567	3,171,121	(19,460,580)	4,490,108
Loss and comprehensive loss for the year		-	-	(1,594,646)	(1,594,646)
Share-based compensation – Stock option plan		-	89,761	-	89,761
Exercise of warrants and options		97,970	(25,970)	-	72,000
Balance – June 30, 2015		20,877,537	3,234,912	(21,055,226)	3,057,223

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 June 30, 2015 \$	For the 3-month period ended June 30, 2014 \$
Cash flows from			
Operating activities			
Loss for the year		(1,594,646)	(812,707)
Adjustments for			
Depreciation of property and equipment		5,522	1,739
Amortization of intangible assets		29,754	21,875
Amortization of financing fees related to term loans		43,179	-
Forfeited stock options		(4,724)	-
Share-based compensation expense		94,486	177,719
Interest on convertible debentures		168,779	-
Interest income		-	(19,186)
Unrealized foreign exchange loss		2,712	696
		<u>(1,254,938)</u>	<u>(629,864)</u>
Changes in non-cash operating working capital items	7	(81,719)	(956,617)
Interest paid		-	(3,186)
Interest received		-	19,186
		<u>(1,336,657)</u>	<u>(1,570,481)</u>
Investing activities			
Cash acquired through amalgamation		-	-
Decrease in investments		-	-
Purchases of property and equipment		(3,840)	(12,457)
Purchases of intangible assets		-	(167,301)
		<u>(3,840)</u>	<u>(179,758)</u>
Financing activities			
Proceeds from issuance of shares, net of issuance costs		72,000	-
Repayment of long-term debt		(1,035)	-
		<u>70,965</u>	<u>-</u>
Foreign exchange impact on cash		<u>(2,712)</u>	<u>(697)</u>
Net change in cash and cash equivalents during the year		<u>(1,272,244)</u>	<u>(1,750,936)</u>
Cash and cash equivalents – Beginning of year		<u>6,798,770</u>	<u>7,092,224</u>
Cash and cash equivalents – End of year		<u>5,526,526</u>	<u>5,341,288</u>

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 August 27, 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 June 30, 2015 \$	For the 3-month period ended June 30, 2014 \$
Interest on convertible debentures	168,779	270
Amortization of deferred financing fees	18,727	-
Accretion of discount on convertible debentures	24,452	-
	<hr/>	<hr/>
	211,958	270
	<hr/>	<hr/>

5 Employee benefit expense

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

	For the 3-month period ended June 30, 2015 \$	For the 3-month period ended June 30, 2014 \$
Salaries and benefits	461,648	491,648
Share-based compensation	52,025	101,713
	<hr/>	<hr/>
	513,673	593,361
	<hr/>	<hr/>

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

	For the 3-month period ended June 30, 2015 \$	For the 3-month period ended June 30, 2014 \$
Key management compensation		
Short-term employee benefits and consulting fees	227,923	213,743
Share-based compensation	37,737	46,163
	<hr/>	<hr/>
	265,660	259,906
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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 June 30, 2015, the Company paid management fees in the amount of \$37,500 (for the three-month period ended June 30, 2014 – \$37,500) to a company owned by the current Chief Financial Officer of the Company.

For the three-month period ended June 30, 2015, the Company paid management fees in the amount of nil (for the three-month period ended June 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 June 30, 2015, the Company paid legal fees in the amount of \$7,125 (for the three-month period ended June 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 June 30, 2015 \$	For the 3-month period ended June 30, 2014 \$
Decrease (increase) in		
Accounts receivable	(25,711)	(221,137)
Prepaid expenses	75,740	23,719
Inventories	(5,406)	88,101
Increase (decrease) in		
Accounts payable and accrued liabilities	(126,342)	(667,012)
Deferred revenue	-	(180,288)
	<u>(81,719)</u>	<u>(956,617)</u>

8 Selling and administrative expenses

	For the 3-month period ended June 30, 2015 \$	For the 3-month period ended June 30, 2014 \$
Sales and marketing expenses	1,082,135	974,653
Business development and regulatory affairs	501,725	281,140
General administrative	416,030	460,394
Total	<u>1,999,890</u>	<u>1,716,187</u>

9 Subsequent events

On July 23, 2015, Pediapharm announced that its Board of Directors approved the grant of 1,505,000 stock options to certain directors, officers and employees of the Company, subject to regulatory and TSX Venture Exchange approval. The options were issued with an exercise price of \$0.34 per share and have a term of ten (10) years. In addition, the options have varied vesting provisions such that they vest either over three (3) or four (4) years. The Company's Board of Directors also approved the payment of bonuses to certain officers of the Company for their contribution during the twelve months ended March 31, 2015. A portion of the bonuses will be payable in cash and the balance shall be payable through the issuance of an aggregate of 168,382 common shares of the Company at a deemed price of \$0.34 per share.