

# **Pediapharm Inc.**

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

Approved by the Board of Directors on March 2, 2015

*(Sylvain Chretien)*

Director

*(Normand Chartrand)*

Director

*Sylvain Chretien*

*Normand Chartrand*

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

# Pediapharm Inc.

## Condensed Interim Consolidated Statement of Comprehensive Loss

(unaudited)

(expressed in Canadian dollars)

		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 \$
<b>Revenue</b>					
Sale of products		824,246	434,589	2,161,239	1,139,641
Commission revenue		94,265	802,949	564,265	2,042,754
		<u>918,511</u>	<u>1,237,538</u>	<u>2,725,504</u>	<u>3,182,395</u>
<b>Expenses (income)</b>					
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			1,568,008		1,585,353
		<u>2,039,656</u>	<u>1,650,746</u>	<u>5,846,193</u>	<u>5,356,272</u>
<b>Loss and comprehensive loss for the period</b>		<u>(1,121,145)</u>	<u>(1,703,124)</u>	<u>(3,120,689)</u>	<u>(2,173,877)</u>
<b>Loss per share from continuing operations attributable to equity holders of the Company</b>					
Basic and diluted		(0.02)	(0.08)	(0.04)	(0.17)
Weighted average number of common shares outstanding		<u>72,055,856</u>	<u>20,716,289</u>	<u>72,055,856</u>	<u>12,582,979</u>

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

# Pediapharm Inc.

## Condensed Interim Consolidated Statement of Changes in Equity

(unaudited)

(expressed in Canadian dollars)

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

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

# Pediapharm Inc.

## Condensed Interim Consolidated Statement of Cash Flows

(unaudited)

(expressed in Canadian dollars)

	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 \$
<b>Cash flows from</b>				
<b>Operating activities</b>				
Loss for the period	(1,121,145)	(1,703,124)	(3,120,689)	(2,173,877)
Adjustments for				
Depreciation of property and equipment	5,916	2,899	11,969	5,697
Amortization of intangible assets	22,003	21,465	65,938	59,062
Amortization of financing fees		4,685		18,738
Share-based compensation expense	178,822	(245,554)	543,176	(245,554)
Interest on long-term debt				96,502
Chelsea amalgamation		1,031,643		1,031,643
Gain on warrant conversion		292,052		292,052
Interest income	(10,621)	(6,502)	(43,684)	(7,602)
Amortization of warrants		19,855		82,555
Unrealized foreign exchange loss	7,107	8,185	14,687	7,175
Deferred share units				21,000
	(917,918)	(574,396)	(2,528,603)	(812,609)
Changes in non-cash operating working capital items	7 (60,897)	(452,505)	(870,806)	(452,857)
Interest paid		(18,500)	(4,896)	
Interest received	10,621	6,502	43,684	7,602
	(968,164)	(1,038,899)	(3,360,621)	(1,257,864)
<b>Investing activities</b>				
Purchases of property and equipment	(806)		(57,560)	(10,173)
Purchases of intangible assets	(700,981)		(935,130)	(5,200)
Cash acquired through amalgamation		178,272		
Investments and deposits		71,171		71,171
	(701,787)	249,443	(992,690)	55,798
<b>Financing activities</b>				
Proceeds from issuance of shares, net of issuance costs		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				(456,874)
	(985)	6,394,230	(985)	6,727,356
<b>Foreign exchange impact on cash</b>	(7,107)	(8,185)	(14,687)	(7,175)
<b>Net change in cash and cash equivalents during the period</b>	(1,678,073)	5,596,589	(4,368,983)	5,518,115
<b>Cash and cash equivalents – Beginning of period</b>	4,401,314	508,046	7,092,224	586,520
<b>Cash and cash equivalents – End of period</b>	2,723,241	6,104,635	2,723,241	6,104,635

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

# **Pediapharm Inc.**

## Notes to Condensed Consolidated Interim Financial Statements (unaudited)

**December 31, 2014 and 2013**

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(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.

# Pediapharm Inc.

## Notes to Condensed Consolidated Interim Financial Statements (unaudited)

December 31, 2014 and 2013

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(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,		For the nine-month periods ended December 31,	
	2014 \$	2013 \$	2014 \$	2013 \$
Interest on long-term debt	(669)	42,778	(181)	253,858
Amortization of warrants		19,855		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

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(expressed in Canadian dollars)

#### 5 Employee benefit expense

- a) Employees (non Key Management)

	For the three-month periods ended December 31,		For the nine-month periods ended December 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
	<u>604,531</u>	<u>485,688</u>	<u>1,805,726</u>	<u>1,291,554</u>

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

Key management compensation is included in administrative expenses.

# **Pediapharm Inc.**

## **Notes to Condensed Consolidated Interim Financial Statements (unaudited)**

**December 31, 2014 and 2013**

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(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.

# Pediapharm Inc.

## Notes to Condensed Consolidated Interim Financial Statements (unaudited)

December 31, 2014 and 2013

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(expressed in Canadian dollars)

### 7 Cash flows

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

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

### 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
	<u>2,043,972</u>	<u>1,289,916</u>	<u>5,875,503</u>	<u>3,456,119</u>